# Chapter 2
# The Main Conditions for Integration Success

This chapter presents examples of the required conditions for successful integrations. Part One includes a discussion of the concept of trust. In the past few years this notion has been a popular subject in management sciences. Articles written by scholars working in the field of management sciences have demonstrated the significance of trust amongst people, management processes and external relationships' management. Trust can be categorised in a variety of ways (e.g. as knowledge-based, characteristics-based, dispositional, institutional or competence-based) and dimensions (e.g. in terms of reliability, competencies, predictability). A correct identification of the varieties of trust and knowledge of its dimensions allows for a practical development of trust management programmes. In such a short sub-chapter, it is only possible to present a small selection of examples proving the importance of trust in the economy: the management of knowledge, people, and changes, and the development of safety, quality, and productivity. Trust is a value which allows enables social integration. This value results in an increase in the importance of cooperation and a decrease in the costs of control.

A large number of publications have been devoted to organizational culture. It is generally believed that it is culture that determines how an organization functions; to what extent it is capable of developing, acquiring and using knowledge; and whether it has potential to adapt and innovate. Integrating culture favours knowledge management processes (acquisition of knowledge, application of new ideas, etc.). While culture itself can fulfil an integrative function, integration processes occurring among various stakeholders have to be carried out with a specific purpose in mind. In this part of the book, the authors refer to only one example of a relationship taking place between an individual and an organization. The globalized economy is characterized, among other things, by the growing importance of knowledge concerning methods of cultural integration, especially in multi-cultural organizations operating in many parts of the world and in various cultures. Cultural differences occurring in outsourcing processes are also of considerable importance.



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## 2.1 Organizational Trust

In any discussion of integration, it is impossible to avoid the notion of trust. How can integration and synergy be achieved if there is no trust within an organization? How can the integration of quality management systems be set in motion if one is not convinced that such integration will prove both cost-effective and successful in terms of its functionality? How can one manage a supply chain if one does not trust one's buyers? Every day these and similar questions are on the minds of people managing various organizations. Trust has an enormous influence on economic behaviours. It favours efficiency, decreases control costs, and facilitates mutual learning processes and cooperation. It is one of the key social elements in an organization.

### *2.1.1 Definitions of Trust*

There are many definitions of trust in the literature on this subject. These can be divided into a few groups. Thus trust is defined as:

1. A state expressing acceptance of what will happen in the future despite the fact that the future is uncertain.
   This group includes definitions describing trust as a wager on the uncertain future actions of other people and a readiness to accept other people's behaviours (e.g. Sztomka 2007; Mayer et al. 1995).
2. An element of social capital and/or a resource, thanks to which an organization can function and develop properly.
   This group comprises definitions treating trust as an element of social capital (Prusak and Cohen 2001) or an organizational resource (Gambetta 1988).
3. A necessary foundation of human interactions. A value which makes cooperation possible.
   For example, trust is defined as a foundation of social interactions or a valuable resource located in organizational or interpersonal relationships (Weber et al. 2005).

Through analysis of various theories and definitions, we can identify the following characteristic features of trust:

- Trust depends on risk: if the results of undertaken tasks/projects were known in advance, trust would be unnecessary.
- Trust is connected with a relationship between two people, who are called actors according to the theory of dramaturgy or agents according to the theory of social exchange. If this relationship did not exist, there would be less need for trust.
- Trust is accompanied by susceptibility: risks and relationships contribute to the occurrence of susceptibility or vulnerability.

- Trust is related to future expectations: actors accept susceptibility in relationships with others if they have positive expectations for the future.
- Some types of trust are inherent, while others result from contracts (Bugdol 2010).

### 2.1.2 Types of Trust

There are many different varieties of trust. Taking into consideration the character of this work, we should select a few particular types of trust from among those described in literature to date. Therefore, the basic selection criterion will be a relationship between a particular type of trust and integration processes. With respect to this criterion, it is possible to distinguish the following types of trust:

- Knowledge-based trust, which ensues from the possibility of predicting people's behaviour on the basis of a history of interactions (the better we know someone, the better we can predict their behaviour, and predictability increases trust) (Robbins and Decenzo 2002).
- Characteristics-based trust, which means that people with similar characters and experiences are better at understanding one another's needs and expectations. We are convinced that those people belonging to our group are loyal to us and understand our needs. That is why we can trust them (Hummels and Roosendaal 2001).
- Dispositional trust, which is understood as an inclination or tendency to believe in other people's positive attributes. This type of trust is particularly important at the initial stage of making new friends in a work environment. Such a tendency determines further stages in the development of social ties (McKnight et al. 2004).
- Institutional trust, which is not trust in an institution, but trust related to a formal organizational structure ensuing from established procedures (formal standards enhance such trust, and to some extent guarantee the predictability of other people's behaviour).
- Competence-based trust, which is trust in competent (masterly/capable) people in possession of a sound knowledge of standard procedures. Such knowledge should be demonstrated in everyday work performance. It is the trust which is placed in aircraft pilots and technicians by passengers boarding a plane. A high level of trust occurs when another person is regarded as an expert, competent in their work and capable of applying the knowledge they possess in a variety of situations (e.g. crisis ones).

The aforementioned examples of different types of trust can be very useful in analysing integration processes. For example, knowledge-based trust proves that in social integration processes, a significant role is played by the competencies of personnel, in particular their experience. For this reason, people who have not earned the trust of others are worse at establishing relationships and thus hinder cooperation and achievement of objectives. Trust has been compared to a mirror which, once broken can be glued back together, but it will remain forever damaged and misleading. Two other types of trust—characteristic-based trust and dispositional trust—emphasize the role and importance of personality traits together with tendencies visible in the expression of the so-called "credit of confidence." Such credit frequently results in stronger commitment amongst newly recruited employees. Thanks to dispositional trust, all forms of socialization and adaptation processes are possible, facilitating social integration.

Confidence-based trust clearly emphasizes the role of managers in integration processes. Particularly in situations of uncertainty, people need recognizable authorities. On the one hand, institutional trust shows us the importance of a formal structure itself in integration processes, while, on the other hand, it also proves the weakness of various procedural solutions. The very fact that procedures exist does not guarantee success in integration processes. What is more, the existence of institutional trust can be a major obstacle in the manner of achieving a satisfactory level of integration. In many companies employees think that procedures exist only to be followed. Quality management systems, however, pay attention to the improvement of procedures or proposals for corrective or preventive measures.

### *2.1.3 Dimensions of Trust*

The basic dimensions of trust include the following: reliability, dependability, competence, predictability and kindness.

A reliable behaviour is one which is consistent with promises, even if such promises do not maximize benefits (Francois and Zabojnik 2005). In management, managers' reliable behaviours perform an instrumental role. The level of trust depends on their reliability. The absence of reliability is usually connected with the disappearance of trust. It is, however, also possible to refer to the reliability of an entire organization. In this case, reliability is related to honesty in terms of the delivery of functional, useful products which are regarded as dependable and reliable.

According to the ISO 9000:2005 standard, dependability is "a general term used to describe a facility's readiness and factors impacting this readiness such as resistance to damage, operability, and provision of maintenance measures" (EN ISO 9000:2005, 3.5.4, p 37). This term applies to behaviours, processes (their results), and systems. Dependability plays a key role in the evaluation of other people and products. Within a dependability structure, the following elements should be distinguished: certainty, safety, and flawlessness (Bugdol 2010).

Competencies constitute another dimension of trust. There are numerous categories of competencies. Oleksyn (2006) lists the following: experience, skills, creativeness, innovativeness, responsibility, enterprise, professionalism, flexibility, ability to cooperate, communication competencies, assertiveness, effectiveness, and efficiency. According to the ISO 9001:2008 standard, competencies are: knowledge, experience, qualifications and skills (ISO 9001:2008, item 6.2). Rostowski (2003) enumerates as many as eight different categories of competencies: skills and abilities, knowledge, physical competencies, styles, personality, principles and values, and interests. According to a more common classification, categories (elements) of competencies can be divided into soft and hard. Soft elements include, among others, motives for action, awareness and attitudes, while hard elements are those which can be examined or analysed more easily, for example qualifications or skills. It is assumed that competence-based trust can be defined as the conviction that held competencies are sufficient so far as the execution of tasks at hand is concerned. Predictability is a term referring to particular people's beliefs concerning possible future behaviours, actions or results. A predictable behaviour is one which does not have an alternative. If we know how the other person will behave, we can trust that person. The absence of predictability entails uncertainty, fear or bad decision making.

Kindness is classified as a factor impacting on, and directly related to, reliability (e.g. Dirks and Skarlicki 2009). The manifestation of reliability is accompanied by the attitudes of favour or understanding towards other people's expectations. Kindness is one of the factors influencing the process of trust development; it is associated with liking, or favourable acceptance.

## *2.1.4 Significance of Trust*

Trust plays a very important role in organizations, social exchange networks, and at both the micro and macro levels. On the basis of conducted research, it is possible to conclude that trust plays an important role in economic development. It is of primary importance for productivity or quality improvement. It is a value indispensable in human, change, and safety management processes. Without trust, there can be no innovativeness or knowledge management. Obviously, trust is a very important element in the majority of management concepts. Nevertheless, even such a limited selection of issues would indicate that trust is a key value for the functioning of organizations as well as their improvement and development.

**Economic Development**

There is much evidence to support the thesis that trust is important for trade processes, including export activities, impacting on economic behaviours—in particular investment behaviours—and is essential for saving and lending operations. The absence of trust in public institutions can be a reason for the development of unethical behaviours and the black market. The consequence of the absence of trust in public institutions and legal regulations is a limiting of the number of entities involved in public-private partnerships.

Trust among state institutions and market entities has a favourable influence on trade processes. People who trust one another can take greater risks and do not fear cooperation, resulting in innovation, the taking out of loans, involvement in business activities and the establishment of new economic relationships. Where trust is lacking, the scope of business exchange processes is seriously limited. Even if at a given time businesses have financial resources, they do not use them to create new jobs or enterprises, but prefer to build their own financial houses or invest in new machinery.

Trust among partners increases creativeness and inclination towards investment. However, the level of such trust should be optimal because too high or too low a level of trust can be detrimental. Therefore, trust requires monitoring. If entrepreneurs lack trust, then they are wary of new projects and move their business operations to other countries (Bugdol 2010). The same happens when people have no trust in their own currency. They do not keep their money in long-term deposits, but turn their attention to alternative forms of saving such us buying gold. Trust in financial institutions is of particular import for economic exchange processes. Institutions regarded as unworthy of trust have problems with the sale of financial products which carry greater risk but can ultimately be the most profitable; trust itself reduces individual risk (Cox 2007).

**Productivity**

It is obvious that people who trust one another do not have to spend time on insuring their mutual transactions. They know that there is their cooperation carries little risk, hence their willingness to participate in new projects. It is also known that a group's productivity depends on a number of organizational and psycho-social factors. An important function is performed by group tasks, a common pursuit of goals, a proper level of integration and communication. Trust favours required standards of organizational behaviours and proper approaches to work and cooperation; it improves the quality of interactions within teams of employees and strengthens employees' morale (Dirks and Ferrin 2000). Trust is credited with facilitating process improvement, and increasing productivity and operational effectiveness (Reina and Reina 1999). Research conducted by Watson Watt Worldwide indicates that trust is closely related to productivity. Shareholders' profits are greater in corporations characterized by a high level of trust (Corporate scandals lowering trust, HR briefing, 15.09.2002, no. 3018).

**Quality Improvement**

Trust is a key value for both the users of quality systems and companies following the rules of total quality management. Quality management systems stress that quality assurance has to be oriented around the promise that quality requirements will be fulfilled. Considerable research on the function of trust in quality management has been carried out in recent decades, particularly at the end of the 1990s. It was at that time that researchers found that trust was one of the elements of TQM culture, and research on the TQM implementation level conducted by Dale and Lascelles (1997) showed that trust on all rungs of an organizational structure was related to leadership culture, was a source of satisfaction amongst employees, and determined an organization's ability to adapt quickly to changes in the environment. In other words, trust is indispensable if quality is to exist. Without employees' trust in their superiors, the implementation of quality programmes becomes a fiction. Trust in relationships between an employee and a customer allows for the acquisition of reliable information which is useful in quality improvement. Taking into consideration both successful and unsuccessful TQM implementations, it is possible to conclude that one of the reasons for the failures of pro-quality programmes was a low level of trust. That is why excellence models based on the TQM principles emphasise the necessity for developing and maintaining trust. For example, the Common Assessment Framework stresses the importance of the following: determining the principles of confidentiality and information security management, increasing trust and morale by involving employees in self-assessment processes, examining the level of social trust in an organization and its services or products, mutual trust and respect in relationships among leaders, managers and employees, and the selection of g a team leader who enjoys the trust of all team members. Trust is also an element of organizational assessment (in accordance with M. Baldrige's model).

The precursors of TQM referred to trust indirectly. Deming promoted the need for the elimination of fear and rejection within an organizational hierarchy because he knew that an organization without trust was not able to improve quality in the long term. His recommendations for incentive schemes were also related to trust. He was convinced that it was cooperation and a proper work that favoured, rather than competition or the attraction of customers at any cost. The same could be said with regard to Crosby's assertions. Identification of the causes of problems consisted in engaging in dialogues with employees. The author of "Quality is Free" emphasized the need for the building of trust with respect to the elimination of the causes of defects. Crosby's idea was to empower employees, who were expected to keep a record of the causes of defects and to strengthen trust by appreciating and acting on ideas proposed by employees.

**Human Resources Management Processes**

There is an unbelievably large body of evidence proving that trust has a positive impact on human resources management processes. Research has shown that trust in an organization facilitates recruitment and selection processes, considerably improves the effectiveness of adaptation processes, and accelerates learning processes. Due to trust, employee assessment processes do not cause unnecessary emotional tension and incentive systems make sense (employees do not fight or compete by means of unethical methods).

Trust is vital in employee dismissal processes; trust is the basis of sustainable commitment on the part of employees. Trust is also indispensable in personnel safety assurance systems and work safety management systems. In other words, without trust, the effective or efficient management of people is impossible.

The problem of trust is of particular importance in recruitment processes. On the one hand, an organization's reliability is dependent on recruitment processes, while on the other hand, such processes entail an element of risk. Problems with trust occur in relation to candidates or applied recruitment procedures. That is why the preliminary socialization process plays such an important role in the development of trust.

Research conducted so far indicates, for example, that trust is indispensable for effective training (Kahane 2006). Its effectiveness is determined by trust in a trainer, combined with integration skills and a sense of community (Kahane 2006). A level of trust depends on how an organization perceives the competence, consistency, and motivation of a training services provider (Leimbach 2005).

Employee assessment systems are dominated by trust and equity. The manner of conducting an employee assessment elicits a sense of equity or inequity; consequently, it is believed that an equitable assessment is necessary for the maintenance of trust (Hemdi and Nasurdin 2006). An important element in the trust development process is the extent to which employees accept and have faith in an assessment system. An increase in the acceptance and reliability of an assessment system improves the level of trust (Mayer et al. 1995).

Trust is also an important factor in the effectiveness of motivational systems. If there is no trust, a sense of inequity will occur sooner or later. Meanwhile, human resources management experts concluded long ago that there was a direct relationship between perceived equity and motivation (Steensma and Visser 2007). Simply speaking, the absence of equity means the absence of motivation to work or the emergence of negative attitudes and behaviours oriented against an organization.

**Change Management**

Trust performs a key role in change management, which is the result of two basic factors. Firstly, the level of trust in leaders determines the pace and effectiveness of changes which occur. Secondly, trust—in particular information trust—is of immense importance for the evaluation of information acquired by employees during the course of changes. Trust is a very important aspect of change management. The level of trust perceived results from the nature of changes and a person's position in the hierarchy of power. An absence of trust in those people implementing changes can lead employees to devise methods of avoiding or sabotaging changes, or feigning work. It should be also remembered that during the course of changes, trust is strongly dependent on other organizational values, especially equity.

**Work Safety**

Trust plays an important role in work safety management (Conchie and Donald 2009). It is believed that trust is one of the elements of a "safety culture" (Conchie and Donald 2009). The role played by trust in work safety assurance processes can be either positive or negative. It is believed that if the level of trust is too high, employees become less careful. It can also be the case that employees place too much trust in management procedures, which are not perfect. Trust in safety systems depends to a considerable extent on people responsible for work safety. On the other hand, the absence of trust prevents employees from reporting accidents, while managers do not regard all reported accidents as genuine. A low level of trust prevents the achievement of significant improvements in work safety.

**Knowledge Management**
Many studies conducted indicate that trust:

- Has also a considerable influence on external processes related to knowledge sharing among organizations (Marshall et al. 2005),
- is indispensable in processes oriented towards the effective search for and acquisition of new knowledge,
- performs an important role in the process approach which takes into consideration, among other things, knowledge transfer and documentation (Renzl 2008).

Various knowledge management processes are dominated by different types of trust (Hoe 2004). In knowledge acquisition processes, the most important function is fulfilled by interpersonal trust, which is both relational and identification-based. Knowledge creation is facilitated by competence-based and institutional trust. Codification processes require system-based trust. Interpersonal trust has a positive impact on knowledge acquisition processes and also on knowledge dissemination processes occurring within a learning organization (Hoe 2004).

### *2.1.5 The Role of Trust in Integration*

Trust plays a key role in social integration processes. Such a conviction is based on several facts.

Firstly, trust is of enormous significance for knowledge management processes. As has been emphasized above, trust facilitates the acquisition of knowledge, its application and processing. Without trust, the sharing of tacit knowledge among employees is impossible. Trust creates conditions favourable to a sense of safety.

Secondly, trust is both dependent on and influences the other organizational values. In this sense, we can consider such values to function as a system. Trust influences an evaluation of equity. The absence of procedural or distributive equity is related to the absence of trust. In a sense, equity is the source of trust.

Note: Procedural equity results from a conviction that the application of even unjust laws can be equitable in a procedural sense. Such equity is related to procedural trust. Distributive equity results from a conviction that each employee should be treated as equal to others. The basic task is an equal distribution of goods.

Equity and trust influence employees' commitment. Commitment is facilitated first of all by trust in superiors. Research shows that such trust exerts an impact on commitment during periods of change and innovation (Neves and Caetano 2009). Trust in colleagues and managers positively influences employees' satisfaction and also has an indirect influence on their loyalty (Matzler and Renzl 2006). Employees showing greater trust enjoy a higher degree of work satisfaction. A level of solidarity characteristic for an organization is also important for all organizational values. Thus trust is favourable for the social, functional, communicative and cultural types of integration.

Trust is an indispensable value in both vertical integration and horizontal integration. It is generally accepted that trust enables the integration of a supply chain. Trust in relationships between suppliers and an organization reduces cooperation costs (Sungmin et al. 2008). Trust plays an important role in relationships between suppliers and an organization, and lowers the level of dissatisfaction resulting from a temporary decline in work performance quality (Sungmin et al. 2008). Similarly to the other relationships discussed, trust reduces the risk of undertaken activities, but depends also on a level of commitment and communication. Trust among organizations is a factor which determines the effectiveness of their cooperation and also their potential inter-organizational integration.

Thirdly, trust proves the effectiveness of integration programmes implemented within an organization. Therefore, large organizations have examined levels of trust. Boeing was one of the forerunners of such studies, which became a necessity in view of the fact that employee efficiency was estimated at the very low rate of 30–40 %. This meant that the organization had an enormous but untapped potential. The company management, in cooperation with a group of volunteering employees, concluded that the major problem was a low level of trust. They drew up a special questionnaire detailing forty-eight different situations occurring in everyday work. As a consequence of this study, Boeing distinguished three key types of trust: competence-based trust, contractual trust (based on the honouring of agreements or promises), and communicative trust (understood as a willingness to share information).

Thus trust is a value determining the course of integration processes. Without trust, there is no social integration and the integration of social and technical systems is also impossible. This is the case, because the integration of these two systems depends on technological trust or on the degree to which people have faith in modern technologies.

## 2.2 Cooperation of People and Organizations

### 2.2.1 Fundamental Aspects and Dilemmas of Cooperation Within an Organization

In contemporary organizations, cooperation plays a synergistic role and also serves as a crucial, although frequently invisible process, influencing operational effectiveness. It is possible to identify a few key qualities associated with the essence of cooperation. Thus cooperation occurs when:

- individuals work together in order to achieve common goals,
- independent agents become involved in social interactions among people in an organization,

- individual efforts maximize collective results.

In literature on this subject (Hevey and Murphy 2012), two major perspectives of cooperation are distinguished. One of these assumes the sharing of goals, while the other is focussed on engagement in collective forms of activity.

Cooperation can also be described as a phenomenon which stands in opposition to competition and conflicts. Cooperation is possible only in situations which will support it. A situation is cooperative when goals are mutually shared and positively related to each other (Hevey and Murphy 2012). On the one hand, cooperation is based on formal arrangements (e.g. contractual obligations) and on the other hand, informal varieties of cooperation can occur. The increasing role of virtual communication in organizations has led to a rise in demand for cooperation, even more so in view of a further dimension of time and space. Research also shows a close relation between the practise of a given management style and cooperation within an organization (Schalk and Curseu 2010). This is so because a management style largely determines employees' individual motives for action, including their propensity for cooperation, and also influences group behaviours. It has been proved that cooperation increases a group's effectiveness. From the managerial point of view, a skill in establishing successful cooperation can be considered as one of the key factors determining the success of a manager or organization (Hevey and Murphy 2012).

Orientation towards internal cooperation is usually stronger in organizations which, under the influence of competition, do not focus on short-term objectives alone, but try to develop and generate growth on a long-term basis (Schalk and Curseu 2010).

In organizations, managers usually stimulate cooperation processes because they are convinced that the results may be as follows:

- an organization will be able to adapt to changes in the environment more quickly,
- an organization will be better positioned in various inter-organization networks and relationships,
- the effect of flexibility will be achieved in production and service provision operations.

A strong ability to cooperate can signify the maturity of an organization and its management processes. 'It means that the organization has succeeded in eliminating/trouble-shooting problems concerning the ability of individual employees to maximise their potential. In organizations of this type, cooperation largely replaces coordination and reduces the extent to which control is necessary (Lopes and Calapez 2011).

### 2.2.2 Conditions of Cooperation in an Organization

*Common Goods* Common goods carry an ontological significance for cooperation in an organization. These are goods which (Lopes and Calapez 2011):

- are attainable only through interaction,
- are recognized as beneficial by the members of a given community—to account for the emergence and sustainability of cooperation.

Common goods comprise relational goods and moral goods.

Relational goods are the outputs of a relational nature created by interpersonal relations (Lopes and Calapez 2011). They are characterized by the following qualities:

- they are of a generic character,
- they are closely related to work satisfaction and effectiveness,
- they are important for employees because they influence their image and individual identity,
- they are the subject of common, everyday experience.

Typical examples of relational goods in a workplace are social support and friendship.

Moral goods are the outputs of moral nature generated by social interactions. It is frequently noticed that cooperative behaviours coexist with the occurrence of compliance with moral standards. Moral goods that are of special importance for employees are dignity and equity. Moral goods have more of an individual impact on employees than relational goods because they are experienced intersubjectively, despite the fact that they are based on standards and values occurring across the whole organizational community.

Treated collectively, common goods can provide a solution to the problem of knowing why cooperation is necessary and how it is to be achieved.

A very good example of the significance of common goods for cooperation is the situation of many football clubs. Such clubs frequently achieve poor sports results despite having considerable potential in the form of well-known and talented players. Additionally, the greatest stars of such clubs frequently demonstrate individualist tendencies and are not willing to sacrifice their personal interests for the sake of their teams. Such negative circumstances can usually only be overcome by a new coach who is capable of persuading a group of individuals to start cooperating and consequently to achieve better results. Eventual success is founded on the players' conviction of the importance of common goods. For example, it is important to foster a good atmosphere and relationships among the players during their free time and also to ensure an appropriate choice of players for a particular match. An illustrative example is the approach adopted by Carlo Ancellotti, who has used common goods in every club (e.g. AC Milan, Real Madrid) he has worked for.

*Risk and Cooperation* In the contemporary world, business activities are closely connected to risk. The character of risk can be either positive or negative. The perception of risk amongst employees is closely related to the category of trust. It is believed that trust can reduce risk, which in turn, can potentially raise the level of

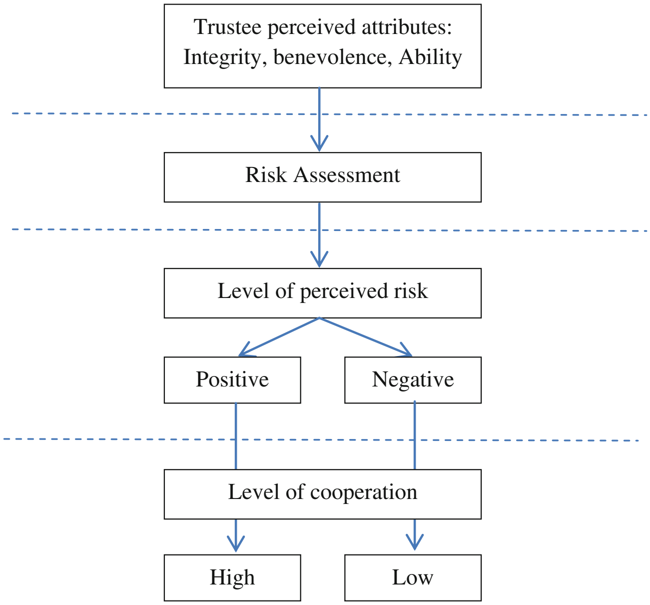



**Fig. 2.1** Trust, risk and cooperation

cooperation (Hevey and Murphy 2012). The mechanism of relationships among trust, risk and cooperation is presented in Fig. 2.1.

An illustration of the existence of the relationships shown in Fig. 2.1 can be the attitude of employees in relation to their sense of job security. Such employees have a particular trust in their employer. On this basis, they evaluate the stability of their employment. If the conclusion of such an evaluation is that they could be dismissed, they naturally show little inclination towards cooperation. This problem can intensify, for example, in the case of less permanent forms of employment.

## *2.2.3 Cooperation Among Organizations*

### 2.2.3.1 Cooperation in Various Economic Situations

The vast range of rules regarding the functioning of contemporary organizations result in very different situations in which cooperation among organizations occurs. Some types of such situations will be discussed below.

*Horizontal Inter-organizational Cooperation* Inter-organizational cooperation is based on a formal or informal contract which promotes cooperation for the achievement of common or new objectives in a more effective and efficient manner. This type of cooperation is characterized by qualities which include (Birru 2011):

- cooperation among two or more independent organizations,
- significant influence on the generation of innovation,
- the strengthening of partners' operational effectiveness and competitiveness.

If cooperating organizations are located at different places in a value chain, their cooperation has a vertical nature; if organizations are in the same place on a value chain, their cooperation is horizontal. Horizontal cooperation creates opportunities for a collective learning process, in which ideas are shared and developed jointly. It is worth noticing that horizontal cooperation is useful especially for small and medium-sized enterprises because it compensates for their shortages in resources. Among the factors facilitating horizontal cooperation among organizations, we can distinguish the following (Birru 2011): inter-organizational trust, geographical proximities of organizations, interpersonal relationships, social ties (for example, membership in religious associations and kinship). Unfortunately, in reality barriers to horizontal cooperation also exist. Examples of such barrierss include the competitive views of owner managers, the lack of trust in a partner organization and cultural factors.

An example of a sector characterized by a strongly developed horizontal cooperation is the logistical services sector. The major motives of logistical services providers for establishing cooperation include the following (Schmoltzi and Wallenburg 2011): increasing productivity, service portfolio extension, cost reduction, better market positioning, improvements in service quality, access to additional knowledge, financial resources and new markets. The structure of cooperation among organizations in the logistics sector comprises the five aspects presented in Table 2.1.

An interesting example of horizontal cooperation is insurance companies' joint creation of databases of insurance events and damage. As a result of such cooperation, insurance companies are able to identify fraudulent attempts to submit a number of claims for compensation in relation to a single insurance event. This type of fraud consists in notifying different insurance companies of their liability for the same damage. Due to access to such databases, insurers are able to reduce their compensation costs and eventually to offer their customers lower insurance premiums.

*Cross-border Inter-organization Cooperation* This form of cooperation applies to relationships between exporters and importers. Thanks to such cooperation, partners (Obadia 2008): create new development strategies, achieve new goals, improve effectiveness, and share technical and market information. The pillars of this model of cooperation between exporters and importers are as follows: orientation towards effectiveness, the expectation of long-term activities and mutual trust. In the model of this type, two perspectives carry significance for the partners involved: a short-time perspective concerning care for the profitability of transactions and a long-term perspective related to joint efforts to achieve permanent success.

**Table 2.1** The structure of horizontal cooperation among organizations providing logistic services

| Aspect | Description |
|---|---|
| Contractual scope | Formality (four types of agreement may be used: verbal, written contract, minority stake agreement, joint venture agreement) |
| Organizational scope | Reflects the number of companies involved in the cooperation |
| Functional scope | Specifies the functional focus of a cooperation in terms of value creation |
| Service scope | Consists of two dimensions: the type of logistics services offered, the geographical coverage |
| Resource scope | Categories of resource scope refer to: market competence profile, market penetration profile and corporate structure profile |

*Risk Management in Cooperation* Although cooperation appears to have only positive connotations, it should be remembered that cooperating partners are always exposed to a number of risks. Such risks are intrinsically related to potential conflicts between partners. Risks related to cooperation can be defined as the possibility of failure, which means not being able to fulfil plans and goals due to conflicts on macro or micro levels (Ehrenberger and Hornsten 2011). A conflict at a micro level can have the following sources: customer attitudes, competitor behaviour, contradiction and timing. In order to contain such risk, cooperation needs to be managed in the following four phases: risk identification, risk assessment, risk analysis, and risk mitigation.

*Cooperation and Reputation of Organization* Inter-organization cooperation can lead to a significant increase in an intangible asset known as relational capital. An organization has an opportunity to acquire such capital in relations with its customers, suppliers, allies, partners and shareholders. An organization's reputation is of key importance for conducting the intellectual capital development process. We can distinguish three major dimensions of an organization's reputation (De Castro et al. 2004):

- financial reputation or financial strength,
- managerial reputation or corporate management responsibility,
- community reputation.

An external evaluation of some or all of the dimensions of reputation displayed by organizations is frequently the basis for a decision as to whether cooperation should be started or not.

#### 2.2.3.2 Cooperation in Strategic Alliances

Inter-organization relations can adopt the form of hierarchical relations, joint ventures, equity investments, cooperatives, R&D consortia, strategic cooperative agreements, cartels, franchising, licensing, subcontractor networks, industry standards groups, action sets or market relations.

A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership (Elmuti and Kathawala 2001). A strategic alliance constitutes a partnership of two or more corporations or business units which work together to achieve strategically important and mutually beneficial objectives. Alliances can occur in “pure” forms or as hybrids, characterized by different degrees of formal and market interactions. The main types of alliances are as follows: marketing and sales alliances, product and manufacturing alliances, technology and know-how alliances.

An example of a marketing and sales alliance is cooperation between Tesco and the banking sector. For example, in Poland, Tesco and Meritum Bank have entered into a long-term agreement, providing for the wide range of financial products that Tesco offers its customers. Among other services, this cooperation is to include a dedicated hire purchase offer and easy access to new financial services. The financial services are sold at Tesco Finance shops and over the Internet. On the other hand, from the point of view of Meritum Bank, cooperation with Tesco potentially entails access to the 5 million customers who shop at Tesco supermarkets every week.

Cooperation between Renault and Nissan provides an illustration of product and manufacturing alliances. This alliance was established in 1999 and continues to the present day. At its beginning, Renault had at its disposal considerable financial resources, while Nissan could offer a famous brand, high quality, and a good position on the markets in Asia and North America. At the initial stage of the alliance, the companies established 11 joint working teams responsible for identifying potential areas of cooperation. Both companies greatly benefit from the alliance, which allows them to take advantage of the economies of scale and synergy effects. Such benefits result from various aspects of the alliance, including the standardization of production, the use of common floor pans and power transmission systems, and the development of the range of offered models.

The third category of technology and know-how alliances can be exemplified by cooperation among the three leading computer companies (IBM, Motorola, Apple Computers) on the development of a new microprocessor. This alliance was formed for a definite period of time, after which the allies were supposed to compete with one another based on their final products.

Another example is a joint venture between the Dutch company Philips and Siemens of Germany. These corporations set up a joint 1 million USD research project called MegaSubmicrom, the objective of which was the development of semi-conductor manufacturing. Thus companies which had been competitors for a long time shared their costs and risks.

A strategic alliance is cooperation of two or more firms which (Todeva and Knoke 2005):

- remain legally independent after the alliance is formed,
- share benefits and managerial control over the performance of assigned tasks,

- make continuing contributions in one or more strategic areas, such as technology or products.

Companies are motivated into forming alliances by a wide range of factors. The most important of these motives include the following (Elmuti and Kathawala 2001): to implement a growth and new market entry strategy, to acquire new technologies, to improve product quality, to reduce costs, to reduce financial risks, to share research and development costs, and to secure a competitive advantage.

Cooperation among participants in a strategic alliance can also be exposed to a number of threats. Such threats include the following:

- clash of culture and incompatible personal style,
- lack of trust,
- lack of clear goals and objectives,
- lack of coordination between management teams,
- differences in operating procedures and attitudes among partners,
- relational risk,
- performance risk.

Cisco is an example of a corporation which suffered a defeat in its strategic alliances. This occurred in Cisco's relations with Motorola and Ericson and its reason was the lack of cooperation skills and also a lack of trust resulting from mutual fears of a takeover.

However, corporate experiences resulting from successful alliances allow for the identification of key success factors such as:

- senior management commitment,
- similarity of management philosophies,
- an effective and strong management team,
- frequent performance feedback,
- clearly defined, shared goals and objectives,
- thorough planning,
- clearly understood roles,
- international vision,
- partner selection,
- communication between partners.

It should be noted that as a result of strategic alliances, organizations can increase the values of all intellectual capital components, i.e. human capital, process capital, relationship capital, and innovation capital (Joia and Malheiros 2009).

#### 2.2.3.3 Cooperation as an Element of Coopetition

From the perspective of relationships between organizations, coopetition is a fascinating phenomenon. While competition or cooperation have been relatively well analysed in isolation, the harmonization of the coexistence of these categories has not yet been sufficiently researched. A competition-based behaviour exposes an organization's independence and individual interests. According to the theories of leading schools in strategic management, it is possible provided an organization maintains a proper competitive position within its sector or achieves a competitive advantage with respect to resources. An organization's orientation towards competition can be explained in psychological terms as a desire to fulfil the need for prestige and pride.

As opposed to the perspectives of competition and cooperation, the concept of coopetition provides a certain integrative platform combining the aforementioned contrasting perspectives (Simoni and Caiazza 2012). At the same time it is a concept which breaks the conventional perception of competition and cooperation and assumes the achievement of benefits by all interested parties. Coopetition is characterized by a temporal concurrence of competition and cooperation.

Coopetition is a combination of cooperative and competitive behaviours between rivals in order to be more effective (Geraudel and Salvetat 2014). It is possible to distinguish the following criteria whose fulfilment is a prerequisite for the establishment of a coopetitive relationship (Geraudel and Salvetat 2014):

- the parties want to be engaged in the relationship,
- each party has a value the other wants,
- the relationship is mutually rewarding,
- there is the freedom to accept or reject the terms and conditions of the exchange,
- the parties are able to interact with each other,
- the parties share values and norms,
- the parties can strike a positive balance between the advantages and disadvantages of the relationship.

In coopetition, the parties' relationships are aimed at the implementation of a win/win strategy. In the coopetition model, rivals cooperate in some areas such as the control area through the sharing of the same director, while competing in others such as the functional areas, including the primary value chain activities (Simoni and Caiazza 2012).

Positive relationships occur between coopetition and performance. This is so because organizations participating in coopetition take advantage of their mutually complementary competencies. Furthermore, coopetition arrangements generate strong social structures.

The proportions of cooperative behaviours to competitive ones during coopetition also raise an interesting issue. It appears that the optimum ratio between such proportions cannot be categorically determined. However, it can be assumed that the three variables on which these proportions depend are an organization's maturity, its market position, and its adopted business orientation (Fig. 2.2).

The more intensive cooperative behaviours are, the better an organization's market position and maturity is, and the more macro perspective it becomes in its strategic thinking.

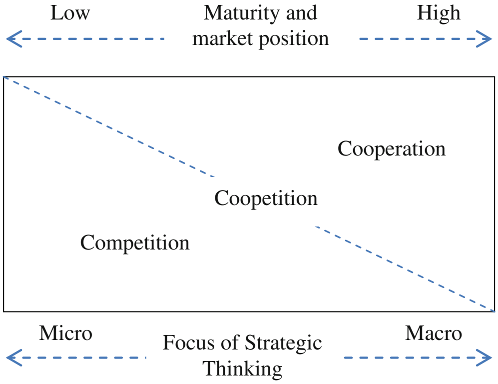



**Fig. 2.2** Proportions of cooperation to competition in coopetition

Simultaneously with the growth of the aforementioned qualities, the forms of inter-organizational cooperation also undergo transformation. Special attention should be paid to the following (Wang and Krakover 2008):

- *Affiliation*. Organizations help one another through informal information sharing or common advertising. Interpersonal relations are also important.
- *Coordination*. An organization achieves its individual objectives through the coordination of activities with other compatible organizations. Equilibrium occurs between an organization's interests and those of other organizations.
- *Collaboration*. This consists in securing long-term advantages through the creation of joint strategies and shared objectives. All parties become involved in such activities.
- *Strategic networks*. This term refers generally to the creation of long-term shared visions and strategies. It includes the use of the systemic and holistic approach to achieving success.

Although the "original" definition of coopetition refers to relationships between competitors, some researchers are of the opinion that coopetition can also apply to customer-supplier relationships (Lacoste 2014). Such relationships occur especially between corporate purchasing units and their suppliers. For both organizations, coopetition is a means of reducing uncertainty and securing assets which are unique to a particular transaction.

**Cooperation Among Cluster Organizations**

A cluster can be defined as a geographic concentration of interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions in a particular field that compete but also cooperate (Carpinetti et al. 2008). The cluster phenomenon can be partly explained in terms of the category of so-called collective efficiency which is understood as a competitive advantage derived from the combination of local external economies and cooperative joint actions. Collective efficiency can be derived from horizontal cooperation (between competitors) or vertical cooperation (for example between producer and supplier) either bilaterally or multilaterally.

The measurement of cooperation effects within clusters can apply to the following perspectives (Carpinetti et al. 2008):

- *Economic and social results*. Measures related to local gross product, workforce occupation and any result that brings economic and social benefits;
- *A firm's performance*. Measures related to results in terms of growth and competitiveness of the firms and measured by financial and non-financial performance of the firms in the cluster;
- *Collective efficiency*. Measures related to external economies and actions of cooperation among companies in the cluster;
- *Social capital*. Measures related to cultural values such as trust and cooperation.

For organizations participating in clusters, cooperation with other firms can result in the following benefits (Patti 2006):

- better access to employees and suppliers,
- better access to specialized information,
- increased availability of complementary products and services,
- better access to public institutions,
- better motivation and measurement.

The consulting firm PwC has developed a forecast for industrial clusters until the year 2040. The forecast comprises the following sectors: pharmaceuticals, the automotive industry, assets management, the film industry and higher education. The clusters in the aforementioned areas will probably undergo the biggest changes, including those related to relocation from developed countries to developing ones. For example, currently the three most important film industry clusters are located in Los Angeles, London and Paris. However, according to the forecast, Shanghai and Mumbai will have risen considerably in this ranking by 2040.

## 2.3 Organizational Culture

When discussing integration, the concept of organizational culture should not be ignored. Certain characteristics of such culture can indicate the extent to which an integration process is successful. For example, a considerable degree of employee empowerment, quality of life within the workplace, the quality of interpersonal relations, trust among employees and a sense of order and cultural community are just a few selected cultural determinants of successful integration. An organization's culture can facilitate or hinder integration processes. What is also important is the integration of various cultures, particularly within merger and acquisition processes.

### 2.3.1 The Notion of Organizational Culture

It was Henry Mintzberg who analogised the structure of an organization to a skeleton and its culture to a soul. Organizational culture is one of the key notions in management sciences. Various definitions of organizational culture emphasize both tangible elements such as policies, procedures, techniques or objectives and intangible elements such as employees' beliefs or convictions. The notion of culture applies to standards, behavioural models, attitudes, feelings and interactions (Stoner et al. 2001).

Thus two components can be distinguished within a culture: one component related to organizational regulations, instructions and procedures, and the other component concerning that which is firmly rooted in the intangible world, i.e. employees' convictions, beliefs or emotions. Culture is closely related to employees' behaviours, attitudes or value systems, but it also concerns their everyday patterns of living. Obviously, culture's intangible aspects exert influence on its formal aspects. In this sense, organizational culture is similar to the notion of competencies. Within competencies, it is possible to distinguish measurable components such as education or experience and immeasurable ones such as attitudes, motives or awareness.

The basic elements of an organizational culture include the following: values, beliefs, myths, legends and rules of conduct.

The notion of values is not unambiguous. It is believed that values may be classified in terms of being what most employees desire, or as factors which have a positive impact on the functioning of an organization. Examples of ethical values are goodness and truth. Equity, trust, commitment and solidarity are organizational values, while a sense of safety, intellectual development, a sense of dignity and recognition or self-fulfilment are autotelic values. Instrumental values include, for example, activeness, self-control, responsibility, independence, honesty, reliability, altruism or peaceful coexistence with others. A common feature of particular values is that they constitute a certain system, which means that they depend on one another. For instance, there is no trust without equity. Without trust, long-term commitment becomes impossible.

Beliefs concern phenomena which cannot be verified empirically, but can influence employees' behaviours, their opinions about an organization or their attitudes. Beliefs are defined as a psychic condition in which an individual-employee holds an assumption concerning the veracity of certain facts or phenomena (e.g. regarding who is the true owner or manager of a business).

Myths and legends refer to an organization's traditions, identify its development process, and frequently include references to an individual's success. They are important in the processes of building a sense of cultural awareness and pride. Rules of conduct are included in work regulations, procedures and ethical codes but are also established in customs, rites or group rituals. Such rules of conduct result from the dominant culture in a given place and are strongly based on its education system. The rules of conduct apply to relationships occurring among various stakeholders. Typical rules of conduct include quality rules: for example, customer focus or the building of long-term relationships with suppliers.

Thus an organizational culture can be defined as a set of intangible factors (e.g. values, beliefs or myths) and formal rules of conduct included in procedures, regulations, instructions, and codes. These factors exert impact on the functioning of an organization. They co-determine an organization's regulation of interpersonal relationships, the quality of life in a workplace, and finally an organization's social reliability. Culture is the result of interactions among many social processes such as adaptation, socialization or internalization. Despite the existence of subjective elements, it can be subjected to diagnoses. After its elements have been defined, culture can also become a general objective of management, especially in the area of human resources management.

## 2.3.2 *The Strength of Organizational Culture*

A great deal of research has indicated that an organizational culture, and in particular the culture of learning, support innovations (Darvish and Nazari 2013). Martins and Terblanche (2003) proved that the basic elements of an organizational culture, such as common values, behaviours or attitudes, facilitate creativeness and innovativeness in the following ways:

1. A socialization process which teaches employees which behaviours are acceptable. Due to socialization standards develop, are accepted, and become the subject of social exchange. Standards existing in a organization determine whether it nurtures innovative behaviours.
2. It is not only values, assumptions and beliefs that influence employees' behaviours and activities. Their role also consists in the realization of organizational aspects such as structures, policies or management practices. Such materialized factors influence creativeness and innovativeness (Martins and Terblanche 2003).

Numerous studies emphasize the dominant role of culture in the processes of mergers and acquisitions. It is generally believed that integration of an organization depends not only on existing structures or applied management concepts, but fundamentally on the level of cultural integration (e.g. Paul and Berry 2013).

In the contemporary globalized world, the process of cross-cultural integration is increasingly stressed as one of the key factors in the development of new products. In the contemporary globalized world, it is more and more frequently stressed that development of new products depends, among other things, on the course of the cross-cultural integration process. If such integration is feasible and existing cultural differences can be reconciled, then the development of new products is possible. However, more can be achieved through the application of a synergy effect which can occur across various cultures. Cultural variety does not only play an important role in the creation of new products. It constitutes an organization's potential. According to the cultural cooperation model, the existence of many mutually-supplementary cultures is beneficial for an organization. The process of interactions across cultures creates new values.

### *2.3.3 Culture Versus Integration*

Relationships between an organizational culture and integration have already been discussed in the most prominent literature on this subject. For example, in describing the significance of an organizational culture, Stoner (1994) states that those organizations which develop through business acquisitions are more inclined to respect independence than those in which development is based on the strong will of a single leader.

The relationships between an organizational culture and integration are the following:

Firstly, the essence of culture is that it is a manifestation of common customs, notions, activities or perceptions. In this sense, it is possible to say that the existence of a clear and strong culture proves the existence of integration.

Secondly, culture itself can perform an integrating function, resulting from the fact that there is a continuous increase in the prevalence of flexible working hours, and therefore working at home, in parks, dedicated Wi-Fi zones or restaurants is becoming increasingly popular. Organizational culture is what unites such people. According to Tim Hilde, organizations aspire to having strong organizational cultures in the belief that they constitute a binding unity amongst their employees (Hilde 2007).

Thirdly, within culture itself, occur processes of integration and disintegration occur. As has been mentioned above, culture is a collection of beliefs, rules of conduct, myths, symbols, and legends. The way in which the integration of apparently fragmented elements occurs is explained in the cultural network theory which was introduced into the social sciences by Johnson and Schols (1997). In their cultural network model, symbols, customs, legends and structures find cohesion through paradigms which apply directly to work performed in a given organization, e.g. forms of employment, duration of work, management styles, orientation towards tasks or people, etc.

### *2.3.4 Integrative Culture*

The segmentation and integrative types of culture were already described in the 1980s. Organizations with an integrating culture are characterized by a few important features. Firstly, they excel at managing knowledge processes. Organizations of this type search for new knowledge, combine ideas derived from many different sources, go beyond learnt knowledge, and support knowledge and information sharing processes. Thus it can be assumed that cultural integration processes depend on employees' competencies, their possibilities and willingness to acquire new knowledge and to share already held knowledge.

Secondly, a characteristic quality of an integrating culture is an level of efficient risk management (two elements are important here: the questioning of previous practices and acting on the limits of competencies). Thirdly, another aspect of such a culture is the ability to think in a systemic manner (to perceive problems in a wider context and to combine certain facts) (Senior 2003).

Organizations in which an integrating culture dominates, on the one hand, take care of their employees, but on the other hand, expect a lot from them. In this type of culture oriented strongly towards organizational efficiency, employees are expected to sacrifice themselves for their organization. They are motivated to become fully committed by means of various financial incentives (such as profit sharing, additional bonuses, and share purchase options) and high salaries. Such organizations attract talented employees, ensure their development, and stress the importance of training. Integrative culture companies typically promise fast career movement (Von Glinow 1985).

It is assumed that an integrative culture is to be predominantly supported by line managers. In practice, however, line managers are not always able to successfully cope with such a challenge (Cunningham and Hyman 1999). There are a few reasons for this. First of all, the acquisition of new ideas, knowledge or information is rather a task for top managers. Knowledge management is conceptualised in terms of the strategic acquisition of knowledge. Secondly, an obvious deficit in systemic thinking occurs. Line managers are not always able to perceive relationships taking place between on organization's social and technical systems, but each change in one system triggers subsequent changes in the others. For example, the implementation of a new organizational structure influences employees' behaviours by requiring a new division of duties and authorities.

### *2.3.5 The Cultural Integration of an Individual with an Organization*

An individual's integration with her organization's culture is the result of the processes of socialization and internalization as well as social and professional adaptation. It can be assumed that integration is a specific process in which a few stages can be distinguished. At the initial stage the individual becomes familiar with work regulations, procedures and ethical codes. This process is supported by various preliminary training courses. Most frequently, the individual's fears about how she will be received in the organization are accompanied by a high level of motivation. The course of this process is strongly influenced by what employees expect and what is expected from them. It sometimes happens that these expectations are contradictory. Researchers have stressed that an organizational culture is supported by employees helping others; they are not necessarily managers, but

**Table 2.2** The factors subject to an individual's cultural integration with an organization

| Factors | Quandaries, dilemmas | Practical opportunities for integration |
|---|---|---|
| Standards<br>a. Moral<br>b. Customary<br>c. Social<br>d. Legal<br>e. Group | a. What is good and what is evil?<br>b. How should I behave at meetings?<br>c. How is the labour code enforced?<br>d. How should we celebrate the boss's birthday?<br>e. How should I work in order to become an integrated member of the group? | Recording standards, determining standards together with colleagues, diagnosing standards through social research, reporting uniform standards for cooperation |
| *Expectations* | | |
| Attitudes towards work<br>a. Autotelic dimension<br>b. Normative dimension<br>c. Punitive approach<br>d. Instrumental approach | a. Does work give me pleasure and is it an opportunity for self development?<br>b. Does my work contribute to an increase in the organization's value?<br>c. To what extent is my work a constraint for me?<br>d. Should I work for others or only for myself? | Conveying information about achieved objectives (information establishes whether work increases the value of the whole organization)<br>Employees' participation in the determination of objectives (so that work is not a constraint)<br>Creating cooperative tasks (we work not just for ourselves) |

*Source* Authors' own research

usually older and more experienced people. According to specialists, such people should receive appropriate motivation and support because they are "a hidden dimension of an organizational culture" (Grant 2013). The initial period of employment is a time for the development of trust and a value system connecting the individual to her group. In the subsequent period the intensity of the integration process fluctuates and depends not only on the individual's opportunities for communication, but also on the type of work discipline, professional development programmes and the individual's internal motivation. The table below includes a specification of the factors subject to cultural integration between an individual and an organization (Table 2.2).

Cultural integration among various employees depends in principle on two factors: the position a particular employee occupies in the organizational structure and types of employee evaluation. The success of this process can be also facilitated by the possibility of shaping interpersonal relationships. Not every employee comes into contact with the board of management, suppliers or customers. Sometimes this process is purely virtual, and sometimes it is strictly limited to relations between a client and a supplier of internal services. Success in the process of an individual's integration with an organization can be diagnosed with reference to the characteristics of an integrative culture. One such characteristic is the scope for employee empowerment. Most researchers emphasize that, as an element of empowerment, autonomy can facilitate job satisfaction and commitment. Culture at a proper level of integration is characterized by an ability to communicate bad news (French and Holden 2012).

### 2.3.6 Problems with Integration

One of the major problems with the integration of an organizational culture is the allocation of appropriate personnel to particular organizations and employee teams. In theory, this should be straightforward: it simply suffices to apply the optimum set of selection techniques. A range of tests, including assessment of knowledge, personality and truthfulness, should enable the selection of the best candidates. In fact the process is not so obvious. Firstly, it should be remembered that various candidate verification techniques and tools are not perfect. For this very reason, many organizations do not conduct any interviews or tests. During the recruitment process both parties are exposed to the risk of various psychological distortions. Problems related to the occurrence of prejudice should also be kept in mind as these can lead to discrimination or a varying array of less than realistic expectations.

Secondly, a range of studies have indicated that from 20 to 70 % of candidates provide false information about their education, skills or previous salaries and employers. In many countries, people are still convinced that it is necessary to sell yourself well in order to get a job, hence a tendency to be economical with the truth. In response to that, businesses resort to increasingly complex candidate verification systems. However, in spite of the efforts devoted to the verification of a potential employee's credibility, more opportunities arise for deceiving a potential employer.

With regard to cultural integration, it is still difficult to determine which of the following options is more advantageous. Should an inexperienced candidate be chosen on the grounds that they will be easier to train, or would it be better to choose a candidate with experience? Meanwhile, various research has shown that even employees from the same business sector behave quite differently. In simple terms, the culture of Goldman Sachs is very different from the culture of Wells Fargo (Is it better to hire for cultural fit over experience? April 28, 2011. http://management.fortune.cnn.com/2011/04/28/is-it-better-to-hire-for-cultural-fit-over-experience/). Both corporations have similar structures, objectives and fields of activities, but in practice they behave differently. Employees' competencies are determined by their tenure, the companies' respective organizational cultures and economic positions, and the character of work tasks. An organizational culture cannot be evaluated during a job interview. It cannot be inferred from an employee's documentation, whose records concerning education, experience or attitudes provide no insight into an employee's values. It is not enough to evaluate behaviour on the basis of key words. Meanwhile, during job interviews many people responsible for recruitment processes pay attention to the occurrence of words such as trust, reliability, and respect for customers or willingness to cooperate. The objective of recruiting employees for particular teams is not to force them into uniform patterns of behaviour, but to utilize an organization's potential based on its cultural diversification. In this respect, all forms of international management standards which precisely identify required management techniques can prove helpful. For example, the most popular ISO 9001 standard stresses the necessity of ensuring cooperation among project teams.

Cultural integration can be seriously impeded by a disparity between declarations or official announcements made by a company and its actions in practice. In this respect, Greg Smith's resignation from Goldman Sachs has gone down in history. In an interview for the "New York Times," he said that his resignation resulted from the corporation's organizational culture. His claim that this was a culture dominated by greed was toxic and destructive. His most shocking statement was that the corporation's clients were referred to as "muppets." The bank's management reacted sharply to Smith's statements, declaring that their clients' success was the bank's success. This and many other similar examples prove how difficult integration processes can be. Such difficulties result not only from differences in cultural values, but predominantly from a disparity between a culture's declarations or public image and the everyday practices of its employees.

One of the most serious barriers to integration is a lack of appropriate value hierarchies. Globally, corporations are faced with the problem of reconciling the necessity of acquiring profit with ethical values, when their owners and shareholders expect quick returns. How can the influence of greed culture on the behaviours of employees be reduced while simultaneously motivating them effectively? The lack of a proper hierarchy of values is a barrier to cultural integration. When profit—in particular short-term profit—dominates, people forget about other values which are important for an organizational culture such as work safety or working atmosphere. The establishment of a proper hierarchy of value depends to a considerable extent on managers and their direct involvement in the value creation process. It has been demonstrated, for example, that appropriate behaviours and attitudes on the part of superiors are favourable for the occurrence of a sense of safety in a workplace and support an organizational culture (Bailey 2013).

### *2.3.7 An Organization's Cultural Integration*

Following the growth in popularity of various M&A strategies, most researchers have agreed that,, integration depends mainly on cultural factors in a range of various organizations. Most researchers also agree that while the merger of operational or technical systems is not without its problems, it is cultural integration that constitutes a true challenge. The main objective of various mergers, fusions or acquisitions is an increase in financial values, the attainment of new sales markets, customers and means of production. However, the achievement of this goal depends on whether employees will be involved in processes of change. Such changes are influenced enormously not so much by strong leadership but by accepted leadership, i.e. leadership which does not risk the rejection of employees as a result of a cultural disparity between values and beliefs (see the example below).

In 2002 Hewlett-Packard announced its intention of acquiring Compaq Computer Company for a total sum of $19 billion. Although Compaq was smaller than HP, a decision was made to integrate the two companies on a merger-of-equals basis. It should be stressed that neither shareholders nor customers demonstrate any special interest in this type of merger, mainly because of the market's high degree of changeability. From the very beginning it was obvious that there were many legal barriers to the planned merger. HP employees were burdened with a lot of new duties resulting from the merger plans. They had to consolidate their 83 product lines down to 17 lines. HP was even said to be abandoning its corporate management style ("The HP Way"), its values and the principles of sustainable development. A merger process is always difficult; especially if merging entities with similar operating profiles do not cooperate with one another (this is why it is easier to merge a number of entities within a supply chain). The plans provided for the integration of the human resources policy, manufacturing processes, production and sales plans and above all cultural cornerstones. The managers knew that it was easy to integrate operational objectives, but full cultural integration was a different story. Problems with integration are always rooted in an organizational culture, and employees' attitudes and behaviours. The actions of Carla Fiorina, HP Chairman and CEO, the ardent advocate of the merger, were not received well by the company's shareholders, who forced her resignation in 2005 (Allen 2012).

On the basis of the process of integration between HP and Compaq Computer, it is possible to distinguish a few key stages in the first phase of integration:

- the implementation of the principles of the two companies' coexistence (two management boards working close to one another),
- the appointment of a cultural integration team,
- the application of social studies as a diagnostic tool
- the making of decisions concerning the staffing processes of key positions, leadership selection, reward and compensation plans,
- the development of cultural cornerstones (values, corporate objectives, and practices), among others, on the basis of the integration partners' value systems,
- the training of change leaders (using, among others, the technique of coaching),
- the integration of small groups (e.g. particular functional divisions),
- the combination of cultural integration with communicative integration (detailed information about the partners, including their traditions and cultures),
- the building of new teams in the key operating areas of both integrating organizations,
- the performance of management reviews (a review of the integration processes),
- decision-making with regard to further integration activities (the key issue is very often to keep talented employees).

Cultural integration causes most problems if integrating organizations come from very different cultures, have different systems of values, work safety, and attitudes towards the personal dignity of their employees. (see the example below).

There is no doubt that products such as iPads or iPhones have become the icons of innovative solutions. Unfortunately, despite strict supply chain management procedures, the working conditions of suppliers' or subcontractors' employees may still be unhealthy and hazardous. The quality of life in such workplaces is very low. The employees do a lot of overtime, sometimes even working 7 days a week and living in crowded barracks. Bad working conditions result in frequent cases of disease among employees. There are documented cases of child labour. It is suspected that occupational health and safety standards are not complied with and labour documentation may be falsified. In 2010, 137 employees working in a factory located in the east of China were poisoned with a chemical used to clean iPhone screens. Two explosions in Apple factories (one of them in the city of Chengdu) killed 4 and seriously wounded 77 workers. According to the representatives of the National Advisory Committee on Occupational Safety and Health, when Apple representatives were notified of unacceptable working conditions, their reaction was not proportionate to the scale of the risk. In 2005 the Apple management produced a set of regulations concerning cooperation with suppliers. Over the past 3 years, 313 audits were carried out. The auditors identified numerous deviations from the established procedures. Simultaneously Apple launched a series of employee training courses, the main objective of which was to share knowledge of employee rights and safe working methods. In 2011 the company published a report on its social responsibility in the supply chain. According to the report, there was an improvement in working conditions (Duhigg and Barbooza 2012). Apple is not the only corporation confronted by problems with ensuring a necessary quality of cooperation in the supply chain. Similar problems have been studied in corporations such as: I.B.M, Nokia, Toshiba, Motorola, Lenovo, and Hewlett-Packard.

Inter-organizational integration is related to the notion of cultural community. In practice, such a community is the result of a compromise which needs to take place among the cultures of particular organizations or groups.

## 2.4 Conclusions

With regard to integration, it is necessary to bear in mind the numerous limitations related to the creation of a trust culture. For example, there are two pitfalls related to the use of trust. The first of these is that some people attempt to form as many trust-based relations as possible, which, in turn, weakens the social network. The second issue is related to a natural tendency to reject those people who are known not to express trust. It should be kept in mind that trust can be based on performance, and not on a sense of community. A range of studies have indicated that the level of trust should be optimised because if it is too high or too low, it may be harmful. Therefore, trust has to be monitored (Bidault and Castello 2009). In practice, it is necessary to remember to monitor the level of trust in both internal and external relationships and to develop trust.

There are several forms of trust development:

- trust development by means of specific people management processes (from recruitment and selection to dismissal),
- trust development by means of trust dimensions (e.g. purposeful competence management, pursuit of reliability; behavioural predictability),
- trust development through the development of other values related directly to trust (e.g. equity),
- preparation of programmes aimed at the development of particular types of trust (in particular, competence and process-based trust).

As has been demonstrated above, an organizational culture can perform both integrating and disintegrating functions. It is important that an organizational culture should be systematically diagnosed and purposefully developed. The knowledge of cultural integration can be used in this process. If such integration indicates the compatibility of cultural models among various stakeholders, then it becomes an obvious necessity to determine the form such models are to take. Employees should be notified of what is regarded by the company as a cultural model, and the management should try to determine how such models may be achieved. In practice, these standards should undergo periodic reviews with respect to their applicability or the validity of their definitions.

## 2.5 Management by Objectives

### *2.5.1 Principles of Management by Objectives*

The use of objectives in management models has a relatively long tradition. The approach termed “the rational goal model” was first used simultaneously alongside the development of Taylor’s ideas. Besides the determination of objectives, this approach stressed the importance of command and control. Subsequently, McGregor developed the objective-based approach in parallel with his Y Theory. He claimed that employees responsible for the achievement of objectives should exercise self-control. This was accompanied by an assumption that a work system based on the determination of objectives should improve productivity if used collaboratively (Dinesh and Palmer 1998). However, it is P. Drucker who is considered as the greatest propagator of management by objectives.

Regarded as a system, management by objectives includes the following elements (Dinesh and Palmer 1998):

- objectives established for all jobs in the organizations,
- use of joint objective setting,
- linking of objectives to strategy,
- emphasis on measurement and control,
- establishment of a review and recycle system.

Used in practice, management by objectives can have both advantages and disadvantages. Potential advantages include the following:

- the supplementation of leadership practices,
- the standardization of employee evaluation and control principles,
- the possibility of harmonizing targets, objectives and goals in large organizations,
- the elimination of the need for manual coordination,
- the possibility of assigning objectives from the organizational level to lower levels of the hierarchy.

On the other hand, potential disadvantages can comprise the following:

- the destruction of employees' commitment through performance measurement,
- the limitation of individual freedom in an organization,
- games and conflicts during the objective determination process,
- middle managers' problems with translating corporate objectives into actions.

The role of communication processes in management by objectives is also emphasized. Objectives should be created through dialogue and not top-down communications (Dahlsten et al. 2005).

Significant problems with management by objectives occur in functional organizations. The formulation of objectives for functional areas and the measurement of results in functional work can lead to the perception of these functions as independent entities when in fact they are simply parts of a business.

Drucker and Ansoff claim that objectives should be closely related to an organization's strategy. They draw attention to the fact that the determination of objectives is a key element within the strategic planning process. This process should be carried out in a manner which enables the elimination of conflicts between objectives and this is possible only by ensuring a proper balance between the perspectives of various stakeholders (Kenny 2012).

It should be strongly emphasised that depending on the type of organization, (e.g. with respect to size or ownership), an organization can have very different priorities expressed in terms of its operational objectives. For example, in small family businesses, the following regularities can be observed (Westhad 2003):

- for many business owners, expansion of a business is not an objective,
- many business owners are particularly concerned with maintaining their independence,
- numerous business owners form and expand their business to a point that allows them to maintain control of the organization and the supervision of labour issues,
- many owners prefer their firms to stay small,
- owners of family firms cited the following objectives: building family reputation and status in the community, providing employment for the family, protecting family assets, ensuring independence, social goals such as employee welfare,

and a dynastic wish to pass on a developed business position in addition to wealth to the next generation.

If an organization accepts the general assumptions of management by objectives, the implementation of this management technique should comprise the following steps (Dinesh and Palmer 1998):

- identification of organizational strategy,
- collaborative goal setting,
- rewards linked to goals,
- development of action plans,
- cumulative period review of subordinate results against targets,
- review of organizational performance.

There is a wide range of experience related to the practical implementation of management by objectives. The implementation of this management technique frequently ends in failure. Researchers identify two major factors responsible for such undesired results (Dinesh and Palmer 1998):

- partial implementation of the system (as an individual performance appraisal system rather than an overall goal congruence system),
- a lack of paradigm shift from scientific management principles to the human relations model (which is endorsed by the creators of management by objectives as key to the system).

### 2.5.2 The Role of Stakeholders in Management by Objectives

For an organization, stakeholders are any groups or individuals who can affect or are affected by the achievement of an organization's objective (Freeman 1984).

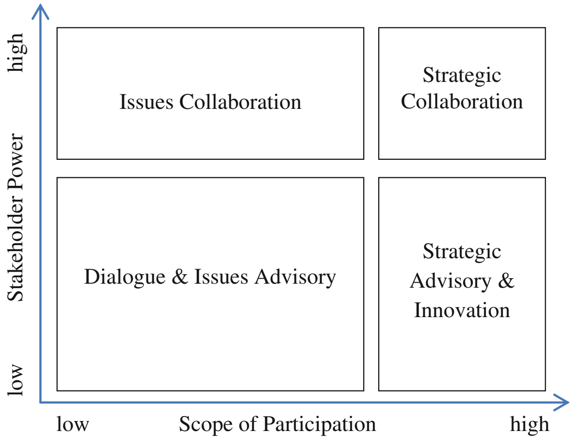
Some stakeholders are of critical importance for the survival of an organization, especially when they provide it with key operational resources.

There are three major approaches to the interpretation of the role of stakeholder role in an organization: instrumental, descriptive, and normative approaches.

Within the instrumental approach, the main problem concerns how an organization should deal with issues related to stakeholders and how it should monitor and control relations with them. According to this approach, an organization should pay attention only to those stakeholders who can participate in the creation of value. Thus a strategic dialogue should only be held with powerful stakeholders and it should be oriented towards risk management and taking advantage of opportunities.

The descriptive stakeholders approach identifies and classifies the different constituents of an organization without assigning any value statements to the legitimacy of their claims for their power (Spitzeck and Hansen 2010).

**Fig. 2.3** Relations between organizations and stakeholders in decision making processes




On the other hand, a key problem within the normative stakeholders theory addresses the rights and duties of the actors involved and how a just balance of the concerns of different stakeholders can be achieved.

In the normative approach, organizations should take their shareholders into consideration because of their moral rights. Stakeholder dialogue is not strategic but open and deliberative (an ideal speech situation).

Besides the three aforementioned approaches, there is one further argument in favour of stakeholders' participation in corporate governance. The participation of stakeholders in corporate decision making has been related to efficiency gains leading to competitive advantage and is supposed to reduce conflicts (Spitzeck and Hansen 2010).

Stakeholders' participation in organizational management is characterized by two basic dimensions: power and scope.

Power refers to the level of influence stakeholders are granted in organization decision making. In this context, it is possible to distinguish the following two extreme situations for stakeholders:

- non-participation, when stakeholders have no influence on decision making processes,
- stakeholder power, when stakeholders hold considerable power over decision making.

Scope refers to breadth of power in decision making and usually spans along a line of deciding on isolated local issues to decisions affecting the general business model of an organization (Spitzeck and Hansen 2010).

These two dimensions give rise to four types of potential relationships between an organization and its shareholders with respect to decision making (Fig. 2.3).

Irrespective of the quality of relationships between an organization and its stakeholders, it remains obvious that the organization's objectives are logically related to what the stakeholders expect from the organization and what the organization wants from the stakeholders. This is illustrated by the following examples of organizational objectives related to stakeholders (Kenny 2012):

- to grow the business by 10 % per annum (customers),
- to operate with integrity (a value),
- to increase productivity (employees),
- to get suppliers to deliver on time (suppliers),
- to attract better staff (employees),
- to increase profitable revenue (customers),
- to be a good corporate citizen (a value),
- to be innovative (a value),
- to change the foyer décor (an action),
- to be number one in the industry (part of the vision statement),
- to decrease employee turnover (employees),
- to increase funding (government),
- to provide products diametrically in opposition to the competition (part of the mission statement).

A procedural version of the approach integrating management by objectives and stakeholders has been presented by Kenny (2012). The objectives management procedure comprises 5 steps.

*Step 1. Identify Key Stakeholders* In the case of small and medium-sized businesses, stakeholders will probably be their customers, suppliers, employees, and owners. For large organizations, the situation is more complicated.

*Step 2. Establish Behavioural Outcomes* These can concern, for example, an organization's interest in receiving more orders from its customers or acquiring cheaper and more modern materials from its suppliers.

*Step 3. Design Organization Objectives* Typical verbs that are used in this context include: "to increase," "to decrease" or "to maintain". Formulated objectives should meet the requirements of the SMART formula; that is they should be: Simple, Measurable, Achievable, Relevant, Timely defined.

*Step 4. Develop Measures* Practice shows that in developing measures, the following three categories are used: (1) monetary symbols, which refer to revenue, profit, funds, (2) numerical symbols, which refer, for example, to patient numbers, cars produced, errors, opportunities, (3) percentage symbols, which refer, for example, to market share, customer spending.

*Step 5. Set Targets* People planning objectives have to use a combination of four methods. One such method involves looking at performance during the last period. Another involves imperatives such as safety and risk. A third method is benchmarking. A fourth method establishes a target on one measure by reviewing targets on other measures.

### 2.5.3 Management by Objectives and the Balanced Scorecard

A management process described by means of the balanced scorecard is very similar to that referred to in management by objectives because (Dinesh and Palmer 1998):

- both approaches are based on goal congruence throughout an organization,
- both approaches emphasize an iterative process based on collaboration between and within all levels of an organization,
- both approaches are based on the rational goal model (clear measures and goals),
- both approaches make use of the human relations model,
- both approaches highlight the necessity of using motivating tools,
- both approaches are based on the development of strategic performance measures.

The only fundamental difference concerns the space in which an organization's objectives are defined. An open formula is applied to management by objectives. Objectives can be established in practically any way. On the other hand, although objectives within the balanced scorecard are established in the cooperative formula, it is more focused on the four categories of customer satisfaction, internal processes, innovation and learning and financial measures.

**Establishing Objectives Within the Balanced Scorecard**
The use of the balanced scorecard is quite common. Most organizations adapt the structures of their objectives to the general proposal made by the balanced scorecard's authors Kaplan and Norton, i.e. that structures for objectives should fall within the scope of four perspectives. A typical structure for objectives in organizations using the balanced scorecard comprises the following perspectives (Atkinson 2006):

- Financial: emphasising shareholder satisfaction, key goals and measures here generally involve (gross and/or net) profitability, return on capital employed, residual income, economic value added, sales growth, market position and share, cash flow etc.
- Customer: focusing on real customer satisfaction, key goals and indicators here typically stress common customer concerns such as delivery time, quality, service and cost etc.
- Internal business: key goal and measures here should highlight critical skills and competencies, processes and technologies that will deliver current and future organizational (customer/financial) success.
- Learning/growth: underpinning the other three perspectives, key long-term goals and indicators in this regard typically relate to improving flexibility and investing for future development and new opportunities.

*Potential Problems with Balanced Scorecard Application* As with every management tool, the balanced scorecard has its advantages and disadvantages. Among potential limitations concerning the application of the balanced scorecard, we can distinguish the following:

- a lack of overall coherence with the stakeholders approach to performance management, which can result in an inadequate consideration of the requirements of some stakeholders, for example employees or suppliers, within the structure of objectives,
- problems with bringing together strategic and budgetary control perspectives,
- problems with ensuring the integration of the balanced scorecard with other control systems,
- problems with the effective combination of the balanced scorecard and long established systems,
- the need to integrate the strategic planning process and the budgeting process,
- problems with an organization's flexibility and speed of reactions to changes in the environment when the balanced scorecard is dominated by the top-down approach,
- the excessive use of the balanced scorecard for top-down control.

*The Functions of the Balanced Scorecard* The previously mentioned problems related to the application of the balanced scorecard allow for the identification of the following functions of this approach in an organization (Johanson et al. 2006):

- Balanced scorecard as a facilitator of a long-term perspective. A model of this management tool should enable organizations to become more oriented towards long-term revenue, rather than short-term costs, in their management control routines.
- Balanced scorecard as an arena for dialogue. This tool's implementation process should include consultation at all levels of hierarchical organizations.
- The balanced scorecard as a tool for the correction of previous control systems. This tool can be used in particular to make adjustments in previous budgetary control practices. Unfortunately, situations sometimes occur in which the implementation of a new tool causes a decrease in the measurability of an organization's objectives.
- The balanced scorecard as a tool for the improvement of objective setting practices. This becomes possible particularly if the tool implementation process is accompanied by decentralization.
- The balanced scorecard as an instrument for change. The tool implementation process frequently allows for the identification of those activities within an organization which are ineffective and require improvement. The tool's diagnostic function can be subsequently complemented with the forecasting function, which consists in determining the objectives of changes or improvements in a situation.

*Balanced Scorecard and Other Management Tools* The use of the balanced scorecard can be highly effective if it is integrated with other management tools. An

**Table 2.3** An input of the balanced scorecard in the development of the 7-S model elements

| 7-S model element | Input of balanced scorecard |
|---|---|
| Strategy | Through the implementation of various measures, including those of a non-financial variety, BSC provides managers with new system design and customization tools |
| Structure | BSC reduces the pressure on managers to find and install the perfect structure. The organizational improvement process occurs as it were spontaneously during BSC implementation |
| Systems | The setting of achievement measures results in clear responsibility and accountability |
| Staff | The BSC learning and growth objectives links the staff, employees' knowledge, capabilities and skills to the strategy |
| Skills | These are captured in the internal process perspective of BSC, where organizations identify operating, customer management, innovation and regulatory and social processes |
| Style | The BSC keeps executives' attention focused on balance between short-term operational improvements and the drivers of long-term value creation. Leadership attributes and style, together with organization capital component are captured in the learning and growth perspective |
| Shared values | Vision, mission, value are not explicitly recognized in BSC. They are starting points for developing strategy. The BSC can translate even the most intangible elements of the 7-S model (shared values) into quantifiable objectives that lead to action and feedback |

Adapted from Kaplan (2005)

example of such a tool is the 7-S model. This model includes 7 critical factors for an effective organizational strategy (Kaplan 2005):

- *Strategy*. The positioning and actions taken by an enterprise, in response to or anticipation of change in the external environment, intended to achieve competitive advantage.
- *Structure*. The way in which tasks and people are specialized and divided, and authority is distributed; how activities and reporting relationships are joined; the mechanisms by which activities in the organization are coordinated.
- *Systems*. The formal and informal procedures used to manage the organization.
- *Staff*. The people, their backgrounds and competencies, recruitment processes, selection, trainings, socialization, management of careers.
- *Skills*. The distinctive competencies of the organization.
- *Style/culture*. The leadership style of managers, organizational culture.
- *Shared values*. The core set of fundamental values that are widely shared in the organization.

According to the assumptions of the 7-S model, success is possible if an organization achieves balance and harmony among the so-called hard Ss (strategy, structure, systems), soft Ss (staff, skills, style) and super-ordinate goals (shared values).

Both approaches (the 7-S model and the balanced scorecard) (Kaplan 2005):

- articulate that effective strategy implementation requires a multi-dimensional approach,
- stress interconnectedness,
- help managers align their organization for effective strategy execution.

A potential input of the balanced scorecard into the development of the 7-S model is presented in Table 2.3.

Thus the combination of the management models discussed can result in synergy effects.

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