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Problems of Strategic Development of Regional and Meso-Regional Securities Markets in Russia¹

Irina Gorlovskaya

Omsk F.M. Dostoevsky State University, Omsk, Russia

Ludmila Ivanova

Omsk F.M. Dostoevsky State University, Omsk, Russia

Abstract

In the conditions of deepening inter-state contradictions and the decline in oil prices on world markets, there is a need for efficient redistribution of financial resources within the fragile national economy. In this regard, the significance of the securities market as a mechanism for such redistribution increases. Despite the integrity of the national securities market, in the Russian Federation there exist relatively isolated regional and meso-regional securities markets (those ones of the Russian Federation subjects and Federal Districts). The subjects of the Russian Federation (regions) and Federal Districts (meso-regions) differ in the degree of their investment development and attractiveness as well as maturity of infrastructure of regional securities markets. As a consequence, there is a considerable gap in the possibilities of ensuring regional issuers with attracted financial resources for the purpose of their innovative development.

The development of regional and meso-regional securities markets occurs in tandem of two opposite trends: on the one hand, it is centralization of local markets, their integration into the national and global financial markets; on the other hand, it is decentralization and promotion of regional development. The development of regional and meso-regional markets should not violate the integrity of the national securities market and should take into account regional socio-economic characteristics. The analysis carried out has shown that the main problems of regional and meso-regional securities markets in Russia are caused by external and internal factors. Among the identified problems, the main ones are: the problem of combining national and regional interests under a single national legislation in the field of securities; the lack of adequate understanding of the role of the securities market in solving regional socio-economic challenges; reassessment of the speculative role of the securities market; and underestimation of the instruments of the securities market in the innovative objectives of the region.

Since the main function of the securities market is the investment function, one should note that while elaborating the development strategy of regional and meso-regional securities market, emphasis must be placed on the development of the primary securities market mechanisms.

Keywords

Regional securities market, meso-regional securities market.

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Introduction

The regional aspect of the securities market is important for countries with complex administrative and territorial arrangement, revealing the internal territorial inequality of locations. One should agree with Urozhaeva and Ivanov (2011, p. 9) who believe that "the regional factor is of great importance for Russia: the country has a magnitude comparable to the continents". Despite the integrity of the national securities market, in the Russian Federation there exist relatively isolated regional and meso-regional securities markets (those ones of the Russian Federation subjects and Federal Districts).

The need for research in the field of formation of the strategy of development of meso-regional and regional securities markets in Russia is caused by several reasons. Firstly, the Russian securities market refers to the emerging markets, securities market institutions are at different stages of the life cycle, they are formed uneven from a territorial point of view and do not provide the proper level of financial affordability. Secondly, new economic conditions (the decline in oil prices on the world markets, the use of economic sanctions and aggravation of inter-state conflicts) impose certain restrictions on the mobilization of financial resources both into the Russian economy as a whole and into the economy of certain Russian regions. Thirdly, the prospects for the national economy development depend on the degree of implementation of the innovation policy in the regions of the Russian Federation. Considering the fact that rapid economic growth is almost always accompanied by the increased inequality of territories (Scott, 2002, pp. 137-161), it is important to note that the significance of the securities market, as a mechanism for redistribution of financial resources in the regions, increases against a backdrop of the government spending reduction.

The lack of an integrated strategic approach to the development of securities market in the new economic conditions of Russia and inadequate consideration of significant differences between regions do not allow taking advantage of the potential of the securities market. Therefore, it is important to identify problems that, once solved, will contribute greatly to the formation of adequate meso-regional and regional strategies for the development of the securities market.

1. The concept of regional and meso-regional securities market

There are different methodological approaches to the study of the regional economy and industry regional markets in the economic literature. In these works a region is considered as a quasi-state, a quasi-corporation, a market or as a society (Granberg, 2003). Despite the differences in approaches, researchers agree that the regional market is a system concept which is characterized by a complex structure (Kleiner, 2014; Fatykhov, 2007). The analysis of the literature does not give a clear idea of the regional securities market. It is primarily explained by the fact that a region can be seen as a separate state, several countries, united by a set of attributes (mostly by geographical proximity) (Granberg, 2003, p. 23) or a part of the state (established on the basis of complex principles) (Adzhich & Roy, 2013, pp. 45-46; Regulation (EC), 2003). Therefore, there remain some debatable issues concerning both the concept of regional and meso-regional securities market and its integration into the national securities market.

The regional securities market can be understood as: a set of economic relations in the issue and circulation of all types of securities on a separate territory with the participation of all legal entities and individuals - residents and non-residents (Rau, 2004, p. 8.); a market, territorial boundaries of which are determined by taking into account sources of replenishment and the purposes of financing and investment (Samaruha, 2009, p. 62). Edronova and Novozhilova (2007, p. 78) limit regional markets by the territory of a city, region, or state. Some scientists consider the regional market as stock exchanges that operate outside the main financial centre of the country in New York (Teweles, Bradley & Teweles, 1992). Berdnikova (2011, p. 195) defines a regional securities market as a complex socio-economic, functional, organizational system of relations of issuers, investors and professional market participants, intermediaries and consultants on the ownership, disposition, management and securities lending (in the region) and the funds of regional issuers (outside the region).

Scientists emphasize different essential characteristics of the regional securities market, based on the objectives of their own research. While studying the regions at the supranational level in the era of globalization, the most important are the processes of integration and harmonization of legislation in the sphere of securities market

(Chee-Wooi, & Kim-Leng, 2006) or the issues of the regional financial centers' creation (Drobyshevskiy, Krut'ko, & Velikova, 2010). But if one studies the regions at the level of individual states, the issues of decentralization remain relevant (Berdnikova, 2011).

From the perspective of a system and institutional approach, the regional securities market should be seen as a stable system of economic relations concerning the issue and circulation of securities, mechanisms, institutions and tools that are used to attract investment in the region's economy in order to build an innovative regional economy and enhance its competitiveness, improving the quality of life in the region. The regional market as a system includes an emission, trade, investment and mediation, accounting (infrastructure), regulating, control and evaluation subsystems (Gorlovskaya, & Miller, 2014, p. 208). In this article, the term "a regional securities market" should be construed to the local market of the subject of the Russian Federation, and the term "a meso-regional market" means the Federal District market. These markets will be considered in terms of a system and institutional approach.

2. The genesis of the regional securities markets in the Russian Federation

Regional securities markets appeared in the Russian Federation in the early 1990s. The main factors of their formation and development were privatization of the state municipal enterprises, the search for new sources of financing of deficits of the regional and local budgets in the conditions of financial crisis, the formation of the legal framework of the securities market regulation. As a result, such types of markets were created in the regions: the market of the state (sub-federal) and municipal securities, which were issued primarily to finance the deficits of regional budgets; and the regional markets of corporate securities, which were issued during privatization. A three-level system of the issuers was developed during privatization: open joint-stock companies of the national level (they were registered in the regions), open joint stock companies of the regional level and closed joint-stock companies of the regional level. In the same period there was a rapid establishment of regional exchanges and quasi-stock exchange structures (Mirkin, 1995, pp. 415-416). The asymmetry of the securities market was laid in the 1990s. As noted by Granberg (2003, p.

305), rapid but chaotic development of the financial market in Russia did little to interregional integration. According to him, the formation of financial capital until 1998, "contributed" to the deformation of the Russian economic space. The dominant trend was the concentration of financial capital in Moscow; most regions were disconnected from financial "games" and were hostages of the macroeconomic situation zigzags. After the crisis of 1998, there was a period which can be called the stage of centralization and concentration of the securities market in the capital region. Gradually, all regional stock exchanges were closed, the number of regional professional securities market participants reduced. The asymmetry of the securities market in Russia was entrenched, despite the fact that in 2004 due to the transformation of regulatory bodies the Federal Financial Markets Service (FFMS) (consisting of 13 regional offices of the FFMS) was established. They were formed in the federal districts and groups of the subjects of the Russian Federation to monitor the observance of the requirements of the legislation of the Russian Federation by the issuers, professional securities market participants, market entities of collective investments, as well as to participate in the development and implementation of federal, meso-regional and regional projects and programmes for the development of financial markets and their infrastructure. The analysis carried out by the authors has shown that 46% of the subjects of the Russian Federation adopted programmes for the development of their regional securities markets (calculated by the Legal reference and information system "Consultant plus". The regional legislation).

By 2010 meso-regional and regional programmes had become less relevant, since the focus of the development of the national market had changed: the Strategy of creating an international financial center in Russia was adopted. Nevertheless, in the context of globalization the Russian regional securities markets integrated into the global financial market through the issue of Eurobonds and the American and global depository receipts.

The global financial crisis has changed the situation: the adopted strategies of development of financial markets in the regions became irrelevant. Currently, in an unstable economic environment "regionalism" of the securities market in Russia is becoming more actual, as the subjects of the Russian Federation face a task of finding financial resources for the purpose of innovative develop-

ment of the regions' economy (Dudin, 2015). We agree with Samaruha (2009, p. 62), who writes that: "... for the economy of Russia and all its regions, particularly the regions-locomotives, it is necessary to form a strategic plan for the development of financial markets in such way, so that it will allow to obtain reasonable, technologically and resource-ensured opportunity for rapid transition from the survival tactics to the active strategy of innovative development".

3. Factors affecting the formation of the problem field of strategic development of meso-regional and regional securities markets

The development of regional and meso-regional securities markets is in line with two opposite trends: on the one hand, it is centralization of the local markets, their integration into the national and global financial markets, and, on the other hand, it is decentralization and stimulation of the regional development. Centralization is manifested primarily in mega-regulation of financial markets by the Bank of Russia. The unified national legislation in the field of securities market does not allow establishing regional barriers to the flow of capital. At the same time meso-regions and regions have different investment potential, and therefore, various opportunities to attract financial resources through the securities issue. The harmonious development of regional and meso-regional markets should not violate the integrity of the national securities market, but it should take into account regional and socio-economic characteristics.

The global competitive environment leads to the need for attracting and building up strategic investments that will provide stable economic growth. That is why the strategy of development of meso-regional and regional securities markets stems from the necessity of innovative development of the Russian economy in general, its meso-regions and regions.

At the national level in Russia two important strategies have been adopted: the Strategy of development of the financial market of the Russian Federation for the period until 2020" (Government of the Russian Federation, 2008); the Strategy of innovative development of the Russian Federation for the period until 2020" (Government of the Russian Federation, 2011). These two national strategies should define a development vector of the regional securities markets. However, in the

Strategy of development of the financial market of the Russian Federation for the period up to 2020 particular emphasis is given to the development of the Central Federal district, specifically Moscow. The Strategy of innovative development of the Russian Federation for the period until 2020 pays more attention to the regional aspect, but the role of the securities market in innovative development of economy is not revealed.

The factors that influence the formation of the strategy of development of meso-regional and regional securities markets should be traditionally divided into external (towards the region) and internal ones.

The main external macroeconomic factors, affecting the nature of the strategy of development of regional securities markets, include: disruptions in integration processes (cracks of globalization on the basis of aggravated socio-economic and political contradictions); a high risk of uncertainty of economic environment (it reduces incentives for long-term investments); a high key rate, inflation growth and low level of the population savings. According to the forecast of the World Bank (2015), "the maintenance of sanctions, low oil prices, limited access to capital and uncertainty of economic policy will continue to restrain investment activity, which significant recovery is not expected before 2017". This means limited access of the Russian regions to international financial resources and concerns both corporate issuers and the subjects of the Russian Federation. During the years 2007-2009 (i.e. in the pre-crisis period), the average amount of borrowings of the Russian regions in the Eurobond market averaged \$ 1.3 billion a year; in 2013 it amounted to 0.6 billion dollars, and in 2014 this sum was equal to \$ 0.5 billion (Russian Stock Market, 2014, p. 32). Data on the corporate issuers are better: in 2009, the volume of Eurobonds was 99.1 billion dollars, in 2013 it was 181.8 billion dollars and in 2014 there was a decline by 11 % (calculated by the authors on the basis of: Russian Stock Market, 2014, p. 32).

External institutional factors, influencing the formation the strategy of development of meso-regional and regional securities markets, include:

(a) equal access to the activities in the securities market for both banks and non-bank institutions. About 44% of the total number of brokers, dealers and trustees are credit institutions (Russian Stock Market, 2015, pp. 29-30). Therefore, competition between deposit and credit institutions and the securities market institutions is ra-

ther rigid. According to Solovyov, Astapov and Chistilin (2015), the banks have the advantage of attracting customers from the point of view of the network organization of their activities, but they do not always provide high-quality services; regional securities companies have lower costs and higher yield on long intervals at a higher level of management;

(b) reduction in the transparency of regional financial markets and securities market in particular in connection with transition to mega-regulation. In our opinion, the transition to full mega-regulation in Russia has not finished yet. In the context of the theme of this article, it refers to the activities of the territorial offices of the Bank of Russia as the successors of territorial branches of the Federal Service for Financial Markets (FSFM). They should publish full statistics on meso-regional and regional securities markets so that regional investors can make appropriate decisions.

(c) instability of the legal framework of the securities market regulation. For example, since September 1, 2014 changes to the Civil Code, according to which the form of organization of joint stock companies was changed, were made. All open joint stock companies should be transformed either in public (PJSC) or non-public joint stock companies. In this regard, regional issuers face the problem of choosing between two organizational forms. This, in turn, will affect their emission potential. According to the National Association of stock market participants (NASMP) (Russian Stock Market, 2015, p. 23), the number of open (public) joint stock companies, which, in principle, should make potential of the public financial market, remains rather large - more than 26 thousand of companies. Nevertheless, there are extremely few of them on the organized market: at the end of 2014 the number of listed companies was 260 and in the middle of 2015 this sum amounted to 252 companies (Russian Stock Market, 2015, p. 23).

(d) the stock market does not fulfill its primary investment and redistributive function: there is a predominance of speculative transactions, the primary market remains underdeveloped (Table 1). At the same time, the volume of secondary trading on Russian stock exchanges in the same period amounted to: in 2010 - 43.2 bn rubles, in 2012 - 226.4 bn rubles, in 2013 - 260.2 bn rubles (Russian Finance, 2014).

Table 1 Characteristics of the primary securities market in the Russian Federation (for the year)

Primary market indicators	2010	2012	2013
The number of registered issues (additional issues) of corporate issue securities, units.	8605	7079	5447
including:			
the proportion of registered issues (additional issues) of shares, %	97,7%	97,5%	97,2
the proportion of registered issues (additional issues) of bonds, %	2,3%	2,5%	2,8%
The volume of registered issues (additional issues) of corporate issue securities at nominal value, bn rub.	4,06	3,45	8,55
including:			
the proportion of registered issues (additional issues) of shares, at par value, %	74,3%	66,6%	31,3%
the proportion of registered issues (additional issues) of bonds, at par value, %	35,7%	33,4%	68,7%

Source: Authors' calculation based on the data of Russian Finance, 2014

The primary market is dominated by bonds. Such investor preferences correspond to the traditional values of the population (Mirkin, 2000). The main proportion of share placements account for nonpublic joint stock companies. For example, an initial public offering of shares of the Russian issuers in the first half of 2015 is episodic in nature (Russian Stock Market, 2015, p. 6).

Let us look at the internal factors which are related to economic and institutional differences between meso-regions and regions of Russia. They include:

(a) significant differences in the investment attractiveness of regions (Table 2).

Table 2 Classification of the Russian regions based on "the investment potential – risk"

The ratio of "Investment potential - risk"	Number of regions			
	2014		2015	
	The amount (number)	Proportion in% to the total number	The amount (number)	Proportion in% to the total number
Maximum potential - minimal risk 1A	4	4.7	3	3.5
Maximum potential - minimal risk 2A	3	3.5	2	2.4
Reduced potential – minimal risk 3 A 1	6	7.0	6	7.0
High potential - moderate risk 1B	1	1.2	2	2.4
Average potential – moderate risk 2B	10	11.8	11	12.9
Reduced potential – moderate risk 3B1	34	40.0	31	36.5
Insignificant potential - moderate risk 3B2	12	14.1	12	14.1
Reduced potential - high risk 3C1	3	3.5	5	5.9
Insignificant potential – high risk 3C2	10	11.8	10	11.8
Low potential - extreme risk 3D	2	2.4	3	3.5
Total:	85	100	85	100

Source: Authors' calculation based on the data of the rating agency ExpertRA, 2014; 2015

In 2015 the number of regions that have the rating "1A-3A" decreased by 15%, while the number of regions that have the lowest rating of "3C1 to 3D" increased by 20%. The research of Ivanov (2011, p. 251) showed that the developed regions with significant institutional resource for the development and implementation of applications for public funding and raw materials regions, attracting the attention of the development institutions within the paradigm of "conquering new lands", take the advantage of funding at the expense of the state development institutions. This is also confirmed by another research: in 2010-2011 78% of the total volume of direct foreign investments were intended for the top 10 regions, 50% of them were absorbed by the cities-subjects of the Russian Federation (Moscow and St. Petersburg) and the Moscow region (Investing in Russia, 2013, p. 19). This indicates a significant differentiation of regions in Russia. The content analysis showed the following: the higher the investment attractiveness of the region is, the less attention is paid by the regional authorities to the need to develop a strategy for the development of the regional securities market (Table 3).

Table 3 Characteristics of meso-regions in terms of the adopted strategies of development of the regional securities markets

Meso-region (Federal District, FD)	The number of regions in the meso-region			
	Total	Including:		
		the regions which have a strategy (programme) of the regional securities market development	regions with the rating	
			1A-3A1	1B – 3B1
Central Federal District	18	10		
Northwestern Federal District	11	3		
Southern Federal District	6	3		
North Caucasian Federal District	7	4		
Volga Federal District	14	9		
Ural Federal District	6	2		
Siberian Federal District	12	7		
Far Eastern Federal District	9	3		
Total	83	41		

Source: Authors' calculation based on the data of the rating agency ExpertRA, 2014; 2015; Government of the Russian Federation, 2011

At the same time, the research has shown that one of the factors of the investment attractiveness increase is the presence of such head of the region, the absolute priority for whom is to attract direct foreign investment in the region (Investing in Russia, 2013, p. 19).

(b) significant differences in the budgetary provision. This leads to the fact that in some regions (so-called "donor regions") there is enough budget for their innovative development, but most regions in Russia (their share is 88% of the total number of the Russian Federation subjects) refer to so-called "recipient-regions". Therefore, the search for extra-budgetary sources of financing of innovation becomes relevant for them;

(c) the unevenness of the population income (Gini coefficient in 2010 was 0,421, in 2012 it was 0,420, and in 2014 it amounted to 0.416) (Regions of Russia, 2013; 2015a). Table 4 presents data showing changes in the level of average per capita income of the population in different meso-regions of Russia.

Table 4 The ratio of average per capita income of the population by meso-regions of the Russian Federation (per month)

	2010	2011	2012	2013	2014
The Russian Federation	1.00	1.00	1.00	1.00	1.00
Central Federal District	1.30	1.30	1.29	1.29	1.26
Northwestern Federal District	1.05	1.02	1.00	1.00	1.03
Southern Federal District	0.80	0.80	0.81	0.84	0.88
North Caucasian Federal District	0.70	0.72	0.74	0.73	0.75
Volga Federal District	0.84	0.83	0.85	0.84	0.87
Ural federal district	1.15	1.15	1.13	1.12	1.10
Siberian Federal District	0.80	0.80	0.80	0.79	0.77
Far Eastern Federal District	1.10	1.10	1.10	1.12	1.15

Source: Authors' calculation based on the data of the Regions of Russia, 2015b

The result is a low investment activity of the population in regions with low income.

According to the data of the National Association of Stock Market Participants (NASMP) the number of private investors-residents in 2015 amounted to 980.7 thousand people (Russian Stock Market, 2015, p. 24). Despite the fact that the number of investors-individuals is increasing (in 2012, their number amounted to 824.1 thousand people; in 2013 this figure was 818.1 thousand people and in the first half of 2014 it was equal to 900.9 thousand people), their share does not exceed 1% of the working population of Russia. Thus, in the first half of 2015, the share of investors-individuals in the total volume of deals with shares, committed on the Moscow Stock Exchange, amounted to 31,8% (Russian Stock Market, 2015, p. 25). It is worth noting that the number of non-resident individuals who are the clients of the Moscow stock exchange, in the same period, was 3 652 people, and their proportion in the total volume of transactions in shares amounted to 41,4% (Russian Stock Market, 2015, p. 25).

(d) the lack of financial literacy of the population, mentality and some differences in the traditional values of the population living on the territory of different regions. In general, Russian citizens prefer bank deposits to securities, which seems logical in terms of simplicity of their nature understanding and historical practice. The low level of public trust in the securities is responding to the lack of compensation and compulsory insurance system in the securities market, in contrast to the system of mandatory deposit insurance of private pension funds. The lack of compensation funds is contrary to international practice and

prevents the development of the securities market. According to research by Mirkin (2000), "the securities market in Russia will be more likely to exist as a debt market (in fact, "the German" or "Japanese" model), where transactions with shares will have a subordinate value";

(e) uneven distribution of the professional securities market participants across the regions and a high level of concentration of financial services in Moscow. While studying the problems of the banking sector of the financial market Ketova and Rachilov (2013, p. 43) identified such problems as: growing differences between the banking groups of the Moscow region and other Russian regions, the problem of fair competition development, inadequacy of the resource base. This problem can be also extended to the regional securities markets because banks are the dominant financial intermediaries in the regional markets.

(f) reduction of the competition level. The maximum concentration is observed among the professional securities market participants: 80% of assets are accumulated among 8.1% of participants (44 organizations including 934 professional participants of the Russian securities market make up this proportion) (Bank of Russia, 2015, p. 39).

Thus, the overall problem situation related to the development of national, regional and meso-regional securities markets is generated by non-compliance of the results of the national market development with the goals and objectives of the innovation economy.

4. The formation of the strategy of development of the regional securities markets

In the report of the Russia's Region Drivers of Growth: 4x4 (2014) it is noted that the main driver of the economic growth of Russia is the improvement of institutions; so, the reforms of the business environment can have a significant impact on the growth of the regional economy in Russia. However, these reforms should not be selective, they should be comprehensive in nature.

The conceptual vision of the strategy of development of meso-regional and regional securities markets involves systematizing of the requirements and conditions of its formation for each region and meso-region (Picture 1).

The strategies of meso-regional and regional securities markets' development should be based on the principles of organization of the national securities market. The principles of organization

of the national securities market in Russia include: the principle of free movement of capital throughout the territory of the Russian Federation; the principle of continuity, sequence of public policy in the securities market and its commitment to the emerging Russian model of the securities market); the principle of mega-regulation of the financial markets aimed at protecting the rights and interests of the financial markets' participants, reducing systemic risks and increasing transparency of the securities market; the principle of combining mega-regulation and self-regulation of the securities market; the principle of the unity of the regulatory legal framework of the securities market on the territory of the Russian Federation; harmonization of the objectives of development of meso-regional and regional securities markets; the principle of competition support; the principle of orientation on international experience and taking into account the trend of globalization of financial markets.

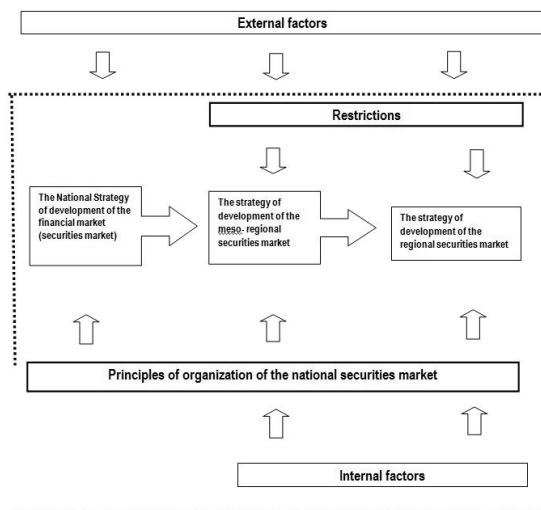


Figure 1 The formation of the strategy of development of regional and meso-regional security markets

Source: authors' research

The strategies of meso-regional and regional securities markets' development should be formed based on the priority of the national policies in the field of financial markets and other national strategies associated with them. The goals and indicators of the low-level strategies should be logically incorporated into the purposes of the national securities market development, without disrupting the unity of the national securities market and at the same time taking into account socio-economic characteristics of the region and meso-region. A distinctive feature of the strategy of development

of meso-regional and regional securities markets is that while detailing the methods and tools of its implementation, it is necessary to comply with the rules and restrictions arising from the applicable laws of the Russian Federation in the field of securities market. Specification of the strategic programmes of regional and meso-regional securities markets' development and their further adjustment are done under the influence of external and internal factors that were discussed above.

5. Classification of problems related to the development of strategies of meso-regional and regional securities markets

The problems caused by the factors mentioned above should be described as semi-structured development problems relevant to the adaptation level of decisions. External factors form the basis of the problem field of meso-regions and regions; they strengthen and expand constraints in the development of their strategies in the field of securities. It seems to us that the main complex of problems is caused by internal factors and contradictions.

The problems associated with the development of strategies of meso-regional and regional securities markets, should be divided into three groups.

Group A. The problems of creating a consistent three-level system of strategic development of the securities market in Russia: blurring of priorities and a lack of the strategy of regional securities market development in most regions, a complete lack of the strategy of meso-regional securities market development. To solve these problems one should develop of a set of measures, which could reveal the interests of all stakeholder groups, determine the strategic development tools within the developed and coordinated strategies. It is necessary to create expert groups to develop the projects of documents, defining quantitative and qualitative indicators and tools of regional and meso-regional policy in the field of the securities market.

Group B. The problems of the primary securities market development in the regions and meso-regions: motivation of issuers, investors and professional participants of the regional and meso-regional securities markets. To solve these problems one should introduce tax incentives in terms of competence of the regional authorities to enhance the placement of new (additional) issues of securities by the regional issuers; simplify the

registration of additional securities issues by non-public joint-stock companies; support socially responsible regional issuers.

Group C. The problems of increasing of the investment climate in the regions and meso-regions: disproportionate investment of regions and meso-regions, the problems of low investment attractiveness of the majority of the regions in Russia. These problems are understood by the authorities of the regions best of all. However, the mechanisms and tools for solving these problems in the regions need to be further detailed. In particular, it is necessary to develop the institution of investment consulting, construct regional securities intended for the public. It is also necessary to: create regional private venture capital funds to finance innovation; create insurance funds for regional investors; create regional trading systems; form a system of information disclosure for regional investors; improve financial affordability; revitalize programmes aimed at improving the financial literacy in the regions.

To solve these problems one should specify the mechanisms, tools and roadmaps of the planned activities' implementation; enable the "alignment" of regions and meso-regions in their abilities to take advantage of the securities market. In addressing these issues a big role is reserved to the legislative and executive authorities at the regional level, territorial units of a mega-regulator (Bank of Russia) and territorial units of self-regulatory organizations which unite professional participants of the Russian securities market.

Conclusion

The complex structure of the Russian securities market is connected with the features of the federal arrangement of a large state and the relations of such type as "Federation - meso-region - region". The result of socio-economic differences of meso-regions and regions and their investment differentiation is a significant gap in the ability to attract resources through the securities market instruments for the purpose of innovation development of the regions. The conducted analysis of the external and internal factors that influence the formation of a three-level strategy of the development of the securities market in Russia has allowed us to identify three basic groups of problems: Group A. The problems of creating a consistent three-level system of strategic development of the securities market in Russia; Group B. The problems of development of the primary securities

market in the regions and meso-regions; Group C. The problems of improving the investment climate of the regions and meso-regions. The solution of these problems is in line with strengthening the function of the securities market. **SM**

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✉ Correspondence

Irina Gorlovskaya

Omsk F.M. Dostoevsky State University
Prospect Mira 55a, 644077, Omsk, Russia

E-mail: gig99@rambler.ru

Hard and Soft Approaches of Strategic Organisational Change Management

Ferenc Farkas

University of Pécs, Pécs, Hungary

Abstract

The nature of strategic organisational change management is different now from what it was in the past. As we could say either level of corporate strategy or itself the management presents changing character either level of corporate strategy or daily operation and both theoretically and in the practice.

The conference paper wants to analyse the data of many change initiatives delivered by students' (mainly MBA students of Pécs University during the past decade) well-structured short cases and case studies. These documents have been based on different change management concepts. Some of them were traditional well-known old concepts, while some of them were new developments of change management. The hypothesis of this paper is: however, there are many different concepts, theories, approaches to change (particularly strategic management nevertheless the success or failure of these initiatives independent of concept used. In other word, there is no one best way of strategic management changes. The author is arguing that the changing profile of organisational change can describe at least by two main approaches. The hard and the soft approach are two general options for managing strategic change in the organisations. The ways of value creation, efficiency improvement can be targeted successfully by both of these approaches that will be introduced in the paper. The relevance of hard- and soft-oriented change management process has been proved with students' short cases, respectively the rich in-the-field experiences of the author. However, the good balance of them is needed. The proper combination of hard and soft concepts and practice for achieving organisational success is wished.

Keywords

Changes, strategic change management, soft and hard approach, short cases, change initiatives.

1. Change and organisational responsiveness

The crisis culminating in the second half of the last decade has left an indelible mark on enterprises both in respect of operations and management. In retrospect, it is clear that the management of organisations was unprepared to tackle the organisational issues and requirements presented by the crisis. Hungarian experts on management science (educators and researchers) attempted to sum up the experiences and the consequences retrospectively (Balaton & Gelei, 2013). The profession is trying to find a way out by processing 150 years of Hungarian business thinking (Antal & Baksa, 2015) and equally, by presaging management innovations (Inzelt & Bajmóczy, 2013). Previous analyses on the future evolution of organisations (Kocsis & Szabó, 2000) in Hun-

gary did not have sufficient clout at the time to enable enterprises and their management to prepare for what was looming ahead of them.

Besides publications processing the national models of the crisis and crisis management crying for new corporate strategy, it has been a general experience that papers and studies — including those cited above — can become *tools of prevention* only to the extent of meeting their own specific goals. By definition, a crisis is a forced strategic organisational change, and the customary response to it is proactivity. The only way organisations can achieve a more effective form of crisis management is by heightening the level of *organisational responsiveness*. This term appeared in the terminology of management in the 1990s. Originally, it was perceived as an ability to respond to environmental changes (Cheng & Kesne,

1988). It was only after the ground-breaking article of Bartlett & Ghosal (2002) that the role of people, in particular, the quality and adequacy of human capital, came to be perceived as the key driving force behind an organisation's responsiveness. What does organisational responsiveness imply with respect to the changes of a "typical" organisation? Main factors:

1. The understanding of the complexities of large-scale organisational changes.

It has become widely recognised worldwide (Yaeger, 2006) that complexity entails the ability to give adequate answers to the following questions:

- What and why? – choosing initiatives
 - ✓ strategic alignment
 - ✓ social and professional priorities.
- Risks associated with action or inaction:
 - ✓ customer,
 - ✓ financial, and
 - ✓ reputation risks.
- 80% of success is in How.
 - ✓ execution,
 - ✓ results vs. methods,
- Who? – differentiating between mere impact adopters and drivers:
 - ✓ customers,
 - ✓ stakeholders,
 - ✓ enablers (of decision-making and action).
- When? – managing multiple initiatives
 - ✓ simultaneous,
 - ✓ overlapping,
 - ✓ sequential

2. Getting the "governors" of changes prepared.

"The corporate governance issue is puzzling because different organisational structures exist throughout the world; and there are examples of good and bad corporate governance in every country" (Gup, 2007). The question raised in the title of the article — Does the board structure matter? — is still relevant today, and the answer is: yes. Board structure does matter. Who is engaged in changes affecting the organisations of banks and on whose behalf? What is their expertise and what interests motivate them? In a very recent article, the well-known Hungarian research fellow writes: "So, good governance first of all means serving the interests of capital. However, the time horizon of market mechanisms is too short to be

able to ensure the smooth operation of the economy. Therefore, a new public management system should be developed, which is different from the exclusively enterprise-centred logic" (Botos, 2014, p. 285). A part of this endeavour could be the specification of change management for the companies and institutions of the financial sector. In examining this particular topic, we are addressing the key issues of organisational responsiveness in the context of change management. Picture 1 represents a new value model for change direction of the public sector.

3. The expertise and knowledge of managers and their subordinates, as well as their attitude to accepting changes are of crucial importance.

Even the smallest financial institution is structured; both from an organisational and a geographical perspective. It may have organisational units spanning over continents, countries and regions.

The form of the organisational units may also be extremely complex and diverse from subsidiaries to branches. Their common feature is the use of labour-intensive human resources. This intensity characterises front office and back office personnel alike.

Contrary to mainstream economics, according to social psychology the individual, as part of a group, is by nature a social animal (Aronson, 2008). The individual decisions of a middle manager working in a branch or division often reflect values defined and followed by groups (Kardos, 2013, p. 1261). This means that harmonising the interests of the individual and the group representing the organisation (in this case, the financial institution) is of key significance. Work values are the practical manifestations of organisational responsiveness. As the individual and the group perform their tasks; so the organisation improves its ability to comply with externally and internally induced changes.

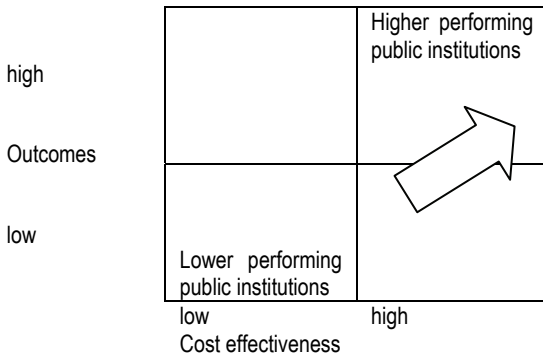


Figure 1 Public Sector Value Model
 Source: Frankóné 2007, p. 58

4. The improvement of individual competencies is a typical human resources management duty at the organisations of the economic sectors.
5. In analysing the different aspects of organisational responsiveness, a number of specificities should be considered:
 - knowledge depreciation has perceivably accelerated in the domestic organisations of the sector;
 - the technology of operation is intensifying;
 - the tightening of the legislative environment has increased the demand for *responsible working practices*;
 - the generation shift among the managers and employees has accelerated, with an increase in female employees and new entrants; and
 - employee expectations (assumptions) in respect of training and development are rapidly changing — mostly increasing — worldwide (Kaur, 2012).

(5)The organisations have several special traits, which is natural as each sector differs from the others in many regards. They may differ in terms of mission, attitude to profit generation, organisational culture, applied technologies, and so on. Organisational sciences have developed numerous methodologies to explore organisational specificities, such as the approach known as contingency theories (Child, 2005), which sum up the factors affecting organisational design. The real cases worked out were utilized the well-known and widely used STEEPLE-analysis (see: Farkas, 2013) describe the controlling specificities through exploring the external environment. This may focus on an entire sector and/or the individual organisations/enterprises of the sector. Inde-

pendent (explanatory) and dependent (output) variables are customary terms in management as well, and the problem of dependency is a frequent matter of discussion.

6. The ownership structure may impede the recognition of the trigger for organisational change.

The ownership structure of large (especially multinational) banks is complex, multiply structured and often lacks transparency. Hungarian banks are no exception after the privatisation of the banking sector. This structure has given rise to large-scale efficiency issues for some time now (Várhegyi, 1998). The revision of the structure is a change objective in itself as a macro-level change. From the aspect of national-level changes, concentrated professional versus dispersed ownership presents a number of dilemmas for organisational actors, including the following:

- Who are the initiators of changes from the group of owners, especially at banks with hundreds of thousands of owners (shareholders)?
- How many channels are needed by the governing body or management representing the owner and owners' interests to become an agent of change?
- To what extent can the total separation of owners and employees (in space and time) ensure the formation of commitment to the change objectives? Wouldn't the "death of distance" be replaced by the "blocking force of distance" as a hindering factor?
- To what extent does the phenomenon of "strategic decision at the centre – execution at the frontiers" facilitate the formation of the *commitment* required by the change management models presented later in this study?

As a reply to this last question, we present an example of a change management practice of an anonymous financial organisation.

Example of our MBA students' preparation:

"The central decision was integration.

After the acquisition they immediately set down to work out the integration project, as the two banking businesses had a completely different operational and information technology background and different financial core activities. With a view to improving the operational efficiency of the Group, the objective of the project

was to ensure the implementation of uniform IT solutions and the introduction of uniform accounting and reporting systems with optimal resource utilisation (time, money, people), and all this was to be achieved by taking advantage of already existing assets and solutions.

The implications for local-level executors included the following:

- as soon as the integrated organisational structure was set up, there was no longer need for the work of some of the IT staff, and
- as a general trend, managers from one of the banks were downgraded or transferred to different positions, while new positions with higher decision powers were created for the employees of the other banking business”.

The following case is also intended to illustrate this point.

“When change initiatives run aground — as they so often do — change agents can be quick to point a finger at the people who never got on board. The assumption is that they resisted a perfectly logical move, so it fell apart.

However, blaming resisters not only is pointless but can actually lead to destructive managerial behaviours. When managers perceive resistance as a threat, they may become competitive, defensive, or uncommunicative. They are sometimes so concerned with being right—and not looking bad—that they lose sight of their original goals. In stubbornly pushing things through without understanding the resistance, they sacrifice goodwill, put valuable relationships in jeopardy, and squander the opportunity to engage sceptics in service of a better plan. They presume that only the other folks—the resisters—need to alter their behaviour for the change to succeed. The authors of the deservedly world-renown paper serving as the source of the extract (Beer & Nohria, 2000) wrote:

“In our research and consulting work, we’ve had the opportunity to study change initiatives at scores of large and small companies and we’ve found that to understand resistance to a program, you need to start by adjusting your own mind-set. Ask yourself two questions: ‘Why am I seeing this behaviour as resistance?’ and ‘If I viewed the resistance as feedback, what could I learn about how to refine the change effort?’. Once you’ve honestly answered those questions, you can begin

to see resistance as a resource—as energy to be channelled on behalf of the organisation. Even difficult people can provide valuable input when you treat their communications with respect and are willing to reconsider some aspects of the change you’re initiating. Here are two ways you can use resistance to effect change more productively” (Farkas, 2013, p. 183).

Understanding the *nature of change* is the primary requirement for decoding resistance (Ford & Ford, 2009).

The section of application examples of this paper addresses this subject.

2. Types of change: managed and unmanaged organisational changes – hard and soft continuum

There are numerous classifications of organisational changes depending on characters of change.

The literature addressing the topic of changes offers ample advice about how to proceed in planning and implementing changes. The multitude of concepts all agree on one thing: solutions are aimed at clear state of affairs and the management of transparent situations. That notwithstanding, large-scale social and economic regime changes at the end of the 20th century and subsequently, the financial-economic global crisis demonstrated that the set of tools available for the management of changes is insufficient, lacking any effective solutions for managing novel or, from a different perspective, “messy”) organisational situations and problems (Senior & Swallers, 2010). Without a doubt, the range of concepts pondered when changes occur or when changes are being made should be broadened.

The classification that distinguishes between

- *managed* and
- *unmanaged* changes

provides a sound framework for the analysis of *macro and micro-level* changes.

The relevant papers of Kornai (1999) and Angyal (2009) are helpful in understanding the concepts and Hungarian adaptations of these two main types.

The next part of this article is focused on the analysis of managed micro-level organisational changes.

The *micro-level approach* to change management addresses changes initiated by member of the organisation and management. It covers intentional, purposeful organisational changes, by which the organisation intends to respond to the

challenges generated by the environment and by its own internal operations. Planned organisational changes represent an intention on the part of central and local-level management and employees to improve, through the changes effected, the organisation’s adaptability and alter the behaviour of individuals as intended. Nowadays the trends of differentiation and integration are simultaneously represented in organisation restructuring concepts. Under such conditions managed changes may be suitable for identifying the right orientation of organisations. Subsequently, however, two important details of the conceptual framework of change management will need to be addressed. Firstly, the model of the equilibrium theory should be described, as it helps explore correlations between transition management and the maintenance of dynamic capabilities. Secondly, we should examine the typical attitudes to changes in various phases of the change.

The first question is: does the impact exerted on the organisation’s participants by transformations generated by dynamic capabilities through unmanaged changes produce the same response graph as in the case of managed changes? Secondly: did resistance to the change materialise inside the organisation and how did the organisation recognise and overcome the resistance? Thirdly: did the organisation apply, during the instinctively occurring changes, the methods used to overcome resistance in the case of systematic, planned changes, including training and communication; participation and inclusion; assistance, support, negotiation and persuasion? Fundamentally, change management means managing the transition between an organisation’s existing state and its future (planned) state. In the lack of pressures for change, the organisation is at rest. As soon as the triggers of change make an appearance a transformation begins, which must be constantly managed until the organisation — having incorporated the changes — returns to a state of rest.

This change in equilibrium is illustrated by Figure 2:

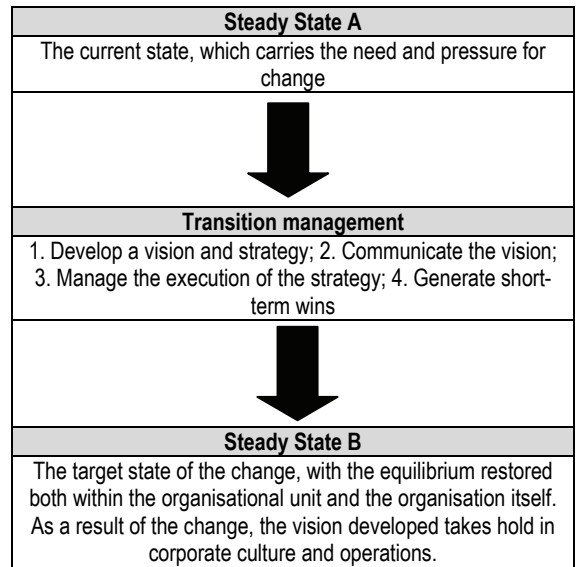


Figure 2: Public Sector Value Model
 Source: Farkas, 2013

Organisations may reach State B from State A through unmanaged changes (transitions) as well. The main difference is in controllability and the result of the expected outcome. The level of uncertainty and unpredictability depends on the mobilisation and quality of the organisation’s dynamic capabilities. The methodology applied by Voszka (2013) to analyse the history of changes in state ownership in post-transition Hungary also resembles the three phases of the equilibrium model. In the author’s opinion, the triad of nationalisation – privatisation – nationalisation implied the vested interests and value relations of the ever-present attitude of equilibrium seeking. The desire to outdo the previous state through changes can be considered a basic goal of change management.

3. Practical issues of soft and hard continuum

The rich methodology of change management provides users with a multitude of procedures, models and know-how. This paper can only offer a glimpse of how these tools are utilised in the wide range of organisations either in the business, or in the public sector. The examples mentioned so far have served this main purpose, while, however, they also touched upon the tailoring of these concepts to the sector.

Below we present a few examples of the vast collection of cases amassed by the University of Pécs during the courses given on the subject of change management over the years. We learnt that

the most popular change management model among our Master and MBA students is definitely the Kotter model based on world-famous research and epoch-making publications of Harvard professor, John P. Kotter (Kotter, 1996; Kotter & Schlesinger, 2009). Knowing this evidence we are searching for other applications within the framework, of hard and soft continuum of change management practice.

Change management has a hard side and a soft side. Our learning from MBA students' cases was that most managers tend to have some familiarity and experience dealing with the 'hard' aspects – like goals, strategic plans, structure, and performance targets. However, most managers know far less about how to deal with the 'softer' aspects of change, revolving around factors like staff emotions, politics and organisational culture. The problem, of course, is that it is the soft side which so often wrecks change management efforts. If not dealt with effectively, for example, emotions like fear and scepticism can quickly create resistance and disengagement that can really damage or thwart a change process.

3.1. Jick's Ten-Step Model Focusing on the Hard Side of Change

The overview of Jick's Ten-Step Model (1993) provides a good opportunity for analysing the case of a bank where management attempted to manage the evolution of a change that was aimed at restructuring a unit of the banking organisation.

1. Analyse the organisational need for change

Once the decision was made, management strived to provide justification for the change through several channels (e-mail, internet, meetings). Due to the nature of the situation, however, it was insufficient to be understood and accepted by everyone.

2. Create a shared vision and common direction and

3. Separate from the past

The goal was to create a uniform communication process inside the organisation, based on standard operating procedures. With that in mind, they restructured the organisation of the unit and standardised the rules. As a result, the existing rules were either eliminated, or transformed. Management set up a separate team for the project.

4. Create a sense of urgency

Everyone understood that it was easier to work according to uniform rules, and co-workers can offer help more easily if they understand each other's work. In addition, the clear declaration of new dependencies and responsibility levels, and especially the elimination of the previously prevailing existential uncertainty, served everyone's interest.

5. Support a strong leader role and

6. Line up political sponsorship

Management intended to centralise "powers" in a single hand. To that end, management tried to ensure that the person selected to lead the change was someone respected by employees both at the professional and at the human level and clearly suitable for resolving any problems down the line. After the announcement of the decision, upper-level managers stood up for the appointee as one, making it clear that they trusted him and that they expected everyone to follow his lead and help him in his work.

7. Craft/include an implementation plan, and

8. Develop enabling structures

Management and the new leader communicated each step of the changes throughout the project. They clarified new positions and responsibilities. Everyone was given a thoroughly specified new job description, whereby a clear picture emerged of the dependencies.

9. Communicate, involve people and be honest

Throughout the process, stakeholders and affected employees were requested for feedback at joint team building meetings, ensuring that any questions arising were analysed from different angles (e.g. evolution of personal relationships, provision of opportunities for development, etc.).

10. Reinforce and institutionalise the change

While the change was clear, the "conclusion" of the process raised a few problems. As a result, follow-up meetings and training courses were arranged to ensure the institutionalisation and smooth functioning of the new organisational structure.

3.2. Five-Step Model: A New Approach to Understanding the Soft Side of Changes

To help managers deal with the soft side of change, we frequently used a new ‘five-step’ model that has recently been developed by two American strategic management professors (Auster & Ruebottom, 2013). They developed their new framework from their wide consulting and academic work, including, apparently, 400 change projects carried out by their MBA students. The model revolves around assessing and classifying how the most influential people in the different groups of people associated with a change feel about that change and then working with those individuals in a targeted way to leverage their influence over others to gain wider acceptance. Here, in summary, are the five steps:

- Step 1. Map the political landscape of Change on a strategical level.
- Step 2. Identify the key influencers each stakeholder group.
- Step 3. Assess influencers’ receptiveness to change planned.
- Step 4. Mobilize influential sponsors and promoters.
- Step 5. Engage influential positive and negative sceptics.

This 5-step model, certainly is not a complete framework for dealing with all soft issues (e.g. organizational culture and values/beliefs), but it is an easy-to-follow and action-oriented guiding for change leaders on how to deal with key issues emotions and politics of main stakeholders. By our experiences this model is suitable to understand the importance of soft side change action. In the practice it is working!

3.3. Application Examples

3.2.1. The Soft Approach at the „Hungarian” Bank

Another case involves a project aimed at changing the organisational culture of a leading domestic commercial bank in Hungary. The case describes the process of change in a countryside branch where the need for change was signalled by the declining trend of sales revenues. The branch manager decided that, since the branch was unable to come up with the expected indicators anyway, there was nothing to lose by applying radical tools to execute the required changes. (According to this particular classification, there are two types of organisational changes: radical vs.

incremental change). When the radical version is the preferred choice,

- a large number of organisational characteristics are subject to changes,
- these characteristics prevail at several hierarchical levels of the organisation,
- changes occur relatively quickly,
- changes are effected through high-scale, spectacular “leapfrogs”, and
- they assume the support of senior management.

The branch manager reckoned with all this when he decided to “give a shot” to instigate changes of a cultural nature. From the get-go, it was important for the branch to adjust to the organisational culture of the parent company, which management tried to achieve by defining both external and internal values and having them accepted by employees. To replace the old, poorly functioning collegial relations, new relationships were created with new working groups set up, while fundamental, external factors — formerly being the stumbling blocks of effective work — were reshaped (office layout, modernisation of assets). In the new work environment and through the participation in new groups, employees gradually accepted the need for change and became supporters — especially when they recognised that in the improved workplace the changes allowed them to have more time for sales work and they could make more money as a result. Personnel changes in management were also on the agenda; moreover, employees needed an environment where they could learn from each other.

As a result, a supportive environment emerged, which helped in the introduction of new procedures. Obviously, the initial objective was to eliminate the superficial problems before getting to the root causes of the issues. Through these changes, the branch gradually integrated into the organisational culture of the parent company and gained an enormous momentum that could only be curbed by the impact of the subsequent crisis. When the leader drew the conclusions of the project, to his surprise he found that, overall, the change turned out to be incremental rather than radical as originally planned. In other words: it was a step-by-step process, adjustment to external circumstances was a predominant aspect during the implementation of the goals, and priority was given to the training of employees and the shaping of their attitudes. This, however, should come as no surprise: after all, there is broad consensus that

in the practice of change management the transformation of organisational culture is an incremental process.

This representative example comes from a case that is about the application of a change management method called *force field analysis*. The principle of force field analysis was developed by Kurt Lewin, a social psychologist (Lewin, 1947; 1972). In essence, the theory asserts that the commencement and implementation of changes are determined by the proportion of the helping forces and the hindering forces relative to one another. In other words: in order to effect changes, the driving movement toward a goal must be stronger than the blocking movement toward a goal.

Change, or maintenance of the status quo? This was the dilemma for a large multinational company in the case study, with a history of about 25 years and a network of 82 branches at the time of the study. The main driving forces (e.g. the need for social and HR changes, changes in information technology, pressure for innovation and expectations to meet changing customer needs) led to profound organisational changes.

Some of these forces were perceived as strategic, while another part of them were operational. In any case, ultimately the bank's performance indicators improved and problems reached a level of resolvability. This short example also demonstrates that even the simplest method can succeed if, filled with new content, it is applied in the context of a different professional environment.

3.2.2. Hard Approach at a Telecommunication Company

The organizational setting for this research was a large, national full service providing telecommunication company which employs approximately 17,000 employees. The external impetus for strategic reorientation was the announcement of complete deregulation of European telecommunication markets. There were several new entrants on the market. The vision of the company was to 'develop an integrated master change programme to transform the company into a cost efficient provider of world class customer driven products and services in a national and international telecom market'. The respondents (250 people) for this study were managers (from staff units as well as line units) in the company. They were asked to base their answers on experiences from one particular change project in which they had taken part as change agents. Half of the respondents

were asked to base their answers on 'fairly successful' change processes while the other half of respondents based their answers on 'fairly unsuccessful' change processes. The final sample was the following: it contained data from 51 percent with the first instruction and 49 percent with the latter instruction. A key investigation approach was used in combination with the use of perceptual measures, which is the most frequently used way of obtaining information on subunit, organizational and environmental variables in organizational research. Overall the results of the research showed that there is a positive relationship between participation and a number of outcome variables that are relevant for judging the successfulness of implementing strategic change. Participation was found to have a strong effect on all outcome variables; however, the relationships between participation and goal achievement, and resistance are somewhat stronger than the relationships between participation and the three components of organizational commitment. This short real case represents the possibility of hard and soft combination of change management when the company strategy has been involved by big change.

4. Summary: what really works

Primary management procedures — strategy, execution, culture and structure — provide the foundation of any business.

- A strategy must be clear, concise and target-oriented, and management should adhere to this principle at all times. The chosen method of growth should be carefully selected in order to avoid venturing into uncharted territories. The weight and the proportion of core activities should be increased. Management should rely on the organisation's core competencies and focus on their development.
- Execution means the achievement and maintenance of smooth operations. Once again, the most important factor is "how". Corporate champions are always realists. They recognise that they cannot outstrip their competitors in every aspect of their operation; therefore, they identify the processes most important for satisfying their customers' needs and then focus all their energy and resources on those particular areas to ensure that these processes are performed with maximum efficiency.

- Culture must be performance-oriented. At corporate champions, everyone gives their best. These organisations create a culture that encourages outstanding individual and team performance, where not only senior and local managers, but also employees are responsible for success. This is best achieved by direct, performance-based rewards. In addition, organisations and institutions adopting this line of changes provide an opportunity for harnessing the talent of people.
- The organisational structure resulting from the changes should be fast and lean with an ability to respond flexibly — it should be as simple as possible.

As regards secondary practices — talent, innovation, management, fusion and partnership —, several factors are key to success.

- Talented employees should be retained and new talents recruited.
- Innovations should be adopted to transform the industry and its organisations.
- Leaders committed to change are highly needed.
- A real chance for growth can be achieved through fusions and partnerships. Leaders willing to implement successful changes should work toward this goal. Their efforts serving the change should be concentrated on these objectives.

The management of change is not an easy task even at the local level investigated in this paper. Only an unquenchable thirst for information, continuous learning, training and self-education can make someone the master of change management.

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✉ **Correspondence**

Ferenc Farkas

University of Pecs
Vasvári Pál utca 4, H-7622, Pecs, Hungary
E-mail: farkas@ktk.pte.hu

Strategic Approaches to Creating and Developing the Concept of Business Integrity

Ljubomir Drakulevski

University "Ss. Cyril and Methodius" in Skopje, Faculty of Economics - Skopje, Skopje, Macedonia

Leonid Nakov

University "Ss. Cyril and Methodius" in Skopje, Faculty of Economics - Skopje, Skopje, Macedonia

Abstract

The continuous determination of the developing business systems to maintain a long-term relationship with its key internal, as well as external stake-holders, predominantly lies in the capacity of their managers, as leaders, to perceive, conceptualize and further prosper in harmonizing the external constraints to the internally achieved behavioural qualitative degree, particularly in strategic re-positioning and re-orientation of the business system. In creating so, the fundamental importance lies in creating and developing the concept of business integrity, especially in establishing the strategic model of performing of the business ethics management program that is focused at increasing the potential for a strategic shift from incidental strategic integrity positions or individuals to enacting the structural approach to the business integrity.

Profound increase of the expectations from the managerial actions, in quantitative and qualitative dimension, would not be effectively and efficiently performed without a proper determination of the sources for a sustainable competitive advantage, especially their categorization on the process and behavioural ones. While building – up the strategic transparency of the business, it is of an utmost importance to link the Business integrity with sufficiently sustained vision and values, organizational structure, management processes, as well to the concept for developing the human resources, owing to the influence that this concept possesses for increasing the public awareness, loyalty, as well as the models of responsibility and accountability. Business integrity creates strategically recognizable and above all socially responsible business system.

Keywords

Business integrity and sustainability, transparency, employee engagement (EE), competitive advantage (CA).

Introduction

Business sustainability of contemporary businesses, in fact, predominantly implies to the tendency of the organization to integrate the concepts that add value to the overall organizational performance, while attempting to harmonize the inner organizational resources and capabilities, on one hand, to the changing needs, motives and aspirations of the customers, on the other hand.

A proper structural determination of the essence of the *desired sustainable competitive advantage* lies in the managerial potential to integrate the behavioural manifestations of the employee engagement and involvement, transpar-

ency, economic sustainability with the prevailing model of the business integrity, including its strategy, good practices, code of conduct, as well as overall business integrity policy. The orientation for a consistent application of the business integrity model within the prevalent business practices is placed with its capacity to influence to unify *the prevalent strategic sustainability determinants, i.e. economic, social and environmental ones.*

1. Business sustainability framework for integrity

In essence, the managerial intention to develop a business model which would simultaneously add

value, while achieving its strategies and goals, leads to the concept of *business sustainability*, with an emphasis to the contemporary orientation not only to the environmental and philanthropic actions, but far more to those that create and maintain a long-term relationship of the enterprise to its key stakeholders, and promotes the organizational entity as an accountable responsible corporate citizen.

Therefore, the so-called *orientation beyond environmental constraints* implies to developing the elements of responsibility and accountability, fundamentally the *corporate social responsibility programs (CSRPs)*, which aim to promote the benefit that they possess from behavioural utilization of their long-term strategies (Bowd, Bowd & Harris, 2006). The practice of prominent multinational corporations proves this strategic shift, illustrated in the cases of Hewlett Packard, Coca-Cola, Microsoft etc.

The corporate strategies for achieving the *sustainability concept*, which is the framework for creating the business integrity, consists of the following *managerial sustainability orientations* (Biggemann, 2011), i.e.:

- *Internal* – a company may be able to communicate their aims, and however
- *External* – best illustrated on the practice of more than 30 years of IMP Group research, which has proven that companies are reliant on the actions and reactions of other parties that form the network in which they operate.

The applicative importance of above orientations is connected to building up the concept of *corporate citizenship*, which relates to the need for a *holistic and integrated responsibility assurance system* (Waddock, 2004), that would influence all levels of business, not only the bottom line, and, at the same time, would be able to segment and prioritize the key stakeholders, that is aimed at increasing the overall responsibility and accountability in the value creation chain.

The relation and influence of the *corporate citizenship towards the business integrity* is placed in the necessity to avoid perceiving this concept only as a marketing tool to increase profitability, with so-called *integrity form organizations* (Philips & Caldwell, 2005), meaning that developing and utilizing the business integrity is not a formal, but far more *thorough and inter-related model of establishing a vivid changes within all key organizational sustainability di-*

mensions, such as in vision and values, organizational structure, management processes, as well as in the developmental concept of the human resources.

Furthermore, precise determination of the *sustainability in business* (Biggemann, 2011) is more than environmental, particularly stating that the very sustainability follows the detailed *organizational sustainability orientations*, i.e.:

- *reflected in the long-term competitive advantage,*
- *implies to the business ability to thrive over time,*
- *determined to survive their founders and to accommodate to changes in the business environment,*
- *oriented to respond to new regulation,*
- *securing the support of other parties that supply critical resources, and*
- *it is about dealing with those that don't like one's business.*

Although 15 years ago, the main promoters of business sustainability were the corporate social responsibility programs (CSRPs), the practice of multi-national corporations has proven that these programs were not sufficient, even not complete. The prior reason for it is fundamentally owing to the fact that they *have not manifested enough evidence for the needed degree of the so called triple C – concept, i.e. commitment, collaboration and communication* of the company with the key – stakeholders, through the models of aligning the goals and unifying the overall business orientation.

It seems that companies, in contemporary times, are more concerned about the potential negative influence that environmental practices may have on their competitiveness and, therefore, this implication for the competitive advantage, particularly to the sustainable competitive advantage, becomes increasingly important. Due to this tendency, in certain cases, companies are able to *develop rather and recognizable unique, valuable and inimitable resources that are permanently derived from their environmental practices.*

The process of excluding a source of competitive advantage, from the environmental segment of the sustainability concept, implies to creating a so-called *environmental action – based competitive advantage model*. Theoretically determined, *environmental action – based competitive advantage model* refers to a *system that is achieved by companies settled into market niches that bring*

together consumers who attach special value to products' environmental dimension (Roy, 1999 as cited in Del Brio, 2007).

The business integrity dimension of this model is placed in the fact that environmental competitive practices are managed and implemented by human resources, consisting of managerial and non-managerial employees, that, on the basis of training and increasing of the awareness, are aimed at creating a *natural environment – based differentiation from the competitors*, as an integral strategic element of every concept of competitive advantage. It is quite evident that in the essence of the inter-connection of this model and the business integrity lies the importance of the *human capital*, especially the importance of the human resource management.

It is evident that the essence of the business sustainability is placed in the concept of business integrity, whereas their harmonization and proper utilization lead to strategic and sustainable competitive advantage.

2. Managerial involvement and employee engagement for business integrity

The existing level in the evolutionary process of human resource management is so-called *global strategic human resource management* and leads organizations to use all possible sources of competitive advantage, whereas human assets are one of these sources. The most important impetus of the above *strategic orientation to treating all of the employees*, regardless of the fact whether they are of managerial or non-managerial capacity, is conducted by the application of *resource – based view of creating competitive advantage, as well as achieving the desired sustainability*.

The process of creating *resource – based driven view of sustainable competitive advantage* implies a proper implementation of the following *fundamental criteria for coping with the so-called resource pitfalls* (Teece, 1998 as cited in Del Brio, 2007):

- *Given the dynamic environment, firms need to be able to identify, upgrade, renew and reinvent valuable resources, and*
- *Firms need to be able to create an environment where valuable resources may be self – reinforcing and to enhance their value and strengths, leading to important sustainable cost-disadvantages for companies with the aim of imitating them.*

- The only business factor that entirely satisfies the above detailed criteria is the human factor. Therefore, *a transparent determination of the position of employees in relation to the managers, in achieving the sustainability, is pretty needed.*

In analyzing the influence of the employees to creating the business integrity, the far most crucial feature of their performance is the *employee engagement*. A precise determination of employee engagement leads to the fact that it is *the extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a result of that commitment* (Corporate Leadership Council, 2004).

As a behavioural concept, employee engagement is *structurally complex, strategically driven, flexible in understanding and applying and best illustrated through pathway of best practices*. Modern organizations today face the challenge of attracting and further developing of the capabilities of their employees, in such a way that they would constantly transfer to key stakeholders the achieved business integrity behaviour, while adding value to the processes they perform. The employee talent would not be used if it were not properly developed, through the concepts of *employee engagement and commitment*.

Managerial attempt to determine the *most applicable, emerging integrity trends* that are an indicator of existing of employee engagement lead to the following Table 1 illustration:

Table 1 Focus and measuring of Employee engagement (EE)

No.	Trends for focus on EE	Common themes for measuring EE
1.	Employee – employee relationship evolving to partnerships	<i>Recognition and positive feedback for one's contribution</i>
2.	Increased demand for work/life balance	<i>Opportunity to perform well at challenging work</i>
3.	HR's greater role in promoting the link between employee performance and its impact on business goals	<i>Pride and satisfaction of the employer from employee performance</i>
4.	Increasing focus on selective retention for keeping mission-critical talent	<i>Understanding the link between one's job and the organization's mission</i>
5.	Work intensification as employers increase productivity with fewer employees and resources	<i>Effort above and beyond the minimum</i>

6.	Acquiring and keeping key talent re-emerging as top issues of concern	<i>Intention to stay with one's employer Job satisfaction</i>
7.	Decline in traditional communication methods and increase in cyber communication	<i>Personal support from one's supervisor</i>
8.	Needs, wants and behaviours of the talent pool driving changes in attraction, selection and retention practices	<i>Prospects for future growth with one's employer</i>

Source: Adopted according to Society for Human Resource Management, 2006, pp.14-27; Vance, 2006, p.73

In practice, employees that develop a proper cooperation with their colleagues create an innovative approaches to fulfilling the every-day tasks, increase the development of their talents, enable creative job design, develop positive expectations, beliefs and behaviour, horizontally and vertically, enact a proper balance between the work demands and work-life stability etc. are perceived as *engaged employees*. As a consequence, *business productivity increases, efficient usage of energy, resources and capabilities is above average, and at the same time, they are satisfied employees that are in a position to effect high organizational performance*.

The position of managers while developing the potential of engaged employees, in underlying the necessity for business integrity, refers at first level to their *managerial involvement*. In essence, managerial involvement implies, in accordance with our explorations, *developing a capacity of managers for an efficient usage, protection, utilization and development of various techniques that are needed for the most applicative combination of resources and capabilities of an organization*.

For instance, *managerial involvement in relation to the needs for environmental action – based competitive advantage model* is connected to solving the following *key environmental issues* (Roome, 1994 as cited in Del Brio, 2007):

- *The lack of managers adept at both business and environmental practice, and*
- *The absence of established competence in environmental management.*

Managerial involvement plays fundamental importance in *perceiving the combination of internal and external business elements, as a source of strength or opportunity*, which influences the overall sustainable competitive advantage. In this

integration of the managerial involvement with the desired business integrity, the role of the *transparency* plays the critical importance.

In particular, *transparency* essentially refers to the *disclosure of information, which was originally seen in corporate sustainability reports and required for product sustainability certification* (Mollenkopf, 2015). As such, transparency is of a significant importance for companies that thrive strategically to achieve the sustainability, especially the *economic sustainability*. In this context, *economic sustainability*, in our detailed explorations, implies to *variety of modalities through which companies require a higher level of transparency for information, that are practically critical for the process of resource and capabilities protection and utilization, aimed at ensuring the continuous process of achieving their competitive advantage*.

It is evident that *economic sustainability is inter-connected and supportive with the initially determined prevalent model of business sustainability*, in our analyses, fundamentally on the following way:

1. *economic sustainability* determines the framework for the integration of economic, social and environmental developmental tendencies, with an accent to identification of optimal pathways for their effective and efficient combination and location, by applying the concepts of *transparency, responsibility and strategic orientation*, whereas
2. *business sustainability* implies establishing and further development of consistent and permanent modalities of the mutual connection and inter-dependence of every business entity with its key stakeholders, with an emphasis on the organizational identity and image, by application of the concepts of *accountability, corporate citizenship and business integrity*.
3. In order to entirely *harmonize both sustainability modalities, economic and business one*, it is of a fundamental importance to develop proper *strategies for building a transparency in the workplace* (Meister, 2015), on the following way:
 4. *hire and engage transparent employees,*
 5. *encourage straight communication,*
 6. *insist on proactive use of social media by leaders,*
 7. *consider eliminating layers of titles and opening up transparency in finances,*

8. *create an online forum for employees to ask any question of the leadership.*

The integration of the above elements and its influence to the business integrity may be illustrated on the case of the *customers*, meaning that *if the employees are not being transparent with all information for the products/services, if their communication to the customers is not precise and detailed, if the companies' leaders are not familiar to the customers, if all important financial data for the transaction are not presented to the customer and if the important aspects of the communication between managers as leaders, on one side, and the employee, on the other side, are not revealed to the customers*, than the relationship cannot be characterized as sustainable, with limited potential for a repetitiveness of the purchasing process in the future.

The limitation in developing the dimensions of sustainability, economics or business one, influences to the capacity of an organization to integrate the sustainability into the prevalent concept of competitive advantage, creating a reactive, not a pro-active method for managing organizational changes, and, at the same time, decrease the capacity for a continuous and integrated internal and external communication process, that would be capable, on a permanent basis, to receive and transfer important information to and from the particular business entity.

3. Sustainable dimensions of the business integrity

In determining the sustainable determinants of the concept of business integrity, it is of an utmost importance to emphasize that, *the effects of integrity in achieving business sustainability are such that companies should find increased motivation to demonstrate and pursue integrity alongside the whole value chain.* (Biggemann, 2011). Therefore, each and every prosperous company should be in a position *to behave with a sustained pride, predominantly due to its' interest to develop a strategic type of relationship*, through which not only the material, but value elements are transferred, in both directions – enterprise to the key stakeholders and vice versa.

In increasing the scope and depth of the transferred value, the key role is played by the identification of the *key components of the competitive advantage* (Winer, 2004), which we would illustrate on the following way:

- *Competitive advantage must be able to generate customer value*, which, in fact, is defined by the customer in terms of lower price, speedy delivery, transaction convenience, or other important characteristics,
- *The enhanced value of the product or service must be perceived by the customer*, explained in terms that regardless of the fact whether the product or service is perceived as being superior to competitors' products or services, the very customer must be able to perceive your specific products or services as really more competitive than others on the market – best illustrated on the case of Intel, with the concept of *Intel inside*,
- *Effective competitive advantage requires that whatever business tactic is used, should be difficult for business competitors to copy it.*

The integration of the above competitive advantage components illustrates that it is expected to be, at the same time, *valuable, rare and not a subject of imitation*. This, in fact, is the *competitive approach* that has been applied by majority of enterprises, while attempting to achieve the *sustainable character of the very competitive advantage model*, illustrated in the cases of Intel, American Airlines, Ford etc.

The concept of *enacting the critical importance of the sustainability*, while undertaking the *transformative approach to organizational changes*, leads to a clear determination of the *features for sustainable growth*, an organizational state that is directly linked to the *potential of the business integrity*. These features can be segmented into the following ones (Hedstrom & Isenberg, 2014):

1. Identification of the 5 sustainability forces, including particularly the following:
 - *The big squeeze issue* – relating to the discrepancy between the growth of the population and the capacity of natural resources to sustain that growth,
 - *Transparency rules* – fundamentally determined as the real need for broader information that are suitable for sustainability analyses, not only to rely on standardized, comprehensive and sustainable reporting, which is, in a majority of cases, normatively constrained,

- *The rising tide of emotions* – as a dimension for sustainable growth, it is focused on re-orientation of the dominant focus of the companies towards the globalization and its rising importance for the sustainability and growth of contemporary businesses, precisely in a way of finding out the path for developing a positive emotions for the company by the key stakeholders,
 - *Servicing the poor* – as the majority of multi-national companies expanded their operations in the countries of the ‘third world’, it seems quite important for them to sustain the tendency in which the features of their products or services would best be accommodated in accordance with the expectations of the customers, containing values and beliefs that are culturally most suitable and acceptable,
 - *Environmental protection of the face of the business* – relating fundamentally to the necessity for building a business opportunity from protecting the environment, especially implementing the compliance standards, waste protection, water and air filtration, introducing electrical, hybrid product types etc.
2. Undertaking a transformative action oriented towards sustainable growth, which includes the following elements:
- *Portfolio analysis*, which relates to creating a ‘red zone analysis’, integrating the corporate and business unit strategies, new business models for the developing etc.
 - *Brand/image transformation*, an element that encompasses the application of the triple-bottom-line audit model, changing the core business value, creating a sustained NGO alliances etc.
 - *Supply Chain Management* – it is linked to launching targeted sustainability audits, building sustainable management systems through integrating the value chain within core business processes etc.
 - *Stakeholder engagement* – an element that includes a facilitation of workshops between the company and NGOs, preserving the influence of the stakeholders for not achieving the business and societal goals etc.

The common denominators of above detailed sustainability features undoubtedly imply simultaneous achievement of business profitability, innovative practices and organizational changes and growth modelling. Above detailed features of sustainable growth, analyzed in small enterprise, can best be illustrated through the importance of the strategic management process, which is critical for creating and developing the business integrity concept, on the following Table 2, for small enterprises:

Table 2 Competitive Advantage Strategic Management Process

Industry/ Business Conditions	Management Action	Leverag- ing the Marketing Mix	Result in CA through
Entry/exit barriers	The team	<i>Product</i>	Increased customer satisfaction
Timing	Flexibility and Integrity	<i>Price</i>	Creating 'Raving Fans'
Market share	Opportunity identification	<i>Place</i>	Highly satis- fied custom- ers
Culture of innovation	Risk taking and Decision- making	<i>Promotion</i>	Increased re-purchase rates
Intensity of coopera- tion	Technical expertise and Experiencing curve leveraging	<i>People</i>	Customer relationship manage- ment
General economic conditions	Industrial knowledge and Entrepreneu- rial ability		

Source: Adjusted according to Bressler, 2012, p.12

The concept that enables the integration of the business integrity within the overall sustainability is the most prominent model of sustainable competitive advantage. For majority of businesses, it emerged as critical in the late 1980's, as a result of the necessity of businesses to react to ignoring the importance of the most sensitive business factor, i.e. the people, while intense investing in new technology, organizational structures, management and marketing techniques etc. As such, sustainable competitive advantage, in our explorations, aims predominantly to fulfil the strategic business expectations, illustrated on the following way:

- Develop and implement a strategy that is simultaneously adding constant value to

processes and behaviour and enabling managers to develop sustainable capability and skills of their employees, which are needed for proper strategy implementation,

- Leveraging the relationship with the existing and future competitors in such a way that would enable innovative changes constantly and systematically to be implemented.

A proper unification of above strategic business expectations leads to clearing up the concept of *integrity in business*. The prior determination of the *business integrity* leads to the fact that, as a managerial approach, *it can yield strengthened competitiveness* (Azmi, 2006), through the following pathways:

- Facilitates the delivery of quality products in an honest, reliable way,
- Enhances work life, by making workplace more fun and challenging,
- Improves relationships with stakeholders,
- Possesses a potential to instil a more positive mindset that fosters creativity and innovations etc.

Strategic approach to the business integrity leads to clearing up the elements of the so-called *centred business integrity strategy*. In practice, it consists of the following *business integrity dimensions* (Fitzsimon, 2007):

1. Integrity with regard to financial and administrative activities which are internal,
2. Integrity in dealing with partners, contractors, job applicants and others seeking to obtain work or grant,
3. Integrity with regards to engagement with relations to public officials, and
4. Integrity of partners that are in relation due to research-funded activities.

Having in mind that great deal of business integrity analyses are empirically oriented, it is quite important to emphasize that it *differs from anti-corruption and anti-bribery policies*, due to its structural detailing through *specific business integrity policies, risk analysis, managing conflict of interest, receipt of gifts, modalities of payments, settling expenses for public officials, subcontracting, compliance agreements etc.*

The contemporary importance of the business integrity is proven in the latest OECD edition on this subject, named *Corporate Governance and*

Business Integrity: A Stocktaking of Corporate Practices (OECD, 2015). In this fundamental managerial material that should serve as a pathway for businesses in creating and promoting the business integrity concept, the theoretical determination of *Business integrity policies* is detailed as *integrity company programs, functions, people, processes or controls that seek to prevent, detect and/or address Serious Corporate Misconduct*.

The importance of *Business integrity standards created under the premises of OECD* are also stipulated within *the applicative benefits from OECD Guidelines for Multinational Enterprises*, detailed on the following way (OECD, 2011):

- Provide comprehensive framework for responsible business conduct,
- Call on enterprises to support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups,
- Incorporate references to other OECD standards on business integrity, like Anti-bribery convention, recommendations for effective action against hard core cartels, recommendation on fighting against big rigging in public procurement etc.

The strategic importance of the business integrity concept lies in its potential to harmonize the business and economic sustainability concepts with the prevailing model of competitive advantage, while obtaining an optimal utilization of the relationship between managerial involvement and employee engagement and commitment.

Resume

Business sustainability of contemporary businesses, in fact, predominantly implies to the tendency of the organization to integrate the concepts that add value to the overall organizational performance, while attempting to harmonize the inner organizational resources and capabilities, on one hand, to the changing needs, motives and aspirations of the customers, on the other hand. Corporate strategies for achieving the sustainability concept, which is the framework for creating the business integrity, consists of the internal and external managerial sustainability orientations. Corporate social responsibility programs (CSR) have not manifested enough evidence for the needed degree of the so called triple C – concept,

i.e. commitment, collaboration and communication of the company with the key – stakeholders, through the models of aligning the goals and unifying the overall business orientation.

Theoretically determined, environmental action – based competitive advantage model refers to a system that is achieved by companies settled into market niches that bring together consumers who attach special value to products' environmental dimension. It is evident that in the essence of the business sustainability is placed in the concept of business integrity, whereas their harmonization and proper utilization lead to strategic and sustainable competitive advantage. A precise determination of the employee engagement leads to the fact that it is the extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a result of that commitment. In essence, managerial involvement implies, in accordance with our explorations, to developing a capacity of managers for an efficient, usage, protection, utilization and development of various techniques that are needed for the most applicative combination of resources and capabilities of an organization.

Economic sustainability, implies to variety of modalities through which companies require a higher level of transparency for information, that are practically critical for the process of resource and capabilities protection and utilization, aimed at ensuring the continuous process of achieving their competitive advantage. The limitation in developing the dimensions of sustainability, economics or business one, influence to the capacity of an organization to integrate the sustainability into the prevalent concept of competitive advantage, creating a reactive, not a pro-active method for managing organizational changes, and, at the same time, decrease the capacity for a continuous and integrated internal and external communication process, that would be capable, on a permanent basis, to receive and transfer important information to and from the particular business entity.

In increasing the scope and depth of the transferred value, the key role plays the identification of the key components of the competitive advantage, i.e. must be able to generate customer value, the enhanced value of the product or service must be perceived by the customer and should be difficult for business competitors to copy it. The concept of enacting the critical importance of the sustainability, while undertaking the transformative approach to organizational changes, leads to a clear

determination of the features for sustainable growth, an organizational state that is directly linked to the potential of the business integrity, i.e. identification of the 5 sustainability forces and undertaking a transformative action oriented towards sustainable growth.

The concept that enables the integration of the business integrity within the overall sustainability is the most prominent model of sustainable competitive advantage. As such, sustainable competitive advantage aims predominantly to fulfilling the strategic business expectations, i.e. develop and implement a strategy that is simultaneously adding constant value to processes and behaviour and enabling managers to develop sustainable capability and skills of their employees, which are needed for proper strategy implementation, and leveraging the relationship with the existing and future competitors in such a way that would enable innovative changes constantly and systematically to be implemented. Strategic approach to the business integrity leads to centred business integrity strategy.

The contemporary importance of the business integrity is proven in the latest 2015 OECD edition on this subject, named *Corporate Governance and Business Integrity: A Stocktaking of Corporate Practices*. The theoretical determination of Business integrity policies are detailed as integrity company programs, functions, people, processes or controls that seek to prevent, detect and/or address Serious Corporate Misconduct. The strategic importance of the business integrity concept lies in its potential to harmonize the business and economic sustainability concepts with the prevailing model of competitive advantage, while obtaining an optimal utilization of the relationship between managerial involvement and employee engagement and commitment. **SM**

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✉ Correspondence

Ljubomir Drakulevski

Faculty of Economics - Skopje
 blvd. Goce Delcev 9, 1000, Skopje, Macedonia
 E-mail: drakul@eccf.ukim.edu.mk

The Role of Integrative Strategies and Tactics in HR Negotiations

Márta Dévényi

University of Pécs, Faculty of Business and Economic, Pécs, Hungary

Abstract

The objective of the paper is to discuss the strategies and tactics of integrative negotiations, which are required for the success of managing human resources in home and international business operations in the 21st century. However, electronic communication has an important role, the findings of the Cranet Survey on Comparative Human Resource Management prove that regarding “the methods of corporate internal communication, direct verbal communication is the most widely used form in both top-down and bottom-up communication” (International Executive Report, 2011). One of the most common methods of direct verbal communication is negotiating to hire the best employees and talents for the company, to decide on salaries and benefits and to solve the emerging problems in employee relations. This paper examines the strategies and tactics of integrative HR negotiations on the basis of theoretical research.

Keywords

HR communication, direct verbal communication, HR negotiation, integrative strategies and tactics.

Introduction

It is proved by findings of the Cranet Survey on Comparative Human Resource Management International Executive Report 2011 that direct verbal communication is most widely used in organizations to communicate major issues to their employees both in top-down and bottom-up communication. HR communication is a strategic tool of HR management and negotiations are common forms of direct verbal HR communication having the aim of hiring the best employees and talents for the company, deciding on salaries and benefits and solving the tasks and problems in employee relations, employee involvement and participation. My paper investigates the strategies and tactics of integrative bargaining, which can be recommended to implement in efficient HR negotiations.

1. Trends in HR communication

HR communication is a significant part of internal corporate communication and it has become a strategic tool of HR management. It is proved by findings of the Cranet Survey on Comparative Human Resource Management International Ex-

ecutive Report 2011 that direct communication methods, both verbal and written, are most widely used in organizations to communicate major issues to their employees. Survey data show the growing importance of internet and intranet in employee communication (more than 70% of organizations use electronic communication to communicate major issues to a great or very great extent); however, verbal communication is the most widely used form in both top-down and bottom-up communication (p. 91).

1.1. Features of top-down and bottom-up corporate communication

Findings of the Cranet Survey 2011 show that there is a shift in top-down employee communication from the representative to individual forms and becoming more personal. Brewster et al. (2007) argue that it may be caused by the increasing levels of direct communication reflecting a decline in trade union influence (as cited in Cranet, 2011). Torrington, Hall, & Taylo (2008) state that the changing workplace itself may cause the shift from representative to individual forms of communication as it is difficult to establish a representative body for the majority of the workforce

because of the increased workforce diversity in workplaces, heterogeneous contract relationships, network-based organizational structures and complexity of the work. Furthermore, the benefits of and the need for a union membership have remarkably decreased by the reduced workplace size, different management styles and increased mobility in the labour market (as cited in the Cranet, 2011).

The most popular way used for employees to communicate their views to management in most organizations is direct communication with the immediate supervisor. Electronic communication and other forms of direct verbal communication (workforce or team meetings, direct communication with senior managers) also present common bottom-up communication methods (Cranet Survey, 2011, p. 94).

2. The advantages of different channels of HR communication

The choice of communication channels by organizations depends on profile and size, the macro-cultural background and organisational culture, the level of technical development and the qualifications of employees (Borgulya, 2010, p. 408). The two main channels of communication used are oral and written communication. The selection of communication channel in HR communication is basically dependent on the type of message to be conveyed, whether routine or non-routine. The appropriate channels for transmitting routine messages are the written media, as these tend to be clear and minimise ambiguity. The benefit of written communication is that it is tangible and verifiable. It includes traditional forms such as letters, memos, bulletin boards etc. and computer-aided forms such as electronic mail (e-mail) and websites transmitting information via the Internet and Intranet (a private, organisation-wide information network). Oral communication might be conveyed via different channels such as face-to-face communication, telephone conversations, voice mail, online conversations and online video-conferencing. Oral communication permits an immediate exchange of information, immediate response and the reaching of agreed conclusions (Bové & Thill, 1986, p. 3). Speed and feedback are its advantages. However, Robbins (2003) argues that the major disadvantage of oral communication in organisations that the message has to be passed through a number of people. The more people are involved in the process of communication, the greater the potential distortion is (p. 283).

If we attempt to assess the relative richness of different channels of communication, it seems evident that the face-to-face version is the richest. It offers multiple information cues, verbal and nonverbal (words, facial expressions, gestures, intonations, etc.). It is based on personal interaction between the coder/sender and receiver/decoder of the transmitted messages. By contrast, written forms of communication represent low channel richness (Robbins, 2003, p. 283). There is a need for 'rich' channels for transmitting non-routine messages, as these are more complex, more complicated and easily cause misunderstanding (Robbins, 2003, p. 283). They often mean sensitive communication, which requires empathy on the part of HR managers. The recent period of global financial crisis, necessitating restructuring, serious layoffs and the closure of companies, has increased the need for face-to-face HR communication with employees to deal with sensitive situations. The selection of the 'richest' channel to convey information and empathy helps HR managers to reproduce 'face-saving' solutions for employees (Dévényi, 2012).

3. HR negotiations as a significant form of direct verbal HR communication

HR negotiations are significant forms of HR communication. Effective HR negotiations are needed permanently in HR management settings like employment discussions, corporate team building, labour and management talks, contracts, handling disputes and employee compensation. Based on different social interactions, negotiations can be of different types, and business negotiations are one of the most frequently met types of negotiation practice. Business negotiations also differ depending on the types of transaction which they serve. HR negotiations are types of business negotiations.

3.1. Definition of negotiation and the structures of bargaining situations

Thompson (1990) defines the five characteristics of a negotiation situation as follows: "(a) People believe that they have conflicting interests; (b) communication is possible; (c) intermediate solutions or compromises are possible; (d) parties may make provisional offers and counteroffers and (e) offers and proposals do not determine outcomes until they are accepted by both parties" (p. 516).

Bazerman, Curhan and Moore (2005) define negotiation as “the interpersonal process of conflict resolution” and as a consequence it is “one of the most basic and most important forms of social interaction” (p. 180). Walton and McKersie (1965) state that “the degree of conflict between parties’ interests determine the structure of the bargaining situation: (1) Pure conflict exists when parties’ interests are perfectly negatively correlated, that is any outcome that increases one party’s utility decreases the other party’s utility in a fixed sum fashion. Pure conflict situations are known as fixed sum or purely distributive negotiations. (2) Pure coordination situations exist when parties’ interests are perfectly compatible, increasing one party’s utility also increases the other party’s utility. (3) Sometimes parties’ interests are neither completely opposed, nor purely compatible. Such situations are known as variable-sum or integrative negotiations. In integrative bargaining situation the gains of one party do not represent equal sacrifices by the other party” (as cited in Thompson, 1990, p 516).

3.2. The role of strategies in negotiations

Building strategies means “the elaboration of the general principles which the negotiator – having set for him/herself the goal to be reached – intends to implement in the course of the negotiation to reach these objectives in face of the assumed reactions of the environment.” (Dupont, 1996, p. 57) This definition refers to the two significant characteristics of strategies namely, that they are general principles implemented in practice and that they should be adapted to the reactions of the environment.

The two most important strategic modalities negotiators can choose are the cooperative and distributive (conflictual, competitive, confrontational) orientations to negotiations, which were described by Walton and McKersie in their Behavioral Theory of Labor Negotiations (1965) (cited in Dupont, 1996). Cooperative orientation means integrative, non-conflictual goal achievement based on exchanging information between the two parties and working on joint gains. Distributive orientation, on the contrary, means conflictual, confrontational, competitive achievement of unilateral benefits. Lax and Sebenius (1986) have stated that both distributive and cooperative strategies imply cooperative, “value creating” and distributive, “value claiming” elements but the ways of problem-solving are different (cited in Dupont, 1996).

Dupont (1996) underlines that the negotiator’s choice of cooperative or distributive orientation is not entirely free, but is based on the situation, the negotiator’s personality, experience and competence and on the opponent’s presumed and realised choice. The negotiator should be aware of his opponent’s choice, otherwise he might make the mistake of having a cooperative attitude to a distributive negotiator and vice versa (p. 64).

3.3. Implementing integrative strategies in negotiations

Many researchers argue that most of the negotiations are integrative. There is no empirical evidence; Raiffa (1982) proves it by a deductive argument: “two people are more likely to have different priorities, risk preferences and valuation of resources than they are likely to have identical preferences across such dimensions. Differences on any dimension define opportunities on integrative trade-offs” (cited in Thompson, 1990, p. 516).

If negotiators’ interests are not purely competitive, they can not only divide resources (distributive bargaining) but also create resources by identifying additional value, benefits and additional resources making the chance of integrative bargaining. Pruitt & Rubin (1999) argue that “In empirical examination of negotiation behaviour negotiator outcomes are summed to form a measure of joint profit, which is used as a measure of integration. Integrative agreements allow negotiators to achieve greater utility, allow negotiators to avoid potential stalemates, are more stable over time, foster harmonious relations between parties, and contribute to the welfare of the broader community” (cited in Thompson, 1990, p. 717).

Strategies were identified by researchers to reach integrative agreements, including logrolling (Pruitt & Rubin, 1999), the Dual Concern Model (Pruitt, 1995; Pruitt & Rubin, 1999) and Fisher and Ury’s model of principled negotiation (Fisher & Ury, 1991).

Logrolling (Pruitt, 1995; Pruitt & Rubin, 1999) is a strategy in which trade-offs between issues are made by the negotiating parties and this way each party gets all or most of his preferred outcome on issues, which are important to him but each party concedes on issues, which are of little importance to him (Pruitt, 1995, p. 27, Thompson, 1990, p. 517).

The dual concern model (Pruitt, 1995; Pruitt & Rubin, 1999) is based on identifying four basic strategies which are available to negotiators: (1) problem solving; (2) contending; (3) yielding; (4)

inaction. The model “makes the following predictions about the antecedents of the four strategies: concern about both own and other party’ outcomes encourages a problem-solving strategy, concern about only one’s own outcomes encourages contending, concern about only the other party’s outcomes encourages yielding, concern about neither party’s outcomes encourages inaction” (Pruitt, 1995, p. 30).

Fisher and Ury’s model of principled negotiation (1991) presents a cooperative or integrative way of negotiating based on four principles: separate the people from the problem, focus on interests not on positions, invent options for mutual gains, insist on using objective criteria (Fisher & Ury, 1991, p. 15). Dupont (1996) has assessed their contribution as “important (although its merits are more in formulation than in innovation) because it offers simple, clear and powerful concepts toward ideally good agreements.” However, he also comments on its limitations based on McCarthy’s analysis (1995): “The limitation of the approach is that it tends to a large extent to merge descriptive and prescriptive approaches because it presupposes mutual agreement on “principles” and mutual good faith, and assumes that the situation itself makes a principled negotiation feasible” (cited in Dupont, 1996, p. 55).

3.4. Efficiency of integrative tactics in negotiations

Weingart, Thompson, Bazerman, & Carroll (1987) argue that integrative tactics support the implementation of integrative strategies.

A special type of ‘Making an offer’ serves an integrative agreement: “the packaging of issues allows greater opportunity for joint gain than negotiating one issue at a time, because packaging offers the opportunity to make favourable trade-offs across issues” (Weingart et al., 1987, pp. 285-286).

‘Integrative behaviours’ is a set of tactics, which includes suggestions of trade-offs and statements reflecting mutuality. Interdependence of negotiators is emphasized which is likely to initiate problem solving. Integrative behaviours enhance the possibility of integrative responses from the other party (Weingart et al., 1987, p. 286).

‘Asking for information’ is a set of tactics including questions about preferences, reservation price, best alternative to negotiated agreement (BATNA), general needs, desires and goals. The level of information exchange to enhance the cog-

nitive understanding of the situation is a critical determinant of joint benefit (Weingart et al., 1987, p. 286).

‘Providing information’ is a set of tactics to inform the other party about needs, desires and goals, reasons for one’s own position and recommendations. It is beneficial to provide information to the other party for reaching integrative agreements. However, revealing one’s BATNA or identifying one’s reservation price is not advised as giving information about them weakens negotiators’ positions (Weingart et al., 1987, p. 286).

‘Negative reactions’ to the other party’s offers, ideas and arguments do not support problem solving in the course of the negotiation and result defensive and distributive behaviour; however, they have an important role in negotiations as they express resistance to an unacceptable suggestion (Weingart et al., 1987, p. 286).

‘Positive reactions’ to the other party’s offers, ideas and arguments supports problem solving in the course of the negotiation. However, one should be careful as it might mean “he will agree to anything” and this way it can be considered as a sign of weakness (Weingart et al., 1987, p. 286).

Conclusions

We can conclude that HR negotiations are common forms of direct verbal HR communication. They provide opportunities for exchanging information, arguing and convincing the other party or parties during the bargaining process to reach an agreement, which is acceptable for both or all of them. The effectiveness of HR negotiations could be enhanced by using strategies and tactics of integrative bargaining. To conduct effective HR negotiations HR professionals need to possess negotiating skills, be competent in integrative strategies and tactics which is required for integrating available resources in HR negotiations, like in the course of hiring the best employees and talents for the company, deciding on salaries and benefits, solving the tasks and problems in employee relations, employee involvement and participation. **SM**

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✉ Correspondence

Márta Dévényi

University of Pécs, Faculty of Business and Economic
Vasvári Pál utca 4, H-7622, Pécs, Hungary

E-mail: devenyi@tk.pte.hu

Fifteen Years of Strategic HRM Philosophy in Croatian Companies – has HR Department Evolved Into a Strategic Partner?

Nina Pološki Vokić

Faculty of Economics and Business, University of Zagreb, Zagreb, Croatia

Abstract

Strategic human resource management (SHRM) means accepting the HRM function as a strategic partner, a role popularized by Dave Ulrich in the mid-1990s. His well-known multiple-role HRM model encompassing four HRM roles (administrative expert, employee champion, change agent and strategic partner) is one of the most popular paradigms implying that HRM is a vital contributor to business strategy. A strategic HRM role is considered to be the ultimate stage in the evolution of HRM according to the contemporary theory, focusing on aligning HRM goals, strategies and practices with business strategy in order to achieve organizational goals. The paper explores the pace of transformation of HRM departments in Croatian companies from old “cadre”, personnel departments with influential trade unions present in communist times, towards a strategic role of HRM typical for companies having world-class high performance HRM practices suitable for free market systems. In the theoretical part of the paper SHRM and strategic partner concepts are described, while the empirical part of the paper presents longitudinal data on the presence of strategic HRM role in Croatian companies in the last fifteen years. SHRM indicators for 2001, 2005, 2012 and 2014 collected by the author using representative samples of 500+ employees companies are presented and analyzed. Empirical findings revealed that although the field is firmly advancing, in general, the strategic component of HRM in Croatia is not fully present – HR managers are not always top management members, formal HRM strategies are still not omnipresent, and the relative number of HR professionals in organizations is not adequate for HRM activities to be implemented properly.

Keywords

Strategic human resource management (SHRM), multiple-role HRM model, strategic partner, CRANET, Croatia.

Introduction

The strategic perspective of human resource management (HRM) has grown out of researchers’ desire to demonstrate the contribution that HRM practices make to organizational performance and competitive advantage (e.g. Delery & Doty, 1996; Collins & Clark, 2003), and the application of the adjective ‘strategic’ signals that effective HRM is critical to organizational effectiveness (e.g. Boxall & Purcell, 2000; Jackson, Schuler & Jiang, 2014). A strategic human resource management (SHRM) is considered to be the ultimate stage in the evolu-

tion of HRM according to the contemporary theory. It is focused on aligning HRM goals, strategies and practices with business strategy in order to achieve organizational goals.

SHRM also means accepting the HRM function as a strategic partner, a role popularized by Dave Ulrich in the mid-1990s. His well-known multiple-role HRM model encompassing four HRM roles (administrative expert, employee champion, change agent, and strategic partner) is one of the most popular paradigms implying that HRM could be a vital contributor to business strategy. It is argued that a strategic role is a piv-

otal one for HR professionals in today's organization (Cleland, Pajo & Toulson, 2000), as it enhances the effective utilization of high performance HRM practices, which, in turn, increases financial performance through increased human resources productivity (Mitchell, Obeidat & Bray, 2013).

The paper explores the pace of transformation of HRM departments in Croatian companies from old "cadre", personnel departments with influential trade unions present in communist times, towards a strategic role of HRM typical for companies having world-class high performance HRM practices suitable for free market systems. Namely, in Central and Eastern European (CEE) countries, a need to move away from mostly administrative towards more strategic and business-oriented HRM has emerged (Zupan & Kaše, 2005).

In the theoretical part of the paper SHRM and strategic partner concepts are described, while the empirical part of the paper presents longitudinal data on the presence of strategic HRM role in Croatian companies in the last fifteen years. Precisely, SHRM indicators for 2001, 2005, 2012 and 2014 collected by the author using representative samples of 500+ employees companies are presented and analyzed.

1. Theoretical background – SHRM and strategic partner concepts

1.1. The strategic human resource management philosophy

SHRM is the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals, which distinguishes itself from traditional HRM as, vertically, it entails the linking of HRM practices with the strategic management process of the organization, and, horizontally, it emphasizes the coordination or congruence among the various HRM practices through a pattern of planned action (Wright & McMahan, 1992). SHRM assumes that effective HRM activities improve organizational performance (Schuler & Jackson, 2005). This has indeed been documented – HRM contributes to organizational performance by improving productivity, financial performance, social outcomes, and reducing turnover (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Ichniowski, Shaw & Prenzushi, 1997; Patterson, West, Lawthom & Nickell, 1997; Collins & Clark, 2003; Pološki Vokić, 2003; Peterson, 2004).

Table 1 systematizes and specifies five theoretical frameworks in SHRM. The two most assessed in the literature are certainly the universalistic and contingency perspective (e.g. Youndt, Snell, Dean & Lepak, 1996). The first proposes that best HRM practices should be adopted in all companies, while the second implies bringing HRM strategy in line with business needs (Boxall & Purcell, 2000). The configurational perspective, emphasizing the roles of complementarity, congruence, and synergy among HRM practices (Kaufman & Miller, 2011), is the third widely proposed perspective, which completes the three-way typology developed by Delery and Doty in 1996 (Kaufman & Miller, 2011). However, in practice, most SHRM writers make the configurational perspective a component part of the universalistic and contingency perspectives, thus limiting the framework to a two-way typology (Proctor, 2008 after Kaufman & Miller, 2011). The final two perspectives – the contextual and integrative perspective, are not widely elaborated in the literature, as the first is actually a contingency perspective that emphasizes a socio-political context, and the second consolidates all existing perspectives.

Table 1 SHRM perspectives

Perspective	Definition	Main arguments	Influential authors
Universalistic perspective (The 'best-practice' perspective)	Investing in advanced HRM practices increases companies' performance irrespective of context	<ul style="list-style-type: none"> Some HRM practices are always better than others 'Best' HRM practices lead to higher organizational performance regardless of an organization's strategy Organizations that adopt best HRM practices will reap higher profits 	Pfeffer (1994); Pfeffer (1998)
Contingency perspective (The 'best-fit' perspective)	Designing HRM strategy to fit critical contingencies in the firm's specific context (achieving a 'unique fit')	<ul style="list-style-type: none"> All HRM practices are not cost-effective across all sector or across all types of labor (even in a single firm) The effectiveness of individual HRM practice is contingent on firm strategy An organization that adopts HRM practices appropriate for its strategy will be more effective HRM practices are chosen so they best align with contingency factors such as organizational size, industry, business strategy, production technology, workforce characteristics, job skills, legal regimes, political regimes, labor market, 	Schuler & Jackson (1987); Baird & Meshoulam (1988)

		<ul style="list-style-type: none"> and sociocultural influences Both external/vertical fit (HRM activities must fit the organization's stage of development), and internal/horizontal fit (the need to ensure that individual HRM policies fit with and support each other) needed 	
Configurational perspective	Focusing on patterns of HRM practices that together form an internally consistent whole	<ul style="list-style-type: none"> A configuration of a set of internally aligned HRM practices (the system of HRM) will have a much greater impact on organizational performance than single HRM practices taken in isolation Explains how systems, clusters or bundles of HRM practices are mutually reinforcing and interact with each other to have synergistic outcomes at the organizational level The performance effect of HRM practices depends on assembling the right combination or system of practices such that all the separate HRM elements fit together, support each other, and develop the maximum attainable synergy ('horizontal fit' – the effectiveness of any one practice depends on its fit or misfit of it with other elements of the HRM system) Bundles of HRM practices (most often termed high performance work systems – HPWS) are associated with important organizational outcomes 	Doty & Glick (1994); Huselid (1995); MacDuffie (1995); Ichniowski, Shaw & Prenzushi (1997); Becker & Huselid (1998); Delery (1998)
Contextual perspective	Adapting HRM practices to fit different national-level cultural, social, political, and legal contexts	<ul style="list-style-type: none"> Encompasses the particularities of geographic, macroeconomic, industrial and social factors First introduced by scholars outside the United States 	Brewster (1999); Martin-Alcazar, Romero-Fernandez & Gardey (2005)
Integrative perspective	Synthesis and integration of other perspectives	<ul style="list-style-type: none"> There is a core of 'best practice' HRM techniques and policies (typically associated with HPWS), which in most to nearly all organizations results in improved performance, and the rest has to be contingent/contextual, as well as configurational 	Boselie, Dietz & Boon (2005); Becker & Huselid (2006)

Source: compiled using Schuler & Jackson, 1987; Baird & Meshoulam, 1988; Pfeffer, 1994; Huselid, 1995; Delery & Doty, 1996; Becker & Huselid, 1998; Pfeffer, 1998; Boxall & Purcell, 2000; Colbert, 2004; Wright, Snell & Dyer, 2005; Lepak & Shaw, 2008; Kaufman & Miller, 2011; Marler, 2012

This paper supports the integrative perspective, with SHRM considered to be a universal part of it. In other words, as SHRM explicitly links people management policies and practices to the achievement of organizational outcomes and performance, most particularly financial and market outcomes (Kramar, 2013), it should be the HRM philosophy in every organization.

1.2. HRM as a strategic partner

One of the first to introduce a strategic partner role of HR professionals was Dave Ulrich. He wrote about an entirely new role and agenda for the field that focuses not on traditional HRM activities, but on outcomes, which is not defined by what it does but by what it delivers – results that enrich the organization's value to customers, investors, and employees (Ulrich, 1998a). He named it a 'strategic partner' role, and it was one of the four major HRM roles he recommended in mid-1990s – employee champion, administrative expert, change agent, and strategic partner (Ulrich, 1997). In mid-2000s, together with Brockbank, he expanded the typology and proposed five major roles – employee advocate, human capital developer, functional expert, strategic partner, and leader, as depicted in Table 2.

Table 2 HRM roles and their evolution

HRM roles	Mid-1990s	Mid-2000s		Evolution of thinking
	Definition	HRM roles	Definition	
Employee champion	Charged with understanding the needs of employees and ensuring that those needs are met	Employee advocate	Charged with making sure the employer-employee relationship is one of reciprocal value	Employees are increasingly critical to success of organizations. Employee advocate focuses on today's employee. Human capital developer focuses on how employees prepare for the future.
	Charged with personally spending time with employees, and training and encouraging managers in other departments to do the same	Human capital developer	Charged with building the future workforce	
Administrative expert	Charged with ferreting out unnecessary costs, improving efficiency, and constantly finding new ways to do things better	Functional expert	Charged with designing and delivering HRM practices that ensure individual ability and create organization capability	HRM practices are central to HR value. Some HRM practices are delivered through administrative efficiency (such as technology), and others through policies, menus, and interventions, expanding the "functional expert" role.

Change agent	Charged with fording or facilitating a dialogue about values as they identify new behaviours that will help to keep a firm competitive over time	Strategic partner	Charged with helping line managers at all levels reach their goals	Being a strategic partner has multiple dimensions: business expert, change agent, knowledge manager, and consultant. Being a change agent represents only part of the strategic partner role.
Strategic partner	Charged with designing HRM practices that align with business strategy Participating in the process of defining business strategy	Strategic partner	As above	As above
		Leader	Charged with tying it all together Being credible both within HRM functions and to those outside	The sum of the first four roles equals leadership, but being an HRM leader also has implications for leading the HRM function, collaborating with other functions, ensuring corporate governance, and monitoring the HR community.

Source: compiled using Ulrich, 1997 and Ulrich & Brockbank, 2005

As strategic partners, HR professionals focus on execution of strategy by aligning HRM systems to help accomplish the organization vision and mission (Ulrich & Brockbank, 2005). They focus on the achievement of organizational goals by aligning HRM goals, strategies and practices with business objectives and implementation of business strategy (Conner & Ulrich, 1996; Andersen, Cooper & Zhu, 2007).

In practice, HR professionals that are strategic partners have ‘a seat at the table’ when business decisions are made (Jackson, Schuler & Jiang, 2014). They are members of the management team with a deep expertise in people and organization, but with enough business savvy to help shape future business directions (Ulrich & Brockbank, 2005). Ideally, the strategic partner role incorporates HR department as a full participant in both the development and operationalization of organizational strategies (Dessler, Griffiths, and Lloyd-Walker, 2007 after Mitchell, Obeidat & Bray, 2013) – in both strategy formulation and strategy implementation (DeCieri et al., 2008 after Mitchell, Obeidat & Bray, 2013).

Yet, becoming a strategic partner means an entirely new role for HR experts – they may have to

acquire new skills and capabilities (Ulrich, 1998a). To play the strategic partner role effectively, they must master the theory and practice of forming and implementing strategy – they must be able to engage managers in discussions of vision, values, purpose, and intent (Ulrich, 1998b).

2. Methodology

Sample. As it has been identified that HRM practices in Croatia exist within organizations with more than 500 employees (Pološki Vokić & Vidović, 2008), data for 500+ organizations from four surveys have been used for the assessment of SHRM progress in Croatia: (1) 2001 HRM survey conducted by Pološki Vokić (more in Pološki Vokić, 2004), (2) 2006 HRM survey conducted by Pološki Vokić and Vidović (more in Pološki Vokić & Vidović, 2007), (3) 2012 HRM survey conducted by CRANET team Croatia beyond the official CRANET survey round (more in Pološki Vokić, 2012), and (4) 2014 HRM survey conducted by CRANET team Croatia in the official CRANET survey round (more in Pološki Vokić, Klindžić & Hernaus, 2015). All four samples are representative, as around a quarter of 500+ population participated in first three survey rounds, and almost a half of population in the last survey round (see Table 1). Organizations from 500 to 1000 employees, and private sector organizations are over-sampled, which corresponds with the Croatian large-sized organizations’ population, and implies no response bias.

Table 3 Samples’ profiles

Indicator		Survey rounds			
		2001	2006	2012	2014
Number of organizations in the sample		41	36	38	77
% of the population (responsiveness)		27.0	24.2	22.0	43.3
Organization size (% in the category)	500 to 1000 employees	53.7	54.3	44.8	50.6
	1000 to 1500 employees	12.2	17.1	10.5	18.2
	1500 to 2000 employees	9.7	5.7	10.5	10.4
	more than 2000 employees	24.4	22.9	34.2	20.8
Sector (% in the category)	private	63.4	63.9	78.9	80.5
	public	36.6	36.1	21.1	19.5

Source: author

Instruments. Typical quantitative and qualitative HRM indicators were collected in 2001 and 2006 through a highly-structured questionnaire

developed using HRM literature, while 2012 and 2014 surveys used CRANET methodology (CRANET, 2009). Both instruments collected data about the HR department position in a company, various HRM practices (such as job design, recruitment and selection, performance management, compensations and benefits, labour relations, etc.), and HR manager’s characteristics, among which as well SHRM indicators analyzed in this paper.

Data analysis. For the purpose of this paper, seven SHRM indicators were extracted from the above-mentioned surveys. Six out of seven indicators were not identical considering response values, and therefore had to be recoded, while one indicator (number of HR professionals compared to the total number of employees) was computed for all cases using identical inputs. Data were analyzed with IBM SPSS Statistics 23 by using descriptive statistics to calculate relative frequencies and mean values, and by using inferential statistics to test the existence of significant differences in SHRM indicators among four time points (non-parametric hi-square and Kruskal-Wallis H tests used depending on the type of variable).

3. Results

Results for the seven SHRM indicators analyzed are presented in Table 4. The first thing the table indicates is that the strategic impact of HRM in 500+ Croatian organizations improved considerably in the last fifteen years. At the beginning of 2000s only around a third of organizations had HR departments, and people responsible for HRM placed on top management levels. As well, only around the quarter of organizations had a written HR department mission statement and written HRM strategy, as well as evaluated the performance of HR department in order to assess the department’s contribution to organizational performance. Compared to that, in mid-2010s almost all 500+ Croatian organizations have HR departments that participate in strategic planning, and regularly evaluate HR departments’ performance. As well, one of the indicators implies a longitudinal advancement in the strategic role of HR department – the percentage of organizations where HR department participates in strategic planning constantly increased since 2001. Almost the same applies for the percentage of organizations where the person responsible for HRM has a place on the top executive team, as this indicator raised continually with the exception of 2006.

Table 4 SHRM in Croatia in 2001, 2006, 2012 and 2014

SHRM indicator	Survey rounds				Statistical differences	
	2001	2006	2012	2014	χ^2/H -value	p
[1] % of organizations with HR departments	39.0	91.7	81.6	92.2	50.587	0.000
[2] % of organizations where the person responsible for HRM has a place on the board or equivalent top executive team	39.0	11.8	57.1	66.2	30.192	0.000
[3] % of organizations where HR department participates in strategic planning	61.0	79.4	83.8	93.5	17.292	0.001
[4] % of organizations that have a written HR department mission statement	24.4	46.9	-	-	4.035	0.045
[5] % of organizations that have a written HRM strategy	22.0	-	92.1	67.6	43.164	0.000
[6] % of organizations where the performance of HR department is evaluated	26.8	34.3	97.4	84.0	70.246	0.000
[7] % of employees employed in the HR department out of a total number of employees	0.87 min = 0.16 max = 2.48	0.89 min = -0.30 max = 2.72	0.84 min = 0.02 max = 2.72	0.69 min = 0.15 max = 3.58	4.062	0.255

Source: author

However, another thing that could be observed from the table is the impact of the economic crisis still present in Croatia (the crisis induced by the 2008 global financial crisis). Namely, one indicator was better in 2006 than in 2012 (% of organizations with HR departments), one indicator was better in 2006 than in 2010s (% of employees in HR department compared to the total number of employees), and two indicators (% of organizations that have a written HRM strategy, and % of organizations where the performance of HR department is evaluated) were better at the beginning of 2010s than in 2014.

Nevertheless, the inferential statistics revealed that the role of HRM in 500+ organizations in Croatia is more strategic than at the beginning of the 21st century. Five SHRM indicators (No. 1, 2, 3, 5, and 6) are statistically significantly better in 2010s, and one indicator (No. 4) implies the statistically significant improvement in mid-2000s.

Discussion and conclusion

Empirical findings revealed that the HRM field is firmly advancing in Croatia. A clear shift towards SHRM model, as in other CEE countries (e.g. Kohont & Poór, 2011; Kohont, Svetlik & Bogičević Milikić, 2015) is evident. For example, as around the world (see Wright, Moore & Stewart, 2012 after Jackson, Schuler & Jiang, 2014), the presence of HR experts in top management teams has improved over time. As well as in many CEE countries (e.g. Karoliny, Farkas & Poór, 2009), the level of involvement of the HR department in strategic planning is getting close to best practices. Finally, the fact that more and more organizations have written HRM strategies suggests that the architecture of the HRM function is becoming a strategically important one.

However, although the SHRM philosophy is increasingly being accepted, in general, the strategic component of HRM in 500+ organizations in Croatia is not fully present – HR managers are not always top management members (one third of organizations do not provide them with that opportunity), formal HRM strategies are still not omnipresent (one third of organizations do not have written HRM strategies), and the relative number of HR professionals in organizations is not adequate for HRM activities to be implemented properly (Croatian 500+ organizations are on average far from the 1% benchmark).

Furthermore, the impact of economic crisis should not be ignored. The global financial crisis impacted activities of managing people in Croatian organizations seriously (Pološki Vokić, Klindžić & Hernaus, 2015), which is reflected in SHRM indicators as well.

Altogether, although historically HR professionals spend more time on administrative HRM, especially those in CEE countries (e.g. Zupan & Kaše, 2005; Bogičević Milikić, Janićijević & Petković, 2008), they should be aware that as strategic partners they play a major role in creating strategic unity (Ulrich, 1998b). This paper advocates that to be strategic partners, HR professionals should attend the process of strategy development (Ulrich & Brockbank, 2005), which should especially be a concern of Croatian HR experts that are still not integrated in organizational strategic endeavours. Even though the HR strategic role has implications on the adoption of innovative high performance HRM and, through this, financial performance (Mitchell, Obeidat & Bray, 2013), the strategic HRM philosophy is not present all over 500+ Croatian organizations. Many

HR departments in Croatia have not yet evolved into strategic partners, and they do not have the opportunity to demonstrate that HRM strategic inputs boost organizational outcomes. **SM**

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✉ Correspondence

Nina Pološki Vokić

Faculty of Economics and Business

Trg J. F. Kennedyja 6, 10000, Zagreb, Croatia

E-mail: npoloski@efzg.hr

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Here is a list of the most common reference types:

A. PERIODICALS

Authors must be listed by their last names, followed by initials. Publication year must be written in parentheses, followed by a full stop. Title of the article must be in sentence case: only the first word and proper nouns in the title are capitalized. The periodical title must be in title case, followed by the volume number, which is also italicized:

Author, A. A., Author, B. B., & Author, C. C. (Year). Title of article. *Title of Periodical, volume number*(issue number), pages.

➔ Journal article, one author, paginated by issue

Journals paginated by issue begin with page 1 in every issue, so that the issue number is indicated in parentheses after the volume. The parentheses and issue numbers are not italicized, e.g.

Tanasijević, V. (2007). A PHP project test-driven end to end. *Management Information Systems*, 5 (1), 26-35.

➔ Journal article, one author, paginated by volume

Journals paginated by volume begin with page 1 in issue 1, and continue page numbering in issue 2 where issue 1 ended, e.g.

Perić, O. (2006). Bridging the gap: Complex adaptive knowledge management. *Strategic Management*, 14, 654-668.

➔ **Journal article, two authors, paginated by issue**

Strakić, F., & Mirković, D. (2006). The role of the user in the software development life cycle. *Management Information Systems*, 4 (2), 60-72.

➔ **Journal article, two authors, paginated by volume**

Ljubojević, K., & Dimitrijević, M. (2007). Choosing your CRM strategy. *Strategic Management*, 15, 333-349.

➔ **Journal article, three to six authors, paginated by issue**

Jovanov, N., Boškov, T., & Strakić, F. (2007). Data warehouse architecture. *Management Information Systems*, 5 (2), 41-49.

➔ **Journal article, three to six authors, paginated by volume**

Boškov, T., Ljubojević, K., & Tanasijević, V. (2005). A new approach to CRM. *Strategic Management*, 13, 300-310.

➔ **Journal article, more than six authors, paginated by issue**

Ljubojević, K., Dimitrijević, M., Mirković, D., Tanasijević, V., Perić, O., Jovanov, N., et al. (2005). Putting the user at the center of software testing activity. *Management Information Systems*, 3 (1), 99-106.

➔ **Journal article, more than six authors, paginated by volume**

Strakić, F., Mirković, D., Boškov, T., Ljubojević, K., Tanasijević, V., Dimitrijević, M., et al. (2003). Metadata in data warehouse. *Strategic Management*, 11, 122-132.

➔ **Magazine article**

Strakić, F. (2005, October 15). Remembering users with cookies. *IT Review*, 130, 20-21.

➔ **Newsletter article with author**

Dimitrijević, M. (2009, September). MySQL server, writing library files. *Computing News*, 57, 10-12.

➔ **Newsletter article without author**

VBScript with active server pages. (2009, September). *Computing News*, 57, 21-22.

B. BOOKS, BROCHURES, BOOK CHAPTERS, ENCYCLOPEDIA ENTRIES, AND BOOK REVIEWS

Basic format for books

Author, A. A. (Year of publication). *Title of work: Capital letter also for subtitle*. Location: Publisher.

Note: "Location" always refers to the town/city, but you should also include the state/country if the town/city could be mistaken for one in another country.

➔ **Book, one author**

Ljubojević, K. (2005). *Prototyping the interface design*. Subotica: Faculty of Economics.

➔ **Book, one author, new edition**

Dimitrijević, M. (2007). *Customer relationship management* (6th ed.). Subotica: Faculty of Economics.

➔ **Book, two authors**

Ljubojević, K., Dimitrijević, M. (2007). *The enterprise knowledge portal and its architecture*. Subotica: Faculty of Economics.

➔ **Book, three to six authors**

Ljubojević, K., Dimitrijević, M., Mirković, D., Tanasijević, V., & Perić, O. (2006). *Importance of software testing*. Subotica: Faculty of Economics.

➔ **Book, more than six authors**

Mirković, D., Tanasijević, V., Perić, O., Jovanov, N., Boškov, T., Strakić, F., et al. (2007). *Supply chain management*. Subotica: Faculty of Economics.

➔ **Book, no author or editor**

Web user interface (10th ed.). (2003). Subotica: Faculty of Economics.

➔ **Group, corporate, or government author**

Statistical office of the Republic of Serbia. (1978). *Statistical abstract of the Republic of Serbia*. Belgrade: Ministry of community and social services.

➔ **Edited book**

Dimitrijević, M., & Tanasijević, V. (Eds.). (2004). *Data warehouse architecture*. Subotica: Faculty of Economics.

➔ **Chapter in an edited book**

Boškov, T., & Strakić, F. (2008). Bridging the gap: Complex adaptive knowledge management. In T. Boškov & V. Tanasijević (Eds.), *The enterprise knowledge portal and its architecture* (pp. 55-89). Subotica: Faculty of Economics.

➔ **Encyclopedia entry**

Mirković, D. (2006). History and the world of mathematicians. In *The new mathematics encyclopedia* (Vol. 56, pp. 23-45). Subotica: Faculty of Economics.

C. UNPUBLISHED WORKS

➔ **Paper presented at a meeting or a conference**

Ljubojević, K., Tanasijević, V., Dimitrijević, M. (2003). *Designing a web form without tables*. Paper presented at the annual meeting of the Serbian computer alliance, Beograd.

➔ **Paper or manuscript**

Boškov, T., Strakić, F., Ljubojević, K., Dimitrijević, M., & Perić, O. (2007. May). *First steps in visual basic for applications*. Unpublished paper, Faculty of Economics Subotica, Subotica.

➔ **Doctoral dissertation**

Strakić, F. (2000). *Managing network services: Managing DNS servers*. Unpublished doctoral dissertation, Faculty of Economics Subotica, Subotica.

➔ **Master's thesis**

Dimitrijević, M. (2003). *Structural modeling: Class and object diagrams*. Unpublished master's thesis, Faculty of Economics Subotica, Subotica.

D. ELECTRONIC MEDIA

The same guidelines apply for online articles as for printed articles. All the information that the online host makes available must be listed, including an issue number in parentheses:

Author, A. A., & Author, B. B. (Publication date). Title of article. *Title of Online Periodical, volume number*(issue number if available). Retrieved from <http://www.anyaddress.com/full/url/>

➔ **Article in an internet-only journal**

Tanasijević, V. (2003, March). Putting the user at the center of software testing activity. *Strategic Management, 8* (4). Retrieved October 7, 2004, from www.ef.uns.ac.rs/sm2003

➔ **Document from an organization**

Faculty of Economics. (2008, March 5). *A new approach to CRM*. Retrieved July 25, 2008, from <http://www.ef.uns.ac.rs/papers/acrm.html>

➔ **Article from an online periodical with DOI assigned**

Jovanov, N., & Boškov, T. A PHP project test-driven end to end. *Management Information Systems, 2* (2), 45-54. doi: 10.1108/06070565717821898.

➔ **Article from an online periodical without DOI assigned**

Online journal articles without a DOI require a URL.

Author, A. A., & Author, B. B. (Publication date). Title of article. *Title of Journal, volume number*. Retrieved from <http://www.anyaddress.com/full/url/>

Jovanov, N., & Boškov, T. A PHP project test-driven end to end. *Management Information Systems, 2* (2), 45-54. Retrieved from <http://www.ef.uns.ac.rs/mis/TestDriven.html>.

REFERENCE QUOTATIONS IN THE TEXT

➔ **Quotations**

If a work is directly quoted from, then the author, year of publication and the page reference (preceded by “p.”) must be included. The quotation is introduced with an introductory phrase including the author's last name followed by publication date in parentheses.

According to Mirković (2001), “The use of data warehouses may be limited, especially if they contain confidential data” (p. 201).

Mirković (2001), found that “the use of data warehouses may be limited” (p. 201). What unexpected impact does this have on the range of availability?

If the author is not named in the introductory phrase, the author's last name, publication year, and the page number in parentheses must be placed at the end of the quotation, e.g.

He stated, “The use of data warehouses may be limited,” but he did not fully explain the possible impact (Mirković, 2001, p. 201).

➔ Summary or paraphrase

According to Mirković (1991), limitations on the use of databases can be external and software-based, or temporary and even discretion-based. (p.201)

Limitations on the use of databases can be external and software-based, or temporary and even discretion-based (Mirković, 1991, p. 201).

➔ One author

Boškov (2005) compared the access range...

In an early study of access range (Boškov, 2005), it was found...

➔ When there are **two authors**, both names are always cited:

Another study (Mirković & Boškov, 2006) concluded that...

➔ If there are **three to five authors**, all authors must be cited the first time. For subsequent references, the first author's name will be cited, followed by “et al.”.

(Jovanov, Boškov, Perić, Boškov, & Strakić, 2004).

In subsequent citations, only the first author's name is used, followed by “et al.” in the introductory phrase or in parentheses:

According to Jovanov et al. (2004), further occurrences of the phenomenon tend to receive a much wider media coverage.

Further occurrences of the phenomenon tend to receive a much wider media coverage (Jovanov et al., 2004).

In “et al.”, “et” is not followed by a full stop.

➔ Six or more authors

The first author's last name followed by "et al." is used in the introductory phrase or in parentheses:

Yossarian et al. (2004) argued that...

... not relevant (Yossarian et al., 2001).

➔ **Unknown author**

If the work does not have an author, the source is cited by its title in the introductory phrase, or the first 1-2 words are placed in the parentheses. Book and report titles must be italicized or underlined, while titles of articles and chapters are placed in quotation marks:

A similar survey was conducted on a number of organizations employing database managers ("Limiting database access", 2005).

If work (such as a newspaper editorial) has no author, the first few words of the title are cited, followed by the year:

("The Objectives of Access Delegation," 2007)

Note: In the rare cases when the word "Anonymous" is used for the author, it is treated as the author's name (Anonymous, 2008). The name Anonymous must then be used as the author in the reference list.

➔ **Organization as an Author**

If the author is an organization or a government agency, the organization must be mentioned in the introductory phrase or in the parenthetical citation the first time the source is cited:

According to the Statistical Office of the Republic of Serbia (1978), ...

Also, the full name of corporate authors must be listed in the first reference, with an abbreviation in brackets. The abbreviated name will then be used for subsequent references:

The overview is limited to towns with 10,000 inhabitants and up (Statistical Office of the Republic of Serbia [SORS], 1978).

The list does not include schools that were listed as closed down in the previous statistical overview (SORS, 1978).

➔ **When citing more than one reference from the same author:**

(Bezjak, 1999, 2002)

➔ When several **used works by the same author were published in the same year**, they must be cited adding a, b, c, and so on, to the publication date:

(Griffith, 2002a, 2002b, 2004)

➔ **Two or more works in the same parentheses**

When two or more works are cited parenthetically, they must be cited in the same order as they appear in the reference list, separated by a semicolon.

(Bezjak, 1999; Griffith, 2004)

➔ **Two or more works by the same author in the same year**

If two or more sources used in the submission were published by the same author in the same year, the entries in the reference list must be ordered using lower-case letters (a, b, c...) with the year. Lower-case letters will also be used with the year in the in-text citation as well:

Survey results published in Theissen (2004a) show that...

➔ To **credit an author for discovering a work**, when you have not read the original:

Bergson's research (as cited in Mirković & Boškov, 2006)...

Here, Mirković & Boškov (2006) will appear in the reference list, while Bergson will not.

➔ When **citing more than one author**, the authors must be listed alphabetically:

(Britten, 2001; Sturlasson, 2002; Wasserwandt, 1997)

➔ When there is **no publication date**:

(Hessenberg, n.d.)

➔ **Page numbers must always be given for quotations:**

(Mirković & Boškov, 2006, p.12)

Mirković & Boškov (2006, p. 12) propose the approach by which “the initial viewpoint...

➔ **Referring to a specific part of a work:**

(Theissen, 2004a, chap. 3)

(Keaton, 1997, pp. 85-94)

➔ **Personal communications, including interviews, letters, memos, e-mails, and telephone conversations**, are cited as below. (These are *not* included in the reference list.)

(K. Ljubojević, personal communication, May 5, 2008).

FOOTNOTES AND ENDNOTES

A few footnotes may be necessary when elaborating on an issue raised in the text, adding something that is in indirect connection, or providing supplementary technical information. Footnotes and endnotes are numbered with superscript Arabic numerals at the end of the sentence, like this.¹ Endnotes begin on a separate page, after the end of the text. However, Strategic Management journal **does not recommend the use of footnotes or endnotes.**

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