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# *Managing Global Transitions*

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# *Managing Global Transitions*

## *International Research Journal*

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## *The Editor's Corner*

This is the third of the four issues of volume four. As of this year, the journal is a quarterly publication, with Spring, Summer, Fall, and Winter issues. The focus of the journal is still on transition research but we would also like to emphasize its openness to different research areas, topics, and methods, as well as the international and interdisciplinary nature of scholarly articles published in the journal. The current issue covers topics on building core competencies, after-war cooperation, the use of English in business communication, as well as themes related to home education and global education.

The first paper of the present issue is by Justin Tan, Shaomin Li, and Weian Li, who examine firm resources and capabilities and their impact on firm performance among Chinese enterprises. In the second paper, Eric C. Martin, Sue R. Faerman, and David P. McCaffrey discuss how initial predispositions to cooperate, the issues or incentives involved in a decision, the number and heterogeneity of the parties involved, and leadership jointly influenced cooperation in the international effort to develop Bosnia and Herzegovina. In the third paper, Alenka Kocbek discusses the use of English as lingua franca. The focus of the fourth paper, authored by Christian W. Beck, is the relation of home education to globalization. In the last – fifth paper, Asbjørn Rolstadås and Slavko Dolinšek present the results of the international framework for a Master degree curriculum in manufacturing strategy and an example of the integration of competence in technology and business.

Boštjan Antončič  
*Editor*



# *Building Core Competencies in a Turbulent Environment: An Exploratory Study of Firm Resources and Capabilities in Chinese Transitional Economy*

Justin Tan  
Shaomin Li  
Weian Li

The impact of firm resources and capabilities on performance among Chinese enterprises has been a subject of anecdotal speculation due to its significant implications for organizational researchers as well as practitioners. Yet empirical evidence has been very limited. In this research, set in the People's Republic of China, we examine firm resources and capabilities and their impact on firm performance among Chinese enterprises. Using large sample of 12,047 Chinese firms from 1991 to 1992, we found that most of the firm specific resources and capabilities examined in this study have a positive impact on performance. We discussed the implications for organizational researchers, policy makers, and managers, and proposed directions for future research.

*Key Words:* economic transition, firm strategy, resources and capabilities

*JEL Classification:* M10, L10, L20.

## **Introduction**

In recent years, the study of firms operating in China's transition economy has attracted growing attention from mainstream organizational researchers. As the Chinese economy increasingly becomes integrated into and plays an important role in the global economy, an understanding of organizational issues in China has not only economic implications, but theoretical significance as well. Since China differs from Western mar-

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ket economies in varying dimensions, it offers fascinating grounds for testing existing organizational theories and advancing new ones.

Understanding firm performance differences and sources of sustained competitive advantage has been a major area of research in the field of strategic management (Porter 1985; Rumelt 1991). Since the 1960s, a major framework has been used to structure much of this research. This framework suggests that firms obtain sustained competitive advantages by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses. Most research on sources of sustained competitive advantage has focused either on isolating firm's opportunities and threats, describing its strengths and weaknesses, or analyzing how these are matched to choose strategies. For researchers following industrial organization economics (e. g., Porter 1980; 1985), the primary concern is to identify those structural characteristics that contribute to industry attractiveness and consequently, superior firm performance, in order to provide policy implications on how firms can favorably position themselves. For resource-based view theorists (e. g., Barney 1991), the ultimate goal is to learn what resources and capabilities firms contribute to sustainable competitive advantage, so that firms can acquire and develop these resources and capabilities.

These theories, regardless of their conceptual orientations, were developed from market-based economies. Their applicability in other economic contexts, such as the centrally planned economies undergoing transition toward market economies (e. g., China, the former Soviet republics, and East European countries), is yet to be established. As these emerging economies become increasingly integrated into the global market, improved knowledge has become an urgent challenge to organization researchers as well as practitioners. As organizational theorists continue to debate on the merit of these perspectives, multinational corporations have to compete in these emerging markets.

In this study, we join the debate by testing the resource-based theory in China. The purpose of the study is to identify what firm-specific resources and capabilities have contributed to firm performance.

### **Economic Transitions, Environmental Turbulence, and Firm Strategies**

As a legacy of the Soviet-style command economy, the pre-reform industrial structure in China was characterized by rigid central planning and extensive government control of state-owned enterprises (SOEs, see



Perkins 1994; Tung 1982). Firm-level decision making among SOEs was focused on aligning with administrative bodies, regulatory bureaus, and, in some cases, local governments (Child 1994; Nee 1992). Consequently the pre-reform SOEs had very limited decision-making prerogatives and were not quite concerned with performance.

The transition from a planned economy to a market economy 'changes fundamental managerial assumptions, criteria and decision making, and represents a genuine transformation of the business' (Tan and Litschert 1994, 3). These transitions since 1978 have created a great deal of turbulence for SOEs (Child 1994). As the state gradually relinquishes its financial responsibility for SOEs, these firms, especially their managers, are increasingly being held responsible for their performance (Peng 1996). As a result, the stable comfortable environment based on the network of interlocking relationships has disappeared. Instead, SOEs are being given more autonomy, and, hence, more financial responsibilities (Perkins 1994; Tan and Litschert 1994). Although most SOEs are newcomers to the game of competition, they are nevertheless under stress to learn the game fast for two reasons. First, a great number of Western multinationals have penetrated the China market and created pressures for local firms. Second, the new environment has also introduced a new class of private and collective firms, which are more entrepreneurial than their SOE counterparts. Being 'stuck in the middle', SOEs can no longer afford to be passive now but have to join the competition.

To many strategic management researchers, Porter's seminal work on competitive strategy (1980) and advantage (1985) represents an important perspective on competitive advantage. However, such a perspective only offers partial answer to firm level competitive advantage since firm resources and internal capabilities vary widely. From the strategic management standpoint, these firm differences can prevent certain firms from implementing strategies that other firms can implement (Barney 1986). While all firms face the same environment, which has profound impacts on firm performance, the structural characteristics cannot explain why some firms perform better than others. To understand performance differences, we consider the resource-based view as an alternative explanation to firm performance.

The resource-based view of competitive advantage has its conceptual origins in the work of Chamberlin (1933), Penrose (1959) and Chandler (1962). As discussed by Wernerfelt (1984), a firm's resources are the fundamental determinant of competitive advantage. Accordingly, resource constraints will limit a firm's performance. The resource-based view of

the firm substitutes two alternative assumptions in analyzing sources of competitive advantage. First, firms may be heterogeneous with respect to the strategic resources they possess. Second, these resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. In other words, strategically relevant resources are those that are valuable, rare, difficult to imitate, and without strategic substitutes. Based on these, firms develop a sustained competitive advantage (Barney 1991).

In this article, firm resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge, controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney 1986; 1991). In the language of traditional strategic analysis, firm resources are strengths that firms can use to conceive of and implement their strategies (Porter 1980). The attention of the resource-based view is primarily internal with its focus on the characteristics and capabilities of the firm. First, that a particular form of resource is valuable refers to the ability of the firm to utilize the resource to exploit specific opportunities or to neutralize certain threats. Therefore the value of a resource is firm-specific, since a firm's relationship to its environment (opportunities and threats) is unique. Consequently, the unit of analysis is the resources of the firm, and the focus is on the relationship between resources and competitive advantage, or firm performance. Furthermore, firm resources must be rare in order to be of strategic use. That is, if many firms have equal access to the same resource, the resource's utility in producing competitive advantage is limited. Finally, resources and capabilities must not be easily copied. If other firms are able to emulate the resources and capabilities easily, the performance advantage will be competed away. This is not to say, however, that imitation is not possible. As firms escalate their competition, and imitation becomes widespread, winning attributes are increasingly becoming the target of imitation. In this sense sustainability should be considered as a relative term.

In transition economies, both market forces and the legacy of central planning are influencing firm performance. SOEs are partially liberated from the central planning. Using the running metaphor earlier, the athletes are now encouraged to run with their feet freed, although their hands are still tied up. Although they face the same imperfect market conditions typical of transition economies, they can nevertheless run. The critical issue they face is to identify the particular muscle groups (resources) that help them improve performance.

For resource-based view theorists, history plays an important role since firm resources and capabilities are attained over time, often in a unique fashion (Barney 1986). One of the more interesting characteristics of capabilities is that they are path dependent, which is to say that an organization's future behavior is constrained by its historical routines and past investments (Teece, Pisano and Shuen 1997). Previous theorists have introduced path dependence using the simple conceptualization that 'history matters' to focus attention on the importance of initial conditions in predicting path direction (Teece et al. 1997). Capabilities are specific to the firm and embedded in operational routines and, as such, are accumulated over time (Dierickx and Cool 1989; Makadok 2001). Once these capabilities have been accumulated, firms develop a cost advantage for using practiced routines, relative to experimenting with new processes, reinforcing previous choices (Zollo and Winter 2002). This implies that future resources will reflect a pattern of integration and re-configuration similar to historical resources. However, there has been very limited effort to empirically examine the impact of specific inputs on firm performance in China's transition economy. As a result our understanding of the trajectories of these paths of evolution and the processes which shape them has yet to be fully explored, and there is little information in the literature or empirical evidence that will lead to a set of testable hypotheses. In this study we explore what specific resources and capabilities have led to superior performance.

### **Research Design and Data Collection**

Mainstream perspectives such as industrial organization economics and resource-based view theories grew out of the behavior of firms operating in a market economy. Whether they can be plausibly extended to a Chinese setting remains to be debated (Peng 1996; Pye 1992; Tan and Litschert 1994). While Shenkar and Von Glinow (1994) called for extreme caution when extending mainstream theories to China, other researchers have demonstrated the applicability of some of these theories in the Chinese environment, as long as institutional variations are accounted for (e. g., Tan and Litschert 1994). As Western management theories are introduced to the Chinese audience, and as Chinese managers compete and cooperate with their Western counterpart, they become familiar with theories, concepts, and terminology from Western management literature (Tan and Litschert 1994).

In the past, organizational research set in China has employed quali-

tative as well as quantitative methods. In many cases, since large-sample, firm-level data are difficult to collect in China, most existing studies have relied on case studies. Although highly insightful for theory development, case studies are less useful when the objective of the research is theory testing. This study joins the handful of studies on SOES in China that used quantitative analysis of data from a relatively large sample to test theories.

#### DATA

The data set for this study comes from the 1991 and 1992 Survey of Large and Medium Industrial Firms in China (SLMIF) conducted by the State Statistical Bureau of China (SSB). It includes all firms in China that are categorized by the SSB as 'large' or 'medium'. The number of firms in the database ranges from 14,942 (1991) to 16,384 (1992). The total sales of all the firms in the 1992 SLMIF are RMB 1,544 billion (USD 182 billion), accounting for 42 percent of total industrial output (SSB 1995, 375), thus indicating that the data set represents a substantial part of business activities in China.

The SSB reports that the accuracy of the information in the survey, in particular the financial data, has been carefully checked. For example, sales information is often checked against actual output so as to detect discrepancies (SSB 1994). The SSB uses a logic-testing method, which links related variables together to identify illogical data, and a historical method that tracks an enterprise's historical data. In its survey and report system manual, the SSB specifies more than 120 logic tests for major project surveys and more than thirty logic tests for industrial surveys (SSB 1994). The SSB industrial survey data has been used in different forms by academics in the social sciences. Since this is the most authoritative official survey, which has been used by the state government for making major economic decisions, the reliability has been tightly monitored, and any inaccuracy and deviation from accounting regulations has been strictly disciplined. Consequently, this is the most accurate and reliable archive data in China.

#### MEASUREMENT AND VARIABLES

In this study we used the 1991 firm internal variables as independent variables, and the 1992 performance measures as dependent variables. Independent variables and controlled variables were extracted from the 1991 data. They are briefly described below.

1. *Outsourcing* is measured by the amount of materials, energy, electricity, and other inputs that were purchased from external suppliers, as opposed to those produced by the firm's own subsidiaries. From a resource dependence perspective (Pfeffer and Salancik 1978), such vertical integration reduces firm dependence and uncertainties associated with such dependence. However, overemphasis on vertical integration and diversification burdens firm's resource, leaving little for future growth. When markets were introduced after the beginning of the reform, increasingly resources were no longer allocated by the state but rather through the market, and firms began to rely on outsourcing. Outsourcing allows the firm to concentrate in its core business, thereby improving its performance. Overall, we would expect outsourcing to have a positive impact on performance.
2. *Earmarked Special Funds*. We devised three composite measures under this category based on fund similarities. They are (1) depreciation and major repair funds, (2) new product development and production expansion funds, and (3) employee reward and welfare funds. These three measures were all based on the means of the two funds in each category, respectively. These funds are usually accumulated as a portion of previous year's total sales revenue and are used for specific purposes. For instance, major repair funds and depreciation funds are taken as a percentage of the value of the firm's capital equipment. According to government regulations and accounting procedures, they should be used for the repair or replacement of major equipment. However, it is not a secret that some managers use these funds as 'slack' accounts temporarily for other needs. Special funds also include those used for new product development and production expansion. Finally, there are those funds accumulated for employee reward and welfare.
3. *Reserve Fund* is based on the amount reported. This type of fund is used on a contingency basis for daily operations. It is similar to slack resources, with more flexibility than earmarked special funds. Previous research in market economies indicates that slack funds provide a 'cushion' during environmental turbulence and help the firm to sustain smooth operation (Bourgeois 1981, 30).
4. *Inventory* is measured by the value of unsold products. This includes funds that are utilized in the form of inventory.

5. *Borrowing Capacity*. The capability to borrow from lending agencies is quite often a strong indicator of firm's unique position. Even in Western literature, borrowing capacity has been considered as an unused slack resource that can be used for strategic purposes. In this case we would expect this resource type to contribute positively to performance.
6. *Marketing Intensity*. This includes a firm's effort in marketing. Under central planning, there was no need for marketing. Before the economic reform, the Chinese market, both factor input and consumer market, were characterized by shortage. In such a seller's market, the prevailing paradigm is 'Emperor's daughter should not have to worry about getting a suitor.' The reform has changed the fundamental rule of the game and Chinese firms now find themselves at the mercy of customers. Among those firms we studied, the most successful ones often demonstrate good marketing capabilities. We thus expect marketing intensity to be positively associated with most measures of performance.
7. *R&D Capability* is measured by the percentage of scientists and engineers who specialize in new product development and research to total employees. In Chinese industrial enterprises, R&D personnel are specially designated based on their education, qualification, and specific functions they perform in the firm. Numerous studies suggest that firm's R&D has significant impact on performance (e. g. Hill and Jones 1995).
8. *Retained Earning* is measured by the amount of retained earnings at the end of the fiscal year. These are perhaps the most flexible resources that managers can legitimately use for discretionary purposes. As a major step toward revitalizing the stagnant industrial sectors and giving firms incentives to improve performance, the Chinese government has implemented a 'responsibility system', which gives a greater residual claim right to the firm as a function of performance. If a firm's performance exceeds a contracted level, the residual profit will be shared between the government and the firm in the form of retained earnings. Managers have much greater freedom to decide how they spend the money since these funds are uncommitted, or unutilized.
9. *Performance* was measured using the 1992 total revenue and profit (loss). We also created revenue per employee and profit per asset

(or return on assets) to obtain a more standardized measure of productivity and profitability. Regressions are conducted on these four dependent variables, namely, revenue, profit, revenue per employee, and profit per asset.

We included also three controlled variables. They are fixed capital of a firm, workforce of a firm, and firm ownership. The first two variables measure firm size.

10. *Fixed Capital* is the total fixed capital of a firm.
11. *Workforce* is the total number of employees of a firm.
12. *Firm Ownership Type* is measured by using the official firm ownership type code designated by the SSB. It is '1' if a firm is an SOE and '0' if it is a collective, private, or foreign-funded firm.

### **Data Analyses and Results**

Table 1 provides information about descriptive statistics and correlation coefficients. We first examine the zero-order correlation coefficient matrix of all independent variables for potential sources of multicollinearity (see table 1). As can be seen from table 1, the correlation coefficients between different funds are quite high, which may cause multicollinearity problems in the multiple regression analysis. In order to avoid such problems, we first conduct a factor analysis on all independent variables and then use factors along with the controlled variables as regressors in our models.

Our factor analysis generated two factor coefficients (see table 2). The first factor seems to represent all slack resources. Outsourcing also has a high loading on the first factor. The second factor seems to present R&D and new product development effort. Marketing intensity has high loadings on both factors.

We used regression analysis to test various relationships (see table 3). We tested the effects of resources and capabilities on the four dependent variables – total revenue, total profit, revenue per employee, and return on assets, while controlling firm size and ownership.

All four regressions reveal significant relationships between measures of firm resources and capabilities and performance. Measured by four different performance variables, the results are consistent and the factors significantly affect both revenue and profit in the predicted direction. The consistency across four measures indicates that the results are robust.

TABLE 1 Means, standard deviations, and correlation coefficients of dependent and independent variables

Variables	Mean	SD	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Total Revenue (92)	100755	400606	.400	.206	.106	.898	.836	.840	.883	.577	.815	.592	.043	.365	.534	.037	.742	.676
2. Total Profit (92)	3094	48473		.135	.304	.370	.157	.096	.227	.083	.205	.291	.054	.212	.500	-.003	-.068	.105
3. Revenue/employee (SPE) (92)	52.2	107			.400	.169	.021	.054	.128	.510	.066	.182	.196	.078	.120	-.128	.049	-.030
4. Profit/asset (ROA) (92)	.0307	.114				.061	-.002	.002	.018	-.065	-.015	.119	.127	.066	.108	-.068	-.010	-.055
5. Outsourcing (91)	50761	154					.715	.663	.842	.571	.754	.583	.038	.417	.491	.039	.622	.637
6. Reward-Welfare Funds (91)	2200	10055						.849	.794	.501	.766	.457	.008	.184	.516	.061	.833	.802
7. Depreciation Funds (91)	11375	72760							.754	.525	.813	.430	.021	.198	.319	.038	.890	.670
8. Reserve Funds (91)	13230	45455								.600	.784	.580	.044	.305	.476	.056	.723	.683
9. Inventory Funds (91)	7301	13360									.584	.437	.063	.320	.250	.040	.494	.503
10. Borrowing Capacity (91)	47553	168604										.463	.042	.282	.376	.059	.777	.676
11. Marketing Intensity (91)	1902	6599											.065	.339	.322	-.003	.353	.441
12. R & D Personnel (91)	.067	.0472												.092	.045	.083	.022	-.046
13. R & D Funds (91)	213	1331													.135	.032	.159	.222
14. Retained Earnings (91)	1311	14487														.012	.298	.321
15. Ownership (91)	.833	.3726															.044	.095
16. Fixed Capital (91)	57345	341036																.664
17. Total Employees (91)	2307	6100																

Notes:  $N = 12,047$ . Coefficients with absolute value of 0.017 or greater are significant at 0.05 level; coefficients with absolute value of 0.024 or greater are significant at 0.01 level. Variable definitions: For variables with clear meaning, we do not give further definitions. The following variables need detailed definitions: (5) outsourcing includes three expenditures on purchasing material and energy; (6) reward-welfare funds include workers welfare fund, welfare and bonus funds drawn from special funds; (7) depreciation funds include four funds: depreciation reserve, major repair reserve, depreciation funds drawn in current year, and major repair funds drawn in current year; (10) borrowing capacity = total debts; (11) marketing intensity = total marketing and sales expenditure; (12) R & D personnel = (number of technical staff/total workforce); (15) ownership = 1 if state-owned, otherwise = 0. (91) = data in 1991; (92) = data in 1992.



TABLE 2 Factor analysis of independent variables

Variables*	Factor 1: Firm Resources	Factor 2: R&D Capabilities
Outsourcing (91)	.856	.264
Reward-Welfare Funds (91)	.912	-.043
Depreciation Funds (91)	.877	-.018
Reserve Funds (91)	.908	.160
Inventory Funds (91)	.646	.311
Bank Loan (91)	.882	.098
Marketing Expenditure (91)	.584	.399
R&D Personnel (91)	-.095	.675
R&D Funds (91)	.247	.716
Retained Earnings (91)	.561	.023
Variance Explained by Each Factor	5.08	1.33
Final Communality Estimates	Total = 6.41	

Notes: \* See table 1 for definitions.

TABLE 3 Regression results (standardized coefficients)

(1)	(2)	(3)	t-statistic					
			(4)	(5)	(6)	(7)	(8)	(9)
Model 1:	.900	.0001	**	1.037**	.173**	-.004	-.047**	-.088**
Total revenue			(42.0)	(175)	(60.0)	(-1.33)	(-9.16)	(-19.5)
Model 2:	.342	.0001	**	1.070**	.146**	-.002	-.838**	-.159**
Total profit			(14.6)	(70.3)	(19.6)	(-.238)	(-63.7)	(-13.8)
Model 3:	.086	.0001	**	.233**	.218**	-.130**	.010	-.207**
Revenue/employee			(39.3)	(13.0)	(24.9)	(-14.8)	(.619)	(-15.2)
Model 4:	.031	.0001	**	.115**	.139**	-.067**	-.005	-.137**
Profit/Asset			(21.2)	(6.24)	(15.4)	(-7.45)	(-326)	(-9.72)

Notes: Column headings as follows: (1) dependent variables; (2)  $R^2$ ; (3) prob. > F; (4) Intercept; (5) factor 1; (6) factor 2; (7) ownership; (8) fixed capital; (9) workforce.  $N = 12,046$ ; \*\*  $p < 0.01$ , \*  $p < 0.05$ .

While all four regressions are highly significant, their goodness of fit is different. The regressions of total revenue and total profit achieved high  $R$ -squares: 90% and 34.2%, respectively. The regressions of standardized measures – revenue per employee and profit per asset – have lower  $R$ -squares, 8.6% and 3.1%, respectively. The explanatory powers of the two revenue regressions are substantially greater (90% and 8.6%) than those of the two profit regressions (34.2% and 3.1%). This pattern of difference suggests that the relationship between firm resources and capabilities and

firm revenue is stronger than the relationship between firm resources and capabilities and firm profit.

Outsourcing, which measures the level of vertical integration, received mild support. Among four regression models, positive associations were found in two tests. For the three special funds tested, results were mixed. From the organizational theory perspective, these funds are similar to those of slack resources. Some slack can act as an inducement, which represents 'payments to members of the coalition in excess of what is required to maintain the organization' (Cyert and March 1963, 36). Other types may be employed as a technical buffer, which 'reduces the amount of information that must be processed during task execution and prevents the overloading of hierarchical channels' (Galbraith 1973, 15). Nevertheless, these funds are earmarked for certain specific purposes, and deviation from accounting rules can lead to disciplinary actions from the government. Therefore the managerial discretion is limited. Ultimately, misuse of these funds can jeopardize other activities supposed to be funded by these resources. More studies are needed to reach conclusive results.

Reserve funds also received mixed results. It had a positive impact on revenue but negative impact on profit. Inventory funds, which represent resources tied up in mostly unsold products, had a positive impact on total revenue, but exhibited negative relationships with the other three measures of performance. Keeping a certain level of inventory helps the firm to meet fluctuating market demand. In many of the cases we studied, Chinese companies deliberately maintain some inventory much the way of stockpiling slack resources (Singh 1986), which may have a 'production smoothing' effect.

However, during our study, we learned that excessive inventory was often the result of unsold products. This in fact is a major problem with those firms that have been used to selling whatever they produce to the state (as opposed to produce which the market demands) are still incapable of dealing with the market directly. They isolate themselves from the market and often produce products that they cannot sell. This type of inventory is slack resource that has already been utilized and cannot be used for other strategic purposes, and therefore is more likely to have a negative impact on performance.

Borrowing capacity was found to have a positive impact on performance. Among the four measures, we found positive relationship in two tests, while in the other two tests, its impact was not significant.

Marketing intensity, R&D capacity, and retained earnings showed the strongest and most consistent results. Marketing intensity had significant positive associations with all the four measures of firm performance. R&D capacity, which was measured by the percentage of scientists and engineers specializing in research and development, also had strong positive associations with profit, profitability ratio, and revenue growth, and its positive contribution to total revenue almost reached the traditionally accepted significant level. Finally, retained earnings also had a consistent relationship with all performance measures.

We also examined the impact of several control variables. First, we found that firm age was negatively related to revenue and revenue growth. Overall firm age was associated with inertia and became a liability for sustained growth in an increasingly competitive environment. During our research we learned that some of the oldest firms included in our study were founded several hundreds years ago, such as pharmaceutical companies specializing in traditional Chinese herbal medicine, and were known for their national reputation and trade secrets. In recent years, they have faced stiff competition from foreign companies armed with deep pockets and more technologies, and their unique trade secrets have become the subject of imitation. The traditional competencies were losing ground. On the other hand, our data did not include those intangible resources such as trade secrets. Further research is needed to draw definitive conclusions.

Secondly, we found evidence that firm ownership types had significant performance implications. Privately owned and foreign-owned enterprises had competitive advantage over firms under state ownership and control. These results are consistent with previous studies that have examined the Chinese SOEs (e. g., Tan and Listchert 1994), and validated results on ownership and performance from empirical studies using survey methods (e. g., Luo, Shenkar, and Tan 1998; Luo and Tan 1998).

Finally, we examined the percentage of fixed capital on production, which in the Chinese context, measures the level of concentration on core business. Results were inconsistent. Specifically, this ratio had a positive impact on two performance measures, i. e., total revenue and profitability, but had a negative impact on revenue growth.

In sum, the results generally suggest that certain firm resources and capabilities have significant performance implications. Among them, marketing intensity, R&D capacity, and retained earnings had consistent positive impact on nearly all major performance indicators.

### **Implications and Conclusions**

The impact of firm resources and capabilities on performance among Chinese enterprises has been a subject of anecdotal speculation due to its significant implications for organizational researchers as well as practitioners. Yet empirical evidence has been very limited. Motivated by a deep curiosity in, using the language of Williamson (1996), ‘what is going on there’ behind the ‘bamboo curtain’, and underpinned by a strong conviction that organizational researchers have much to gain as well as to offer by focusing on transitional economies, we use large archive data in this study to examine the impact of firm resources and capabilities on performance. Results indicate that most of the firm specific resources and capabilities examined in this study have a positive impact on performance.

A closer examination of these resources and capabilities indicates that most of them have been considered as slack in Western literature. Therefore, our study lends support to organizational theory literature, which has established a positive relationship between slack resources and firm performance. On the other hand, in the context of Chinese transitional economy, firms have been known to maintain a large inventory of organizational slack, and their lackluster performance has often been attributed to their inefficiency represented by slack (Aharoni 1986; Kornai 1992). Despite the lack of empirical evidence to support this proposition, there has been little hesitation for Western advisors to recommend that slack be eliminated. As a result, the ‘evil’ of slack in SOEs in transitional economies has become a part of the well-accepted but rarely tested conventional wisdom (Tan and Peng 2003). Thus, our study also has the benefit of empirically examining a previously untested link between organizational capabilities and firm performance in a transitional economy. Such insight has profound implications for research and practice because developing capabilities constitutes one of the most SOE strategies during the economic transition (Tan and Tan 2005).

Taking the preliminary results reported here as a point of departure, we suggest that future research expand the resource based view and take a ‘dynamic’ approach in examining firm resources and capabilities. Teece and colleagues (1997) saw dynamic capabilities as a separate strategic paradigm from the resource based view, specifically oriented to an environment of rapid change and innovation-based competition. ‘Dynamic’ connotes the capacity to renew resources in response to market changes

and 'capabilities' connotes processes for adapting, integrating, and re-configuring inimitable resources to keep pace with a changing business environment (Teece et al. 1997, 515). Such future effort can potentially reveal how resources are reconfigured over time in firm-specific processes that are dependent upon initial assets and environmental dynamism (Eisenhardt and Martin 2000; Teece et al. 1997).

The implications for policymakers in transitional economies are that underutilized resources may not necessarily be an 'evil' associated with the inefficiency of SOEs. In a turbulent environment, slack helps buffer the firm from the assault from unpredicted directions, thus ensuring a certain level of performance. Moreover, possession of some slack enables managers to take on more risky and innovative projects that may pay off in the long run. In this sense, slack resources can be sources of competitive advantage. For SOE managers, our findings help support a long-held belief that having some slack is not only necessary, but also beneficial to the firm. As D'Aveni (1994) and Porter (1985) pointed out, firms with substantial slack are able to adapt to unanticipated situations and fight back.

While these implications may not be novel to policymakers and SOE managers familiar with the workings of transitional economies, the implications for foreign investors can be profound. An increasing number of foreign investors have entered transitional economies such as China in search of joint venture partners and market opportunities (Yan and Gray 1994). SOEs are usually the top candidates as joint venture partners, who tend to avoid SOEs with a seemingly excessive amount of slack. Moreover, even when teaming up with these SOEs, foreign investors typically like to slice the SOEs, and form joint ventures only with the relatively 'efficient' part that does not have much slack. However, such a strategy may backfire in a highly turbulent environment during the transition.

In sum, the resources-based view of the firm advances our understanding not only by identifying what the resources and capabilities are, but also how these resources and capabilities are utilized to build competitive advantage and improved firm performance. Therefore, for foreign investors looking for joint venture partners in transitional economies, our findings suggest a departure from the widely accepted conventional wisdom. Specifically, they should study potential partners more carefully. While absorbed slack such as excess capacity may be undesirable, unabsorbed slack such as discretionary fund may be highly attractive. Instead of just focusing on reported levels of efficiency and perfor-

mance, foreign investors should also attempt to evaluate their prospective partners' resources not reflected in revealed capacities, because such unreported slack may be indicative of a better potential. Our preliminary, with its limitations notwithstanding, offers a ground for future exploration and falsification.

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# *Cooperation after War: International Development in Bosnia, 1995 to 1999*

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This paper discusses how predispositions, incentives, the number and heterogeneity of participants, and leadership (Faerman et al. 2001) jointly influenced the international effort to develop Bosnia and Herzegovina. International coalitions, task forces, and advisory groups are increasingly charged with implementing reforms following civil conflict. This requires a complex web of interorganizational relationships among NGOs, donors and host nations at both global and 'ground' levels. To better understand development assistance, attention must be paid to the relationships between these varied players. We find that four factors influenced relationships between policy, donor, and implementing organizations; and those strained relationships, in turn, affected development success. The paper draws on interviews, conducted in Bosnia, with 43 development professionals, observation of development meetings in Tuzla and Sarajevo, and review of related documents from international development programs.

*Key Words:* international development, interorganizational relationships and cooperation

*JEL Classification:* O19, P41

## **Introduction**

The development of collective action arguably poses the central orienting question for the social and management sciences (Arrow 1974; Ostrom 1998). How do individuals and other types of parties engage each

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other, and what factors determine whether conflict, cooperation, or indifference dominate this engagement?

This paper discusses how four factors jointly influenced cooperation in the international effort to develop Bosnia and Herzegovina (generally shortened to 'Bosnia', or 'BiH') between 1995 and 1999. These factors include (1) the initial predisposition of parties to cooperate, or not to cooperate, early in a process, shaped by personal experiences and institutions; (2) the issues or incentives involved in a decision; (3) the number and heterogeneity of the parties involved; and (4) leadership at various levels (Faerman, McCaffrey and Van Slyke 2001; McCaffrey, Faerman and Hart 1995). These four factors prove useful in the analysis below. And the situation in the Balkans provides a useful context to explore this interorganizational relationship (IOR) framework in a very complex setting.

International coalitions increasingly are involved in social, political, and economic reconstruction and transition following civil conflict. These efforts require a complex web of interorganizational relationships among NGOs, donors and host nations at both global and 'ground' levels. Effective, cooperative relationships among these many players seem vital to successful implementation of development projects.

Practitioners interviewed for this research, and other critics of development in Bosnia offered many reasons for limited success, despite the enormous amount of time, effort and money spent. Some argued that the ethnic divisions predisposed local parties not to cooperate. Others stressed that the international community did not respect each others' work. Many questioned the bureaucracy of bilateral organizations, the unilateral positions of NATO, WB and IMF, and the legitimacy of NGOs as partners. Others suggested that few stakeholders had the incentive to succeed. Contractors received their payment often regardless of accomplishing goals. Power brokers in the divided society retained control as long as the situation remained uncertain. And frankly, given other hotspots in the world, Bosnia's top billing as the darling of the development world in 1995 faded dramatically, reducing multilateral and bilateral enthusiasm. Some believed that too many players with too many different perspectives were working toward undefined solutions. Others suggested weak leadership, from the Office of the High Representative, to local governmental officials, to the major international heads of state that failed to secure Bosnia's future from the start.

All of these perspectives individually contributed to the Bosnian development story. However, in an effort to reframe and better understand

development assistance, we suggest that these problems might more appropriately be viewed as contextual features of a complex interorganizational puzzle. These problems did affect development, but more noticeably, directly and immediately, they affected the relationships between organizations trying to implement specific development reforms. This more subtle theme emerged repeatedly in our interviews.

Development settings require complex arrangements between organizations. It is helpful, perhaps, to examine development in Bosnia as a set or system of IORS (Martin 2004; Martin and Miller 2003). Doing so highlights ground-level implementation concerns. It also helps facilitate analysis by specifically targeting the IOR as the unit of analysis. This study anchors itself to those IORS, so we therefore view many contextual variables more directly as sources of influence or pressure on these relationships. Doing so requires multiple perspectives. Faerman, McCaffrey and Van Slyke's (2001) four factors emerged from the literatures in management, economics, political science, sociology and public administration. While acknowledging the relevance of each, disciplines weigh the salience of factors differently. However, generally, a desire to increase levels of cooperation, and reduce unproductive conflict or harmful indifference, motivates much of this writing. Below we discuss these factors as they relate to international development. We focus less on determining which of these factors proved most salient, instead recognizing how all of these factors combined to provide opportunities and obstacles for cooperative, coordinated collective action between organizations.

### **Interorganizational Cooperation in Bosnia**

'Initial dispositions toward cooperation' refers, for example, to prejudices and stereotypes players have against others. Institutionalized practices, safeguards, norms, and culture favor certain kinds of behaviors. They can shape individuals' encounters with each other and can leave individuals more or less favorably disposed to cooperating on an issue. But these initial mindsets also can *undercut* cooperation, as in the case of 'traditional enemies.' Understanding this institutional background is essential to understanding interorganizational cooperation. Obviously, development dynamics are fraught with complex predispositions typically weighing heavily against cooperative activity.

Such initial prejudices might be overcome, however, depending upon the 'issues and incentives' at play. We recall a striking example of this after an international embargo was placed on Serbian goods. Serbs in

Bosnia, more favorably disposed to trade with Serbs in Serbia, very quickly learned to adjust and find markets with Muslims and Croats in Bosnia instead. Other issues, sometimes as seemingly mundane as the spelling of city names in documents, were simply too contentious to find common ground. Development settings necessarily include both reforms and issues that are highly contentious as well as those that are much more acceptable to all.

The 'number and variety' of players also proves important in this setting, as the Dayton Peace Accords solidified the partition of the country into two entities to be split among three ethnic groups, divided further into cantons and municipalities. This made the logistics of cooperation difficult, regardless of the issues at play, incentives involved, or initial predispositions to even begin negotiations. Even intense cooperation can decay when the forces pulling people together—such as the compelling nature of a common task or a charismatic leader—no longer dominate the forces that pull them apart, like deep conflicts over values, or conflicting personal or group ambitions and concerns. The sheer number of stakeholders in Bosnia made differences in issues and incentives and predispositions, more likely.

We see 'leadership' as an ability to make sense of situations and orchestrate actions that is required throughout an organization; which actors play key leadership roles depends on the nature of the tasks involved (Graham 1996; O'Toole 1995). Leaders can legitimize solutions to problems; they can facilitate action that otherwise might break down; and they can 'nudge' people to act in ways that favor or inhibit cooperation (Faerman, McCaffrey, and Van Slyke 2001). Leaders help define situations for individuals often getting people to think about issues and incentives, and maybe even initial dispositions, in particular ways (Gray 1989; Weick 1995).

#### RELATIONSHIPS BETWEEN THE FACTORS

Each of these factors is important individually, but how they play out in particular situations depends on how they interact with each other. Each factor potentially moderates the effect of the others on cooperation (Faerman, McCaffrey, and Van Slyke 2001). As such, these features of the Bosnian case serve as important contextual variables to the relationships among those players involved in Bosnia. For example, institutionalized patterns likely shape the issues that surface in an area, the types of leaders that are rewarded, and the groups that become involved in an issue. Or,

as noted above, the types of issues that surface may lead us to reassess institutionalized practices, the desirable qualities of leaders, and the groups that *ought* to be included in a decision. Perhaps leaders' strongest source of influence is in how they might be able to shape followers' perceptions of the way things 'are' done (institutions), 'ought' to be done (issues), and *who* ought to be engaged in a decision (groups) (Gray 1989; Weick 1995). The number and heterogeneity of groups involved in a decision process influence the range of institutionalized practices and issues brought into play, and the pool of people from which leaders surface. These are only illustrations of interactions among the factors. What strikes us is the variety of ways in which they can weave together, often reinforcing the present situation, but also creating the potential for change, when change in one factor induces changes in the others.

### Methods

This paper stems from research conducted in Bosnia in 1999. Forty-three different senior executives, mid- and upper-level managers, staff and consultants in national, international and multinational organizations were interviewed. Thirty of these were tape recorded and transcribed; others were reproduced using detailed notes. Nineteen participants were US citizens; five from the European Union; eleven from Bosnia; and eight from other nations.

Initial access and preliminary interviews were obtained through the help of a key informant at USAID. A conference held in Tuzla entitled, 'Development of Production in Bosnia and Herzegovina for 21st Century' provided entrée into the community. During this conference, the first author was invited to attend the Industry Task Force meeting, an official coordination meeting of all the major players in private sector development, sponsored and led by USAID. Most participants at this meeting were subsequently interviewed, as were additional representatives of nearly every other member organization involved. Several interorganizational coordination meetings were then observed, as were bi-weekly macroeconomic and privatization meetings covering topics like Payment Bureau Reform or Tax Harmonization. Many of the same players tended to reappear at these various forums, suggesting subjects indeed represented the core organizations involved in private sector development. Interviews with more peripheral or niche players also proved rewarding and balanced the sample.

This paper also relies on documents, reports, flyers and websites, pro-

duced by the various organizations involved in the effort. We especially rely on the reports prepared by the International Crisis Group. This organization has established a reputation within Bosnia for compiling detailed, influential analyses. For example, its April 1999 report on the failure of plans to encourage private investment in Bosnia became an unofficial focus of the conference at Tuzla, mentioned above, and an important piece of work known to nearly everyone we interviewed.

### **Findings**

Our findings reveal how relationships between development organizations in Bosnia were shaped by the four factors. We focus below on elements of the case that we believe fundamentally shaped outcomes.

#### INITIAL PREDISPOSITIONS TO COOPERATE

Reliable procedures are the distinctive advantage of bureaucratic forms of organization (Gerth and Mills 1958), and are key to successful economies (North 1990). On the other hand, weak legal structures, group threats and insecurity, and ongoing hostility reinforce each other, as people come to rely on political force and actual or threatened violence. The development effort in Bosnia and Herzegovina tried to reverse such a situation. The Dayton Peace Agreement outlined a process to rebuild the nation's infrastructure, reduce social tensions and foster economic growth and transformation; and establish a political and legal order that recognized ethnic identities, but prevented them from dominating social, political, and economic life.

All of the major national donors participate in annual meetings of the Peace Implementation Council (PIC). These are 'scorecard' meetings where governments and institutions pledge millions to certain efforts, define broad task areas, and identify lead parties. Participation at these meetings is at the ministerial level. Beneath and answerable to the PIC are smaller Steering Committees. These committees target broad areas of activity and establish reasonable 'benchmarks' given the funds and direction expected from the PIC. At this level, cooperation seemed overt, effective and tangible, but implementing those policy directives seemed more difficult.

Informal, ground-level meetings were, according to one respondent, 'just something that kind of started. Initially, these task forces just tried to keep track of who was doing what; and now it has gone very much beyond that to, OK, what needs to be done, who's going to take care of it,

what kinds of policies need to be respected in proceeding with this operation . . . its not just a show and tell.' Another official described them as 'meetings with different parties that are active in this reform process . . . to discuss relevant issues; . . . where are we, what are the next steps to take, how are we going to get there?'

Many respondents described these ongoing conversations as, 'A matter of doing good work, you want to do good work so you need to know what else is going on out there; also, a lot of these people you know, or if you don't know you might have heard of, and if you don't know at all you want to get to know – you learn from other people – it's just professional to explore what programs . . . are in your area.' Social networks are important in this 'industry'; 'There is a small arena of people who do this. A lot of the AID people I worked with in southern Africa somehow appeared here in the Balkans, you know people's credibility, professional conduct, skill levels . . . and then at the appropriate time it is referenced.'

The OHR represents the organizational embodiment of the peace accords. The OHR formally has the authority to remove national and local officials, and has other strong powers to direct implementation of the Dayton Peace Agreement; in effect, it presently is the highest legal authority in Bosnia and Herzegovina. Yet, this formidable international presence has had a difficult time coping with the ethnic tension that continues to dominate Bosnia; the forces that produced the war have consistently undermined the effort to rebuild the country after it. The idea was that this tension could be reduced through the establishment of reliable institutions, economic growth, and security for the different groups; the Office of the High Representative would have the power to force changes when necessary. However, a report by the International Crisis Group in November 1999 (1999c, 42) observed that,

The OHR has – at least on paper – 'final authority' to interpret and implement the DPA [Dayton Peace Agreement]. In some regards the OHR constitutes the highest legal authority in Bosnia and Herzegovina, higher even than the Annex 4 constitution. Nonetheless, the OHR's authority does not translate into actual power. Lacking an enforcement mechanism, such as a loyal constabulary, the OHR is forced to rely on the goodwill and full co-operation of the parties to implement its decisions, as well as to implement DPA. Often, the High Representative is reluctant to remove obstructionist officials, fearing

that the OHR's lack of power will become apparent when those officials remain in office. The result is an implementing body that lacks the ability to implement.

These types of tensions intrude on routine activities in development. One individual noted that 'In this whole area it's also about the past . . . As long as they continue to argue about who was actually the bravest at the Kosovo battle and who killed my grandfather or your grandfather we are going nowhere.' Another pointed out, 'For example last week we had a stupid decision at the Council of Ministers. They were fighting . . . nearly two years about a border crossing agreement between Croatia and BiH, they all agree on the border crossing, they all agree on everything except for the *names* of the towns in the written document.' A third added, 'If the Serbs say something then obviously the Croats and the Muslims say something exactly opposite.'

The various tensions and contextual concerns mentioned above seemed to create initial predispositions against cooperative activity. While certainly not, in and of themselves, insurmountable, coupled with the other concerns below, they made cooperative, coordinated action, or at least a cooperative culture of change and progress, difficult.

#### ISSUES AND INCENTIVES

It is easier to address some issues rather than others; thus, we expect development efforts to succeed in some areas and flounder in others. As noted above, perhaps the major contribution of the Dayton Peace Agreement was that it stopped the overt warfare. One individual commented that 'I value the [DPA] because it stopped the killing and I think everyone would agree that stopping the killing was paramount.' Furthermore, some development tasks are easier and more visible than other tasks. Activities like building bridges and roads, while difficult in this environment, were more tangible, more easily quantified and more visible to all constituents than the development of civil society, for example. Said a local Bosnian, 'people see the results, they build some bridge and you see that and can use it.'

The legal, political, and economic institutions in Bosnia, however, improved minimally at first, given the time, effort and resources devoted to them. Control of appeals processes, judicial decisions, business licensing, electoral administration, and other key activities were core political tools in the tensions among the three ethnic groups. Thus, leaders of local political factions valued highly their control over these institutions, and the



institutions did not remotely approximate the idea of bureaucratic equity and efficiency described by Weber (Gerth and Mills 1958). Studies by the International Crisis Group documented how there had been no substantial improvements since the Dayton Peace Agreements in the judicial system (1999b), the system of public administration (1999d), and in the development of functioning economic institutions (1999a). For example, with respect to external investment, the Group noted that, from 1997 to early 1999, private sector investment in BiH totaled approximately USD 160 million, a figure equal to 4.7% of total donor aid. Of this, 80% came from foreign investors, though many of these were in fact Bosnians using off-shore companies and funds. It characterized total private sector investment in BiH as being 'so low as to be insignificant'; interviews with Bosnian and foreign businessmen indicated a widespread reluctance to invest in BiH. Donor aid accounted for up to 30% of GDP, and, without it, economic growth likely would be negative (International Crisis Group 1999a; 1999c). Theoretically, the OHR had the authority to direct changes in institutions, but it clearly did not have the political and technical strength to effect or enforce such changes with broad societal support (International Crisis Group 1999c; 51).

Lacking an enforcement mechanism, the OHR is forced to beg, plead, negotiate endlessly, and occasionally 'bribe' local officials with the promise of donor funds . . . Local Bosnian politicians will typically co-operate only when it is in the direct interest of their political party. These politicians typically require the international community to undertake expensive and occasionally unwarranted projects, prior to complying with DPA. Unfortunately, after receiving international community aid, Bosnian politicians often refuse to comply with DPA or structural reform efforts. This is especially true of Croats, Serbs and to a lesser extent, the Bosniaks.

#### NUMBER AND VARIETY OF PLAYERS

Tensions among national groups in Bosnia certainly hindered development. However, we are not only concerned with the number and variety of ethnic groups within Bosnia. There were hundreds of institutions involved in reforms, each with a wide variety of perspectives on problems and solutions, often, not surprisingly, at odds with others'.

Much of the criticism of the OHR involved weakness in enforcement. Groups did not make concessions partly (though certainly not entirely)

because they did not believe that other parties could be forced to make concessions. Thus, the most prominent proposals for addressing the problems in Bosnia involved either abandoning the project, or intervening with a force and police powers sufficiently strong to enforce the Dayton Agreement (International Crisis Group 1999c; Daalder and Froman 1999). The idea was that this would give reform elements within the country enough confidence, and political leverage-backed by external powers-to try to effect change, which would set in motion the slow process of building economic and political institutions within Bosnia, and developing internal administrative capabilities. The criticisms of the proposals were that they would be politically unacceptable externally-because they might constitute an 'open-ended' commitment; and, internally, they raised the image of 'external occupation' of the country in such a way as to antagonize nationalistic sentiments.

Finally, we cannot fail to recognize the sheer volume of players in this environment. In addition to the three ethnic divisions, reforms in Bosnia were implemented (or not) through the massive public sector, with national, entity, canton and municipal levels, dozens of multilateral and bilateral programs, and by 1999, over 500 NGOs. The number and variety of players operating in this small nation was enormous, each with their own funding streams, political persuasions, constituents, opinions about the causes and suggested solutions.

#### LEADERSHIP

Successful projects in challenging environments require a large number of professionals with high levels of technical and/or managerial skills (Van de Ven, Polley, Garud, and Venkataraman 1999). 'It is much more hands on than a lot of other places, because there is a political dimension to everything here, and while the contractor can go out and implement a complex technical program, he'll inevitably get caught up in the back and forth between counterparts who aren't of the same ethnic group or areas that are in competition with each other or bureaucrats who don't like each other.' A number of factors work heavily against developing effective leadership in such a setting.

First, global and domestic politics tightly constrained major decisions on site. We already discussed the challenges of dealing politically with the three factions, each of which refuses to make concessions partly because it worries about the others refusing to do so, or making concessions and then renegeing on them. One way to address this collective action problem

is to have a central authority that, after consultation and careful thought, can direct and enforce decisions. Clashing parties may be willing to compromise if they believe that settlements can in fact be enforced—that cooperation will not lead to a ‘sucker’s payoff’ (Axelrod 1984). In fact, the OHR was expected to play this role, but (ICG 1999c, 51–2):

Lacking an enforcement mechanism, the agency responsible for implementing the civilian aspects of DPA – the Office of the High Representative – began life permanently handicapped. The OHR, along with the UN, OSCE, and the donors have been forced to rely largely on the good will of Bosnia’s ruling ethnically-based political parties to voluntarily comply with DPA, the same parties who agreed to DPA in the first place . . . [A]nxious to achieve anything that could be categorised as progress, officials in many organisations often follow the path of least resistance. Rather than enforce DPA, they reinterpret it to fit the political distortions that they lack the political will to change, particularly the refusal of local officials to co-operate with DPA implementation.

Second, there was a vicious circle affecting recruitment and retention of skilled people at all levels (Huddleston 1999). Bosnia was a difficult place to work, leading to high turnover; high turnover means that the system did not retain a sufficiently large core of people with the commitment and talents to work effectively there; and this in turn prevented substantial improvements in the situation, and created difficulty for leaders to emerge. This surfaced repeatedly in the interviews.

You can’t consistently keep the chain of communication open with all the turnover; it takes people too long to learn their job and what they’re doing, and then to do it and retrain the next guy, there’s so many people to learn all the places and what they’re supposed to do for you it’s just crazy.

That’s a problem. They come for half a year, it is difficult. It is not a team for a long time. They just come together for a short time and try to work together. It’s a difficult circumstance.

It is very difficult to create organizational entities [with] a strong team and corporate spirit, and also a unified system of testing individual performance [and] accountability.

That was the main problem, that people would only stay for

4 or 6 months and then the memory was lost, and we had to start again from the beginning,

Third, there was a vicious circle impeding development of managerial skills within Bosnia. That is, foreign donors generally did not trust individuals in Bosnian institutions with major projects; host country national skills therefore were not developed internally, leading to further mistrust – and again, undermining any potential benefits from strong leadership.

The international community tends to not put money through them because when they did put money through, things went wrong, and so it's a vicious circle. They are not empowered so people don't use them, and people don't use them because they continue to show themselves incompetent.

There is no state authority, so there is no big advantage to have relations with state institutions here. Because of that, the development institutions are quite powerful, and they bring money or expertise and there is, I think, quite an imbalance between the money and expertise from outside experts and from state institutions and this discourages cooperation between institutions.

We've just created this net, and unless we encourage the locals to get over the victim mentality to wean off this extensive donor support, which is creating a very skewed local economy with all the money we've put in here . . . [and] until we force them to compromise and find joint solutions on their own, we are doomed to continue to be the babysitters for Bosnia.

As such, we view these three factors as important variables in reducing the effectiveness of leadership, at all levels, not only leadership in terms of the overall development initiative, but within each of the agencies designed to implement such tasks.

### **Discussion**

The logic of this and many development programs is that stronger political and economic institutions induce 'virtuous circles' of economic growth and stability, clearing the path for further reform. Reformers in Bosnia have made strides towards this eventuality. We employed an interorganizational approach to provide insight into some of the reasons

why policy objectives did not always translate into effective implementation success on the ground.

Our unit of analysis, interorganizational relationships, provides a meso-level perspective often overlooked in development studies, useful not only as yet another source to analyze potential problems, but as a more easily altered condition than some of the more entrenched social, political and economic obstacles to change. More effective relationships between organizations might represent the proverbial low-hanging fruit in terms of best practices and lessons learned from less successful reform efforts.

Ethnic conflict clearly undermined development. However, it seems too simple or convenient to base an analysis of development failures on this. Agencies involved in post conflict work should be accustomed to social division. The ethnic conflicts, however, were so pervasive early on that only an external enforcer with extraordinarily strong powers could enforce change. Even if this was politically acceptable, it would have run into a host of problems characterizing central control of national development (Scott 1998). Forcing cooperation likely does not work and thus reaffirms the 'vicious circle' perspective. This calls into question the OHR's role as 'lead coordinator'.

The economic perspective of ownership also weighs heavily on any discussion. Which of the many players discussed above truly own development reform efforts? Who pays and who benefits from these? In complex post-war environments, ownership questions seem a secondary concern, second only to immediate action to secure peace and begin making critical reforms. Development assistance agencies must recognize the importance of local citizen engagement and the crucial role it plays in cooperative action, whether locals are directly or indirectly involved. Development organizations, though powerful, clearly are tightly constrained by contextual difficulties experienced by locals. Typically, development administration studies focus on flows from donor to host. This paper stressed the equally important flow from host to donor.

Related, development organizations also need to be concerned with the creation of a moral hazard to action – where the more they do, the less their local counterparts feel compelled to do. In something akin to dependency theory, the international organizations, while trying to do good, undermine local efforts, stifling local ownership of reform responsibility and accountability. As such, in an effort to turn things over to the locals, in something akin to a turnkey operation, the IC should be pre-

pared in some cases to try not to push through reforms, as the reform itself may not be the key outcome. The *process*, successful or not, might be the ultimate goal. Implementers, politicians and observers might be more patient with some reform efforts and more carefully select projects so critical as to necessitate bypassing local decision makers.

One might take heed of modernization theory's deterministic pitfalls in examining this case. Perhaps the lack of local engagement undermining cooperative activity (and thus reform success) was based, in part, on the international community's insistence that reforms take the forms that they dictated. In the immediate aftermath of the war, it proved difficult for international players to work effectively with local counterparts. Unlike in Poland, for example, where local control proved paramount, transition efforts in Bosnia were constrained by the divided local political environment. Thus is the paradox of development and international intervention. Regardless, efforts must be made to pass the torch on to locals from the very beginning, involving more mentoring at a time of great stress and urgency – painful perhaps, but possibly time well spent.

The notion of timing proves salient on a variety of fronts. First, development is a very long term process. Funding must be available throughout the life of necessary reforms, and not just early on when the conflict receives greater attention. Funding should be spread out over time, and when analyzing successes and failures, this longer time horizon must be considered. This study period (1995–1999) represented to many professionals an 'initial' phase of activity. Reforms continue to this day, and minor successes or even seeming failures made during that initial time period may have set in place the foundation for greater success later in the process. We caution observers to perhaps expect less from a society drained, exhausted, and tortured with the memories of an all too recent bloody ethnic conflict. Observer optimism about Poland's reforms, for example, may have altered interpretations of other more difficult settings.

Finally, we must respect the constantly changing environment in Bosnia. International priorities and policies changed over time, as hot-spots emerged all over the globe. But also Bosnia changed. Regional realities, elections, major investments, OHR leadership, NATO and UN involvement, etc. all changed dramatically within the short time period we discussed above, but also dramatic changes took place in the years since 1999. These changes reverberate through the 'system' described above, for better or worse, and must be considered, coupled with the other

concerns highlighted above, with any understanding of development success, or more immediately, interorganizational cooperation.

In conclusion, our work reduces some of the complexities of international development efforts into the potentially more manageable analysis of interorganizational relationships. As such, we found several key and somewhat obvious issues that moderated or mediated successful reform. Certainly, some political, economic and social conditions cannot be changed by international development assistance. However, a focus on being more effective and efficient with limited resources by working in a more cooperative, coordinated manner, seems more than just a passing desire. For us, it strikes at the heart of any successful development effort.

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# *Language and Culture in International Legal Communication*

Alenka Kocbek

In the contemporary business world, partners belonging to different nations, and hence different cultures, conduct business operations in either the language of one of the parties involved or in a third, neutral language, serving as *lingua franca*. Thus, language skills, as an essential component of the communicative competence, imply a certain extent of implicit or explicit translating and interpreting. The functionalist approaches in translation science, and most of all the Skopos theory by J. H. Vermeer, view translation as an intercultural transfer, which inevitably entails taking into account intercultural differences. As intercultural business communication is directly affected by the legal systems of the cultures involved, the communicating parties need to be acquainted with both the source and target legal systems. This is especially the case with English, as the Anglo-American legal system, based essentially on common law, differs substantially from continental law, to which most of the European countries belong. English as the world's most commonly used *lingua franca* will have to be adapted to its new function by adopting terms and concepts from other cultures and, within the EU, take into consideration the existing discrepancies between the continental and the Anglo-American legal systems. In this paper, cases of non-equivalence regarding legal terms are illustrated with examples from company law. In conclusion, some linguistic and cultural implications of the use of English as *lingua franca*, as well as their impact on teaching and learning practices are presented.

*Key Words:* translation, *lingua franca*, Skopos, cultural embeddedness

*JEL Classification:* K33, L84, M5, M53

## **Translation in Business Communication: The Functionalist Approach**

Within intercultural business communication translating is viewed as a communicative activity occurring between a source and a target language/culture by using verbal (texts) and non-verbal signs. The purpose of this activity is to enable communication across culture and language barriers and it thus has to take into account cultural differences.

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Translation science – especially the so-called functionalist approaches – places special emphasis on purpose, i. e. function and cultural embeddedness as essential features of the source/target texts, and thus seems to provide an adequate theoretical basis for translation in a business environment.

By taking up concepts from communication and action theory the functionalist approaches in translation science define translation as a purpose-driven communicative action (Holz-Mänttari 1984, 7ss) involving not only the traditional functions of sender and receiver but also a series of other roles and players:

- *the initiator*: the company or individual who needs the translation;
- *the commissioner*: the individual who contacts the translator;
- *the source-text producer*: the individual who composes the source-text;
- *the target text producer*: the translator;
- *the target text user*: the person(s) by whom the target-text is used;
- *the target text receiver(s)*: the final recipient(s) of the target-text.

In certain situations, some of these roles may overlap, e. g. the source-text producer may at the same time be the initiator and/or commissioner or even the translator, etc.

### **The Skopos Theory: Translation as Intercultural Transfer**

Translation as a communicative activity pursues a certain purpose or goal which the German scholar H. Vermeer terms *skopos* (Greek for aim or purpose). This purpose determines the translation method and strategies to be used in order to produce a functionally adequate translation. Moreover, translation takes place in concrete, definable situations which are limited in time and space and involve members of different cultures. These situations can be said to be embedded in given cultures, which, in turn, condition the situations (Reiß and Vermeer 1984). Within a cultural community the situations of sender and receiver generally overlap enough for communication to take place, whereas in cases when they belong to different cultures, an intermediary, i. e. a translator, might be needed to enable communication. In some situations, the sender will act as translator as well. Translation is thus an intercultural transfer within which communicative verbal and non-verbal signs are transferred from one language into another. In order to enable this kind of transfer, especially with relation to its non-verbal aspects, a good knowledge of the

source and target culture is needed and the translator, i. e. participant in intercultural communication, has to act as an intercultural expert. According to Christiane Nord (1997, 34), translating means comparing cultures, i. e. interpreting source-culture phenomena in the light of one's own knowledge of that culture, from either inside or outside, depending on whether one translates from or into one's native language and culture.

Language is thus an essential means of communication, but it has to be used in the context of the corresponding culture. In *Translation Studies* Bassnett (1991, 14) illustrates the interrelatedness and essential interdependence of language and culture by means of the following metaphor:

No language can exist unless it is steeped in the context of culture; and no culture can exist which does not have at its center, the structure of natural language.

Language, then, is the heart within the body of culture, and it is the interaction between the two that results in the continuation of life-energy. In the same way that the surgeon, operating on the heart, cannot neglect the body that surrounds it, so the translator treats the text in isolation from the culture at his peril.

Besides a good command of the language, participants in intercultural business communication therefore need to have a thorough knowledge of other aspects of the cultures involved, which have to be taken into consideration in order to prevent communication problems or even communication breakdowns.

Some of these aspects can be deduced from the following definition of culture by Vermeer (1987, 28): culture is 'the entire setting of norms and conventions an individual as a member of his society must know in order to be "like everybody" – or to be able to be different from everybody.'

Reiß more specifically points out that norms have a stronger prescriptive character (indicating what the members of a society have to do or are not allowed to do) and are as such obligatory, whereas the term convention indicates that a rule of behaviour has gradually been established by general consensus and thus indicates the recommended, expected forms of behaviour in a society (cf. Reiß and Vermeer 1984, 178).

In his work *Le sfide di Babele* Paolo Balboni describes these rules as 'grammars' which regulate other spheres of communication, apart from the verbal one (Balboni 2002, 62 ss.).

According to Balboni, the intercultural communicative competence

consists of linguistic and extralinguistic competences. Among the latter he lists the following as the most significant:

- *la competenza cinesica* – kinesic competence regarding gestures, body languages, mimics;
- *la competenza prossemica* – proxemic competence regarding distance and/or contact between communication partners (which indirectly determines the choice of language register, i. e. formal – informal);
- *la competenza vestemica* – competence regarding the mastering of the rules referring to clothing, uniform, fashion, etc. (based on the semiotic structure of fashion according to Barthes);
- *la competenza oggettuale* – competence regarding the use of objects as instruments, by means of which the social status, function and role of a person are communicated (the furnishing and decoration of an office, car, presents and objects as status symbols).

Similarly, Hofstede (1991) speaks of ‘softwares of the mind’, which are typical of individual cultures (or even individual organisations), in that they condition the different aspects of communicative competence (through concepts of time, power, hierarchy, etc.) and need to be taken into account in communicative situations involving participants from different cultural environments.

Norms, on the other hand, are not merely recommended rules, but have a binding character. Namely, if we compare the concept of culture as specified by Vermeer and Reiß with the definition of law as it is found in the Collins dictionary (2000, 877), i. e. ‘a rule or set of rules, enforceable by the courts ... regulating ... the relationship or conduct of subjects towards each other’, the norms (i. e. what members of a society have to do or are not allowed to do) can easily be seen as reflected in the legal system of a society.

In international business communication, norms affecting communicative situations certainly include the legal system. In order to avoid communication problems, participants in this communication require a good knowledge of the legal systems of both the source and the target culture.

### **The Legal System as Communication Framework in Intercultural Business Communication**

In international business communication the legal systems of the parties involved directly affect communicative situations through the le-

gal provisions and regulations applying to concrete business transactions and business relations in general. Accordingly, participants have to agree which legal system will be adopted as the communication framework. Within this communication framework legal concepts have to be translated (culturally transferred) from one language/culture/legal system into another.

Gérard-René de Groot (Professor of Comparative and Private International Law at Maastricht University, the Netherlands) points out that the crucial issue to be taken into consideration when translating legal concepts is the fact that 'The language of the law is very much a system-bound language, i. e. a language related to a specific legal system. Translators of legal terminology are obliged therefore to practice comparative law.' (de Groot 1998, 21 ss.). Legal systems differ from one state to another, and so far no standardized international legal terminology has come into existence. Every state (sometimes even regions within a state) has developed independent legal terminologies, whereas a multilingual international legal terminology is being only gradually created within supranational legal systems, such as the law of the European Union, and is being introduced in single areas of the European law as they undergo harmonisation.

When translating from one legal system into another the differences existing between them have to be considered. Sandrini points out that in essence the translatability of legal texts depends directly on the relatedness of the legal systems involved in the translation (cf. Sandrini 1999, 17). Legal systems exist independently from the legal languages they use and are created through social and political circumstances. There is no direct correlation between legal language and legal systems. One legal system may use different legal languages (Canada, Switzerland, bilingual areas in Slovenia, Austria, Italy, Belgium, etc.), while one language area may be divided into different legal systems, as is the case in the United Kingdom or in the USA.

If the legal systems are analyzed as to their sources, their historical background, the extent of codification and the specific legal institutes applied within them, some legal families show a greater relatedness than others. The legal systems pertaining to the so-called civil (i. e. continental) law, which includes the Romanic, the German and the Nordic legal systems, are relatively related. They have common foundations in the Roman legal tradition and are characterized by codification – the most important rules and regulations are set out in written sources of law. In the case of the continental legal systems, a considerable closeness with

respect to the legal concepts applied can be expected. On the other hand, the legal systems of other countries and cultures, derived from different traditions, are difficult to compare – such as the Far-Eastern, the Islamic, the Hindu and finally, the so-called Anglo-American legal family, based on *common law*, *equity* and *statute law*. Within the Anglo-American legal family, common law is the legal system in force in England, Wales and with some differences in the USA, whereas Scotland and Ireland have substantially different legal systems related to the continental law, similarly to the legal system of Louisiana, which has its foundations in the French law.

These differences certainly affect the translatability of terms from/into different legal languages, as there is no complete equivalence between the legal concepts. According to de Groot, the first stage in translating legal concepts involves studying the meaning of the source-language legal term to be translated. Then, after having compared the legal systems involved, a term with the same content must be sought in the target-language legal system, i. e. equivalents for the source-language legal terms have to be found in the target legal language. If no acceptable equivalents can be found due to non-relatedness of the legal systems, one of the following subsidiary solutions can be applied: using the source-language term in its original or transcribed version, using a paraphrase or creating a neologism, i. e. using a term in the target-language that does not form part of the existing target-language terminology, if necessary with an explanatory footnote (cf. de Groot 1998, 25).

The level of equivalence of the terms depends on the extent of relatedness of the legal systems (and not of the languages) involved. The relatedness of languages may, in some cases, even cause the creation of so-called false friends, such as the German *Direktor* versus the English *director*. When deciding on the solution to be used, the context of the translation, its purpose (*skopos*) and the character of the text play an important role. A wide range of *skopoi* is possible – from a mere information on the source text for a receiver who does not speak the target language to a translation which will have the status of an authentic text parallel to the source-text (as is the case with international contracts made in two or even more equivalent language versions).

These different purposes of translation are reflected in the type of translation to be produced. Nord classifies translation in two basic types: a documentary translation, i. e. a document in the target language of (certain aspects of) a communicative interaction in which a source-

culture sender communicates with a source-culture audience via the source-text under source-culture conditions; or an instrumental translation which aims to produce in the target language an instrument for a new communicative interaction between the source culture sender and the target language audience by using (certain aspects of) the source text as a model (Nord 1997, 47).

According to the Skopos theory, the *translation brief*, i. e. *commission* can contribute considerably to the quality and functionality of the translation by providing the translator with explicit or implicit information about the intended target-text functions, addressees, the prospective time, place and motive of production and reception of the text (Nord 1997, 137). In the case of legal translation this information should also indicate the legal system to be observed as communication framework.

### **English as *Lingua Franca* in International Business Communication**

Irrespective of their cultural background and origins, participants in international business communication nowadays mostly choose English as the language of communication, i. e. the *lingua franca*. The widespread use of English as a *lingua franca* is closely connected with its rise as a world language (Crystal 1997, 8–10). In the last century English has undoubtedly acquired the status of a ‘global’ language – a situation that was predicted by Sapir as early as in 1931 (Sapir 1931, 66). This global spread of English has been brought about by a number of different factors. Although some linguists argue that it is the intrinsic qualities of English as a language, such as its rich vocabulary created through its contacts with other European and non-Western languages and its resulting flexibility, or according to Jespersen, its businesslike nature, with its lucid syntax (Jespersen 1938, 1–16), that justify its global spread, its acquisition of the status of a world language is primarily the result of historical developments involving extra-linguistic circumstances, ranging from political and military to merely economic factors (Crystal 1997, 7–8). As explained by van Essen (van Essen 2002, 11), in the 19th century and the first half of the 20th century Britain held the position of the world’s leading industrial and trading nation, as well as of the biggest colonial and one of the leading military powers. Owing to this leading position, the English language spread to all territories subjected to British influence. As Britain lost this status after the Second World War the leadership role was taken over almost imperceptibly by the United States. The period follow-

ing the Second World War has been decisive for the diffusion of English. Van Essen claims that if the English-speaking nations had not won the war, German and Japanese could have acquired the status of world languages (van Essen 2002, 12). But even if a language may be established as dominant by military power, it requires economic power to maintain this status and expand it, and nowadays the United States are the only nation to have at their disposal the resources to uphold this status.

Other factors that have contributed to the establishing of English as a global language are the development and the rapid growth of new technologies (e. g. satellite-TV, the Internet) and the fact that many important international organisations use English as their principal working language (e. g. the United Nations, the World Health Organisation, the International Monetary Fund, the World Bank).

Presently, English in its different varieties is used as a first language by some 400 million people, mainly in the USA, Canada, Britain, Ireland, Australia, New Zealand and South Africa and, in addition, it has the status of a second language in over 70 countries, where it is spoken by at least another 400 million people. Moreover, 1,500 million people today are thought to be competent communicators in English (Crystal 2002, 16). Consequently, it is not the number of mother-tongue speakers that has been decisive for English in gaining the status of a world language, as according to this parameter it is undoubtedly outdone by Chinese or Urdu (van Essen 2002, 11), but the fact that it is 'the dominant voice' in international politics, banking, the press, the news agencies, science and technology, communications and many other fields (Crystal 2002, 16). By becoming so widespread English does not refer to a single centre of reference or a single culture. The consequence of this development is the emerging of 'New Englishes' – new varieties of English spoken by populations all over the world (e. g. 'Singlish' – short for Singaporean English or 'Spanglish' – being the Hispanic/English mixed language used in some communities in the USA).

On the other hand, due to its worldwide expansion and its status of a world language, English is nowadays increasingly used as a lingua franca in communication between non-native speakers. In this respect, House distinguishes between *languages for communication* (such as English used as lingua franca) and *languages for identification*, which are used for interpersonal exchange across cultures and for expressing one's identity as a member of a particular cultural community (House 2001). In particular communicative contexts (e. g. official or formal, and thus also busi-



ness circumstances) English is generally regarded as the most appropriate language for communication even in multilingual environments, where participants in communication could choose from a wider repertoire of languages. At international meetings and conferences, lectures are often delivered, papers presented, negotiations conducted and the corresponding documents drawn-up in English, whereas the less formal contacts between the participants, in which their cultural identities are expressed, often occur by using other languages shared by the interactants in the communication. Graddol (1997, 12 ss.) has established that this is due to the fact that there is an implicit linguistic world hierarchy with English and French at the top, whereby French is clearly on the decline and English on the rise. Van Essen (2002, 13), on the other hand, points out that English as a *lingua franca* is mostly used not to socialize with native-speakers, but to become a member of an international community of experts and to communicate with other members of such a community (e. g. business people, lawyers, bankers, etc.) in the language (i. e. register) of that community about topics of common concern. In these contexts, English is not only used as a *lingua franca* but also as a language for specific purposes (LSP). The majority of such communicative interactions worldwide occur between non-native speakers of English whose cultural background is neither English nor American and for whom traditional cultural knowledge regarding the Anglo-American culture may prove utterly useless. Considering the fact that there is a number of native and non-native Englishes, plus the many regional (such as Spanish) and functional (English for specific purposes) varieties, the need has been felt to establish a common standard for English used as a *lingua franca* in order to ensure mutual intelligibility. As van Essen points out (2002, 14) there have been attempts to establish common standards as far as the linguistic aspects (pronunciation, grammar, vocabulary) of the *lingua franca* are concerned.

With regard to pronunciation the most convincing model so far developed is Jenkins's *Lingua Franca Core* (Jenkins 2000), which is aimed at guaranteeing international intelligibility among non-native speakers rather than imitating native-speakers, and contains elements derived from Standard British, Standard American and varieties of English as *lingua franca* and/or English as a second language.

Written English is less diversified as far as grammar and vocabulary are concerned, but nevertheless no definite decision has so far been taken as to which model a standard English *lingua franca* should be based on

(van Essen 2002, 14). Although in the past the British model seemed to be the obvious choice for European countries, this choice seems to be less logical now, and as far as American English is concerned, for various extra-linguistic, mostly political reasons, the American variety could prove problematic. As van Essen suggests, a good solution would be the adoption of a separate standard for English as lingua franca which would favour neither of the existing native-speakers' varieties.

Within the European Union some linguistics experts are presently promoting the concept of English as a lingua franca for Europe (or 'Euro-English', cf. Labrie and Quell 1997, Jenkins and Seidlhofer 2001), also known by the abbreviation *ELFE*, which aims to standardize the use of the English language in the European Union. *ELFE* attempts to make English easier to learn (e. g. by emphasizing the elements of English which it shares with other European languages). There are, however, several reasons (e. g. difficulties regarding pronunciation, intonation, punctuation, vocabulary, spelling, cultural specificity) which render the idea of simply adopting an already existing form of English for its use as lingua franca hardly acceptable. The *ELFE* is meant to be a kind of neutral, 'politically correct' language, which so far has not yet been precisely described or defined and is therefore still a merely hypothetic linguistic reality, an 'object of speculation' which according to Jenkins and Seidlhofer only exists at an 'embryonic stage in its evolution' and is 'likely to be some kind of European-English hybrid which, as it develops, will increasingly look to continental Europe rather than to Britain or the United States for its norms of correctness and appropriateness' (Jenkins and Seidlhofer 2001).

In order to establish the standards which will apply to a future English as lingua franca, authentic texts used by English as lingua franca speakers are being collected and examined in the form of corpora (i. e. bodies of written text or transcribed speech which can serve as a basis for linguistic analysis and description). A useful example of such a corpus is the *VOICE*, the Vienna-Oxford International Corpus of English – a structured collection of language data and the first computer-readable corpus capturing spoken English as lingua franca interactions. *VOICE* is currently being compiled at the Department of English at the University of Vienna and is supported by Oxford University Press and the Austrian Science Foundation; it includes different speech events such as group discussions, panel discussions, professional presentations, business meetings, workshops, seminars, lectures, telephone conversations and others

features. It aims to record and transcribe for analysis 1 million words of spoken ELF from various professional, educational and informal settings and thus allow for a large-scale and in-depth linguistic description of the most common contemporary use of English. This corpus acknowledges and recognizes the phenomenon of English as lingua franca and will certainly provide a useful tool for establishing common standards for the use of English as a lingua franca based on its various authentic applications.

The above mentioned standards covering the use of English as lingua franca, however, mostly take into account its linguistic dimensions. What may prove problematic are interactions conducted in English as lingua franca, as in this case reference may be made to cultural elements which are part of the specific socio-cultural environments of the interactants but alien to – or non-existing – in the Anglo-American culture, and which still have to be conveyed by using English. While it may not be easy to develop linguistic standards for English as a lingua franca, it seems almost impossible to establish a common cultural basis to which to refer in English as lingua franca interactions. This is especially the case with aspects of culture which are as precisely defined as the legal system, and due to their extremely sensitive nature demand an utterly precise and non-ambiguous use of the language.

As mentioned above, in contemporary business communication English is the commonly adopted lingua franca. At the same time this type of communication refers to a very precisely defined communication framework represented by the legal system(s) underlying the communicative situations. In order to avoid communication problems, the principle of the cultural embeddedness of a language, i. e. adapting the language to the corresponding culture, has to be applied very carefully. Using the English language by consistently linking it to the Anglo-American legal system in communicative situations, in which participants originating from cultures/legal systems belonging to continental law interact, can cause communication problems or even communication break-downs, as the legal systems of the participants and the legal system underlying the lingua franca used for communication are not equivalent and thus there is not sufficient equivalence of the linguistic signs.

Consequently, viewing the legal system as a fundamental feature of the source and target cultures and choosing English as target language in such situations leads to a discrepancy between the culture as translation basis and the cultures, i. e. legal systems of the sender and/or receiver.

English as *lingua franca* is especially problematic as the Anglo-American legal system, which is based predominantly on common law, differs considerably from the so-called continental (or civil) law. Unfortunately, not many dictionaries provide sufficient information to make the user aware of these potential problems/pitfalls.

### **The Difference Between Continental and Common Law**

In comparative law, the dichotomy civil (i. e. continental) versus common law (case-law), which is not based on written, codified legal sources, is widely discussed.

The fundamental sources of the Anglo-American legal system are *common law*, *equity* and *statute law*. Common law is often described as *judge-made law*, which is not based on written codes but on precedents, i. e. decisions of judges taken in previous legal cases. *Equity*, on the other hand, is a term referring to a system of rules which are applied in addition to common-law and have no equivalent in the continental legal system. Finally, the term *statute law* applies to written law (e. g. the Acts of Parliament), i. e. those legal sources which exist in written form in the Anglo-American legal system.

The discrepancies between common and continental law are reflected in the frequent lack of equivalence between the terms and concepts used in the two legal systems.

The legal representative authorized to act in court, for example, who is called *Rechtsanwalt* in German, *avvocato* in Italian, *odvetnik* in Slovene and has a basic role in every continental legal system, has no direct equivalent in the Anglo-Saxon system, as its corresponding translation may either be *barrister* (authorized to appear in a superior court) or *solicitor* (who may only appear in an inferior court) in the United Kingdom, or *attorney-at-law* in the USA.

Within the scope of international business communication the lack of equivalence in the field of company law is especially relevant. The Anglo-American company law does not distinguish between the categories of *Kapitalgesellschaften* / *società di capitali* / *kapitalske družbe* and *Personengesellschaften* / *società di persone* / *osebne družbe*, but merely between incorporated companies, which have the status of legal persons and unincorporated ones which have no legal personality.

The function of a *Prokurist* / *procuratore commerciale* / *prokurist* does not exist in British and American companies and to describe it either the source-language term or a paraphrase is used.

The terms *public limited company* and *limited liability company* can be used relatively safely when translating the company forms *Aktiengesellschaft / società per azioni / delniška družba* and *Gesellschaft mit beschränkter Haftung / Società a responsabilità limitata / družba z omejeno odgovornostjo*, but there are no equivalent terms in the English legal terminology for company forms such as *Offene Handelsgesellschaft / società in nome collettivo / družba z neomejeno odgovornostjo* or *Kommanditgesellschaft / società in accomandita / komanditna družba*.

Other cases of non-equivalence derive from the fact that two opposite governance systems are applied in public limited companies, the Anglo-Saxon *one-tier* and the continental European *two-tier* systems. Namely, the one-tier system only has one governing body, i. e. *the board of directors*, whereas in the two-tier system there are two governing bodies, i. e. *the management board (Vorstand / consiglio d'amministrazione / uprava)* and *the supervisory board (Aufsichtsrat / collegio sindacale / nadzorni svet)*. The terms *management board* and *supervisory board* thus do not exist in the Anglo-American legal language and can be classified as neologisms according to de Groot. In practice, the executive (inside) directors have a function similar to the role of the members of the management board in the continental system and the non-executive directors to that of the members of the supervisory board.

The problems deriving from the discrepancy between common law and continental law are also felt within the European Union where English is most often used as *lingua franca* (cf. Kjær 1999, 72). Namely, when English is used to describe specific aspects and concepts of the European Law or of national legal systems belonging to the continental legal family within the EU, terms are often used which are tainted by the meaning attributed to them within the Anglo-American legal system. Such terms tainted by national law often cause problems in interpreting international or supranational legal texts (cf. de Groot 1992, 283).

### Conclusion

English will certainly remain the most widely used *lingua franca* in international business communication. According to a Eurobarometer survey carried out in 2001, 47% of the citizens of the European Union spoke English well enough to hold a casual conversation, a higher proportion than any other language in Europe. English is also the most commonly taught second language in Europe (Crystal 2002). The member states of the European Union use a wide variety of languages and presently there are 20

different official languages. Due to the language policy of the European Union, which promotes the importance of the languages of its member states, other languages will certainly gain ground besides English in the future. On the other hand, although the EU attempts to provide equal treatment for all member state languages, this generally requires large amounts of time and money and therefore the need for a common language that could be used by every member to communicate with everyone else is strongly felt. The ELFE (English as a lingua franca for Europe) project will therefore have to be developed more intensely in order to establish feasible standards applying to this prospective common European language. In order to function as a proper lingua franca, ELFE will have to include so-called Euro-English terms, i. e. English translations of European concepts that are not native to English-speaking countries. Due to the United Kingdom's involvement in the European Union these terms will have to be adopted by and included into the vocabulary of the native-speakers of English as well. Accordingly, English as a lingua franca and its terms will certainly have an impact on the native-speakers' varieties of English worldwide, in that not only will new words enter their vocabulary, but as a consequence, new concepts will be transferred into the corresponding cultures. An example of such cultural and linguistic interference was provided by the Prime Minister of the United Kingdom, Tony Blair, as in his speech delivered at the European Parliament on 23 June 2005, he used the French term *delocalization* (i. e. companies moving operations abroad), a word that did not previously exist in English.

With the ongoing harmonization of the legal systems of the EU member states, a sort of supranational language, i. e. legal Euro-English, is being created, which includes terms which are neologisms with respect to the Anglo-American legal language. This language (and this will probably also be true of ELFE in its early stages), however, lacks a wider cultural dimension and is only linked to the legal and political system of the EU. It is a somehow impoverished, deculturized language, which has little in common with the languages of the British, American and other English speaking cultural communities. It is therefore suitable to be used as a language of communication, but not as a language for identification. On the other hand, while becoming acquainted with the concepts and terms of this *lingua franca*, native speakers of English will be able to effectively communicate with other citizens of the EU, expand and enrich their vocabulary and thus adopt new cultural concepts. In the long term it is therefore to be expected that English as a common language used

for communication within the EU will contribute to creating a common cultural basis, i. e. elements of a common European culture which will be shared by all its speakers. This vision, however, drastically changes the approach to language learning and teaching. English should hence not be learned primarily with the aim of interacting with native speakers but acquiring access to a wider (global) community and thus should not be linked exclusively to Anglo-American culture. Accordingly, in the future, language policies, as well as the goals and contents of foreign language education will have to be fundamentally revised and an English-as-lingua-franca dimension incorporated in textbooks, teaching materials/methods and dictionaries to raise the awareness of learners as to this particular use of English. 'Native-likeness' will cease to be the principal objective in teaching and using English, especially in the field of the language used for specific purposes, where the specific characteristics of the different spheres of activities (such as e. g. the legal and economic system) will have to be taken into account. In translation science the use of a lingua franca will have to be thoroughly analysed and defined, especially with respect to the principle of cultural embeddedness of such a language. In the case of English used as lingua franca, consistently embedding the language in the English native-speakers' culture(s) could prejudice intelligibility and hinder communication.

In the field of business and legal communication, where a particular language (e. g. English) is used as a language for specific purposes, the parties interacting in an international environment should be aware that, if linked consistently to the Anglo-American legal system, the English language offers no suitable equivalent for many terms and notions existing in legal systems belonging to the so-called continental legal family and that often, when referring to concepts from continental law, neologisms (such as many Euro-English terms) should be used. The discrepancy between common and continental law requires the parties involved to be acquainted with and consistently observe the legal systems underlying the business relation. The principle of the socio-cultural embeddedness of a language will thus have to be applied very carefully, while taking into account the potential problems deriving from the use of English as *lingua franca*.

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# *Home Education: Globalization Otherwise?*

Christian W. Beck

Home Education seems to be a successful way to educate. Academic results and socialization processes in home education are promising. Already home education is global, home educators everywhere educate their children themselves without schools. They develop new forms of local and international co-operation. Is home education an impulse to a renewing of modern education? Is home education globalization otherwise?

*Key Words:* home education, globalization, educational politics, pedagogy

*JEL Classification:* I21, I28

## **Introduction**

Education is expanding through formal schooling and more people are gaining new possibilities. At the same time throughout the modern world we observe contours of new school problems. Assessments (OECD 2004), show that quality of education in the modern school is under pressure. Schools also have new problems with violence and bullying.

In the middle of school-expanding some leave the lowest and most established level of the educational system, primary and lower secondary school, and give their children education themselves at home. Home education is developing in most modern countries. At its strongest, home education is practised in leading modern countries like the USA and Great Britain (Bauman 2002; Rothermal 2003). Is home education counterworking or renewing future education and schools? No matter what the answer to this question is, it is necessary to discuss home education in relation to ongoing globalization.

## **Globalization and Modern Schooling**

There is an economical and technological development towards a more united world, which cannot be reversed. The ideology that follows this kind of processes is called globalism. International capitalism operates on world wide markets. International organisations like EU, UN, The

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World Bank etc, play a dual part. Such institutions administer global processes, but also they try to oppose them or balance them. If these organisations in cooperation with national states are not able to do the latter, it could lead to a capitalistic world control with a consequent economical rationality, where the national state, the welfare state and social justice are breaking up, and where individualism dominates. This is called globalism (U. Beck 2001).

Against this Beck puts globality, where global processes are led into a different direction, where human rights, cultural differences, social unity and local distinctive character are respected and kept alive. He then speaks about the world community as a multiplicity without unity (U. Beck 2001).

The processes of globalization are grounded on development of an economy of knowledge, which brings education and school into the core of such processes. One has to emphasize both individual learning processes and social cooperation. A number of people hold that school must educate human beings to become competent participants in a globalised world. This is the right wing of global educational politics. The left side is critical of such aims and wants schools as a counterweight to global capitalism. They want more national controlled schools, which includes everyone and emphasizes social competence and equality.

It is astonishing, how people in all countries get more or less the same understanding of school. This is also a part of globalisation. Doubtless, both political right and left find more schooling positive. One disagrees on the content in school. However everyone wants more education, and more education means to them, more school.

Modern schools are expanding in the form of large scale education, the like of which the world has never seen. Standardization and bureaucratisation will be necessary in order to carry through such an education for all. International educational management is already a power in higher education. In primary- and secondary education the same development can be observed (Olssen 2004).

In postmodern societies the concept of capital is given a broader meaning (Luzòn 2002). Social capital in this connection includes ideas from theories of human capital (Schulze 1961), welfare-state thinking, J. S. Coleman's theory on social capital as informal social networks (1988). P. Bourdieu's ideas of both social- and cultural capital extend the concept of capital further (Bourdieu 1986).

Social and cultural capital may become an ideological and economic

link between the left and the right of global educational politics. Knowledge will be transformed among social, economic and cultural spheres so that actors will achieve an ambiguous surplus value, connected to development, transferring- and use of knowledge. Education will become the new ambiguous capital's important linking area.

Do we see the contours of an international united and centralized governing system of education where knowledge, equality as well as social competence are joined in an extended economic idea of utility, understood as capital, where the possibility of capital gain will be guiding societies and each person's involvement in school? The outcome could be more control in education and less emphasis on freedom and criticism.

Modern schooling is grounded on pedagogy digging deep in post modern identity. We can observe a new pedagogic and methodological orientation, characterized both by more objectivism and more subjectivism.

*Objectivism.* With increased international mobility schools and pedagogic strategies must be comparable and as similar and governable as possible. This forces the global education towards bureaucracy and conformity, in a direction of technocracy. Programmes, plans, tests, method evaluation and documentation with the use of advanced computer technology are necessary for a world wide administration and control of schools.

The struggle for equality and demand for competence will directly, but also indirectly through compensatory pedagogy and a universal system of special education, lead to internationalization and standardization of diagnosis, educational programs and diplomas. One needs to use objective facts and measurement more than ever. Such a development will be the frame and the structure of modern schooling.

*Subjectivism.* The contents and the processes in modern schools are developing in the direction of a social competence, communicative skills and production of identity. In postmodern societies the concept of identity is given political and pedagogical meaning (Giddens 1991), which can be expressed as *educational subjectivism* with the focus on:

- A relative conception of knowledge with emphasis on subjective experience of totality.
- Focus not only on knowledge but on social conditions of teaching and learning and processes, rather than on objective factual knowledge.

In such an ideology subjectivity is expressed as humanism. Objectivism and subjectivism are tangled into a new pedagogy which forms an ideological fundament for modern schools. Objective factual knowledge must give way for the subjective- and social- processes of shaping, which can be observed in methodology for measuring pupils' learning styles in schools. Then identity and social processes are coded into modern school's demand for objective management, evaluation and control. This may end up in ignoring personal freedom and lead to alienation in education.

### **Two Different Home Education Countries**

Home educators do the same everywhere. They take responsibility for their children's education rather than sending them to school. Home education is legal education otherwise than school participation in most modern countries (Baumann 2002; Petrie 1995).

Home educators break with the school institution. Home education goes on in the middle of real life, in family and in society. The home educators concentrate on learning theoretical and practical knowledge. The socializing process appears more naturally in this case, out of the home education's integration in, and openness towards the actual social life, outside school.

Many home educators use Internet to a great extent. Across borders there is wide contact, and networks are established both electronically and more directly among home educators. It is possible for home educators to join electronic 'schools' or educational centres where they can get admission to educational programmes/materials, both with and without payment.

In the USA modern home education started in the late 1960s. There are today more than one million home educators in the USA (Bauman 2002; Princiotta, Bielick, and Chapman 2006). Norway is a small country. Home education appeared here much later, at the beginning of the 1990s. There are few home educators in Norway, both absolutely and relatively in comparison with the USA. The home educating population in Norway is approximately 400 (Beck 2003). Home education has a very different status in these two countries. It is of interest to compare them:

A comparison of social background for a sample of 128 home educated pupils with corresponding information for the Norwegian population is made (Beck 2003; see table 1).

Home educating families in the Norwegian survey have less education

TABLE 1 Comparison between the survey sample and the Norwegian population\*

Circumstances	The sample	The population
The household's income (NKR)	271,250	517,800
Living in urban areas	25.2%	77.3%
Living with both father and mother	88%	77%
Number of brothers and sisters	3.6	1.7
Mother's education		
Some or completed secondary school	49.6%	55.2%
Only compulsory school / comprehensive school	17.1%	8.0%
Father's education		
Some or completed secondary school	53.6%	55.8%
Only compulsory school / comprehensive school	12.7%	8.8%

\* The data for the population are from Statistisk Sentralbyrå (The National Bureau of Statistics). Income is for the population take-home pay for households with children from 9–16 in 2000. The income of the selection is also take-home pay. The educational data from the population is for the group from 30 to 39 years of age in 2000.

than the corresponding group in the population. One should especially notice that there is a relatively larger group of home educating mothers with only compulsory school qualifications.

The income of the home educators lies at a lower midlevel. About 60% of the home educating households earn from 20,000–40,000 euro a year. They have an average income less than half of what the corresponding groups in the population got.

Typical for Norwegian home educators is that they live out in the countryside. Home educating families often have a number of children. Home educated children have an average of 3.6 brothers and sisters. However, there is a great variety. 40% of the home educated children have two brothers and sisters or less. Home educated children to some extent live more often together with both parents, than is the case in the population as a whole (Beck 2003).

In a national survey about home education in the USA home education families are compared with data from the school-population families in the USA, (Princiotta, Bielick, and Chapman 2006). The greatest difference between Norwegian and American is that American home educating families earn somewhat above the average of the American school population families and that they have some a somewhat higher educational level than the average. In the USA the home educators are

most numerous outside the big towns and suburbs dominated by a white population, and less numerous in central areas in big towns (Princiotta, Bielick, and Chapman 2006).

About 50% of Norwegian home educators start home education on the basis of motives of principle, either pedagogical or religious. The other 50% home educate for reasons connected to certain events in school, for example bullying. If they continue home education for a long time, they get a more principled view of their own home education (Beck 2003). In England different kinds of pedagogic motives are most common (Rothermal 2003). Many parents do home education on a broader basis of values than purely education

The home educating teacher is the mother. In a few cases the father takes part in the teaching, then mostly in mathematics and practical subjects. A number of home educators give their children practical tasks and practical project work in addition to teaching them basic subjects. The most common teaching form is an effective theoretical teaching from the parents, often in combination with the pupils working on the subjects by themselves, solving problems and cooperating with brothers and sisters or sometimes with other home educated children. The majority of Norwegian home educators are generally satisfied with their home education. The parents are fairly satisfied with the progress their pupils make in the core subjects – mathematics, reading and writing (Beck 2003).

Research from the USA throughout a number of years shows that home educated children get high scores on final tests (Ray 1997; Rudner 1999; Bauman 2002). The average home educated pupil scores way above the average for school pupils. These results must be corrected because of the differences between the home educating population and the national school population. The home educating parents in the USA have a somewhat higher education and income than the parents of the school pupils, and there is a greater part of white middle class families with both parents in the household. In spite of such corrections, the conclusion that home educated children are doing very well at exams is maintained (Bauman 2002).

It is difficult to obtain an objective and justifiable answer to how well Norwegian home educated pupils are doing on their exams. Home educated pupils in Norway do not have an obvious right by law to get a certificate with marks, when they finish compulsory education as home educated pupils. Such a right is a matter of conflict in Norway. A number of home educators do not wish to have marks on the certificate. The



right to be admitted to further education does not depend on a certificate from compulsory education containing marks. Experience from several single cases over several years does indeed give the impression that we in Norway have the same situation as in the USA. Home educated pupils often get good marks on tests and exams.

### **Home Education: A Critic of Modern Schooling**

Home education contributes to the debate on educational politics with new ideas and perspectives. Home education gives a new basis on which to evaluate educational thinking, which can be formulated on three main levels.

*Level 1.* This is a pedagogical and philosophical basis for pedagogic critics. The concepts of unschooling and natural learning are used by a number of home educators as a way of expressing the specific pedagogical and educational aims of home education (Fredriksen 2002; Gatto 1992; Holt 1968). These ideas have parallels within the school-based concepts of pupil-centered learning and reform pedagogy (Østerud 2004). Home education puts more emphasis on the pupil's learning than instruction per se, and stress is put on the importance of an education which is based on practical activities and work.

*Level 2.* This is home education as criticism of the school-institution. Parents break ties with the school as an institution. And take responsibility for their child's education. Some families make connections with other home educators and various other groups and individuals. Home education thus serves as the focal point of new networks and their structures. Here one can observe clear ties to deschooling tendencies of the 1970s (Illich 1972), but also to the contemporary concept of situated learning (Lave and Wenger 1999).

The connection between situated learning, informal learning and home education are dealt with (Thomas 2002; Barson 2004). A mutual principle here is the view that learning and education are socializing processes for participation in society, and that these supersede and transcend school attendance. Such processes must occur where social activity is actually taking place. Therefore, education must often break loose from the constraints of a closed educational institution and be free to move about in the wider society.

*Level 3.* This involves educational politics on a general level. Home education provides a critique of our contemporary educational politics in which there is an increasing focus on schools and governmental control.

In its most extreme form, this is formulated as resistance to the statism of our time (Gabb 2004). Here one is protesting against government intervention and state-sponsored socialization strategies. Such critique is especially aimed at the public schools as these represent the key institution behind statism. Public schools are viewed as a threat to individuality, parental rights, the family and to quality in education.

These three levels are representative of dissimilar and sometimes contradictory aspects of the critique of educational politics, which are at the core of home education.

On the other hand, there also exists a socio-educational basis for critique of the practice of home education. This critique is most clearly articulated in the USA where home education is most widely practised. In general terms, the criticism consists of the view of home education as a threat to social unity, both in the context of the schools and in the wider society as a whole (Lubienski 2000; Apple 2000).

Lubienski views education as a zero-sum game. If resources are dedicated to home education, there are negative consequences in the public schools in terms of material and human resources.

Apple brings this critique up to a socio-ideological level. He sees home educators as playing key roles in populist, neo-liberal and neo-conservative movements, which now have considerable influence in the USA. He points out that these groups consider themselves as being stateless because of the secular humanism, which is now so prevalent in public schools. They are involved in a serious conflict of values due to the prevailing educational ideology of the public schools.

Apple views the home educators as an important group within the rightist political base, with an emphasis on individualism, fundamentalism and freedom. He considers these as cultural necessities for globalised capitalism. Apple places the government and public schools on the opposite side of this scenario as the protectors of equality and community.

Over the course of time, home education in the US has mostly become a movement involving white, Christian members of the middle-class. Although recent developments have modified the situation somewhat, this still holds true in general terms (Bauman 2002).

### **Conclusion**

Home educators in most countries generally represent a form of protest against public schools as an institution, against pedagogical methods, against the degradation of family values, and they are fighting for indi-

vidual and local freedom. This emphasizes the populist aspects of home education. Populist being understood as a movement with its origins among the common folk and ultimately forming a sub-culture in the modern sense of the term, which in both Norway and in the USA can be traced back to more traditional sub-cultures and their evolution from movements in rural areas.

Home education in Norway compared with the USA is a small-scale phenomenon, which is still in its start phase. Additionally, the political situation as concerns education in Norway is quite different. Here criticism of educational politics is almost by necessity a critique of both government and market since these chief institutions are so closely intertwined in forming educational politics, in a way that is unlike the situation in the USA.

Home education in Norway and also in other European countries, like England (Rothermal 2003) and Sweden, appears in some degree to have different social and political characteristics than in the USA. This is not only expressed through recruitment to home education from another social class. In Norway, we also observe ideological differences, such as a reference by home educators to the leftist, educational ideologists from the 1970s (Freire 1971) in a project in local history (Beck 2000, 38).

Norwegian home education clearly has a firm foundation both in religious motives and in local-society based political ideology from the 1970s. In concrete terms, this type of communitarian, ideological origins is visible when some local communities implement home education in an effort to keep local schools that have been closed. One observes similar indicators, in another form, in terms of the tight, internal integration we find in new home education sub-cultures.

Home educators may be examples of what the sociologist Z. Baumann calls our time's missed community, collectivism and community in an individual world. The missing community is those communities which are necessary to handle issues which cannot be solved individually, where there is concern and responsibility for all people's right to be a human being and the right to act according to this right (Baumann 2001). We are here speaking about the renewal of informal, communities, civil society and populist values.

Modern education is forced towards a greater degree of formal institutionalization. This pressure is being made upon the schools by both the market and the national state. One resulting problem appears to be that education has a shortage of individual freedom and a firm foundation

among the people. One might say that converting this to a surplus is the political ideal of home education.

When modern home education came to Norway (1991–1994) it aroused conflicts and debates. Home education has given impulses to arguments for personalized education and populist perspectives in education. In Canada there is a development in the direction of home education as a more normalized form of education, and home education has effect on a more personalized education in school (Davies and Aurini 2003). Maybe we now will see such a trend in Europe and other modern countries?

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# *Global Education in Manufacturing: Basic Framework, Industrial Survey and Possible Implementation*

Asbjørn Rolstadås  
Slavko Dolinšek

Many new challenges and opportunities have arisen for Slovenia since May 2004 when it became a full member of the EU. On the one hand we have some successful economic players who can definitely gain from new opportunities, on the other hand some structural changes still have to be accomplished. One of the most demanding tasks is related to higher education and in particular to harmonization of EU and global educational systems. The paper presents the results of the international framework for a Master degree curriculum in manufacturing strategy and an example of the integration of competence in technology and business. A good example of meeting Bologna goals is to establish a system of easily recognisable and comparable educational degrees and to accelerate the employment of EU citizens as well as the competitiveness of the European higher educational system.

*Key Words:* manufacturing, education, training, industrial organisation  
*JEL Classification:* L60, I21, M53

## **Introduction**

A few years ago Ridderstråle and Nordström published their best-seller *Funky Business* (2000) where they said:

With the introduction of the plantation we moved from the hunting and gathering society into the agricultural one, and, with the coming of electricity, we entered the industrial era. Some call our world the knowledge society and others the brain one. The only certain thing is that the critical skills and answers of tomorrow will not be those of today. The future cannot be predicted – it has to be created. Either you see things happen or you make them happen.

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A similar observation considering the recent development within the industry has been written by Moseng and Rolstadås (2002):

The industry has over the last decade undergone a significant change. It is no longer home-based; it operates in a global market. Digital business has become a strategy to survive. The extended enterprise is being implemented. Parts are made where conditions are most favourable. Non-core activities are outsourced. These service companies then become part of the supply chain that also spans suppliers and distributors. They all comprise an international co-operative network to provide manufactured goods and support services for a world market just in time, at low prices and with quality surpassing customer's expectations.

And also (Rolstadås 2004):

In order to meet the challenge of the future way of business operation for the manufacturing industry, a new type of curriculum in manufacturing strategy is needed. For this reason the IMS project Global Education in Manufacturing (GEM) has been launched. The main objective of GEM is to develop a new curriculum covering both manufacturing technology and manufacturing business – a Master degree in Manufacturing Strategy.

At the first GEM information day within the annual professional conference of the former School of Management Koper, this new approach of education in manufacturing was presented (Dolinšek and Prodan 2003). Furthermore the tasks of SMK as a Slovenian partner, the products, expected benefits, and the first experiences obtained in the GEM project were discussed. However one of the main questions was whether it is possible that something developed within the GEM approach can also be successfully applied to the development of the education curricula in Slovenia. In relation to such a question Dolinšek (2002) concluded that:

The very first question to which we need to find an answer in relation to such global education activities should certainly be: is such a global education system suitable for the Slovenian specialties with respect to the recent form of the educational system (five years of engineering study and three years of further scientific Master's degree study), and is this approach or



are these curricula also appropriate for the specific needs of the Slovenian manufacturing industry?

Thinking about such a dilemma and about the necessary skills and knowledge of Slovenian engineers in relation to the GEM approach Dolinšek (2003) also stated that:

In respect of the other *NAS* (Nearly Associated States) Slovenia has a relatively highly developed industry, which also largely contributes to the whole export from the country. To a large extent the main competitive advantage of this industry is based on professional skills and knowledge of engineers and the extensive investment of companies in the education of the workforce. We can establish that in that sense the needs for skills and knowledge of many Slovenian manufacturing companies are far ahead from what the academic institutions can provide. Therefore links and benefits, such as those provided through the GEM project, can be an excellent support for Slovenian educational institutions on their way to becoming part of the global education system.

On the basis of a response from the Slovenian industry (these tasks were completed within the GEM project) we also published the results (Dolinšek and Prodan 2004) and concluded that:

One of the most important demands in developing the new curriculum is, therefore, firstly to define and understand the needs of the manufacturing industry for training and education on a global basis. The approach presented forms part of the international GEM project (Global Education in Manufacturing), a project in which Slovenia is also involved as a partner, and some experiences obtained in the GEM project and research into the needs in the education of the manufacturing strategies are also presented.

At the GEM workshop organized within the international IMS Forum 2004, where we presented our efforts and results in introducing GEM curricula into the Slovenian educational practice, it was also stated that (Dolinšek, Starcic, and Kopac 2004):

Many new challenges will arise for Slovenia as a full member of the EU from May 2004, and also many opportunities. On the one hand we have some successful economic players who

can definitely gain from new opportunities, but on the other hand some structural changes still have to be accomplished. Among them, one of the most demanding tasks is related to the higher educational system which has to be harmonized with the EU and global educational systems. The paper discusses the above mentioned problems and puts particular emphasis on the needs of the Slovenian industry, particularly those related to the competencies, as a contrast to the discipline-based education practice mainly offered by Slovenian universities. Links and benefits, such as those provided through the GEM project, can be an excellent support for Slovenian educational institutions on their way to becoming part of the global education system.

The actions that followed were focused on the implementation of GEM curricula in relation to the changes of educational programmes due to the Bologna declaration and the Slovenian law on higher education (Slovenian GEM industrial workshop), the last achievements of the GEM project, the possibilities of introducing GEM results into the Slovenian universities, and also on the GEM industrial training model.

### **Competences Needed in Modern Manufacturing**

In the most general sense, manufacturing is central to the existence or survival of a business, and the manufacturing industry is a key industry. The activity of manufacturing is much more than machining metals or etching wafers: a manufacturing enterprise is an extended social enterprise. Within the manufacturing industry, challenging activities influencing competitiveness are therefore connected to radical new ways of operating (digital business) and to new products (extended products).

Digital business involves an advanced use of the information and communication technology in every link of the supply chain to simultaneously reduce costs and lead times and to increase profit. Interesting problems are connected to e-commerce within the manufacturing systems design and production management, and e-commerce within the design and product development. In this context, manufacturing should not be understood in the traditional sense but as a new way of working as a digital business with extended products. Extended products mean taking a lifetime product support perspective and thus including all services to support the product in addition to the manufacturing of the product itself.

This will require that intelligence is embedded in the product. It includes both tangible and intangible products and services. The main challenge is within the support services for the product. Digital business significantly accelerates the flow of information within the extended enterprise. The creation of extended products through digital business is illustrated in figure 1.

In manufacturing companies the required knowledge, skills and engineering competence are provided by mechanical engineers, industrial engineers and electrical, electronic and computer engineers. Their basic education is discipline oriented, focused on mechanics, operation research, cybernetics, electronics, etc. To a limited extent this education reflects the real needs of the industry that faces problems of an integrative nature across the traditional disciplines such as:

- working with digital tools for communication;
- working in a multicultural environment;
- working in interdisciplinary, multi-skill teams;
- sharing of tasks on a global and around-the-clock basis;
- working in a virtual environment.

The existing curricula for Masters in manufacturing are directed more towards manufacturing engineers rather than the manufacturing strategy. They have often tended to emphasize theory over the process and have failed to meet the needs of the manufacturing enterprises operating as future extended and virtual enterprises.

A curriculum in Manufacturing Strategy will be designed for a Masters programme. It will be based on traditional engineering bachelor degrees. However, it will deviate from the traditional education by focusing on tomorrow's industrial situation, requiring enterprise architects and products architects. The future education in Manufacturing Strategy must build the industrial competence by providing a learning atmosphere in the company (a co-operation between academia and industry).

The competence areas have been divided into three main areas (for a detailed overview of all topics see Dolinšek and Prodan 2003):

- technological competence (Product related topics, Production related topics, Business operation related topics),
- humanistic competence (Individual related topics, Company related topics),

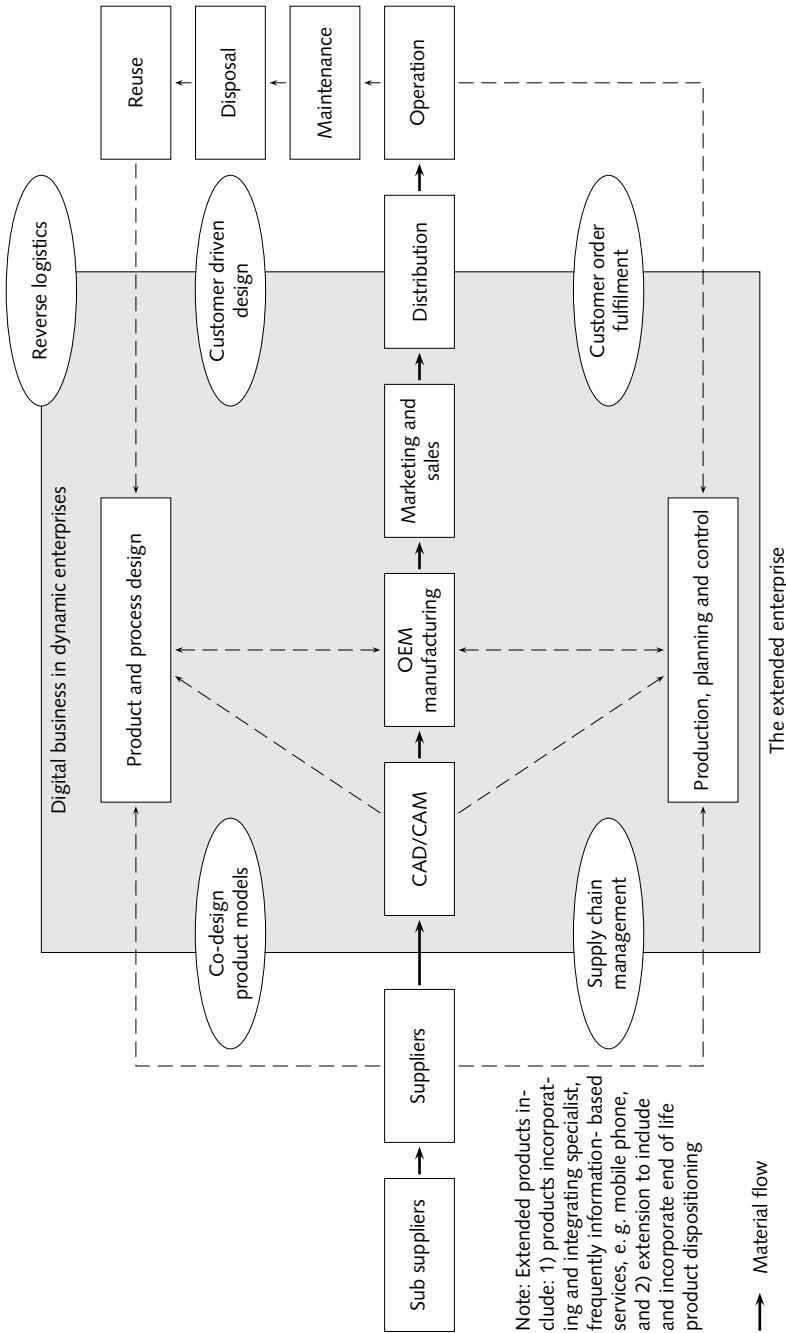


FIGURE 1 The concept of digital business and extended products (GEM-NAS 2002)

- business competence (Business and economic related topics, Management related topics).

The companies were asked to rate on scale 1–5 the importance of the topics today, and in five years time. They were also asked about the needs for future education and training.

#### SURVEY METHODOLOGY

The survey was undertaken in the manufacturing industry worldwide in order to get the industry point of view on education for the development of an international curriculum. The questionnaire was developed and conducted by SINTEF Industrial Management, Norway. The construction of the questionnaire was focused on measuring current needs and practices in the industry as well as getting an idea about future development.

The questionnaire was divided into two parts; the first part covered the general demographical information to be used as classification variables for the analysis, and the second part covered the competence areas. Within each competence area the companies were asked to rate the importance of different pre-selected topics for their job performance today, within five years, and also rate the need for further education and training (scale 1–5, from no importance to high importance).

The survey was accessible on the internet to a contact person in each country. In addition a paper version was sent to the contact persons. The questionnaire was in some cases translated in order to meet language problems in different countries. There were three different ways of sending the questionnaire to the companies. If the internet-version was used, the contact person forwarded the mail containing the link to the questionnaire to the companies after entering contact information. After the companies had entered their information into the scheme the results were transferred directly to the database. The two other ways of data collection were to send the paper copy by mail to the companies or to interview persons at the companies either by personal interviews or by telephone. In both cases the filled in questionnaires were handled by the national contact person, who entered the information into the electronic scheme and sent them directly to the database.

Research was conducted from September to December 2002, and 21 countries responded to the questionnaire (17 from EU, USA, Australia, Japan and Korea). Within the sample of 556 companies, 20 respondents were from Slovenia. The companies were divided into three groups refer-

TABLE 1 Importance of different competences (%)

	Slovenian research	GEM research
Management-related topics	14.65	14.47
Business & Economic-related topics	13.55	14.11
Company-related topics	14.65	14.22
Individual-related topics	14.65	13.83
Business operation-related topics	13.55	14.11
Production-related topics	13.92	14.50
Product-related topics	15.02	14.75

ring to size in number of employees; with group 1 having 1–250 employees, group 2 having 251–1000 employees and group 3 consisting of companies with more than 1000 employees. All statistical analysis was performed using the program SPSS, version 11; descriptive statistical analyses were applied and correlation analysis was based on relation to region and company size.

#### SURVEY RESULTS

Survey results show that the industry considered all competences almost equally important (see table 1). The most important competences are product related (in GEM and also in the Slovenian research).

A comparison of results obtained in all IMS regions and in Slovenian companies is shown in table 2. We can see that there are some similarities between the results.

If we analyse which competences are important today and try to find out which will be important within 5 years we can conclude that:

- topics which are important today also need education in the future;
- less important topics today (remanufacturing of products, simulation in production, sustainable manufacturing, simulation in business operations, multicultural skills, e-learning . . .) seem to be more important in the future;
- all proposed topics need a focus in a new curriculum.

The GEM framework identifies seven core knowledge areas within any new manufacturing curriculum all of which reflect the current and future needs of the manufacturing industry. Table 3 shows an overview of the knowledge areas.

A skeletal framework is illustrated in figure 2. The framework has a

TABLE 2 Today's importance of competences in industry (mean values)

	Slovenian research <sup>1</sup>	GEM research <sup>2</sup>
<i>Management-related topics</i>		
Finance	3.9	3.6
Innovation management	3.3	3.7
Change management	3.8	3.6
Management information	4.0	3.6
Benchmarking/Performance	3.7	3.5
Productivity improvement	3.9	4.0
Entrepreneurship	3.3	3.4
Strategic Planning	4.1	3.8
Health, Environment	3.9	3.7
Legal aspects and Intellectual	3.4	3.6
<i>Business &amp; Economic-related topics</i>		
Marketing & Sales	4.2	3.8
E-commerce	2.1	3.0
Procurement & Contract management	4.1	3.7
Cost engineering/Cost management	4.2	3.9
Branding	3.6	3.7
<i>Company-related topics</i>		
Organizational aspects	3.7	3.8
Knowledge management	3.4	3.7
E-learning	2.8	3.2
Interdisciplinary team (building)	3.3	3.4
Multicultural strategy	2.8	3.2
Corporate social responsibility	3.0	3.5
Company culture	3.3	3.6
Company image and branding	3.8	3.9

*Continued on the next page*

number of elements. Students will enter a particular programme with a bachelor's degree and may or may not be induced into the programme or university through a series of induction, bridging or capstone courses or workshops. The details of these activities are solely the responsibility of the university concerned. A number of courses will then be available to students. Universities do not offer courses in advance. On the contrary,

TABLE 2 (continued)

	Slovenian research <sup>1</sup>	GEM research <sup>2</sup>
<i>Individual-related topics</i>		
Creativity	4.0	4.0
Interpersonal communication skills	3.8	4.2
Multicultural skills	2.9	3.4
Teamwork capabilities	3.9	4.3
Motivation	4.0	4.2
<i>Business operation-related topics</i>		
Enterprise modelling	2.7	3.3
Extended enterprise design	2.9	3.2
Extended enterprise operation	3.1	3.1
E-work	2.7	3.2
Project management	3.5	3.9
Logistics and Supply chain management	4.1	3.6
Simulation in business operation	2.5	3.0
End-of-life management	2.4	3.2
Quality management	4.1	4.2
<i>Production-related topics</i>		
Intelligent manufacturing	2.5	3.5
Manufacturing technology	4.0	4.1
Material flow	3.5	3.8
Manufacturing systems	3.6	3.8
Simulation in production	2.5	3.3
Cleaner production	3.3	3.4
Sustainable manufacturing	2.8	3.3
<i>Product-related topics</i>		
Product development in general	4.1	4.0
Extended product development	3.7	3.6
Simulation in product development	2.5	3.5
Clean products	3.4	3.3
Remanufacturable products	1.6	3.0

1.  $N = 20$  2.  $N = 556$  Source: Dolinšek and Prodan 2004.

they will develop courses on the basis of their core competencies on campus. However, the GEM framework will be available to help educators in identifying and specifying courses of interest.



TABLE 3 GEM knowledge areas (Rolstadås 2004)

Knowledge area	Description
A Development of extended products	The development of a combination of a physical product and associated services/enhancements that improve marketability.
B Digital business along the supply chain	Information on how a business can use e-commerce and related technologies and processes to develop, expand or enhance its business activities along the facilities and functions involved in producing and delivering a product or service.
C End of life planning and operation	Techniques on how to develop methodologies and tools to support the end-of-life routing/processing decision based on economic, environmental and societal criteria.
D Business operation and competitive strategy	Explanation of how organizations function and interact with competitors and their market place, and deliver performance over time.
E Intelligent manufacturing processes	Elaboration of techniques applicable for handling complex production working in an uncertain, changing environment, with special emphasis on artificial intelligence and machine learning approaches.
F Intelligent manufacturing systems design	Tools on how to model the skills and knowledge of manufacturing experts so that intelligent equipment and machines can produce products with little or no human intervention.
G Enterprise and product modelling and simulation	Information on how to develop and use computational representations of the structure, activities, processes, information, resources, people, behaviour, goals and constraints.

### Industrial Training

The GEM curriculum is developed for a Masters degree to be delivered at universities. To implement this, the GEM Alliance has been formed.

In addition, GEM Europe has the ambition to deliver appropriate training to people working in industry. Such students will, however, differ from campus students:

- the student will pursue his/her studies while working;
- students can only be away from work for short periods, normally not more than one week at a time;
- training will have to be delivered at the place and at a time the student decides;
- the student will not directly select an extensive programme, but would rather build a training from smaller components;
- the company of the student may be supporting such training both financially and morally.

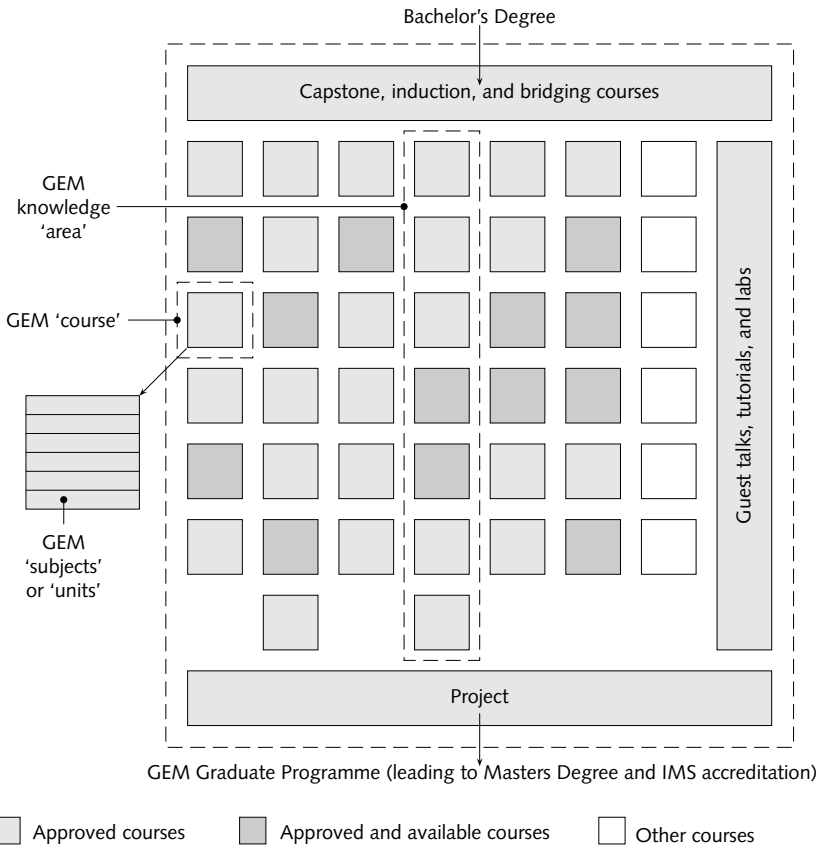


FIGURE 2 The GEM framework skeleton (Rolstadås 2004)

These differences create a need for a different learning approach:

- the training has to be modular so that the student can 'take small steps' towards a full training;
- the student will have access to real life problems and examples from own company;
- training will have to be based on blended learning.

Blended learning is an approach that has proven successful in other cases. This means that the students meet as a class in plenary sessions for a limited number of times, and that they work individually or in small groups by learning over the internet using a learning portal (virtual sessions). Learning over the internet has been tested through the GEM demonstrator which gave a positive feedback on the approach. An

important issue, though, is an interactive supervision with a moderator or a teacher. This has proved to be one of the most critical success factors in e-learning. Unfortunately, it is a factor that is overlooked in many of existing e-learning offers in the market where the focus is often on the portal's learning management system.

It is suggested that GEM Europe adopts a blended learning approach as follows:

- two plenary sessions; one at the beginning and one at the end;
- a number of virtual sessions in between; each session to be carried out within a given time window;
- plenary sessions to provide learning through the interaction between students and by an extensive use of industrial experts;
- virtual sessions to include various activities such as readings, video lectures, slide-shows, assignments and tests;
- optional project assignments going over the whole learning period, to be executed in small groups and to be based on real life problems in the students' companies.

#### A STRATEGY FOR INDUSTRIAL TRAINING

For the GEM Europe partners a possible strategy for implementing industrial training could be based on the following items:

- interested partners will form an, alliance or some other form of partnership, to be regulated through a memorandum of understanding or an agreement;
- the partners operate a common training programme so that learning objectives and skills attained are the same across all partners;
- training to be offered at two levels:
  1. engineer update level and
  2. executive level;
- training to be offered on an annual basis;
- exchange of students, courses and teachers.

What follows is a brief introduction to an implementation model for each of the two levels.

#### TRAINING AT THE ENGINEER UPDATE LEVEL

Training at an engineer update level could be named GEM Manufacturing International Update. A possible delivery model is shown in figure 3.

It is assumed that similar programmes following the same model with the same objectives are offered annually by each partner in their own country. The schedule should be synchronized in order to allow a student exchange.

Each of the two plenary sessions is offered by each participating partner. Lectures may be in the local language. The first will focus on knowledge area B and the second will be devoted to presentation and discussion of the project assignments. Students may be exchanged, i. e. a single student may choose to follow a plenary in a country different from the host university.

The student will have to select four virtual sessions. Each partner will normally offer at least one virtual module of 2 ECTS. There may be several modules in each knowledge area, allowing the student to select which one to follow. However, at the end all knowledge areas will have to be covered to obtain a certificate.

Each partner delivering a virtual module will be responsible for handling all students that follow this module.

The student is enrolled at one university (Host University). Credits earned at other partnering universities will have to be acknowledged by the host university that will issue the final certificate upon completion.

The student should be able to take single modules and gradually build up a full curriculum for the certificate. There will be separate course fees for each of the plenary and virtual modules as well as the project assignment. These are payable to the host university which in turn will reimburse the other partners depending on which modules the student follows. There will be an administrative overhead for the host university.

#### TRAINING AT THE EXECUTIVE LEVEL

Training at the executive level could be named GEM Manufacturing Executive International Forum. A possible delivery model is shown in figure 4. There will be one fixed programme with fixed locations and a virtual session per year. Locations will rotate amongst the partners. The whole training is delivered in English.

Both plenary sessions will focus on knowledge area D. The education will be highly interactive, drawing upon international experts from the manufacturing industry and with the universities in a facilitating role.

The student will follow all four virtual sessions. Each session will be offered by one of the partners. The training in virtual sessions will follow the same approach as the engineer update level.

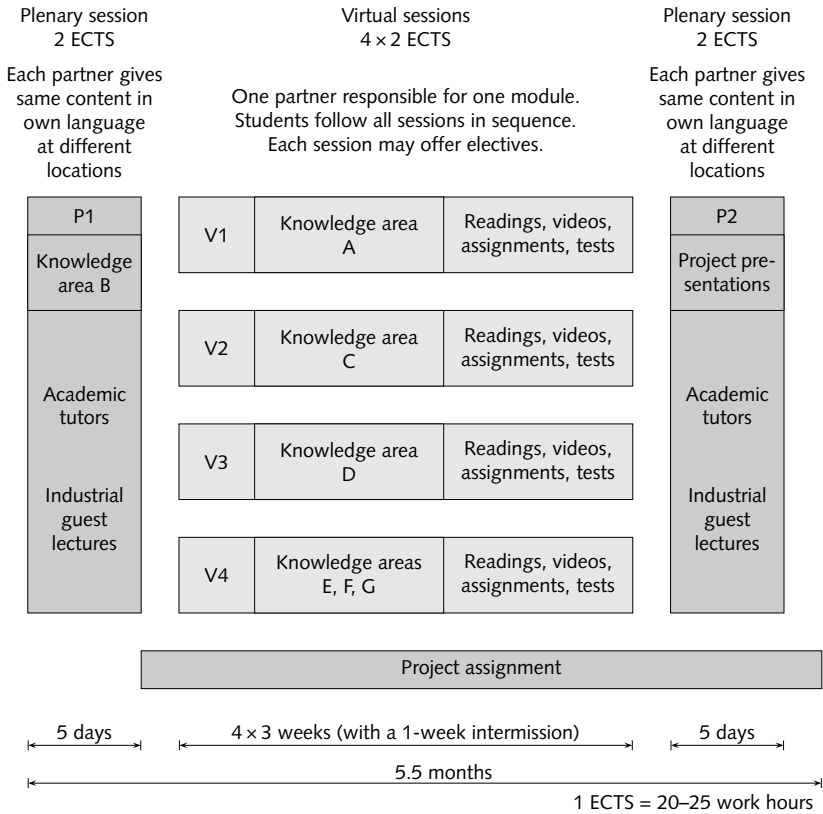


FIGURE 3 Model for training at the engineer update level

The student is enrolled at one university (Host University). Credits earned at other partnering universities will have to be acknowledged by the host university that will issue the final certificate upon completion.

The student should be able to take single modules and gradually build up a full curriculum for the certificate. There will be separate course fees for each of the plenary and virtual modules. These are payable to the host university which in turn will reimburse the other partners. There will be an administrative overhead for the host university.

### Conclusions

The main objectives of GEM were to define and understand the needs of the manufacturing industry for training and education in manufacturing strategy on a global basis to comply with the concept of digital business, extended products and entrepreneurship. On the basis of the

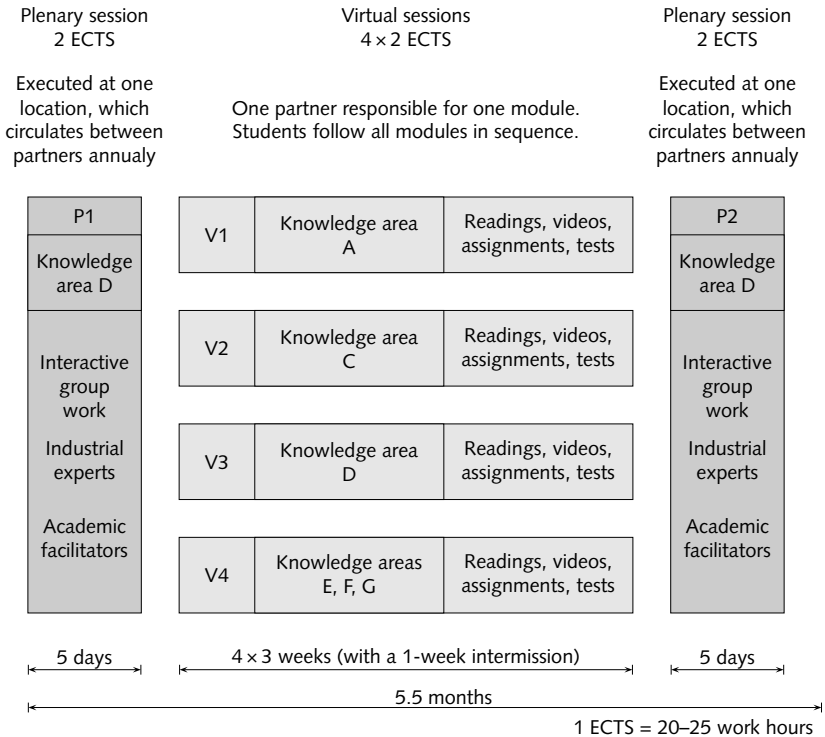


FIGURE 4 Model for training at the executive level

survey among all IMS regions compared by Slovenian companies we can conclude that there are similarities between the results. If we compare those results with the importance of competence in five years we can see that:

- topics which are important today also need education in the future;
- less important topics today (remanufacturing of products, simulation in production, sustainable manufacturing, simulation in business operations, multicultural skills, e-learning, etc.) seem to be more important in the future;
- all proposed topics need a focus in a new curriculum;
- concerning technological competence product development in general, the product related manufacturing technology and quality management are considered as most important topics;
- among the humanistic competences, teamwork capabilities and image and branding seem to be the most important;

- within the business competences, cost management and productivity improvement are considered as the most important topics.

Slovenia has a relatively highly developed industry that needs professional skills and knowledge of engineers not only in the field of engineering but also in the business field. We know that the need for skills and knowledge of many Slovenian manufacturing companies is far ahead from what the academic institutions can provide; a co-operation between industry and academia is therefore necessary. The GEM project is based on industry needs and can therefore be an excellent example of how to prepare new curricula.

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## **Advancing Business and Management in Knowledge-based Society**

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# *Managing Global Transitions*

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