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**A COMPARATIVE ANALYSIS OF HUMAN  
RESOURCE SYSTEMS IN FINLAND AND IN  
THE UK**

**Implications of societal, cultural and historical factors**

Master's Thesis  
Management and Organization

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# 1 INTRODUCTION

As more and more companies are operating on international markets rather than domestic, it becomes increasingly important to acknowledge the differences between countries. In order to operate successfully across borders managers will have to understand how the cultural and societal differences translate into the management practices. Furthermore, by learning about practices employed in other countries managers are able to improve their own policies.

## 1.1 Background

Human resource management (HRM) “...seeks competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques” (Storey 1995, 7). HR managers do this by employing a range of management practices. Dessler (1999, 5) goes into more detail by outlining these different functions of HRM: recruiting, training, appraising, rewarding and providing a safe working environment.

The concept “HR system” refers to the different combinations of those practices that organisations employ in their HRM. For this study four widespread HRM practices have been chosen to represent the prevailing HR systems. In this study the concept of HR system refers to the combination of the following HR functions: recruitment and selection, training and development, reward systems, and performance appraisal. These particular practices can be seen as the cornerstones of HRM. According to some classifications, the main functions of HRM are the acquisition, maintenance, motivation, and development of human resources (see for example DeCenzo & Robbins 1988, according to Brewster 1994, 56), or the cycle of selection, performance, appraisal, rewards and development (see for example Storey 1989, according to Brewster 1994, 56). From these withstanding definitions and classifications of HRM, the four main functions have been derived in order to examine HRM and more specifically to compare the prevailing national HR systems.

According to Brewster and Larsen (2000, preface), “even a fairly narrow-minded focus on the bottom-line results of the organisation will increasingly point in the direction of HRM as a predominant cost factor, as a competitive factor, and as a solution for improving organisational excellence”. This statement reflects the pivotal role of human resources in today’s businesses. Since human resources in general have become more valuable and a focus of attention, due to the shift towards a knowledge

based economy, companies have become increasingly interested in human resource systems that prevail in other countries and areas. The knowledge of how different management issues are addressed in various countries has become essential to managers operating across borders (Brewster & Larsen 2000a, 1).

As for Finland and the UK, the national differences are fundamental. The author of this thesis noticed these differences between the two countries during her stay in the UK, and wanted to look into the possible implications of these differences for HRM. The basic principles of the two societies differ profoundly, which is evident in anything from taxation to social security. Consequently, by comparing these two countries in terms of societal, cultural and historical factors, the differences between the HR systems can be explained. The comparison between Finland and the UK will reveal how the national differences influence national HR systems. There's hardly any previous research comparing these two countries, or any two European countries for that matter, which is why this study provides some new aspects of European HRM, analysing two countries with differing HR systems without excessive generalisations or constructing artificial country clusters (see for example Brewster & Larsen 2000b, 24).

Research on HRM is closely related to the different kinds of working-life studies. The UK has had a long history of labour relations and strong traditions, when it comes to research on working-life, possibly due to the early industrialisation. Finland, on the other hand, has entered the field of working-life research on a much later stage. It's therefore justified as well as interesting to compare the newcomer to the veteran of this field, in order to learn more about Finnish and British HR systems.

The basic premise of this study is that HR systems are shaped by the societal, cultural and historical factors on the national level. This assumption was validated by scanning relevant texts. Supporting this view Brewster and Larsen (2000, preface) take a contextual approach to HRM, claiming that the differences in HRM between the European countries are shown by several empirical studies. Brewster and Larsen (2000a, 12) examine HRM in Europe, including Finland and the UK, but acknowledge the fact that differences in HRM are evident even within Europe: "HRM is understood differently, researched differently and is, in practice, conducted in quite distinct ways in different countries and circumstances". Therefore, it is simply a matter of scope: in this case a matter of looking closely at both countries in order to see the differences.

The human resource systems in the UK and Finland differ in many ways, due to the influence of national legislation, cultures and business systems. Even though the UK and Finland are both members of the European Union and are therefore subject to the EU law, major differences in national legislation and in the business environments remain. Both countries have their own unique histories and more importantly the

development of HRM in both countries has been distinct. Furthermore, the differences in general attitudes, values and the ways of thinking, in other words the culture, have an impact on the way people can be managed successfully in both countries.

## 1.2 Purpose of the study

In this thesis the aim is to examine and compare the prevailing HR systems in Finland and the UK. The differences between the HR systems will be explained thoroughly and the reasons behind these differences are examined by conducting a comparative analysis. The thesis aims to look at the different HR functions and how they differ between the countries in question, as well as to explain how these functions reflect the business environment in which they are carried out. The paper begins by comparing Finland and the UK in terms of the societal, cultural and historical factors and eventually these differences will be linked to the differences in national HR systems. Therefore, the research question can be divided into two stages: *Which are the major differences between the Finnish and British HR systems and in the status of HRM? How do the societal, cultural and historical factors explain these differences?*

One must look at the societal, cultural and historical factors in order to understand the differences in the HR systems. Both European countries are similar in terms of culture and legislation, having a democratic approach to organisations and acknowledging the considerable social responsibility of organisations, meaning that organisations are expected to respect their social constraints and to follow the legislation. Equal opportunities are promoted in both countries and organisations are expected to act accordingly. In terms of ownership patterns, both countries have significant public sectors, usually involved in knowledge-based service and administrative functions, playing important roles in setting standards for other organisations. Furthermore, both countries are highly unionised, i.e. trade unions play significant roles in decision-making and represent employees in order to facilitate employee participation. (Brewster & Larsen 2000b, 30.) While these similarities between Finland and the UK can be identified when comparing them to other areas, such as the US, also some significant differences between the two countries can be found when examining these issues more closely.

Firstly the relevant societal factors in both societies will be discussed while explaining their implications for the prevailing national HR systems. Current issues as well as future trends within the different national environments such as state

intervention, trade unionism and the importance of the public sector in the societies will be looked at.

This will be followed by an examination of the cultural differences drawing on Hofstede's (2001) cultural dimensions as well as Hall's cultural contexts. Furthermore, the differences in cultural diversity between Finland and the UK will be looked at. The ways in which the cultural factors affect the management practices in the UK and Finland will be explained. The historical factors, particularly the history and development of HRM, are examined in relation to the current characteristics of HRM in the UK and in Finland. The economical factors that may potentially affect the national HR systems are excluded from this study.

The current status of HRM in Finland and in the UK will be discussed. The HR functions will be examined in detail, while linking them to the wider context in terms of national culture, business system and legislation. The thesis will mainly focus on four core-functions: recruitment and selection, training and development, remuneration, and performance appraisal. This will clarify the differences between Finnish and British management by taking a more practical point of view. Finally the question of convergence or divergence of HR systems on the European level, and especially between the UK and Finland, will be addressed. Furthermore, the future trends of European HRM, particularly in terms of pay, working patterns, equal opportunities and training, will be discussed. On the basis of the theoretical framework, some conclusions are drawn about how Finnish and British HRM differs and why.

## **2 METHODOLOGY**

Management research has been subjected to controversy as the most appropriate approaches have been debated, due to the development of different schools of management and a variety of approaches to research methodology. The one best possible approach is yet to be found, as the most effective approach always depends on the problem itself. The chosen methodology is always a compromise between options and dependent on a number of variables. The research process is one of deciding what to do, planning, collecting valid information, and finally analyzing and assessing the information. (Gill & Johnson 1997, 1–4.)

### **2.1 Theoretical research**

As Berg (2004, 3) points out, debating the value of different methods is unproductive and discussing the merits of each approach would seem more useful. Clearly different approaches are necessary as the choice of method depends on the problem. In this case, the research question in itself pointed towards the direction of qualitative or theoretical research as it involves describing, analyzing and discovering HRM, by looking at the societal, cultural and historical factors in both countries. Theoretical research and qualitative empirical research are in a sense very similar; the important thing is to differentiate whether theory is the objective or the tool (Kallio 2006, 526).

Methodology and methods for non-empirical research are not widespread, especially in the field of business and economics, where the often contradicting economical and scientific objectives add to the challenge. The traditional practical approach of business and economic research is manifested in the dominance of empirical research. Empirical research is often regarded as being more realistic and useful. Theoretical research, on the other hand, is far more unusual and the majority of theoretical frameworks used in business and economics are in fact adopted from other social sciences. Furthermore, theoretical research is lacking a clear definition. Non-empirical research includes concept analysis and theoretical research, which adds to the confusion as one is often confused for the other. Conceptual research refers to the definition and clarification of concepts, whereas theoretical research involves other theoretical areas. (Kallio 510–517.) The divide between non-empirical, conceptual and theoretical research is described in Figure 1, though in reality the divide is not quite as straightforward.

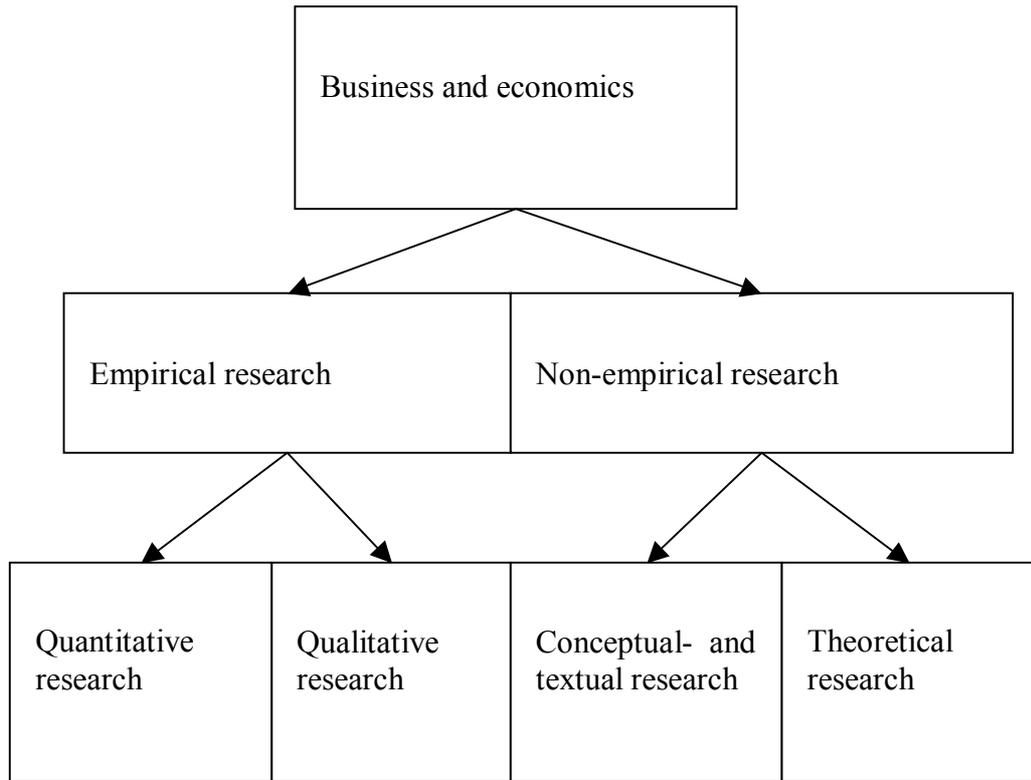


Figure 1 Methodology in business and economics (adapted from Kallio 2006, 518).

The four subcategories in Figure 1 can be divided further into specific methods, e.g. factoranalysis (quantitative research), structured interviews (qualitative research), descriptive conceptual research (conceptual- and textual research) and basic theoretical research (theoretical research). This categorization is obviously a simplified representation of business and economic research, as conceptual and theoretical research are closely linked not only to each other but also to the qualitative approach. (Kallio 2006, 517–518.)

The methodological field can be quite a jungle where the boundaries are blurred and clear-cut separations and classifications are neither possible nor appropriate. Furthermore, one should bear in mind that empirical and non-empirical research are not opposites as both are based on theory. Clearly, any research project requires reading and critically reviewing what has previously been written on the subject in order to establish what is currently known. Consequently, as the limitations of current knowledge are

identified, the contribution of the proposed research project can be defined. (Gill & Johnson 1997, 20–21).

Even the most extensive empirical research has to be linked to theory in order to be scientifically valid. Therefore theoretical and non-empirical research is not the opposite of empirical research. Instead, empirical research is largely based on first-hand empirical data, whereas non-empirical research builds on thinking, reasoning and interpretation, which applies to this particular study as well. (Kallio 2006, 520.) This study draws on second-hand empirical data as previous researches by other researchers are frequently referred to; hence the line between empirical and non-empirical is not set in stone in this case either.

As some of the material, i.e. literature and previous studies, are based on empirical data, this study is still likely to be in touch with reality. Interviews and other empirical methods proved to be costly as well as time-consuming as the subjects reside in two different countries. Therefore empirical methods were excluded from this study. Instead, theoretical material was gathered on the basis of novelty and diversity in order to achieve a realistic comparison.

The fact that this study draws on theories and findings of others is suitable for this particular setting where societal, cultural and historical factors are the basis of the comparison. This kind of theoretical research is cumulative as it combines and reproduces knowledge. Discoveries are rooted in theory and knowledge is often created and located only through theory. (Freese 1980, 41; 52.) In this study the propositions depend upon previous discoveries and theories in a cumulative way. Hence, the lack of empirical evidence or data doesn't undermine this study.

In comparison with the more exact natural sciences, social sciences are lacking in laws and universal certainty. Still, social life is not completely chaotic and irrational. Certain patterns can be found and one of the objectives of social scientific research is to make sense of these patterns by examining, creating and refining theory. When it comes to theory, concepts are the basic building blocks. (Berg 2004, 15–16.) Building theory on unclearly defined concepts is like building a castle in the sand (Freese 1980, 19). Therefore it is imperative to pay attention to the definition of key concepts. In this study the concepts, such as HR practices, collective bargaining and cultural contexts, are used to explain how and why Finnish and British HRM are in fact different. The relevant concepts are clearly defined in order to avoid misunderstandings. As Berg (2004, 16) points out, specificity is crucial when conducting research, as ambiguous and undefined concepts cause misconceptions and other problems. By outlining and defining the key concepts thoroughly, the transparency and reliability of this study are ensured.

One of the most important issues in theoretical research is logic and causality, i.e. the research aims to create a conceptual construction about reality and a logical explanation for why this is. The cause and effect need to be presented and concluded logically. Despite these guidelines, a universal pattern for the creation of theory doesn't exist. As a process, theoretical research consists of a dialogue between analysis and synthesis. (Kallio 2006, 526–527.) In terms of this study, this translates into the analysis and combination of appropriate theories and texts. Related information is gathered from a variety of previous research and literature and the bits of information are then combined in order to create a theoretical framework. Where analysis is about dissecting entities, synthesis refers to the combination of information and the creation of a comprehensive illustration of the subject (Kallio 2006, 527). In this case the analysis refers to the process of scanning texts and gathering relevant information from larger entities, whereas the synthesis refers to the combination of these bits of information in order to create a more holistic comparison of the British and Finnish HR systems.

This study examines previous research and texts and combining them piece by piece. The scope of this study is smaller than that of the majority of the material. According to Freese (1980, 48): “By refining the scope of a proposition, its predictive accuracy increases because more is said about a smaller domain”. Clearly, it is more useful to make accurate statements and predictions about a smaller entity, than to generalize to the point where the statements lose their validity. When it comes to this study, the scope was refined from Northern Europe and country clusters to a comparison of two countries, Finland and the UK. By doing this, some new and more detailed discoveries and propositions can be made. As Freese (1980, 48) elaborates: “We should prefer a narrow but accurate proposition to one more general but inaccurate”.

One of the interesting questions in theoretical research is how it relates to the concept of triangulation. The term triangulation generally refers to the use of multiple research methods when investigating the same phenomenon. It's said to increase the validity of the findings, as a variety of methods confirm the results. Triangulation can also refer to the use of multiple theories and data in a research, which applies to this particular study. (Berg 2004, 5–6.) By examining a large number of sources, subject areas, texts and theories, the validity of this study is improved. Furthermore, the fact that the material includes prior empirical research enforces the validity and the accuracy of this paper. The references in this particular study include books, articles and websites. The reliability of websites has been widely debated (see for example Berg 23–24) and therefore in this study the Internet has only been used for statistical information and current numerical data provided by established and reliable institutions and organizations.

Finally, replication and reproducibility are central to any research, regardless of the employed method (Berg 2004, 7). In this study, reproducibility by subsequent researchers has been aimed for by reviewing a large variety of texts and literature, and by thoroughly explaining the research process. The comparison is based on the relevant literature and the results are directly concluded from the existing theories and texts. Therefore, it's highly likely that similar conclusions would be drawn from the existing relevant material if the research was reproduced.

## **2.2 Comparative analysis**

According to Deutsch (1996, 3), human learning has largely been based on comparisons since the beginning of time. Comparisons allow us as human beings to question our own ideas and practices and find better ways of doing things. Comparisons have traditionally played a major role in many of the classics of social research, though more systematic comparisons didn't emerge until the 1950's (Antal, Dierkes & Weiler 1996, 9). The call for comparative studies is now increasing due to the growing internationalization, particularly the increasing movement of labour and people across borders and the establishment of international organizations. (Oyen 1990, 1.) The concept of comparative method refers to the comparison of at least two large social units (Ragin 1996, 74–75), in this case Finland and the UK. According to Kohn's (1996, 29–30) classification this comparative cross-national study is of the context-type; in other words nations provide the contexts in which the HR systems are compared.

This study is primarily focused on the comparison between Finnish and British HR systems; in other words, the objective is not to make universally relevant findings. As Ragin (1989, 60–61) points out, research involving a small number of countries aspire to be intensive and holistic rather than extensive and universal. Clearly there are limits to generality in comparative cross-national research. In order to find cross-national differences one must change the scope and move away from generalizations towards detailed comparisons. Ironically, the ultimate goal of the study is to include the findings in a more comprehensive and general understanding. Though comparative cross-national research may not lead directly to new understanding, it will at the very least force readers to question generalizations. (Kohn 1996, 37.) Clearly, the findings of this comparison only apply to this particular study, but the contextual approach may give some indication of how and why HR systems differ in other countries. Nevertheless, the aim of the study is simply to provide a comparison of HR systems in Finland and in the UK.

The material for this study was collected from databases provided by Turku School of Economics, on the basis of scope, relevance and novelty. After searching for literature on northern European, Finnish and British HRM from the 1990s and onwards, the most relevant texts were selected on the basis of the title, topic or abstract. These texts were read through and pieces of information from each text provided the basis for the comparison. The texts pointed towards societal, cultural and historical differences as the explanatory factors of the differences in national HR systems. These factors took center stage in this comparative analysis as a way of determining why and how the national HR systems differ. The societal, cultural and historical differences were analyzed and finally linked to the differences in HR practices, as Figure 2 illustrates.

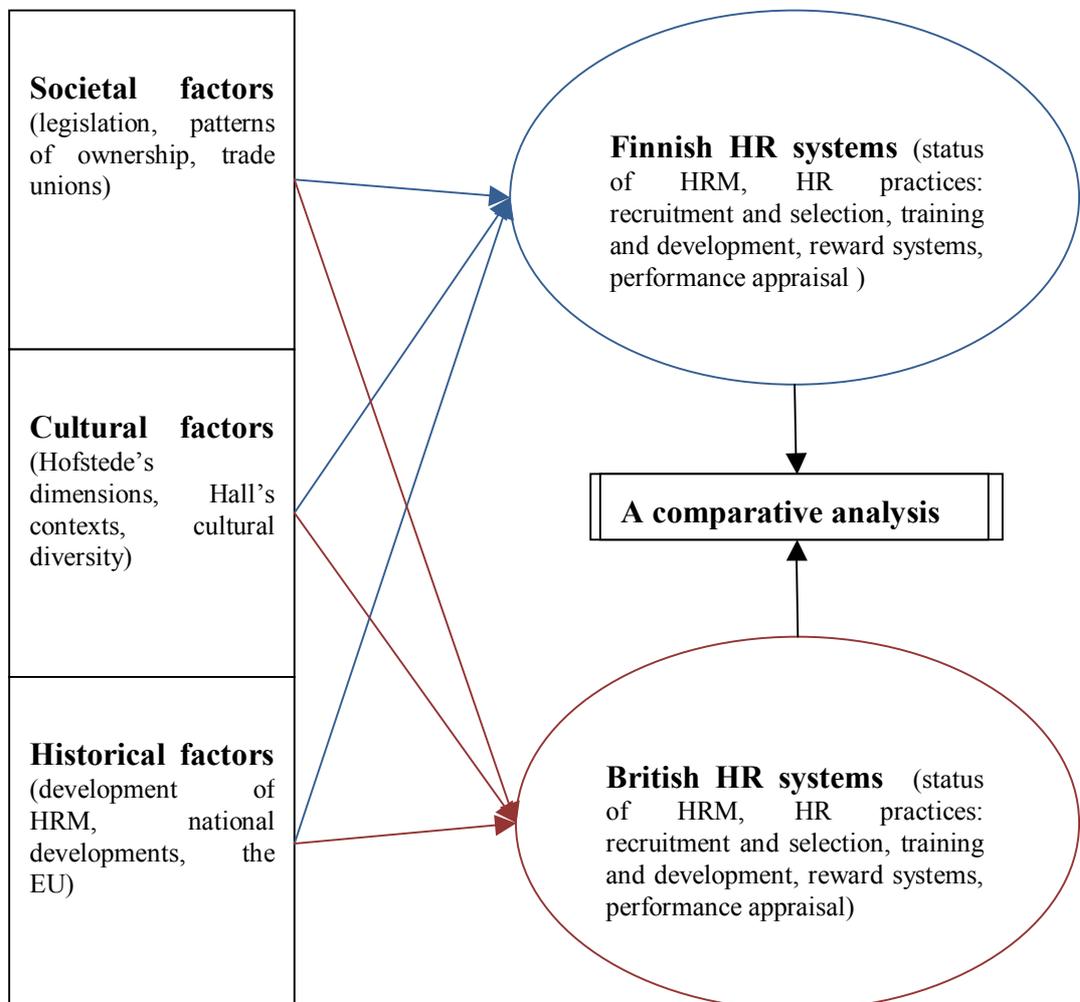


Figure 2 The framework for the study

By combining and comparing the information a synthesis was constructed. When the comparative analysis was underway some additional texts were searched for in order to 'fill in the blanks'. These additional texts were mainly concerned with more detailed issues and information, whereas the basic literature provided the foundation for this paper. The basic material was initially divided into two categories; literature on Finnish HRM and literature on British HRM. It soon became clear that these texts included various topics and issues. Consequently, the material was categorized further and the headings for this study were born. The categories referred to the societal, cultural and historical differences and finally the differences in the status of HRM and the HR practices. Based on these categories, seen in Figure 2, a holistic view of Finnish and British HR systems evolved as the societal, cultural and historical factors were linked to the HR systems. The comparison process involved these factors and eventually culminated in the comparison between Finnish and British HR systems.

Comparative cross-national research has been criticized of building on the underlying assumption that citizens within a country are similar, when in fact all industrial societies are pluralistic. It has even been argued that often differences within a country are larger than the differences between countries. (Scheuch 1990, 29–30.) In this study, the differences within both countries are acknowledged, especially within the UK, where cultural diversity is a major issue. However, the study builds on some generalizations, which makes the comparison between the countries possible. Exceptions are a given, but hopefully the outcome of this study is still applicable and gives a general idea of the prevailing differences. Previous studies have mainly been concerned with comparing country-clusters, which is even more generalizing, whereas in this study the comparison is on the national level hence reducing variance.

One of the pitfalls in comparative research is the fact that 'meaning' is contextual, i.e. the same thing can mean different things in different cultural contexts. This could lead to problems when employing surveys, questionnaires or interviews, as the respondents may understand the questions in different ways and the researcher could misinterpret the answers. (Teune 1990, 53–55.) As Kohn (1996, 28) elaborates, in addition to being costly and difficult, cross-national research often creates more interpretive problems than it solves. In this study the interpretation problem is avoided as the analysis is based on theoretical texts that have been written by specialists and experts. The material concerning Finland and the UK is theoretic, but often based on empirical research. As the information has already been filtered by researchers and is mainly written for the international academic and professional community, it's less likely to be dependent on the different cultural contexts. The material is therefore more comparable and equivalent and misinterpretations are not as likely. On the other hand,

interpreting second-hand data and drawing conclusions from prior research and theory could lead us further down a wrong path. As the distance between the original data and the researcher increases, it leaves more room for error. This is why one of the main reasons why this paper is based on a large variety of literature. As a large number of texts support and point towards the conclusions drawn in this study, they are less likely to be wrong, resulting in a more reliable study.

The possibility of bias is also apparent as the author of this thesis is Finnish. Objectivity has been consciously aimed for by not choosing some texts that support the existing views of the author over others that don't. This way the issue can be represented realistically and the results are not dependent on the nationality of the author. The implications of nationality in a comparative analysis are acknowledged, but such distortions have been consciously avoided.

The theoretical material chosen for this study is as recent as possible but could still be criticized for not being up to date. Nevertheless, cultural, societal and historical factors are not subject to rapid changes and therefore the study is not outdated. Obviously, subtle changes take place as cultures and societies evolve, but this study is likely to stand the test of time as the variables are deeply rooted and change happens rather slowly on the national level.

### **3 SOCIETAL FACTORS**

Research into European HRM looks at factors external to the organisation, such as the role of the State, trade unions, and ownership patterns (private vs. public), as important aspects of country-specific HRM (Brewster & Larsen 2000a, 15). According to Brewster (1995), European organisations are restricted on three levels when developing their strategies; at the national level by culture and legislation, at the organisational level by patterns of ownership and finally at the HRM level by trade union involvement and agreements. Brewster claims that based on these three levels of restrictions the European organisations operate in a distinctive environment. (Brewster 1995, 2.) These three levels will be used as a basis for examining the issues affecting the Finnish and British HR systems. Legislation and patterns of ownership will be discussed under the topic of 'state involvement' followed by an introduction to trade unions. Societal factors have clearly an impact on HR systems in any given country. As Vickerstaff (1992, 3) elaborates, the traditions and practices vary widely within Europe and the legal framework as well as the industrial relations set the tone for the skills and roles expected of HR specialists in a particular country. This is why it is relevant to compare the Finnish and British societies. A manager operates in an organisation, but the organisation doesn't exist in a vacuum.

#### **3.1 State involvement**

Legislation tends to reflect the predominant cultural values and therefore it differs from one country to the next. Interestingly enough, now that both Finland and the UK are members of the European Union, the EU policy overrides the national legislations in a range of HRM related issues. The Social Charter, for instance, addresses issues such as employment and remuneration, equal treatment of men and women, and participation of workers. So far, both the UK and Finland have also maintained their own specific legislations that influence HRM on a national level, but maybe these differences will be levelled out in the future by EU-level legislation. Furthermore, the increasing movement of goods, services and people across borders, also listed in the Social Charter, is likely to have an impact on HRM in the future. (Brewster & Larsen 2000b, 26.) This is due to the possible harmonisation of standards for goods and services as well as the transference of different practices and policies which accompany people when moving across national borders.

At the moment, the British legal system differs from those of other EU member states, including Finland, as it's not based on a written constitution. In terms of employment, this means that employees lack specific inalienable rights, such as the right to strike. The British legal system could be described as conservative, as it operates on the basis of past decisions i.e. precedents. These common law rights are supplemented by statutory rights imposing obligations on employers and introducing rights for employees. Thus the statutes have important implications for HR practitioners when it comes to ordering and regulating employees at the workplace. (Clark 2001, 444–445.) As Clark (2001, 444) suggests, the absence of a written constitution can facilitate flexibility and adaptability, which are necessities in the rapidly changing business environment. On the other hand, common law is largely based on the past and therefore can be seen as counteractive to the applicability of the practice in the future.

During the 1970's a mix of statutory rights were introduced in the UK relating to issues such as equal pay, sex discrimination and harassment, and racial discrimination and harassment. Since 1995 all workers, regardless of the length of service and type of contract, have been protected by some basic rights providing a minimum level of protection. Workers often have additional rights negotiated on the organisational level by the employer and a recognised trade union. (Clark 2001, 449–451.) Clearly, the British state has traditionally played a rather minimal role in terms of creating legally binding rules and regulations for employment, relying more on individual and organisational agreements and protecting freedom. Despite the recent employee supportive legislation, introduced by the EU and the Labour government, much of the British employment legislation remains mainly restricting and controlling of labour (Richbell 2001, 262).

The Finnish government, on the other hand, takes a more proactive and protective role in terms of legislation. The Nordic countries, including Finland, are known for their highly developed social security systems with universal benefit schemes, whereas the UK's approach is more laissez-faire as the state relies heavily on market forces and only intervenes in more extreme cases. As Brewster (1995, 10) points out, the support provided by the state in the UK is considerably less than in other European countries. The extent of state regulations and governmental support obviously has an effect on human resource management, for example when it comes to hiring and firing employees.

In Finland, the use of labour is relatively rigid due to the labour legislation; especially firing an individual can be difficult. Instead, companies resort to internal transfers and changes in order to adjust to the changes in the business environment. (Vanhala 1995, 47.) State involvement also influences HRM in terms of who can be

employed and who wants to be employed. In the Nordic welfare states it is not necessary to work in order to survive, due to the extensive support system provided by the state to its citizens: “In some cases high compensation does not provide incentives for the unemployed to find and accept employment; instead it may offer an opportunity to decide between working and non-working” (Vanhala 1995, 38). Therefore HR managers may have to resort to other ways than simply financial remuneration to motivate their staff. The Finnish society has mainly been developed according to the ideals of the Nordic welfare state. It offers a secure livelihood that guarantees a reasonable level of income for all its citizens. Basic benefits are universal and the core of the Finnish social protection system is equality. (Lindeberg, Månson & Vanhala 2004, 289.) As the Finnish benefit system is so extensive, providing basic support and financial aid to all citizens, employees are more likely to consider work as more than just a way to make a living. The fact that Finnish companies are increasingly having difficulties in recruiting people for low status jobs with low wage levels (Vanhala 1995, 39), demonstrates the inclination of Finnish workers to look for more meaningful jobs with substance.

In the UK, on the other hand, where there are bigger differences in living standards and not a similar financial safety net provided by the state, a manager may find it easier to come across motivated employees even for the less-attractive and low-paid posts. Lately, even the UK has experienced a shift to more employee supportive legislation, emanating from the EU, emphasising employee welfare rather than controlling and restricting it (Richbell 2001, 262). Established in 1999, The Employment Relations Act aims at aligning workplace rights in the UK with the ones in other EU member states in order to achieve decent minimum standards. The new improvements in workplace rights include individual rights for all employees, collective rights for all employees, maternity and paternity rights, and rights to representation in the workplace. (Clark 2001, 453–454.) Furthermore, the recent policies of the British government are based on encouraging a voluntary approach to training in the workplace in order to compensate for the low participation of young people in non-compulsory education (Atterbury, Brewster, Communal, Cross, Gunnigle & Morley 2004, 33).

The rather low maternity benefits and company-based maternity pay schemes in the UK (Directgov Maternity pay 2007) undermine the security and opportunities of women in the workforce. Maternity rights are very complex as the basic statutory arrangements are sometimes supplemented with additional arrangements negotiated through collective bargaining on an organisational level (Clark 2001, 451). Mothers are driven to work and managers are more than happy to employ them to low-paid, part-time posts that allow

women to take care of their families as well as adding to the income. This is a vicious cycle, as it doesn't give women an opportunity for career development.

In Finland on the other hand, the state provides maternity benefits, childcare and parental leave to its citizens (Sosiaali- ja Terveysministeriö 2007). This gives the parents a more equal opportunity to have a career, as the equal treatment of mothers and fathers at the workplace is regulated on the national level. This is manifested in the high proportion of working mothers with small children and the relatively small proportion of women working part-time (Vanhala 1995, 46). Finnish managers have to be prepared to arrange parental leave possibly for both parents. Furthermore they will be faced with more women competing for higher level posts in the future.

The equality between the sexes is a major issue for managers in Finland as well as in the UK. Men still dominate higher levels of management and technical professions, however this is likely to change in the future and managers will have to adapt to the change. (Gannon 2004, 236.) In Britain, 53% of households have all members working and in the future HRM practitioners will have to recognise the employee patterns of entire households, not just those of their employees, as the household form is changing (Richbell 2001, 265). It seems that in Finland this change is already underway and the UK is lagging behind.

In addition to differences in governmental policies and legislation, the role of the public sector in the UK and Finland varies significantly. In the UK, a society that emphasizes individualism and relies heavily on market forces, the public sector is not such a major player in the labour market. In Finland on the other hand, the situation is different; the public sector is more attractive to employees and more influential in the society as a whole. (Bjerke 1999, 200.) Due to the importance of governmental organisations, a Finnish HR manager operating in the private sector has to take into account that some of the workforce will be attracted to working in the public sector. In the UK, on the other hand, the private sector has a far more important role, and therefore there is less competition for good employees between the private and public sectors. The policies of the British government during the past decades have been aimed at building a society that increasingly encourages the private sector. (Atterbury et al. 2004, 30.)

Organisations in the public sector tend to be reluctant to adopt trendy management practices and quite often have scarce financial resources. Public organisations usually encourage formal, functional and rather traditional practices in order to minimize risks and mistakes. On the other hand, public organisations are usually highly knowledge based, dealing with customer service and administrative tasks, and tend to be relatively long term oriented. All these characteristics contribute to the increasing appreciation of

human resources, a critical factor in achieving effectiveness and customer satisfaction. This is evident in the growing attention given to training and development, career planning, and line manager involvement in management of human resources in the public sector. (Brewster & Larsen 2000b, 27.) In Finland the long-term orientation is evident, as public sector organisations tend to plan ahead when it comes to their human resources, whereas other sectors tend to have a more ‘ad hoc’ mentality (Lähteenmäki & Huuskonen 1996, 28–30).

Governments may also encourage certain HR practices and policies in a society by implementing them in public sector organisations. (Vickerstaff 1992, 2). Consequently, as public sector organisations are more influential in the Finnish society and setting standards for other businesses, Finnish companies in general tend to be more long-term oriented which is reflected in their HR systems. The impact of the public sector is evident in the moderate and reserved approach to new management trends and short-term fixes. As the public sector has a less significant role in the UK, companies are more inclined to follow new trends and to set their own standards.

### **3.2 Trade unions**

Early capitalism had an exploitative nature which sparked the development of trade unions as collective forces to protect employees. As union representation became legal, employers accepted the constraints, and negotiations for terms and conditions of employment emerged into modern society. Collective bargaining refers to this process of negotiations between employers and trade unions for determining the terms and conditions of employment. (Marlow & Storey 2001, 474.)

One of the differing factors between the Finnish society and the UK is union density and the influence of trade unions, which have some major implications for the HR systems and practices. Depending on the influence that trade unions have in a society, human resources are managed in different ways and managers are faced with different kinds of challenges when carrying out their daily functions. This is how managers and organisations are restricted on the HRM level by collective bargaining (Brewster 1995, 2).

Trade unions can potentially limit the strategic choices of companies either directly or indirectly. Firstly, unions influence wage levels and therefore have an impact on labor costs. Secondly, trade unions constrain the ability of a company to hire and fire its employees. That is how trade unions affect the extent to which a company can adjust to market conditions by varying its employment levels and its labour costs. As Dowling

and Welch (2004, 216) suggest: “...managers who do not take these restrictions into account in their strategic planning may well find their options severely limited”.

According to European Worker-Participation (2007) in Britain only less than 30% of employees are trade-union members whereas in Finland the figure is more than double, as can be seen from Figure 3.

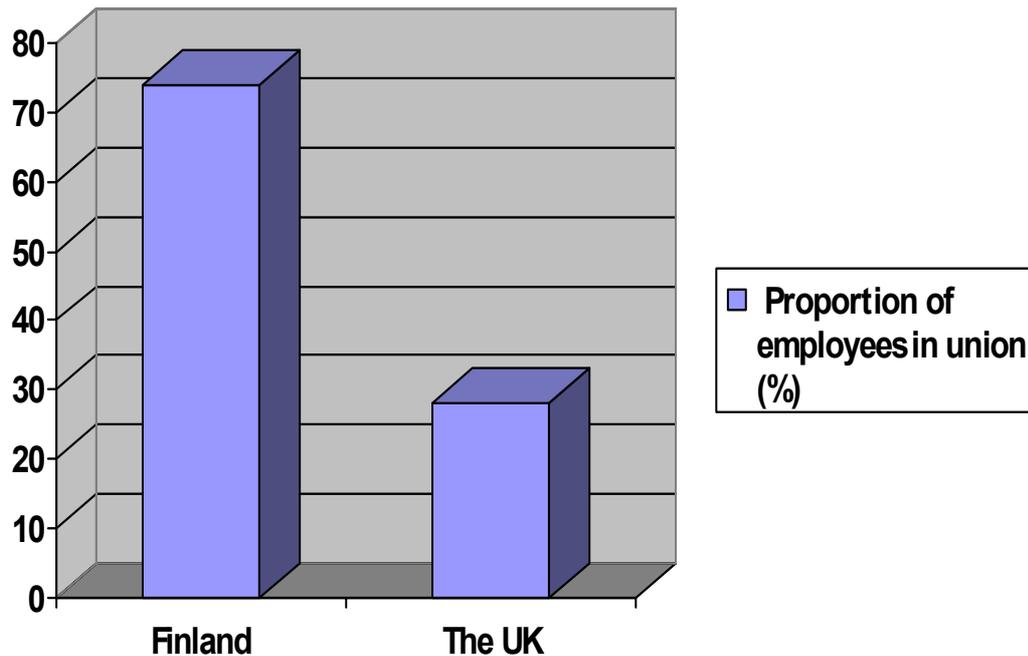


Figure 3 Union density (European Worker-Participation 2007).

The difference in union density is clear and the lower density undermines the role of trade unions in the UK. Furthermore, the UK has experienced a decline in trade unionism recently, except for a slight increase during 2005 (Union density, 1995–2005). Atterbury et al. (2004, 45) claim that large tracts of the private sector in the UK are now mainly non-union due to the decline in trade union density. Nevertheless, one should bear in mind that union recognition is found in 78% of larger organisations in the UK. Such large organisations tend to have well-established HRM policies and practices. Consequently, the HRM practitioners in the larger British companies are involved in the discussions and negotiations with union representatives. (Richbell 2001, 262.) So, while trade unionism is declining in the UK, HRM professionals in larger British companies have to deal with unions and take them seriously.

Due to the absence of a constitution in matters of employment, the importance of trade union activity in the UK is emphasized in collective bargaining and as a consultative body, though collective agreements between employers and trade unions are not legally binding in English law. (Clark 2001, 444; 449.) Traditionally, British unions felt threatened by personnel management and subsequently HRM. Personnel managers and HR practitioners were seen as intruders, as the unions felt personnel matters should be resolved through collective bargaining or between trade unions themselves. (Berridge 1992, 64.) Furthermore, as the trade unions in the UK are lacking in members, they frequently resort to strikes and other aggressive tactics in order to be heard. This has led to a strained relationship between unions and management (Gannon 2004, 235).

However, trade unions and managers in the UK are now beginning to take a less adversarial approach in order to facilitate, among other things, the successful integration of HRM with collective bargaining. The recognition of trade unions in the UK has been established in The Employment Relations Act in 1999. If 10% of employees in an organisation are trade union members and a majority of employees support the union, recognition can be claimed. Trade union recognition is automatic when the membership exceeds 50%. In addition to these regulations, former anti-union employers, such as Dixons Electrical Stores, have negotiated voluntary agreements with trade unions in order to avoid negative press. In fact, evidence suggests that while the number of trade union recognition agreements have remained more or less the same in the UK, the de-recognition cases have fallen significantly. (Clark 2001, 455.)

The juxtaposition has gradually been replaced by cooperation between managers and employees to strategically develop organisations and their human resources. After all both employers and unions have a common interest in developing the employees in order to gain a competitive advantage. Furthermore, the traditional bones of contention, such as pay and working hours, are no longer such important issues for employees, as flexible arrangements have been gaining ground. Therefore, trade unions in the UK are reforming themselves, aiming for a partnership with the employers rather than taking the traditional antagonistic approach. (Brewster & Larsen 2000b, 28–31.)

It has been argued that the increasing adoption and integration of HRM, being concerned with the reorganisation of work and employment, has contributed to the shift of focus from collective bargaining to the individual level. As HRM policies and strategies are applied on an organisational level, trade unions are concerned about losing their footing. This doesn't necessarily mean the end of trade unionism, but it would suggest that some changes in trade union activities and collective bargaining have to take place. The nature of the relationship between unions and employers would

become more consensual, and the traditional forms of unionism would become less important or marginal. In the UK, "...trade unions have been caught in a tension as to whether to work with these changes or to oppose them." (Fairbrother 1996, 11; 25.) Apparently British trade unions have increasingly adopted the co-operative approach.

The case of the Transport and General Workers' Union (TGWU) in Britain, illustrates the change as the union moved from being sceptical and cautious towards taking a more proactive approach. The TGWU reassessed its position towards HRM, but remained critical in terms of the possible marginalisation of union rights and influence. (Fairbrother 1996, 14.) Trade unions are faced with the challenge of HRM and how best to approach the issue; whether to hold on to their rights and defend collective bargaining or to buy in to the cooperative and consensual model?

One of the most important issues relating to trade unions is the impact they can have on organisational communication. It has been argued that managers in the UK are able to communicate more directly with their workforce, due to the fact that unions rarely operate as an intermediary between employers and their employees. In Work Councils employers are able to inform their employees of the company's progress and HR practitioners are able to encourage and improve communication within the company. (Richbell 2001, 262–263.) Organisations in the UK have in fact reported a significant increase in the direct communication (verbal, written or through meetings) between management and employees. This freedom of communication can possibly create a sense of involvement and commitment from the employees, while making it easier for the organisation to control its employees and to communicate the organisational strategy to its employees. (Morley, Mayhofer & Brewster 2000, 150–156.)

On the other hand, the lack of collective bargaining and representative bodies has a negative effect on the communication between managers and employees as organisations generally prefer to use representative bodies as a forum for communication and consultation with their employees about important issues. Recently 16 % of UK-based organisations reported a decrease in the use of employee representatives as a channel to communicate with their employees. In fact, the UK is the only Northern European country where the number of organisations reducing their use of representative bodies for communication outweighs the number of organisations increasing their use of these consultative bodies. (Morley et al. 2000, 156–157.)

In addition to communication, trade unions have an impact on the overall presence of the employee aspect. The UK had no legislative framework in place to support employee consultation, meaning that organisations were not necessarily legally required to recognize the employee aspect. In Finland on the other hand, regulations demand employee consultation in most organisations. Recently, even the UK has introduced

legislation concerning formal trade union recognition and through EU-level legislation further convergence is likely to take place in the future. (Morley et al. 2000, 154.)

Trade unions play a bigger and a more consistent role in the Finnish working-life. As a HR manager operating in Finland you are expected to cooperate and negotiate with trade-union representatives. In Finland nearly 40% of organisations reported an increase in the use of representative bodies for communication of major issues to the employees, while only a few organisations reported a reduction. However, there seems to be a slight decrease in the use of representative bodies for upward communication i.e. from employees to management. (Morley et al. 2000, 156–157.)

Another interesting issue relating to the trade unions and communication is the briefing of different groups within organisations. As trade unions have traditionally promoted the worker's right to know, it is hardly a surprise that Finnish organisations tend to brief their manual, clerical and technical staff nearly as frequently as their management staff. As trade unions have influenced Finnish organisations and promoted the employee aspect, it has become a custom to inform workers on all organisational levels about financial performance and even strategic issues. Actually, Finland reported the highest number of formal briefings below the managerial level in northern Europe, both on strategy and financial performance. (Morley et al. 2000, 160–161.)

Due to the influence of trade unions many of the management practices in Finland are not as straightforward as they would be in the UK. The fact that most employees are protected and represented by a union restricts the options of managers. Managers in the UK, on the other hand, operate in a more flexible and less restricted environment in that sense.

## 4 CULTURAL FACTORS

*“The differences between the use of various HR programmes within each of the European countries respectively imply that there are indeed large cultural effects even within a European context. It seems justifiable to claim that HR initiatives should be tailored to the particular national cultural environment in question.”* (Larsen & Ellehave 2000, 95–96.)

The national culture is an essential factor in the development of human resource management in a particular country. Especially due to their close involvement with people, human resource managers are continuously affected by the cultural environment in which they operate, as well as the different cultures represented in the workforce. Cultural factors influence HRM directly, but also indirectly through legislative requirements and restrictions that reflect the prevailing national values (Brewster & Larsen 200b, 25). As Brewster and Larsen (2000b, 25) point out, the cultural differences even between countries in geographical proximity are well documented and recognised in literature. The cultural comparison between two European countries like Finland and the UK is therefore justified, despite the fact that the countries are geographically relatively close to each other.

### 4.1 Cultural dimensions

Geert Hofstede (2001) conducted a well-known study of how national cultures influence the values in workplaces. The original data was collected between 1967 and 1973 in a large multinational corporation, IBM. Since then, Hofstede has produced new editions of the study, where more countries were included and the study was extended. The analysis focused on national differences in employee values. On the basis of the analysis Hofstede identified four cultural dimensions: power distance, individuality, masculinity and uncertainty avoidance.

Some criticize Hofstede’s work of being too simplistic and the comparison on a national level has been criticized of being too general. Gerhart and Fang (2005, 982) for example, question the dominant role of national culture in international management by claiming that cultural differences between countries don’t always override the cultural differences within countries. Furthermore, they criticize Hofstede’s research by suggesting that organizational differences in cultural values are in fact as important as national differences. (Gerhart & Fang 2005, 982.) Nevertheless, Hofstede’s cultural

dimensions are a useful tool for this study as the cultural differences within the two countries are recognized and the impact of organizational differences in cultural values are acknowledged.

According to Hofstede's (2001) cultural dimensions, the Finnish culture is individualistic, however the British culture is significantly more so, as Figure 4 portrays; in fact the second highest worldwide after the USA.

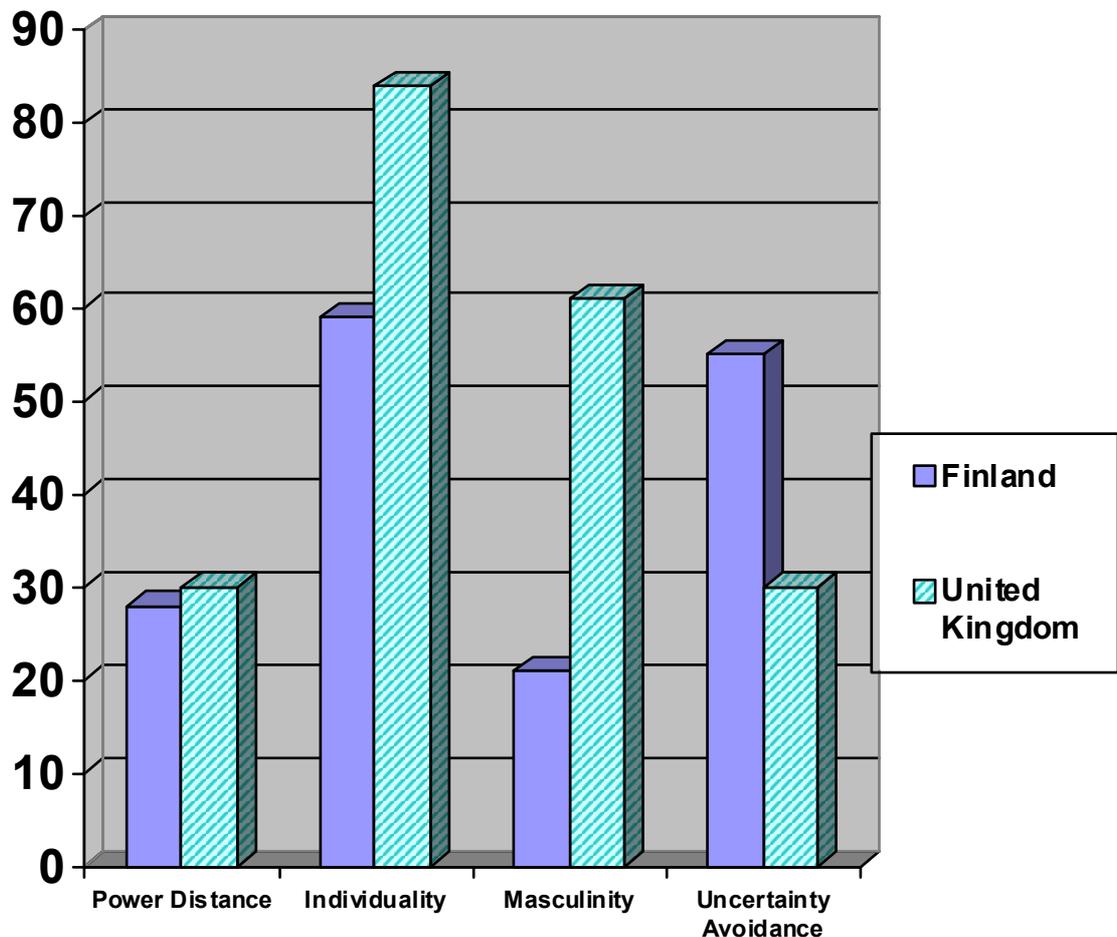


Figure 4 Hofstede's cultural dimensions (2001).

Individuality in Finland is more about personal development, whereas in the UK it focuses more on competition between individuals. At workplaces in the UK this may manifest itself as a competitive atmosphere and an 'every man for himself' -attitude, encouraged by managers employing performance related pay and bonus-systems. In less individualistic cultures harmony, consensus and group decision-making are more valued

(Leeds et al. 1994, 16). It seems that in Finland employees prefer a more harmonious atmosphere, working together rather than competing against each other. Consequently, while managers in the UK are expected to foster individuality by encouraging competition, Finnish managers do the same by providing training and development opportunities for employees in order to facilitate individual development. The high individuality index is also consistent with the British market-based society, which highly relies on the market forces and competition. Obviously, the efficiency of the market is important to both Finnish and British managers, but the tools, including HR practices, to achieve efficiency have to match the prevailing culture.

As can be seen from Figure 4, Hofstede's (2001) studies reveal the UK's culture to be far more masculine than the Finnish culture. This means that there is a bigger gap between men's and women's roles, and gender roles tend to be quite demarcated in the UK. These differences between genders lead to unequal treatment and participation of the workforce as well as a divide between typical men's roles and women's roles in the working life. (Hofstede 2001.) This is reflected in the under-representation of women in UK management, especially in higher levels of management. Moreover, British women managers are mainly concentrated in the traditionally female dominated industries and in 'softer' areas like personnel and customer service. (Doyle 2001, 418.)

Hofstede (2001) also reports differences in the prevailing values of masculine and feminine cultures. Masculine cultures tend to value assertiveness and competition (Hofstede 2001). In more feminine cultures, such as Finland, the traditionally feminine values like cooperation, caring and quality of life are appreciated (Leeds et al. 1994, 16). The importance of quantifiable measures of the more masculine culture in the UK is reflected in the increase of short-term contracts, temporary working and part-time working (Richbell 2001, 266). The numerical control of labour costs clearly overrides job security and continuity in accordance with the more masculine values. The softer values are preferred in the less masculine Finnish culture. This is manifested in the way employee welfare and workplace atmosphere are frequently and extensively measured in Finnish organisations. In fact, these are usually seen as the most important tools for measuring the effectiveness and productiveness of the HR managers. (PA Consulting Group 1999, 13.)

Hofstede's (2001) power distance index represents inequality within societies; more specifically it reflects the extent to which the unequal distribution of power is accepted within a society. Hofstede (2001) rated Finland slightly lower in power distance compared to the UK. As Hofstede (2001) elaborates, it describes how members of an organisation expect and accept the unequal distribution of power. What this means in terms of management, is that in British organisations hierarchy, bureaucracy and

delegating is slightly more accepted than in Finnish organisations, where consultative management and autonomy of employees are preferred. Furthermore, the unequal distribution of power in the UK is also evident in the paternal tradition, which has its implications on today's employment relationships. The pre-industrial paternal philosophy is still apparent as employees remain the subject of the employment contract, giving the employers legitimate authority. The market power held by employers in the UK fosters the inequality of employees and employers. (Clark 2001, 439–440.)

The debate in the UK concerning the use of fringe benefits, also reflects the unequal class-ridden culture: "...should fringe benefits be used to reinforce and reproduce status distinctions and differences between groups within the enterprise?" (Vickerstaff 1992b, 34.) In Finland on the other hand, the provision of information on financial performance and strategic issues to manual, clerical and technical staff as well as managerial (Morley et al. 2000, 161) reflects the egalitarian culture.

The fourth dimension, uncertainty avoidance, portrays the ability to tolerate uncertainty and unstructured situations. According to Hofstede's (2001) findings, Finns are less comfortable with novelty and ambiguity, relying on rules and regulations in order to control and avoid these situations. The British culture on the other hand accepts uncertainty, by having less rules and allowing difference of opinions and ambiguity (Hofstede 2001). These values are expressed in the way decisive and practical managers, who take rapid action, are preferred in British organisations (Leeds et al. 1994, 15). The difference in the extent of state involvement between the countries represents the Finnish desire to avoid uncertainty by creating rules and support, and the British tolerance of uncertainty and unpredictability.

## 4.2 Country clusters

Another way of comparing cultures and societies is Hall's categorization, which draws attention to the context of cultures. Hall (1990) defined two types of cultures: low context and high context cultures. According to Hall (1990), low context cultures have a monochronic approach to time, i.e. time is perceived as linear. Therefore there's a tendency to do one activity at a time in low context cultures. Furthermore, low context cultures are task based, involving deadlines and schedules, while separating business and pleasure. (Leeds et al. 1994, 12.)

High context cultures, on the other hand, are polychronic, i.e. there's a more relaxed view of time and multitasking comes naturally. Interruptions and tardiness are tolerated,

and business and personal lives are often mixed, in high context cultures. (Leeds et al. 1994, 13.) The differences between the British and Finnish cultures are evident in this approach as well. According to Hall's categorization the British culture is high context whereas the Finnish culture is low context. (Leeds et al. 1994, 13.)

This ties in with the differences in uncertainty avoidance, i.e. the acceptance of ambiguity and unpredictability, as British people are more likely to endure confusion and uncertainty. In the Finnish culture on the other hand, order and clarity are preferred and maintained by a variety of rules and regulations. The Finnish preference for order and rules is reflected in the society, as the majority of workers allocate the responsibility for employment issues to the trade unions, i.e. the Finnish workforce is highly organized. Employment issues are dealt with according to a well-established model, where employees voice their opinions through unions while the government and the employers must listen. (Helsilä 2002, 12.)

On the basis of Hofstede's cultural dimensions and Hall's cultural contexts, Leeds, Kirkbride and Durcan (1994, 22) grouped European countries into country clusters. According to this categorization, Finland is a part of the Scandinavian cluster and the UK belongs to the Anglo cluster. Leeds et al. (1994, 22) claim that cultural differences between European countries are best described at the level of these country clusters. The fact that Finland and the UK are assigned to different cultural clusters reinforces the view that there truly are some fundamental cultural differences between these two countries.

Different cultures have different concepts and models of leadership, stemming from the prevailing cultural values. The cultural values have an effect on how managers approach leadership and how leadership is perceived in societies. In practice, culturally incompatible leadership models are either rejected as being inappropriate or simply misunderstood resulting in unexpected behaviors. Generally in masculine cultures, as in the UK, leader success is measured in terms of material improvement, whereas in more feminine cultures, the success correlates with the quality of relationships, harmony and cooperation within organizations. (Durcan & Kirkbride 1994, 39.)

As mentioned earlier, the UK belongs to the Anglo cluster, having similar cultural values to the ones in the USA. Consequently, it's likely that the British concept of leadership is similar to the American approach. (Durcan & Kirkbride 1994, 34.) The essential characteristics of the British model of leadership include the belief in the importance of the leader in achieving high performance, the importance of employee commitment, the individuality of employees, competitiveness and the objective of maximizing productive performance. Employee participation and consultation are expected to influence the outcome, whereas in Scandinavian leadership they are a

means to create a sense of involvement. Performance and productivity are the ultimate objectives in British leadership. (Durcan & Kirkbride 1994, 34–36.)

In comparison, the basis of Scandinavian leadership (including Finland) lies in the quality of working relationships, quality of life, separation of work and personal lives and employee involvement. In practice, Scandinavian leadership involves a less materialistic and achievement-focused mindset, emphasizing teamwork rather than competition, fostering relationships, encouraging harmony and valuing employee participation in the form of trade unionism, for instance. (Durcan & Kirkbride 1994, 29–36.)

### **4.3 Differences in cultural diversity**

The UK, like Finland, joined the European Union, which facilitates the movement of labour between the member states and therefore critically affects HRM in the member states (Brewster & Larsen 2000b, 26). As both managers and employees move across borders they are likely to carry with them different customs, practices and cultural influences. The increasing international movement of people is actually likely to have a greater influence on HRM than the direct political involvement of the EU (Brewster & Larsen 2000b, 26).

The UK is characterised by a mixed cultural identity, often referred to as a melting pot of cultures. This is partly due to the vastness of the British Empire before World War II, and the immigration of people to the UK. (Gannon 2004, 223.) In comparison to Finland, the UK has had a long history as an international country with a variety of ethnic minorities represented in its workforce. Furthermore, the minorities as groups are significantly bigger in relation to the ethnic minority groups represented in the Finnish workforce. Managers in the UK are therefore more used to dealing with employees from different ethnic backgrounds and issues relating to this. Furthermore, inward foreign investment in the UK has brought along a variety of HRM practices adding to the diversity of HRM in the UK and spilling over into domestic organisations. What makes the impact of inward foreign investment even bigger, is the positions of power that foreign nationals tend to occupy in the investing firms. They're able to mould the company's HR practices and are likely to have an effect on the development of HRM outside the company as well. (Richbell 2001, 264.)

The fact that statutory rights relating to racial discrimination and harassment were introduced in the UK as early as in the 1970's reflects the impact of cultural diversity on the national employment practices. The Race Relations Act in 1976 (as amended)

defined racial discrimination as direct, indirect and victimisation, following the model set by the Sex Discrimination Act only a year earlier. (Clark 2001, 450–451.) Evidently cultural diversity in the UK has been a major issue and an important one, as the rights of employees from different ethnic backgrounds have been protected since the 1970's by statutory protection.

Finland, on the other hand, has only recently attracted immigrants; the workforce is therefore more homogeneous when it comes to ethnicity. When compared to the situation in the UK the ethnic minorities play a smaller role in the Finnish working life. Gannon (2004, 153) explains the situation in Sweden: "Sweden's small size and relative cultural homogeneity allow for social and cultural consensus". This comment clearly applies to Finland as well, being a small country with relatively small ethnic minority groups. What this means in terms of HRM, is that racial discrimination and other relating issues are not as prevalent in Finland, and Finnish managers are faced with a rather homogenous group of employees with one shared culture.

## **5 HISTORICAL FACTORS**

History has its implications on issues relating to the HRM. Historical factors have influenced the development of HRM on the national level. Furthermore, the development of the HRM discipline in itself has clearly affected the way human resources are managed today. The development of HRM as a discipline will be looked at followed by an examination of some of the major historical factors that have influenced British and Finnish HRM.

### **5.1 The development of HRM**

#### ***5.1.1 The development of British HRM***

The roots of HRM can be found in the US, where the theoretical discipline and field of practice was born. Soon the concept travelled over to Europe as well. However, it became clear that the circumstances in Europe called for specific tools and solutions. European HRM evolved taking into consideration the European cultural context and the specific business environment, where the problems and appropriate activities are different from those in the US. (Brewster & Larsen 2000, preface.) While the US approach builds on organizational autonomy and independence, European HRM deals with a different kind of reality where organizations operate within a restrictive framework (Brewster & Larsen 2000b, 25).

During the 1980's organizations in the UK were looking to the United States for best practices and models. British managers adopted HRM, but the American model began to lose its appeal soon thereafter. (Guest 1990, 377.) While HRM gained ground in Europe, it became clear that the new context required a different approach. In the UK this was manifested in the reluctance of the management to adopt the American strategic approach to HRM. Essentially, what worked in the US, didn't work in the UK due to different histories, traditions and institutions. (Beardwell 2001, 6.) The HRM practice's historical background in the UK is based on 'the pluralist tradition' which assumes that there exists a conflict of interests between management and labour, and that collective bargaining is the main instrument to deal with this (Atterbury et al. 2004, 45).

This model is however no longer prevailing as union density has declined and organisations are facing increasing competition and restructuring. Consequently human resource management no longer just deals with maintaining peace between labour and management, as it did before. Now HRM in the UK has become an important strategic function with potential to affect the organisations' performances. The significance of HRM is manifested in the UK based Chartered Institute of Personnel and Development (CIPD), which is the largest professional body in this field, in Europe, with over 100 000 members. (Beardwell 2001, 10–11.) The Finnish equivalent of CIPD, HENRY, has only 2450 members (HENRY ry, 2007). Considering the differences in population, the membership of CIPD is still relatively much higher.

In the 1980's and 1990's the role of the local government changed significantly in the UK, as Margaret Thatcher transformed the society. Expenditure controls, specific financial targets and competition from private sector contractors forced public sector organisations to change their management systems, as the traditional management practices became too inflexible and simply outdated. Pursuing higher productivity meant losing the role of a model employer based on national pay, life-time employment and stability. (Keen 1992, 24.) The public sector was now expected to compete with the private sector for employees, customers and markets, transforming its management practices accordingly. Due to the pressure to adopt similar methods of operation to the ones in private sector organisations, the British Rail for example, changed its reward system from collective bargaining to performance related pay. In accordance with the British culture the objective of the performance-based system was to recognize individual contributions, rather than to encourage uniformity by rewarding everyone in a similar way regardless of their actual measured performance. Furthermore the performance-related pay system decentralized pay determination from the national level to the individual level. (Pendleton 1992, 184–185.)

The economic downturn in Europe from the mid 1980s to the mid 1990s weakened the future prospects for businesses. Downsizing, layoffs and financial restrictions had a significant impact on the development of HRM. During those difficult times British organisations were not able to maintain the objective of organisational growth and development, and some HR practices, like training and development, were neglected as individual and managerial development were not a priority. (Larsen & Ellehave 2000, 92.) According to Sparrow and Pettigrew (1987, 111), British companies neglected their human resources due to the economic slump, which resulted in a further decline in the competitiveness of the British economy. The effects of deflation and recession in the UK had a damaging effect on employment during the 1980's and the move towards privatisation and a more market-based economy shifted the attention of industrial

relations from job regulation and collective bargaining to coping with the effects of downsizing and outsourcing (Beardwell 2001, 4).

HRM became widely recognised in the UK in the late 1980's, due to the economic pressures, increased market competition and new technology. Furthermore, the British government wanted to reform the traditional model of industrial relations by taking an entrepreneurial and anti-union approach. Consequently, managers in the UK found themselves in an employer-oriented environment. Still, the first approaches to HRM in the UK were based on the American Harvard model, recognising the fact that a variety of stakeholders, including employees, share holders and the wider community, constitute an organisation. The legacy of the pluralist tradition is evident in the British approaches to HRM where the interests of different stakeholders have to be taken into account when creating a HRM strategy. (Beardwell 2001, 17–19.) The historical factors have affected the development of HRM in the UK as it evolved from the pluralist approach to the interplay of different stakeholders' interests, where organisations are still regarded as combinations of different groups with potentially conflicting interests.

In 1997, the British government shifted from the right to the left or centre as the Labour party won the elections. The political change had a major influence upon HRM practices in the UK as the new government was committed to protecting labour interests. (Richbell 2001, 261.)

### ***5.1.2 The development of Finnish HRM***

In Finland, the historical developments have been different to those in the UK. In the late 1980's Finland experienced a high demand for labour and some sectors and regions actually suffered from labour shortage. (Kulla 1999, 1.) The status of HRM rose and investment in HRM increased in Finland. The number of HRM specialists soared, as did the implementation of HR practices. (Vanhala 1995, 34.) The public sector was thriving and growing, and the main challenges for managers were how to acquire, retain and develop their employees (Kulla 1999, 1).

Surprisingly, Finland fell into a deep depression in the early 1990's and the focus shifted completely. Managers were struggling to keep businesses afloat by reorganizing companies and minimizing costs, especially in the private sector. The public sector was spared from the drastic measures; instead it's undergone some long-term changes that were initially caused by the depression. (Kulla 1999, 1.) HRM became even more strategic, but the challenges were different. The focus was now on cost-effectiveness, increasing line responsibility and flexibility. The traditional values, like job security,

were replaced by new issues brought about by the economic pressures. (Vanhala 1995, 35.) During the economic depression, HRM played mainly a reactive role, where the HRM strategy adapted to the changes in corporate strategy. At this point in time, the strategic integration of HRM was yet to take place in Finland. (Lähteenmäki & Huuskonen 1996, 43.)

Since those difficult times, the Finnish economy stabilised and the focus was once again shifted towards human resources. The professionals and experts in the field of personnel and HRM regained their role and organisations are increasingly investing in their employees in order to gain competitive advantage. (Kulla 1999,1.)

One of the factors that influenced the development of HRM in Europe, including Finland and the UK, is the dominance of small businesses in the societies. As Brewster and Larsen (2000b, 35) elaborate, the HR function is affected by the percentage of small and medium sized enterprises in the society, as smaller organisations tend to have less formalized and systematic functions relying more on spontaneous decisions. Both the UK and Finland have been historically dominated by small and medium sized businesses, Finland even more so (Eurostat 2004). Finnish companies tend to be small, in fact only 0,1 % are classified as large companies having over 500 employees (Vanhala 1995, 36).

In small organisations line managers were traditionally responsible for the personnel policies. As the organisations have grown, the line managers maintain the tradition while the HR specialists give advice and support. (Vickerstaff 1992, 3.) This may partly explain why the responsibility for HR tends to be allocated to line managers in Finland, while the specialists assume a more consultative role (Brewster & Larsen 2000d, 199). The typical Finnish 'micro companies' don't have specialized functions, as the owner tends to be responsible for everything (Vanhala 1995, 43). The small organisations are usually not very hierarchical and therefore the HR function is often seen as 'everybody's business'. On the other hand it can be argued that this can potentially lead to a situation where nobody takes the responsibility for HRM.

## **5.2 Implications of the EU**

One of the major issues influencing the development of European HRM is and has been the EU. The UK joined the EU in 1973, whereas Finland didn't become a member until 1995. The main platform for HRM issues within the EU has been the Social Charter where the main concerns have related to the form, content and implementation of the Charter. Understandably, the integration and harmonization of the Charter's provisions

across the EU have been debated as the situations and conditions vary between the member states. The Charter promotes free movement of labour, equal treatment of men and women and social protection, and clearly introduces regulations that support workers' rights. (Holden 2001a, 680–686.)

Unemployment across Europe, especially in social groups like young people, ethnic minorities and women, was the main issue for the Charter in the 1990's. The UK opted out from the Social Charter until 1997, as Margaret Thatcher criticized the treaty for being too intervening. Her deregulatory policies continued until Tony Blair finally ratified the Charter. Still, in accordance with the British market-driven approach, Blair continued to advocate some of the deregulatory policies. The opposition of critics like Thatcher have slowed down the fulfillment and watered down the provisions of the Charter. The UK has a long tradition of deregulatory policies, where government and legislative interference are believed to prevent the efficiency of the market. (Holden 2001a, 687–690.)

At the other end of the spectrum are the regulationist countries, who believe that regulation is needed in order to create a competitive level playing field in Europe (Holden 2001a, 691). Clearly Finland has taken a more regulationist approach in its own national policies, when compared to the UK. Consequently, it's likely that Finland has maintained its regulationist viewpoint on the EU-level as well and will continue to do so in the future.

As the Social Charter addresses issues related to the labour market, it was likely to have an impact on European HRM. As the Charter introduced regulation and promoted workers' rights, organizations were thought to increasingly be developing personnel policies and HR strategies especially concerning issues related to the Single European Market (SEM). In reality, organizational responses to the Charter and the SEM were few as most of these policies had already been established by national legislation. Apparently organizations respond to the effects of the Charter and SEM only when it's necessary, and HRM policies have remained under the influence of national attitudes and interpretations. (Holden 2001a, 698.) The influence of the EU is yet to reach the national HR practices of the member states, but perhaps the implications of the Charter and the SEM can be seen in the HRM policies of European organizations in the future.

## **6 DIFFERENCES BETWEEN FINNISH AND BRITISH HR SYSTEMS**

As Brewster and Larsen (2000, preface) explain, empirical studies such as the Cranet-E survey by the Cranfield Network (1999/2000) have shown that there in deed are essential differences in HR practices between European countries. Just as the US perspective on HRM proved to be irrelevant and inappropriate in Europe, it has become clear that the national differences between European countries have translated into differences in HR practices across Europe. (Brewster & Larsen 2000, preface). In order to understand how the societal, cultural and historical factors affect the daily lives of managers, we will take a look at HR practices in Finland versus the UK. Before examining the four essential HR functions (recruitment and selection, training and development, reward systems, and performance appraisal) in more detail, some light will be shed on the overall status of HRM in both countries. The objective is to tie in the previous chapters with the description of day-to-day managerial practices.

### **6.1 The status of HRM**

#### ***6.1.1 HR departments and line managers***

The current debate concerning the connection between a company's performance and its HRM draws attention to strategic human resource management. According to Vanhala and Tuomi (2006, 251–252) HR practices do indeed have an impact on company performance. By integrating HRM into business strategy companies may be able to improve their performance. The devolvement of responsibility for HRM to line managers and the integration of HRM into the business strategy are the major indicators of strategic HRM. (Budhwar 2000, 154.) In order to find out how strategic HRM is in Finland and the UK, the levels of devolvement are examined before discussing the integration of HRM into corporate strategy.

According to Brewster and Larsen (2000d, 195), a major issue in HRM is the balancing of responsibilities for management practices between the HR department and line managers. Is HRM a line management task or a specialist function? It has been argued that in fact, what distinguishes HRM from personnel management is the closer connection to operational management, where the HR department takes an advisory and

supportive role. (Brewster & Larsen 2000d, 195–199.) This argument is based on a few major factors. Firstly, according to experts, the implementation of human resource strategy is best effected through line managers. Furthermore, line managers are said to play a critical role in terms of the motivation and commitment of employees. Finally, the current organisational changes are calling for a more professional and competent line management. (Poole & Jenkins 1997, 334.)

According to Brewster and Larsen (2000d, 199) the responsibility for HRM is being increasingly allocated to the line managers, particularly in Nordic, including Finnish, organisations (Figure 5). This could be partly due to the prevalence of SMEs in Finland. In smaller companies line managers are usually given responsibility for the human resources and even as the companies have grown the line maintains control over the HR practices (Vickerstaff 1992, 3). In deed, large Finnish companies tend to close or change their HR department into a consulting department while the responsibility for the HR practices is allocated to the line (Vanhala 1995, 44). The PA Consulting Group's (1999, 7) research supports this view, as it indicates that in the future Finnish organisations will be increasingly delegating these practices to the line as a way to cope with the pressures of the business environment in the future. This could reflect the move from a personnel management –approach towards HRM, in Finnish organisations.

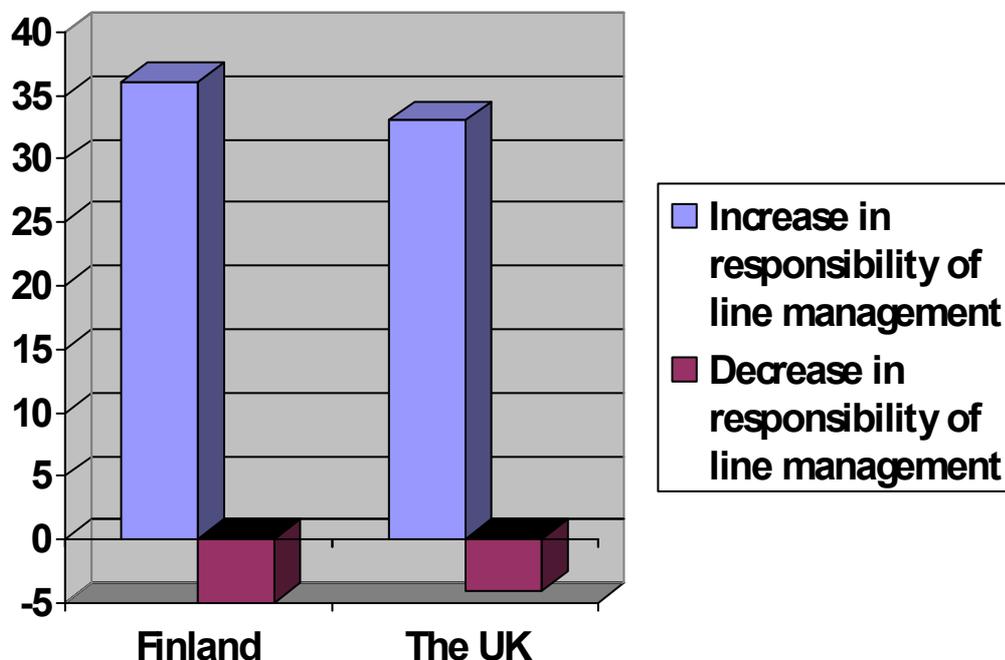


Figure 5 Percentage change in responsibility of line management (Brewster & Larsen 2000d, 199).

In Britain, the move is towards the same direction, only on a slightly smaller scale. Finland ranked second in northern Europe in the overall assignment of responsibilities for HRM to the line, while the UK came in next to last. (Brewster & Larsen 2000d, 203.) This could indicate that Finnish organisations are more advanced in the adoption of HRM. The reluctance to allocate responsibility to line managers is consistent with the rather conservative British culture, as traditionally HR issues have been assigned to the HR department. Moreover, the hierarchy of British organisations can be maintained by assigning the task to the HR department rather than increasing the responsibilities of the line managers at the lower organisational levels.

The devolvement of HRM in British organisations is also relatively low when compared to the integration of HRM into strategic decision making (see following chapter). The British government supports the move towards further devolvement by making efforts to develop the UK's workforce and encouraging training practices. As line managers become more competent they can be given more responsibility for HRM. Ultimately, this would result in a more strategic British HRM and potentially improving organisational performance. (Budhwar 2000, 155.)

Research also shows that in Finland the responsibility for HRM is usually allocated to the administration manager in the absence of a HR specialist. This indicates that the HR aspect is taken seriously as it's being allocated to a specific person rather than simply being swept under the CEO's general responsibilities or ignored altogether. (Brewster, Larsen & Mayrhofer 2000c, 50.)

### **6.1.2 *The strategic integration of HRM***

According to Brewster and Larsen (2000b, 33) the human resource management strategies and organisational strategies of European organisations overall have interactive relationships, where HRM issues are expected to be taken into consideration as part of the organisational strategy. Hence, organisational strategy and HRM strategy are expected to be symbiotic, compatible and parallel (Brewster & Larsen 2000b, 33). Despite this generalisation, some differences between the UK and Finland remain when it comes to the role of HRM in strategic decision making.

As Vickerstaff (1992, 5) suggests, the power of the human resource specialists and the overall status of HRM are indicated by their presence in the Board of Directors. According to the Cranet-E survey (The Cranfield Network 1999/2000), the human resource function is represented in the main decision-making bodies of only roughly 50% of the organisations in the UK, whereas in Finnish organisations the proportion of

representation is higher. Figure 6 shows the percentages of companies with an HR presence at board level, which indicates the participation of the HR function in the strategic decision making process (Brewster et al. 2000c, 49).

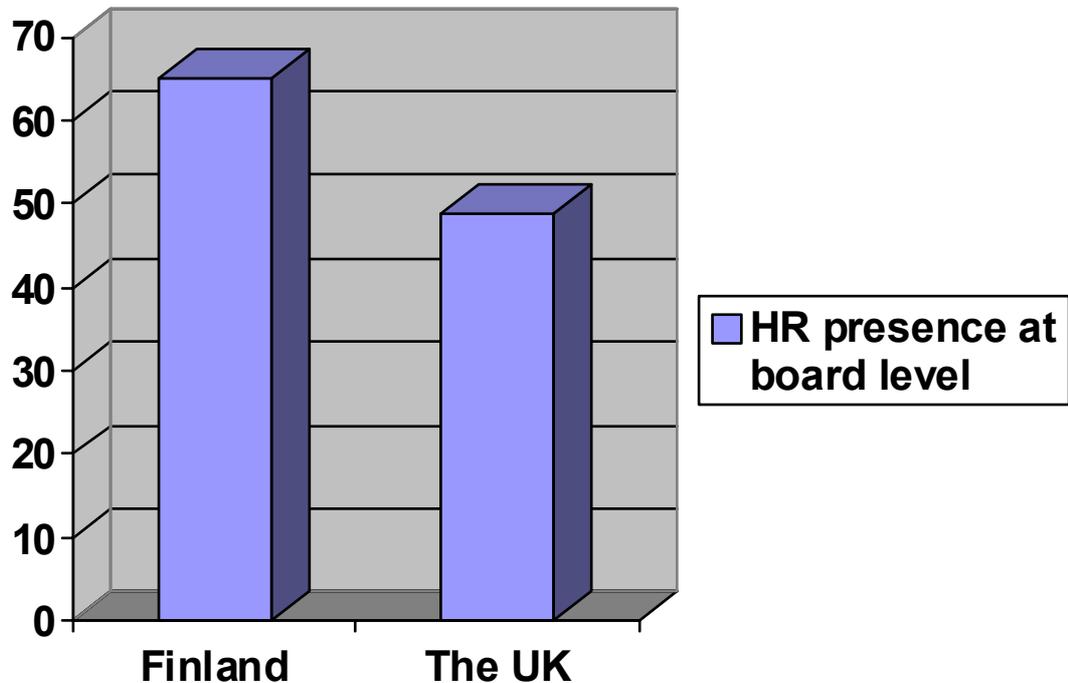


Figure 6 Organisations in which the personnel manager is a member of the top management/board of directors (Atterbury et al. 2004, 45; Lindeberg et al. 2004, 293).

This suggests that the HR function does not play such an important role in practice, when it comes to UK based organisations. On the other hand it has been argued that the influence of HR in organisations does not always correlate with the number of board-level representatives, as various members of staff can practise human resource management. Still, it's likely to indicate the role of HRM in strategic decision making, as strategic outlines are usually negotiated in the board room.

Brewster et al. (2000c, 48–58) use the evidence from the Cranet-E survey to examine the integration of HR strategies and corporate strategies in organisations in European countries. There seems to be some differences between the UK and Finland when it comes to the involvement of HR in the strategic decision making, as Figure 7 indicates. (Brewster et al. 2000c, 52).

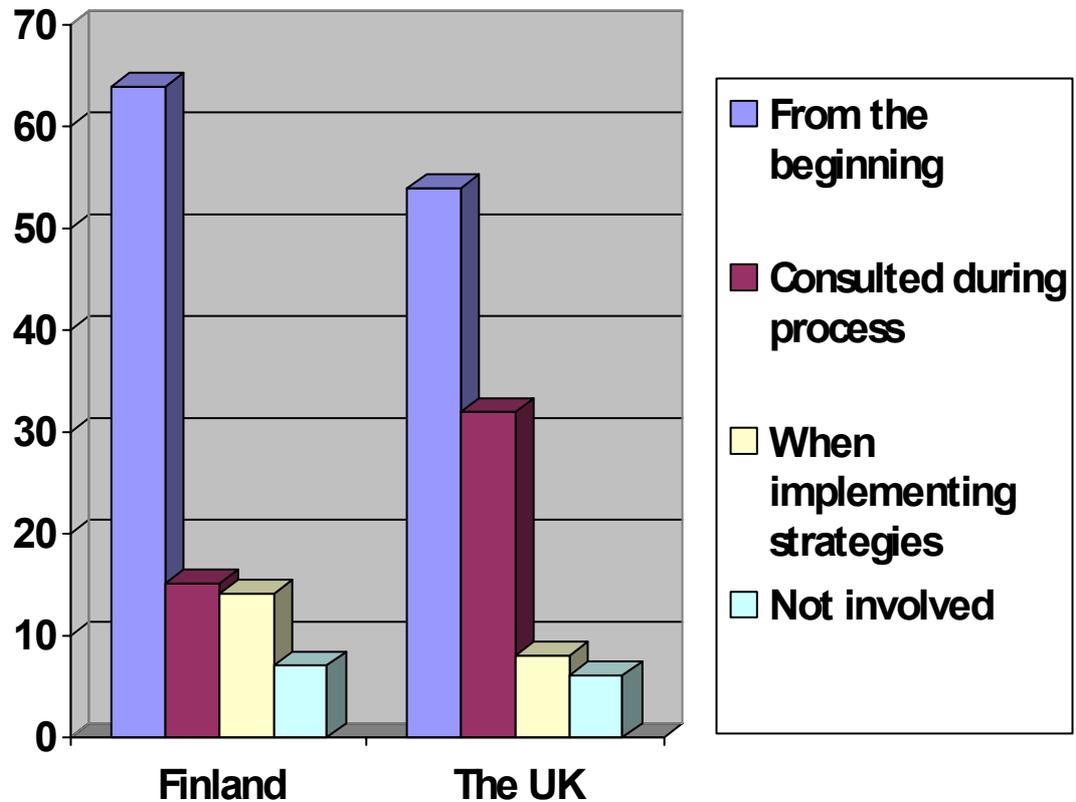


Figure 7 HR department involvement in corporate strategy (Atterbury et al. 2004, 46; Lindeberg et al. 2004, 294).

In the UK, the integration of HRM from the outset of corporate strategy development is in balance with the board-level presence of HR specialists. In Finland on the other hand, the HR aspect is represented in a significant number of boards (Figure 6), but nevertheless, according to a study in 1995, the specialists were not involved in the strategic decision making process until a later stage. (Brewster et al. 2000c, 52). The more recent study (The Cranfield Network 1999/2000) reveals that the higher Finnish board level representation is beginning to show in the involvement of the HR aspect in corporate strategy, which is illustrated in Figure 7 (Lindeberg et al. 2004, 294). Now the integration of the HR aspect seems to be in line with the board level presence in Finnish organisations as well. This is supported by the findings of a Finnish research, where 77% of the HR professionals felt they were included in the strategic decision-making process. According to the study, Finnish HRM is becoming more and more strategic, and is likely to continue in that direction in the future. (Järvinen & Salojärvi 2007, 3–4.)

Overall, in comparison with Finnish organisations, organisations in the UK are ranked as being slightly more integrated in terms of the integration of HR strategies and

corporate strategies, on the basis of the data collected in 1995. This conclusion is based on a combination of steps that organisations take towards integrating their HR strategies and corporate strategies, such as the formulation of policies for the different HR practices, the involvement of the HR department in corporate strategy (Figure 7) and the recruitment of HR specialists (Figure 8). (Brewster et al. 2000c, 58). Since then, it's likely that the situation has changed as it seems that Finnish HRM has become increasingly strategic during the recent years.

The strategic emphasis of HRM in the UK is manifested in the HRM Initiative of the UK National Health Service, where the HR practitioners have been given a key role in achieving the determined objectives for the national health care (Beardwell 2001, 6). In Finland, on the other hand, a research conducted by PA Consulting Group (1999, 6) indicates that one of the major focuses of Finnish organisations in the future will be the integration of the HR aspect into the strategic decision-making. This implies that Finnish organisations are becoming increasingly aware of the importance of the strategic integration of HRM.

In practice, the differences between the UK and Finland, when it comes to the integration of HRM into strategic decision making, are enforced by the involvement of employee representatives. In the UK, the employees are represented by a mix of trade unions and company consultative committees. In Finland on the other hand, the employee aspect is more often represented in works councils or directly on the company board of directors, while trade union negotiations usually take place at a more general, i.e. sectoral or regional, level. This influences the strategic decision making of organisations, as Finnish managers are more aware of the fact that the employee representatives' reactions have to be taken into consideration, whereas managers in the UK are not as directly faced with the employee aspect. (Brewster & Larsen 2000b, 34.)

One interesting feature of the British HRM is the externalising of actual HR practices. Due to economical pressures, companies are looking for new ways to achieve flexibility. Consultants are often preferred to permanent employees, and recruitment can take place in the Internet due to the development of information technology. (Richbell 2001, 266.) In Finland as well, information technology will increasingly be employed in HRM, but the outsourcing of HR practices isn't showing any signs of becoming widespread (PA Consulting Group 1999, 7). In order to get a better picture of how human resources are managed on a daily basis in each of the countries, the following chapters will be looking at some of the most important HR practices in more detail.

## 6.2 Recruitment and selection

### 6.2.1 *Internal and external recruitment*

Recruitment and selection are often referred to as the most important managerial decisions. According to Storey and Wright (2001, 226) recruitment and selection is “...concerned with identifying, attracting and choosing suitable people to meet an organisation’s human resource requirements”. Recruitment is a process of finding potential job candidates, whereas selection is concerned with choosing the best and most appropriate individuals from the pool of candidates (Storey & Wright 2001, 266).

According to Atterbury et al. (2004, 47) the recruitment and selection function tends to be mainly a responsibility of the HR department in British organisations. A majority of HR departments recruit and select employees with the help of line managers, but the HR department remains in control (Atterbury et al. 2004, 47). In Finnish organisations, the recruitment process is the most frequently outsourced HR practice. Occasionally the recruitment specialist outside the organisation plays a mere supportive role, but in most outsourcing-cases the entire recruitment process is externalized. (PA Consulting Group 1999, 14.) The ones that haven’t outsourced the recruitment process prefer to allocate the recruitment and selection function to the line. Still, in most Finnish organisations the HR department has a supportive role so the line managers are not working independently. (Lindeberg et al. 2004, 294.)

Organisations are able to shape the available pool of skills and qualifications by the way they choose to fill their central positions (Brewster et al. 2000c, 54). Especially the way the top personnel management are recruited is essential, as they are involved in the strategic decision making processes as well as being responsible for HRM. One of the interesting issues relating to the recruitment function is the use of internal and external labour markets, i.e. finding the suitable candidates within the organization versus the use of labour markets outside the organization.

There is a tendency to recruit internally when filling top personnel specialist vacancies in Finland, as shown in Figure 8, due to its cost-effectiveness and the motivational effects it has on current employees. In most cases this means that a line manager is promoted to a personnel management vacancy. From the HR aspect this could facilitate the bridging of business and personnel issues, while on the other hand potentially allowing the line manager aspect to mix with the HRM function. This could be interpreted as indifference towards HRM, as existing employees are promoted on the

basis of seniority or merit, rather than making an effort to find the best HR specialists with expertise and training in the field of HRM. (Brewster et al. 2000c, 56).

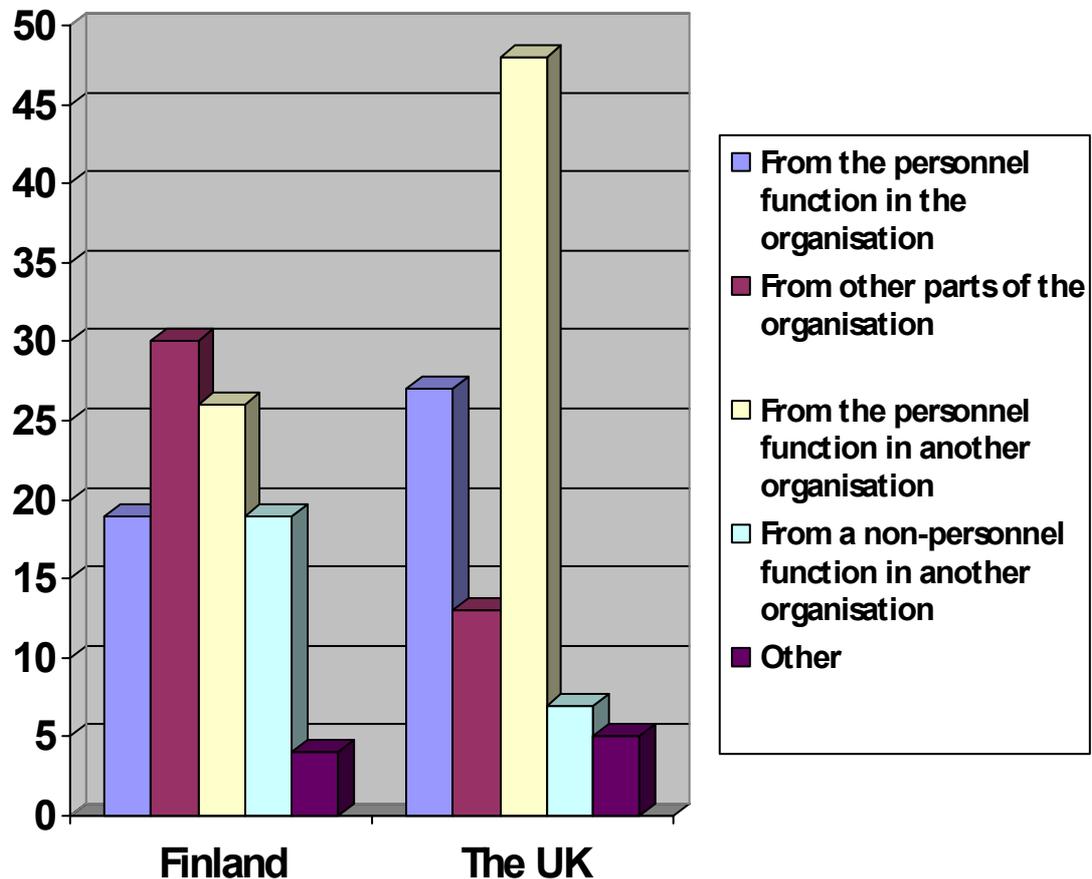


Figure 8 Recruitment of top personnel specialists (Brewster et al. 2000c, 56)

In the UK on the other hand, the top personnel management tends to be recruited from outside the organization, i.e. specialists from other organizations, possibly due to the skills shortage and a lack of confidence in the existing employees or in order to bring some new thinking into the HR function. Either way, this may reflect some strategic thinking rather than just “taking the easy way out” by promoting a line manager with hardly any expertise in the field of HRM. (Brewster et al. 2000c, 57). The British tendency to seek out HR-specialists implies a deeper commitment to and responsibility for HRM, while the Finnish inclination to recruit internally suggests a more indifferent attitude and lack of confidence in the HRM discipline. This could

result in a diluted version of HRM where practitioners are not trained specialists and the practice could suffer.

The British tendency to recruit top management externally reflects the market-driven society (Brewster 1995, 10) as well as the competitiveness of the individualistic culture (Hofstede 2001) where organizations are looking for the best people and fighting for the specialists, even ‘poaching’ them directly from the competitors. According to Storey and Wright (2001, 251) the use of external labour markets is typical for the ‘hard’ approach to HRM which often involves a short-term focus. In Finland on the other hand, organizations prefer to give line managers and other employees’ opportunities by promotion, in accordance with the core values of equality and self-development (Hofstede 2001), meaning that the top-level management is attainable through training and development, rather than an exclusive club for specialists and experts. Furthermore, the less competitive and less masculine Finnish culture (Hofstede 2001) is reflected in the lower tendency to recruit specialists from competitors, as it allows organizations to maintain a shared sense of harmony and cooperation rather than reinforcing the competitive atmosphere between organisations. The tendency to recruit internally is consistent with the ‘soft’ approach to HRM, where opportunities for promotion and transfer are used to motivate and attract employees, involving a long-term focus and commitment (Storey & Wright 2001, 251).

Interestingly, when looking at managerial vacancies overall (not just those of personnel management) the situation is reversed; Finnish organisations are less inclined to recruit internally than British organisations (Atterbury et al. 2004, 48; Lindeberg et al. 2004, 296). This is in accordance with the egalitarian Finnish culture, where everyone should be given an equal opportunity to apply for a job. Furthermore, as the Finnish workforce is rapidly aging it might just be the case that Finnish organisations can’t continuously recruit internally, as the internal pool of candidates is approaching retirement. According to Atterbury et al. (2004, 49) and Lindeberg et al. (2004, 296) both Finnish and British organisations are increasingly using external sources of labour when filling managerial vacancies. This trend could be a consequence of the increasing competition for employees and the increasingly competitive business environment overall.

### **6.2.2 Selection methods**

The most frequently employed selection methods in organisations operating in both the UK and Finland are reference checking, application forms and interviews, reveals the

Cranet-E survey (Atterbury et al. 2004, 49; Lindeberg et al. 2004, 296). However, reference checking is far more commonplace in the UK (Atterbury et al. 2004, 50; Lindeberg et al. 2004, 296), in fact all respondents to the IRS selection survey used references as a component of the selection process (Storey & Wright 2001, 245). Application forms are also more frequently used in the UK. It seems that Finnish organizations tend to rely more on one-to-one interviews, whereas British companies tend to use interview panels, application forms and references. (Atterbury et al. 2004, 50; Lindeberg et al. 2004, 296.) This reflects the more masculine British culture, where selection is based on documented and quantifiable information rather than on personal perception and chemistry.

UK based organisations have been reluctant to employ the more versatile tools of selection, such as assessment centres and psychometric testing. According to Moss (1992, 109) as much as 100% of British companies used interviews to evaluate applicants, while 58% regularly used psychometric tests and 48% used intelligence tests. A high proportion of UK companies use situational interviews, referring to a structured set of questions, which allows the responses of different applicants to be compared (Moss 1992, 109). Structured interviews supplemented with psychometric tests and work sampling are likely to become increasingly popular in the UK, since unstructured interviews have received bad press as being subjective. In order to achieve objectivity, some organisations in the UK use tests in the selection process, but only a small minority of companies use tests for all positions. Managerial candidates are mainly tested on ability and aptitude while candidates for lower level jobs tend to be tested on technical skills. (Storey & Wright 2001, 242–243.) Storey and Wright (2001, 241) predict an increase in the use of untraditional selection methods within British companies due to the shift of focus from job demands to personal characteristics.

In the Finnish organisations, assessment centres are even less used than in Britain, whereas psychometric testing is more popular and has recently had an increase in usage according to the Cranet-E survey (Atterbury et al. 2004, 50; Lindeberg et al. 2004, 296). The fact that Finnish managers use psychometric testing more frequently supports Hofstede's (2001) findings: Finland is a less masculine society than the UK. In this case it is manifested by using a softer selection technique, emphasising the personal characteristics and abilities of the applicant, rather than relying solely on the hard facts and figures mentioned in the CV and the application. Brewster and Larsen (2000b, 34; 84–85) claim that Scandinavian countries in particular prefer competence (referring to personal characteristics, social skills and functional skills) to mere formal education and acquired skills. This is manifested in the Finnish interview process, where the most

important objective is to find out whether the characteristics of the applicant would fit the organisation (Helsilä 2002, 26).

## **6.3 Training and development**

### **6.3.1 *Governmental policies***

It is not only necessary to recruit and select the best possible workforce, but also to train and develop the existing human resources. The development of competence is one of the key competitive strategies for the future. A committed, flexible and qualified workforce is an essential asset for any organization as the general level of education is rising and specialized skills and knowledge are required. (Bramming & Larsen 2000, 66.) The situation in the UK reflects this, as organisations have recently been spending more on training and development of their human resources.

The legislation, government and its policies, as well as the general attitudes and expectations of employees shape the training and development functions in each country. In order to achieve an educated and skilled workforce governments introduce vocational education and training policies aimed at developing the workforce and ensuring the effective functioning and competitiveness of the nation (Holden 2001, 341). The vocational qualifications of individuals have an impact on how organizations continue to train and develop them.

In the UK, the roles and responsibilities of the government, employers and individuals, when it comes to training and skills development, have been widely debated. In the past the voluntarist approach placed a great deal of responsibility on the employers for achieving an adequate level of skills. Recently however, the British government has increasingly been setting targets and taking initiative in order to provide individuals with the appropriate training and education and improve their employability. (Storey & Wright 2001, 228–229.) The same goes for British companies, as they have traditionally neglected the development of their employees, but recently organizations have taken an interest in developing their employees in order to meet the future needs in the UK (Collin 2001, 304). The underprovision of education and training, especially for managers, in the UK has reportedly limited the development of strategic HRM. Recently, however, British companies and business schools have

responded to the increasing demand for management education, training and development. (Storey & Sisson 1990, 63–64.)

When compared to some industrialized nations, the UK has been suffering from a skills shortage, partly due to the national policies and the employers' reluctance to invest in training. In the UK, the lack of formal qualifications of the unemployed presents a challenge for HRM. When hired, they are in need of training and instruction. (Richbell 2001, 265.) As a number of surveys confirmed the inadequacy of training and development in British organizations in the late 1980's, the awareness has been increasing ever since and organizations are taking training and development practices on board. Evidently the efforts of the British government in providing structures, resources and incentives for training have impacted the training practices on the organizational level in the UK. Trade unions have also begun to advocate training and after being welcomed into the partnership with employers and the British government, unions have collectively contributed to the increased provision of training. (Holden 2001, 325–326; 342–343.) As the British government will be increasingly investing in education, "additional challenges to the future management of people at work arise from the growing expectations of an increasingly well-educated workforce that demands both challenging work but also scope for an acceptable work-life balance (Guest, Michie, Conway & Sheehan 2003, 291–292)". This means that managers in the UK will have to re-evaluate their HR practices and policies, in order to attract and retain employees in the future.

The Finnish government has traditionally taken a more proactive approach to training and education. Training and development are highly valued in the Finnish society and education is a means to gaining competitive advantage and to fight unemployment. University-level education is free of charge and publicly funded and the Finnish workforce is better educated than the EU average. (Lindeberg et al. 2004, 291; 297.) The fact that the Finnish society clearly encourages education spills over to business as well. The highly educated Finnish employees demand and expect further training and development in the workplace in order to keep themselves up-to-date. Finnish companies employing 30 or more employees are now required to have a training plan ratified yearly, which represents the emphasis of training and development in the Finnish society (Vanhala 1995, 49).

The importance of the training and development practices in Finland reflect the prominent role of the long term oriented public sector: as organizations are interested in long term development and performance, training and development are seen as an investment in the future (Brewster & Larsen 2000b, 28). In Finnish organizations during

the early 1990s the focus of training was mainly on managerial training and company-wide quality training (Vanhala 1995, 49).

### **6.3.2 *Motives for training and development***

It is generally difficult to assess the importance of training and development in different HR systems; the time and money invested in these practices are perhaps the best indicators. Something can also be concluded from the relatively high emphasis given to education and learning overall, in the Finnish society. Nevertheless, the Cranet-E survey (Atterbury et al. 2004, 51; Lindeberg et al. 2004, 297) indicates that even in Finnish organisations manual and clerical staff receive less training than managers and professionals, as is the case in the UK. Indeed, managers and professionals in the UK tend to benefit from the investments in training and development far more than other employees (Atterbury et al. 2004, 51). The training and development function tends to be mainly line managers' responsibility (of course with the HR departments' support) in Finnish organisations. In the UK on the other hand, the HR department has the primary responsibility of training and development. (Brewster & Larsen 2000d, 201.)

In the Finnish society education and lifelong learning is highly valued and is often regarded as a prerogative of all members of the society. It is clearly consistent with the national culture that the citizens are given equal opportunities to develop themselves by offering them training and education. This is reflected in the training and development of human resources in organisations; according to the Cranet-E survey (Atterbury et al. 2004, 51; Lindeberg et al. 2004, 297) the number of training days received by staff in Finland is above or in line with the EU average, whereas in the UK the number is below the average.

It is imperative that Nordic managers facilitate self-development as they are operating in an individualistic culture where self-development is seen as an important objective to most employees (Gannon 2004, 156). As Helsilä (2002, 68) elaborates, Finnish employees are increasingly looking for training and development opportunities in the workplace, in order to improve themselves and become better at what they do. This could result in a more motivated workforce with more skills and knowledge that would in turn lead to an increase in productivity and efficiency. However, training is expensive and it is important not to overdo it. Each training session should therefore be relevant and beneficial to the employee as well as the entire organization; dragging the workforce from one pointless training session to the other might result in information overload or simply boredom. Also consistency is important, as training has in fact gone

to waste in many British organizations due to the launch of a variety of programmes and initiatives instead of committing to one continuous and well-planned program (Holden 2001, 331).

In the UK, a culture scoring higher in the power distance dimension (Hofstede 2001), training is usually offered only to higher-level employees (Atterbury et al. 2004, 51). Training is a privilege for higher statuses, distancing them further from the other employees. British organizations are often hierarchical where training can be seen as a way of reinforcing the hierarchy, in addition to merely educating and developing the top-level employees.

The UK-based organisations in general have been spending less on training than other European countries (Atterbury et al. 2004, 51). This is partly due to the British business culture where training is traditionally viewed as a cost rather than as an investment (Holden 2001, 326). The fact that British employers tend to value know-how and tacit knowledge over formal higher education is evident in the small proportion of managers with degrees (Collin 2001, 285). This implies that organizations in the UK prefer learning through experience and self-development to formal training and instruction.

British organizations tend to emphasize individual and organisational learning and self-development (people taking responsibility for their own learning) rather than training. In practice these goals are pursued by empowering and circulating employees as well as improving organisational processes. This approach to learning and self-development clearly differs from the Finnish approach. (Jackson 2002, 131.) Furthermore, the British view of development is similar to the US approach, i.e. the training and development function is aimed at correcting identified weaknesses and problem areas. Lately however, the UK has experienced a growing awareness of a more holistic and contextual approach. (Doyle 2001, 405.)

The UK is the birthplace of many learning theories that tightly link learning with management and suggest that the entire organization should be engaged in it. (Jackson 2002, 131.) Evidently there have been some difficulties in implementing these theories in practice. Still, the UK seems to be catching up with the northern European trend as a third of British organizations have increased their use of external seminars and courses (Larsen & Ellehave 2000, 90).

Jackson (2002, 129) examines the case of British Petroleum in his writings as an example of UK based organizations that are described as “learning organisations”, generally taking the experiential approach to learning. According to Jackson this means that training in the UK focuses mostly on action and experiences, taking into consideration the individual learning preferences of the employees in order to get the

best results. Training and learning is used to get results and achieve organisational goals in the UK whereas Nordic managers tend to regard individual development of the employees as an end in itself. (Jackson 2002, 129–132.)

## 6.4 Reward systems

### 6.4.1 *Direct and indirect rewards*

Organisations use different reward schemes to motivate their employees, as well as a way to communicate organisational values and norms to its employees. As is the case in many other HR functions, the line managers are given more responsibility for pay and benefits in Nordic organisations, when compared to British organisations where the HR department mainly carries out this function. Particularly in Finland the line managers are likely to have an important role in pay- and benefit related issues. In the UK this is not the case; a clear majority of companies prefer the HR department to deal with reward systems. (Brewster & Larsen 2000d, 200.)

The reward systems in the UK consist mainly of direct financial rewards, which are paid to employees in the forms of basic pay, incentives, overtime, allowances and bonuses (Atterbury et al. 2004, 52). Furthermore, the UK has the highest incidence of share-ownership schemes in the EU (Employee financial participation 2005). The general attitude in the UK is favourable and profit sharing is encouraged by the government, through legislation and tax benefits for both organisations and employees (Uvalic, 1991 The PEPPER Report).

Profit sharing is said to improve the sense of cooperation between management and the workforce, which is called for especially in the UK where the ‘them versus us’ attitude seems persistent. Furthermore, one of the objectives for profit sharing schemes is to reduce the role of trade unions and the need for trade union representation. (Roberts 2001, 522.) This supports the decline of trade unionism and partly explains the popularity of profit sharing in the UK. Profit sharing is also encouraged by the British government as a way to support the development of an enterprise culture (Atterbury et al. 2004, 53). In Finland, on the other hand, where trade unions and collective bargaining have maintained an important role in pay determination, profit sharing is unlikely to gain as much ground as it has in the UK.

Indirect rewards are becoming increasingly popular in British organisations, as a way to demonstrate a sense of caring for the employees as well as to differentiate the organisation from other employers. Providing pension schemes, educational support, health insurance, etc is also in many cases supported by the British government through tax incentives. (Atterbury et al. 2004, 52.) British organisations are not following the European trend of pay-harmonization and single status systems. Instead, indirect compensation continues to be used as a status symbol to highlight differences between groups of employees. (Vickerstaff 1992, 180–181.) Company cars, for example, are frequently used as managerial status symbols in the UK (Hegewisch 1991, according to Roberts 2001, 532).

In Finnish organisations, on the other hand, pay levels are mainly determined by collective agreements and reflect the ideals of egalitarianism and a more even distribution of income within the society. Managers in the Finnish society determine pay levels of employees on the basis of education, training and previous experience as well as the demands of the particular post, within the legal framework. A direct financial reward gives employees a sense of security, stability and equality. A simple monthly or hourly pay makes different posts and jobs more comparable whereas performance related reward systems can be more misleading. As Helsilä (2002, 16) points out, the most important aspect of reward systems for Finnish workers is fairness. Perhaps this is why Finnish organisations prefer transparent pay brackets and classifications that can be compared and measured easily.

Furthermore, the influence of long term oriented and traditional public sector organisations in the Finnish society is reflected in the Finnish reward systems (Brewster & Larsen 2000b, 28). Rewards tend to be based on long term development and performance of employees instead of short term performance measures. Pay is often determined in a traditional way by identifying salary brackets or requirement levels. Recently however there has been a shift towards more individualistic payment in Finnish organisations, in the form of performance related pay. (Lindeberg et al. 2004, 298.) Still, approximately 60-80% of a Finnish employee's salary tends to be based on job requirements (Helsilä 2002, 69).

#### **6.4.2 Performance related pay**

Inequality within the British workforce is evident in the performance and reward management function of human resource management. In the UK, men's incomes are significantly higher than women's (Gender pay gaps 2003), despite the established

incentives for equal pay between men and women (Richbell 2001, 263). Furthermore big differences in pay exist between different grades of staff (Atterbury et al. 2004, 52) and between different areas across Britain. The minimum wage legislation has done little to even out these differences (Atterbury et al. 2004, 52). A specific problem is the overheating of the South East economy, where employees tied to national wage rates are struggling to make ends meet as the local living costs are increasing. Especially the public sector, being restricted by the standard national wage rates, is suffering from the recent developments in South East Britain. (Richbell 2001, 264.) The private sector, on the other hand, is able to adapt more flexibly to the different regional demands.

In Finland, on the other hand, reward systems tend to support the egalitarian culture, particularly when looking at differences in wage levels overall. The minimum wage guarantees a relatively high pay for the young, inexperienced and unqualified, while the progressive and high income tax level narrows the wage gap considerably. (Vanhala 1995, 50.) In the UK, the fact that national bargaining and governmental policies play a relatively small role in determining pay levels facilitates the different uses of reward systems. Mohan (1999, 99) explains that the flexibility and insecurity in today's businesses results in companies shifting the risk to their employees by using flexible and performance related reward schemes in the UK.

The levels and forms of pay differ between individuals according to their performance, behaviour and position in British organisations (Richbell 2001, 263), which demonstrates the prevailing individualistic British culture (Hofstede 2001). The British Rail, for instance, adopted a performance-related pay system where pay determination was on the individual level on the basis of merit and performance (Pendleton 1992, 185). Recently, even the traditional public sector organisations in the UK have adopted individualized pay. Performance related pay in the British public sector has mainly been introduced to senior managers as the lower staff levels remain tied to the national wage brackets. (Morris & Farrel 2007, 1583.) Performance related pay can encourage competition and support the masculine culture valuing results and hard facts by rewarding employees on the basis of their measured performance. Furthermore, performance related pay can contribute to the weakening of trade unions, as it shifts pay determination from collective bargaining to the individual level.

A major problem with performance related pay is the fact that companies have to choose who the recipients are, as salary costs have to be kept in check and there are not enough resources to reward everyone who meets the company targets. The challenge for HRM practitioners in the UK is to design these reward systems in a way that people who don't receive performance related payment are still committed and motivated. (Richbell 2001, 264.) As the British culture is ranked higher in power distance, it's

expected and accepted that top-level employees will receive bigger rewards. This is also reflected in the use of performance related pay, as it tends to be mainly implemented at the higher staff levels in British organisations (Atterbury et al. 2004, 54).

One extreme form of performance related pay is piecework. Piecework systems, where individuals are directly paid on the basis of results and efforts, have a strong tradition in the UK and are still commonly used in some industries today. In addition to the reflection of the masculine and individualistic culture, the use of payment by results reflects the pluralistic tradition of the British society. Result based pay increases management control as employees are more likely to do their jobs in order to get paid. This reflects the pluralistic tradition as it builds on an antagonistic relationship between employees and management; managers have to control and pressure the workers in order to get results. (Roberts 2001, 516.) Performance related pay in general allows for greater financial control and flexibility (Roberts 2001, 525), which are important issues in the market-driven British economy.

One of the problems with performance related pay is the possible displacement of objectives. As pay is determined on the basis of performance, employees may experience a change in their psychological contract from relational to transactional, i.e. the basis of the contract between the employee and employer changes from a relationship to a simple transaction of effort for money. (Roberts 2001, 526.) This could partly explain why the use of performance related pay has recently decreased slightly in the UK (Atterbury et al. 2004, 53–54).

Performance related pay may undermine the cohesion and harmony of the work group (Roberts 2001, 527) which are highly valued features in the Finnish culture. In fact, result based pay systems have in many cases been proven not to have any effect on the motivation and attitudes of Finnish employees. Usually only a small proportion of the salary tends to be based on individual or team performance in Finnish organisations. Furthermore, the prevalence of the Finnish public sector influences the employment of result- and performance related pay in Finland. Traditionally performance related pay hasn't been commonly used in public sector organisations and its financial significance for public sector employees has been minimal. (Helsilä 2002, 69–71.)

The fact that pay has traditionally been determined on the national level in Finland has its implications on the use of performance related pay today. Finnish organisations tend to be restricted by national agreements negotiated by trade unions. Consequently, pay determination on the organisational and particularly on the individual level is uncommon. Finnish organisations tend to shy away from performance related pay and other forms of individual agreements, rather leaning towards uniform compensation

policies. Furthermore, the resources for the development of reward systems have been scarce in Finland. (Helsilä 2002, 67.)

In the light of these factors and statements, the results of the Cranet-E survey are surprising. According to the study, performance related pay is widely used in Finnish companies (Lindeberg et al. 2004, 298). This may be partly explained by the fact that merit based pay schemes were included in performance related pay. Furthermore, it may in deed be true that performance and merit based pay are frequently used in Finnish companies, but their relative significance is rather small from the financial standpoint. Performance related pay is likely to only represent a small additional incentive, complementary to the basic pay.

What makes sense is the fact that differences between staff categories, in terms of performance related pay, are small in Finland. What this means is that Finnish companies tend to use performance related pay for all grades of staff, not only for managers and professionals. (Lindeberg et al. 2004, 298.) Clearly this reflects the egalitarian values of the Finnish culture. In fact, Finland has the highest rate in the EU when it comes to the use of performance related pay for manual staff (Lindeberg et al. 2004, 298).

## **6.5 Performance appraisal**

### ***6.5.1 Motives for performance appraisal***

In the past, performance appraisal was mainly used as a tool to determine pay levels. Today, however, it is often used to indicate the future potential and needs of organisations. The process can be very simple: managers fill out annual assessment forms and reports. A more complicated performance appraisal process on the other hand can employ sophisticated measurement techniques involving, not only managers, but the entire organisation in the assessment process. (Björkman, Lindholm & Tahvanainen 1999, 145).

Performance appraisal can also be used as an effective way to communicate organisational values to the employees; assessments can be based on sales or production figures, indicating the importance of effectiveness. On the other hand, employees can be assessed on the basis of their communication skills and characteristics, reflecting the importance of a softer set of organisational values.

Formal appraisal is used to assess training and development needs, to help career planning, for promotion purposes, for pay determination and to set objectives for the future (Vickerstaff 1992, 133). In the case of British Rail, managers' performances on several objectives and requirements were evaluated and appraised, in order to determine their salaries (Pendleton 1992, 186). Evidently the performance appraisal function ties in closely to reward systems in many British organisations. In fact, a third of British companies reported that performance appraisal was linked to pay, but the majority claimed that the purpose of appraisal was to assess individual training needs (Atterbury et al. 2004, 54–55).

Finnish organisations, in accordance with the less masculine culture, prefer to use a rather soft technique when assessing employees, i.e. development conversations. Development conversations are closely linked to the training and development function as well as to the measuring of workplace atmosphere. The development and welfare of employees are both major issues in the future for Finnish businesses and therefore development conversations are likely to remain popular. (PA Consulting Group 1999, 18–19.) The conversations tend to involve a range of issues, but one of the most important ones is the assessment of the employee's achievements (Helsilä 2002, 65). Both the use of such a soft method of appraisal and its close connection with employee welfare reflect the less masculine values of the Finnish culture, such as cooperation and quality of life. However, the current but slow trend is that Finnish organisations are increasingly linking development conversations with compensation (Helsilä 2002, 66).

The differences between Finnish and British organisations, when it comes to performance appraisal, are also reflected in the use of assessment centers. Assessment centers are generally used when selecting managers or trainees, hence they are closely linked to the recruitment and selection function. Assessment centers involve a series of group and individual tests aimed at assessing employees' or applicants' skills and competencies as well as development needs. (Storey & Wright 2001, 244). The data from the Cranet-E survey implies that organisations in the UK are more likely to use assessment centers than Finnish organisations (Larsen & Ellehave 2000, 94). The fact that Finnish organisations are less inclined to use this rather sophisticated and complex tool to assess their employees may reflect a smaller interest and investment in the appraisal function in general, in Finnish organisations. Organisations in the UK, on the other hand, are more likely to use assessment centers as they coincide with the cultural values of measurability and objectivity.

### 6.5.2 *The implementation of appraisal systems*

Appraisal has been criticized recently, but when carried out appropriately it can reveal a great deal of a person's strengths and weaknesses. Performance appraisal can contribute to the success of an organisation as it often reveals development needs and ties in closely with the training and development function. (Holden 2001, 330–331.) Furthermore, the assessment function is often linked to the recruitment and selection process, which is probably why performance appraisal is one of the most frequently outsourced HR practices in Finnish organisations (PA Consulting Group 1999, 14).

In the UK, the majority of employees are frequently assessed, mainly by their supervisors and the employees themselves. However, assessing their employees using 360-degree feedback (feedback from superiors, subordinates and co-workers) is increasing in the UK-based organisations. In the UK, employee assessment tends to be aimed towards managers and professionals. (Atterbury et al. 2004, 54–55). This is supported by the findings of the Cranet-E survey already in 1995; it is significantly more common for UK businesses to have a performance appraisal system in place for managers than for professional and technical staff (Larsen & Ellehave 2000, 90). In terms of cultural values this reflects the higher power distance index of the British culture as hierarchy is expected and accepted across the board. The organisational hierarchy can be maintained and reinforced by implementing appraisal systems exclusively for higher levels of staff. However, there has recently been a shift towards making appraisal schemes more inclusive and extending them to clerical and manual staff (Atterbury et al. 2004, 54).

In Finnish organisations as well, manual staff tends to be the least included staff category when it comes to performance appraisal. However, it seems that professional and clerical staffs are most frequently assessed, followed by management staff and finally manual staff. Furthermore, the differences in the application of appraisal systems between different staff categories are quite small, in comparison with British organisations. (Lindeberg et al. 2004, 298.) It seems that while British organisations tend to reinforce hierarchy by mainly appraising higher levels of staff, the Finnish organisations include lower staff categories in their appraisal systems. The fact that professional and clerical staff are appraised most frequently illustrates the significance of these staff categories in Finnish organisations. As professional and clerical staff tend to be highly unionized, their roles have been promoted and emphasized by the trade unions. The inclusiveness of Finnish appraisal systems is consistent with the low power distance index of the Finnish culture and the overall pursuit for equality. Recently, the use of performance appraisal has increased in Finland to the point that approximately

50% of the companies assessed their manual staff or other employee groups. (Lindeberg et al. 2004, 298.)

## **6.6 A comparison of Finnish and British HR systems**

Table 1 summarizes the previous chapters on a more general level, presenting a comparison of what distinguishes Finnish and British HR systems. The defining factors of each HR practice and the status of HRM in both countries are briefly outlined, in an effort to present an overview of the issues discussed earlier. It is rather clear to see how the societal, cultural and historical factors explain the differences between the HR systems.

The egalitarian culture and trade union influence in Finland have lifted the status of HRM, while in the UK the HR aspect is kept out of the board room in accordance with the high power distance index and low trade union influence. The recruitment and selection function is influenced by the softer cultural values in Finland, whereas in the UK the masculine values override, resulting in a preference for more objective and fact-based selection methods. The importance of self-development, equal opportunities and long-term focus are evident in the frequent training provided by Finnish organizations. British organizations, on the other hand, use training and development as a way of reinforcing organizational hierarchy in accordance with the higher power distance index. Furthermore, the British short-term orientation and the hands-off approach of the British government are reflected in the training and development function.

As for reward systems, trade union influence has played a major role in Finland, whereas in the UK reward systems overall are more based on individual agreements. Again, when it comes to performance appraisal, it seems that in the UK it reinforces hierarchy and relates closely to performance related pay. In Finland, on the other hand, appraisal is mainly targeted at the highly unionized middle-level employees, and the appraisal method is softer, reflecting the less masculine culture.

Table 1 The main differences between HR systems in Finland and in the UK.

	<b>Finland</b>	<b>UK</b>
<b>The status of HRM</b>	More strategic (higher board room presence, earlier involvement in corporate strategy, delegated to the line more frequently)	Less strategic (lower board room presence, involved in corporate strategy on a later stage, delegated to the line less frequently)
<b>Recruitment and selection</b>	HR specialists recruited internally. Overall, managers recruited externally. Selection based on personal characteristics, competence and fit (one-to-one interviews and occasionally psychometric tests).	HR specialists recruited externally. Overall, managers recruited internally. Selection based on objective and comparable information (references, application forms, interview panels).
<b>Training and development</b>	Highly educated workforce. Yearly training plans required. Learning through training and instruction. An investment in the future.	Skills shortage. Training and development offered for higher-level employees. Learning through experience and self-development.
<b>Reward systems</b>	Pay determined more collectively. Direct financial rewards, based traditionally on long-term development and job requirements.	Pay determined more individually. Share-ownership, profit sharing, indirect rewards and performance related pay. Bigger pay gaps.
<b>Performance appraisal</b>	Professional and clerical staff (middle-level) are appraised more frequently. Development conversations. Closely related to training and development.	Higher-level employees are appraised more frequently. Appraised by supervisors and employees themselves. Closely related to reward systems.

As Table 1 indicates, the differences between the Finnish and British HR systems are identifiable. These differences are probably not as straightforward and explicit in reality, but Table 1 provides a simplified framework for the comparison. It seems that the prevailing British HR systems are closer to the 'hard' model of HRM, whereas Finnish HR systems are more consistent with the 'soft' approach. The following chapter will look at the future developments of the Finnish and British HR systems.

## **7 THE FUTURE OF HR SYSTEMS: DIVERGENCE OR CONVERGENCE?**

Europe is increasingly regarded as an entity, where technical and physical barriers are broken down and common characteristics are emphasized in the hopes of a more unified European Union. The question of divergence or convergence of European HRM is an interesting one, especially now, as Finland and the UK are both members of the EU. It is intriguing to see whether the process of completing the Single European Market results in a more unified approach to HRM and the use of similar HR practices in the member states.

### **7.1 The development of European HRM**

Brewster and Larsen (2000b, 29) suggest that there are more similarities in the approaches to HRM between the countries of northern Europe (including the UK) than in other parts of Europe and the world. In the future, the possible convergence of European HRM could be generated by the market forces and/or the pan European institutional forces. On the other hand, HRM might be so deeply rooted and the differences between national HR systems so fundamental, that convergence towards a common European model isn't possible. At the moment, evidence doesn't support further convergence in the use of different HR practices between European countries in the future. (Brewster, Mayrhofer & Morley 2004, 417.) This means that it is unlikely that the differences between Finnish organisations and organisations in the UK will decrease, as far as the HR systems are concerned. However, Brewster et al. (2004, 434) argue that convergence can be found and expected in the direction of trends and changes. This suggests that regardless of the different starting points of national systems, they are moving in the same direction although not towards each other. One of the most prominent trends also seems to be the European tendency towards devolution of HRM, i.e. the allocation of HR practices from the HR department to the line (Brewster & Larsen 2000d, 199).

Obviously some convergence will have to take place between the Finnish and British organisations due to the EU, the integration of European markets and the Social Charter, the proposals of which will considerably affect the employee relations at international, national and local levels (Claydon & Holden, 2004, 644). Despite the British tendency to reduce regulation on the national level, the EU level restrictions are increasingly extensive (Brewster 2007, 774). Moreover, the increasing internationalisation of

markets and the dominance of multi-national companies may result in a more unified European HRM, as practices transfer across borders (Vickerstaff 1992, 209). Furthermore, European HRM is under pressure from the 'harder' American approaches to management and pressured by stock markets, particularly in the UK (Brewster & Larsen 2000f, 226).

Nevertheless, the impact of different cultures and business systems on national HR systems becomes evident when looking at Brewster et al.'s (2004, 434) findings: "...there remain very substantial differences, perhaps even continuing further divergence, in terms of final convergence." The key issues in the future developments of HRM, on the European level, are examined in the following paragraphs.

## **7.2 Developments in pay**

According to Brewster, Hegewisch and Mayne (1994, 114) the key issues relating to the developments in pay in Europe are the decentralization of pay determination and the growth of flexible pay systems. The European trend in pay determination is decentralization; collective bargaining on the national and on the industry level is decreasing, thus facilitating company level negotiations. The recent development applies to European countries with traditionally low trade unionism and already greatly decentralized pay determination, as well as countries with highly centralized bargaining systems. (Brewster et al. 1994, 115.)

In the UK, the development is clearly underway in the form of declining union density and company-specific pay negotiations. As Brewster et al. (1994, 115) suggest, national and industry level bargaining is mainly a public sector practice in the UK. However, Finnish pay determination is not yet showing signs of following the decentralization trend when it comes to union membership (Union density, 1995–2005). Still, the decentralization trend is evident in a statement provided by the Confederation of Finnish Industries, EK, where company-specific pay determination and solutions were called for (Confederation of Finnish Industries, 2008). The central role of the public sector in Finland may partly explain why the commitment to collective bargaining on the national level, and recently especially on the industry level, remains relatively high. As Morley et al. (2000, 166) suggest, unionism is traditionally strong in the public sector, and the continuous importance of the public sector contributes to the prevalence of trade unions. However, even the Finnish public sector recently adopted a performance related pay system, representing the move towards more individualized pay determination (OECD 2005).

Overall, while there may be a shift in the power of the negotiating partners, collective bargaining remains protected and regulated in the legislation of most European countries (Brewster et al. 1994, 118). The persistence of national differences reflects the long history of country-specific bargaining systems where circumstances, patterns of industrialization and economic developments are unique to each country (Vickerstaff 1992, 209). The role of trade unions is protected also on the supra-national level by the EU, and is likely to remain so in the future. However, whether trade unions are able to take advantage of their position and role on the EU level is an important question. So far, there's been plenty of room for improvement in the lobbying practices of trade unions. (Brewster, Mayrhofer & Morley 2000, 165.)

Alongside the decentralization trend in Europe, companies across Europe "...are looking for a direct link between rewards and contribution" (Brewster et al. 1994, 116). Variable pay, performance related pay and non-monetary benefits are gaining ground in Europe, partly as a response to recent market pressures and due to a shift in underlying approaches to payment. The individual contribution is increasingly being highlighted by individual-based pay (Vickerstaff 1992, 178).

Particularly organizations in the UK are taking onboard flexible pay systems in the form of profit sharing and employee share options. While significant differences remain between Finland and the UK, in terms of remuneration policies, there clearly is a trend towards flexibility and incentive pay practices in Europe. Furthermore, a trend in European legislation on equal pay for men and women will have an effect on reward systems in the future (Vickerstaff 1992, 179).

### **7.3 Developments in working patterns**

Flexibility is also a key issue in the development of European working patterns. Changing demographics and increasing international competition are the main driving forces in the shift towards more flexible work contracts, such as part-time work, job sharing, term-time employment and career breaks. Through these practices organizations are able to retain and appeal to working mothers, older workers and other groups that are unable to work full-time. Furthermore, managers are able to increase productivity and reduce wage costs by implementing more flexible work arrangements.

Clearly differences between European countries remain when it comes to employing flexible contracts and practices. In Britain, part-time work is far more widespread than it is in Finland, reflecting the flexible business environment where legislation and collective bargaining are not as restrictive (OECD 2000–2006). In fact, the UK is one of

the leading countries in Europe, and possibly most of the rest of the world, in having a high proportion of employees on part-time contracts (Brewster & Larsen 2000b, 34). The British telephone giant BT, for example, used temporary contracts in the belief that short-term contracts are less costly, while Rank Xerox responded to the increasing competition by growing only through the use of temporary employment in the UK. The UK has also been tapping into the flexibility of the workforce by clearly having the greatest percentage of overtime work in Europe. A third of both Finnish and British organizations have been aiming for flexibility by increasing the use of subcontracting. Still, differences remain as more or less a quarter of organizations in Finland have reportedly not yet resorted to the use of subcontracting. Some companies in the UK have taken steps towards flexibility while supporting working mothers by offering women the opportunity to work when the children are at school and suspending the contracts during the school holidays. (Brewster & Larsen 2000e, 133–136.)

According to Brewster and Larsen (2000e, 140–141) there is evidence that organizations with influential human resource specialists, who can study new developments and introduce them, are more likely to develop flexible working patterns and employ them. The fact that organizations in Finland are more likely to allocate the responsibility for human resource issues to line managers (Brewster & Larsen 2000d, 199), can therefore partly explain why Finnish organisations are not employing flexible working patterns as frequently as British organisations. Furthermore, the growth of flexibility has been directly linked to the decrease in trade union membership, which also supports flexibility in British organisations. In Finland, on the other hand, trade union membership and influence remains high and flexible working patterns are not as common. Temporary workers tend to require more services and attention from trade unions, which is perhaps why the influential trade unions in Finland have made an effort to steer organisations away from using flexible contracts and encouraging traditional methods instead. (Brewster & Larsen 2000e, 142.)

In the future, the direction is evidently towards 'atypical' and flexible working practices in Finland, Britain and all of Europe. (Vickerstaff 1992, 86–87.) Managers are likely to face new challenges such as balancing the complexity and the advantages of flexible agreements, as well as committing flexible workers to organizations. The EU is now concerned about the possible exploitation of workers within these new working patterns, which potentially results in further legislation and regulation on the European level subjecting all member states to common rules and guidelines in order to protect the rights of flexible workers. (Brewster et al. 1994, 121–123.)

## 7.4 Equal opportunities and training

The equality of men and women in employment is a key issue in European countries, enforced by legislation on the EU level. However, major differences remain when it comes to providing equal opportunities in countries across Europe. Scandinavian countries, including Finland, have reached a point where women's participation in work is nearly as high as that of men, due to the extensive childcare facilities and support systems for working mothers. In the UK, on the other hand, the equality of men and women in employment is lagging behind. This is evident in the percentage of women in both part-time and full-time employment in the UK compared to Finland (OECD 2000–2006; OECD 2007). Nevertheless, both countries suffer from vertical and occupational segregation of women; women frequently end up in female dominated jobs and the glass ceiling keeps women from attaining senior managerial positions.

Demographic changes, political and social pressures, as well as the increasing amount of highly educated and qualified women, are forcing managers all over Europe to re-examine their employment practices. Equal opportunities don't only refer to women's role in employment, but also to other types of discrimination on the basis of ethnicity, race or disabilities. In the future, we are likely to see a change towards more tolerant and less discriminative employment policies across Europe, allowing managers to utilize the European workforce in a more ethical and efficient way. (Brewster et al. 1994, 123–124.)

In order to improve the employability and skills of the workforce, governments and organizations implement training and development policies. According to Brewster et al. (1994, 125) there's an increasing tendency in Europe to invest more in training, in order to fulfill future skill needs and to survive in the ever-changing business environment. As there are differences in the extent and level of state-provided education, between European countries, organizations are facing diverse training needs.

However, across Europe, increasing amounts of money and time are spent on training practices, in an effort to meet both organizational and individual needs. Particularly managers are receiving further training, possibly due to new challenges as more and more responsibility for HR issues is allocated to line managers. (Brewster et al. 1994, 125–127.) Clearly the future developments are pushing European countries towards more training, as it is in the interests of organizations as well as individuals. Still, when it comes to Finland and the UK, the two countries are likely to remain on different levels when it comes to training, as Finland is already investing more in training than the UK to begin with.

## 8 CONCLUSIONS

The study focused on societal, cultural and historical issues as a way of explaining the differences in British and Finnish HR systems. The main contribution of this study is the comparative analysis of the two national HR systems, but also the link between these HR systems and the societal, cultural and historical factors. The discovery of these links may help to make sense of other national HR systems and provide a framework for other comparative analysis. Further depth could have been achieved by adding an empirical dimension to the study. That way some of the current developments and changes could have been more clearly identified and the study would inevitably be more in touch with the reality. Nevertheless, this study provides a comprehensive and explanatory view of the differences between British and Finnish HR systems.

Some major differences were found in the societies and cultures in question that clearly have an effect on the national HR systems. When it comes to the societal, cultural and historical factors it can be concluded that overall managers in the UK operate in an environment characterised by flexibility and individuality. The trends in British human resource management embody its competitive nature (Richbell 2001, 261). Companies are able to adapt more easily to changing market conditions, as there are fewer restrictions and the society relies heavily on market forces. The British government tends to have a more hands-off approach, enforcing the prevailing individualistic and masculine culture. Overall, it seems that culturally as well as geographically the UK stands closer to the USA than other European countries (Brewster 1995, 10).

Collective bargaining is less of an issue in the UK where union density is lower than in the Finnish society. British managers are likely to be more independent as decision makers, when consulting and communicating with the employees isn't such a necessity as in Finnish organisations. The recent movement towards more flexible, non-standard contracts and indirect reward schemes in the UK reflects the managers' ability and necessity to adapt to the changing environment. It is also consistent with the cultural values such as individuality and appreciation of flexibility as well as the increasing amount of women in the workforce.

Generally speaking, British HRM seems to be closer to the 'hard' model of HRM and resembles the American approach. The HR practices in the UK are adjusted to fit the prevailing market conditions, and due to the reliance on market forces and the importance of flexibility, HRM tends to be more of a short term function in the UK. Furthermore, HR practices are used to underline the differences between staff categories, as managers tend to enjoy certain exclusive benefits. Organisational

hierarchy is maintained and reinforced by employing certain practices and policies and the traditionally antagonistic relationship between trade unions and managers contributes to the 'them versus us' –mentality in British companies. In the light of these findings the essential characteristics of British HRM are flexibility, individuality, competition and short-term orientation.

In Finnish organisations, on the other hand, human resources are managed in a more restricted environment. These constraints are put into place not only by trade unions and legislation, but also by the cultural environment i.e. the prevailing values and norms. As Hall's (1990) cultural contexts and Hofstede's (2001) uncertainty avoidance index imply, Finnish people tend to rely on rules and regulations in order to maintain order and clarity. This is reflected in the society as a whole as well as on the organisational level.

The emphasis given to equality and education in the Finnish culture has a direct effect on the prevailing reward systems as well as the training and development functions of HRM. Organisations prefer direct financial rewards that are easily comparable. Also training and development is a highly valued practice in Finnish organisations, which supports the culture of self-development and equal opportunities.

The role of HRM in general seems to be more important in Finnish organisations when looking at board-level representation (Brewster et al. 2000c, 48). This can reflect the important role of the public sector in the society, as publicly owned organisations are traditionally highly dependent on human resources due to their focus on customer service and administrative tasks (Brewster & Larsen, 2000b, 27; 30). However, Finnish HR practitioners may have a seat on the board due to the high union density and the need to communicate and negotiate with the trade unions. This does not automatically result in a more influential and strategic role of HRM in reality.

The important question here is whether Finnish HRM really is more strategic or is the employee aspect just seemingly recognized in Finnish organizations. It may very well be that due to the pressures from trade unions and the egalitarian values, Finnish organizations feel obligated to welcome the HR aspect into the board rooms. Consequently, true strategic integration of HRM seems to remain low, even in Finnish organizations. Nevertheless, having at least a seat on the board is likely to result in a more strategic role than not having one at all.

Finnish HRM appears to be more in line with the 'softer' model, which is reflected in the use of development conversations as an appraisal method. The softer model involves a more long-term orientation, which is represented in the frequency of training and development in Finnish organizations. Training is considered to be an investment in the future that will benefit the organization in the long run. Furthermore, the fact that

Finnish reward systems tend to be based on long-term performance and development is consistent with the 'softer' model. The influence of the Finnish public sector is again apparent, as public organizations are less likely to pursue short-term profits and quick fixes. Overall, the essential characteristics of Finnish HRM seem to be equality, fairness, employee welfare and long-term orientation.

As the influence of national culture and legislation remains strong, it is unlikely that British and Finnish HRM would converge in the future. However, some mutual trends will be seen on the European level. One of the interesting questions in the future will be if the influential multinational companies will override national differences in HRM. If more and more companies develop their own models and systems tailored to suit their specific needs, how can the adherence to national standards be ensured and a consistent approach on the national level be maintained.

Both Finnish and British HR systems aspire to become more flexible in the future, but how will these developments agree with the Finnish security and safety driven culture? Flexibility often spells uncertainty, which is something to be avoided in the Finnish culture. How will the Finnish workforce react to these changes and how much more flexible can we become? Should Finnish HR systems follow the flexibility trend or focus on other objectives? Can we maintain the focus on employee welfare and protection of employee rights in the pursuit of flexibility and competitiveness? These questions would require further research and only future will tell how British and Finnish HR systems will develop in reality.

## 9 SUMMARY

The thesis began by laying a foundation for comparing HR systems in Finland and in the UK. The central concepts were defined and the inspiration and motives for this thesis were explained. The methodological framework was introduced and the theoretical and comparative approaches were explained.

Following the introduction and methodology, the thesis began by looking at different factors influencing HRM in the two countries. It is difficult to recognize all the possible factors that affect how organisations in a certain country go about managing their human resources. In this thesis we concentrated on societal, cultural and historical factors, drawing on Brewster's (1995, 2) three levels of restrictions on organisations: culture and legislation, patterns of ownership and trade unionism. Despite being western and European countries as well as having geographical proximity, there are some distinctive characteristics in HR systems in the UK when compared with HR systems in Finland. It is purely a matter of looking close enough. In order to fully understand the differences between HR systems in the UK and Finland, these factors were examined.

First the societal factors in the Finland versus in the UK were discussed. The societal factors were divided into state involvement and trade unionism, using Brewster's division as a basis. State involvement was examined by looking into legislation that restricts or in other ways affects organisations in the respective countries. The issue of publicly owned organizations and the role of the public sector in general in the UK, as well as in Finland, were discussed. This also affects the way HR systems have developed in these countries. Finally the differences in trade union density and other issues relating to collective bargaining were discussed.

Following the societal factors, the cultural factors were thoroughly examined in the next chapter. It is evident that even in countries with such geographical proximity, cultural differences remain. Hofstede's (2001) studies show that the UK has a masculine culture also scoring higher in individuality and even slightly in power distance when compared to the Finnish culture, whereas the Finnish culture scores higher in uncertainty avoidance. Additionally, Hall's cultural contexts and the country clusters were introduced and by doing so, the cultural differences between Finland and the UK were confirmed. Furthermore, the differences in cultural diversity within the societies were discussed. The implications of these differences on management and leadership were briefly introduced.

Thirdly, the historical factors were discussed. The development of HRM, its arrival and early days in Europe were looked at. Important issues in the development of Finnish and British HRM were examined before discussing the role of SMEs and the impact of

the EU. The historical factors obviously have an effect on how HRM developed and what the current state of the HRM practice is.

After giving some thought to the underlying reasons for the differences in HR systems, the thesis shed some light on how HR systems in the UK differ in practice from the Finnish HR systems. The chapter examined the status of HRM in both countries. Furthermore, four essential HR functions were introduced in more detail, giving a more practical understanding of the differences between UK based organizations and Finnish organizations. Recruitment and selection, training and development, reward systems, and performance appraisal were chosen as the key HR practices. The different approaches to these functions in the UK as opposed to Finland were examined mainly drawing on evidence from the Cranet-E survey (The Cranfield Network 1999/2000). It was also important at this stage to link these differences in HR practices with the societal, cultural and historical factors that were introduced earlier.

Finally the question of future convergence or divergence in European HRM was discussed. The Finnish HR systems and the HR systems in the UK have often been regarded as similar in previous categorisations; however several differences can be identified when they are examined in more detail. They are expected to remain that way in the future, despite the integration of European markets and the overall globalisation of businesses. Still, the two national HR systems are likely to move in the same direction, just not towards each other. In terms of developments in pay, working patterns, training and equal opportunities both Finnish and British HRM are likely to follow similar trends in the future.

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