Examination and Evaluation of the Distinguishing Features of Human Resource Management in Europe: A Study Based on Certain German and British Companies

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Abstract

This paper studies the distinguishing features of HRM in Europe by focusing on firms in Germany and UK. The study offers a contrast and explanation about how European firms develop and use their HRM policies, such as different cultural predispositions, employee resourcing, training and development as well as pay. According to the empirical analysis using STATA on 1882 active publicly listed companies in the UK and Germany, the effects of HRM on operating revenue per employee were exhibited in detail. Longer power distance led to more operating revenue per employee except those in banks. Furthermore, individualism guaranteed more operating revenue, but only in Germany and in the industrial companies. On the contrary, a negative coefficient was identified between operating revenue and short-run orientation especially in industrial companies. Additionally, there was no obvious relationship between operating revenue and the gender of the chairman/president.

Keywords: human resource management, coordinated market economy, liberal market economy, cultural predisposition, regression analysis

1. Introduction

The history of the European Community in attempting to form a hyper country institution is one of adequate, but complex recognition of differences among nations and religions. As one of the key characters, human resource management (HRM) in Europe is also a comprehensive one. As Neo-corporatist ideology goes, German economic management is consistent with a high level of employee skill and is founded on highly development of national infrastructures and social welfare (Hollinshead, 2010). Using the United Kingdom as a benchmark, Croucher and Rizov (2012) found that calculative HRM is indeed more damaging to union influence than collaborative, although to a much lesser extent than in the United Kingdom. Pulignano, Doerflinger, and De Franceschi (2016) stated whether and how union power to shape flexibility and security policies is affected by national institutions in UK and Germany. Pudelko (2006) empirically studied the 'balanced', 'moderate' and 'equilibrated' character of German HRM. Addison, Bellmann, Schank, and Teixeira (2005) provided panel estimates of the structure of labour demand in Germany, distinguishing between highly skilled, skilled, and unskilled labour and between the manufacturing and service sectors. German companies would like to have a long perspective in their development, whereas UK companies tend to place more emphasis on short run performance, and invest strictly driven by financial criteria (Marginson, 2004). According to this, companies pay less attention on employee development but more to financial performance.

Today, HRM reflect the more intense levels of national, regional, and global competition, projected demographic and workforce figures, anticipated legal, and regulatory changes, and significant technological developments (Schuler, 2000). Translated through major changes in organizational strategy, structure, shape, and technology, these environmental forces require speed, quality, innovation, and globalization for firms wishing to survive the battlefield of international competition (Schuler, 2000). However, even within a particular strategy type, there is likely to be no 'best practice' HR solution (Slavich, Cappetta, & Giangreco, 2014), and people managers themselves need to consider how they may initiate or expand their internship capability in order to be more competitive through HR (Maertz, Stoeberl, & Magnusson, 2014). This paper focuses on German and British firms, being a Coordinated Market Economy (CME) and a Liberal Market Economy (LME) respectively, and

offers a contrast and explanation about how European firms go with their HRM policies. I collected data of 1882 publicly listed companies in both UK and Germany by the nearest acquirable date in 2015, which were still active and data available in Osiris, and described and numerically analysed the effect of HRM features on company performance.

2. Human Resource Management in Europe

2.1 Cultural Predisposion

Cultural features of different nationalities are of key importance for identifying human behaviour and management action enforcement (Torrington & Hall, 1991). Even the e-loyalty formation process differs across cultures, and even between similar cultures (Gracia, Ariño, & Blasco, 2015). As an overview, the core cultural predispositions are shown as Hofstede's framework in Table 1.

Table 1. Cultural predisposition of Germany and the UK

	Germany	UK
Power distance	Egalitarianism	Low
Uncertainty avoidance	Relatively high	Low
Individualism vs. collectivism	High individualism	High individualism
Masculinity vs. femininity	Relatively high masculinity	High masculinity
Long-term vs. short-term	Long-term orientation	Short-term orientation

Source. Hollinshead, 2010; Lucas et al., 2006.

To some extent, average percentage of managers of all the employees in companies of the UK and Germany explains the difference of power distance. 18.24% of German employees are managers, which is a relatively low level and shows the egalitarianism of German companies. While the figure in the UK is 32.83% (Osiris, 2015).

Uncertainty avoidance can be an analysis at the country level. The UK had -5.7% budget balance of its GDP, while Germany had 0.3% of that (Osiris, 2015). The figures show that Germans have more uncertainty avoidance than British.

Both corporate groups in the UK and Germany have many companies included, which guarantees a high individualism of corporation management and development in the two countries. According to the data in Osiris (2015) of 1882 publicly listed companies in the UK and Germany, there is an average of 87.08 companies in a corporate group. The figure in the UK is 75.50, which is lower than 106.75 in Germany. More individualised companies can work well with a relatively short power distance and egalitarianism in Germany.

Both British and German companies have high masculinity, and the British are even more masculine. According to the analysis of listed companies in UK and Germany, only 4.41% of company presidents or chairmen are female, while the proportion in Germany is a little higher at 5.83% (Osiris, 2015). Woman managers are hardly to be in a relatively high position in a certain company and they are usually in charge of the human resource office, finance & accounting office and legal office (Osiris, 2015).

To attract more investors in the short run, the companies in the UK tend to get a higher evaluation in an independent industrial group, and 62.16% of UK companies stay in A or A+. While the figure in Germany is only 26.91%. Furthermore, the average percentage of current market capitation in total assets of the UK companies is 209.58%, and that of German companies is 157.45% (Osiris, 2015).

2.1.1 Political and Legal

In Europe, legally backed systems of employee communication are common and the establishment of workers' councils is required by law, which is even more extensive in Germany where four fifth of the workforce are union representatives (Brewster, 2007). For example, any important decision of pay, working hours, performance measurement and lay-offs needs to be discussed in works councils obeying the Works Constitution Act in Germany (Hollinshead, 2010).

On the other hand, legislation exists to promote equality between men and women in the scale of Europe, yet inequalities persist (Bloisi, 2007). In Germany, the inequalities in genders are obvious that women work in hierarchically low positions, have lower chances for personal development in companies and get a lower income (Domsch & Harms, 1997), and the same thing happens in the UK.

2.1.2 Conditioning

Family background, religions, and education systems differ in countries in Europe, and people share similar features of conditions which tend to deal with staff in the same approach, that is to say, conditions shape human behaviour and expectations (Torrington & Hall, 1991). In the UK, alone from a short run perspective, employers treat employees as disposable resources, or even as liabilities, so in this condition, individual performance is managed carefully and training is seen as an overhead with low priority when competition is serious, which makes a high flow speed of the labour force market (Hollinshead, 2010). On the other hand, German companies tend to pursue long run performance and invest in product and process innovation and enduring assets which can achieve a competitive advantage (Marginson, 2004). They treat employees as enduring assets and train them to nurture the internal labour markets. Furthermore, firms offering long-term-employment (LTE) contracts make greater use of a wide array of the hypothesized complementary practices relating to training, compensation, information-sharing, job design, employee-customer interactions, and responses to declines in the demand for labour (Gramm & Schnell, 2013). As a result, employees' motivation and commitment is high, which is related to the high quality of products and services while the risk and cost can be high as well (Hollinshead, 2010).

Furthermore, the format of organisations is also influenced by the conditions which can affect the human resource management to some extent. In Germany, most major companies are owned by a tight network of several powerful banks, and their relationship and ownership are deeply involved in the management of companies to achieve high profit faced with low competitiveness (Randlesome, 1994). However, the pattern in the UK is one of mixed and diverse development, which produce a sense of disappointment in the limited and uneven progress of human resource management in the UK (Guest, 1992).

2.2 Employee Resourcing

Flexibility in labour patterns is now widely accepted in Europe, though it involves some terminological problems which to some extent are linked with the high unemployment nowadays (Brewster, 2007). As both Germany and the UK companies use more spatial and temporal flexible working practices, the differences still exist (Papalexandris, Apospori, & Nikandrou, 2005).

2.2.1 Recruitment Strategy

The lack of staff or the replacement of existing members triggers the recruitment process, which involves managing the vacancies, job analysis and selection under the legal context (Bloisi, 2007). In Germany, the placement is strictly controlled by the Federal Department of Employment and a placement service owned by larger firms, so recruitment of more than 20 staff needs the agreement of works councils (Hollinshead, 2010). However, it is a totally different story in the UK whose companies have much freedom to employ labour. Furthermore, for the short run pursuing, one third or more British companies have over 5 percent of the workforce on temporary contracts and more than one quarter of the British working population have part time jobs (Brewster, 2007).

2.2.2 Selection Methods

Public-sector organisations and assessment centres have grown in popularity in the UK, and the latter is especially used for graduate and management selection (Bloisi, 2007). The CIPD recruitment survey showed that 33 percent of sampled organisations had used public-sector organisations and 38 percent had used assessment centre before while in large companies, the latter figure reached 95.2 percent (CIPD, 2015). The methods are similar in German companies who also use the practices that are popular in the UK, however, companies' recruitment focuses more on internal labour markets, which is quite different to that in the UK whose companies focus more on the external labour market (Hollinshead, 2010). However, nearly all the managers in a certain company are recruited from the company itself both in the UK and Germany (Osiris, 2015). Furthermore, companies in the UK always want to select a chairman or a president among the former chairmen of the board (89.86%) while companies in Germany like to assign a chairman or a president from the supervisory board (73.54%). (Osiris, 2015).

2.3 Training, Development and Payment

Training had two different kinds of outcomes: organizational legitimacy improves as well as organizational performance (Esteban-Lloret, Aragón-Sánchez, & Carrasco-Hernández, 2014).

2.3.1 Training and Development

Training is an important part in German employees' careers, and all medium and large companies participate in the country's dual system of initial vocational training which can last for three years with abundant contents

(Hollinshead, 2010). Whereas few employers in the UK hold training central to their business development in their company strategy, and this may influence their potential international competitiveness and economic performance of the UK (Torrington & Hall, 1991). On the other hand, senior managers in the UK can to some extent receive more training (Hollinshead, 2010). Moreover, the difference between the time involved in the two countries becomes even larger since 1995 for German companies are more influenced by works councils while conditions in the UK remain stable (Papalexandris et al., 2005).

2.3.2 Payment

In Germany, payment and increased rates need to be agreed among representatives of employers and employees at industry level, as well as other aspects such as welfare, but the unequal pay between men and women commonly exists despite legislation for there is no legal provision of minimum pay (Hollinshead, 2010). For the UK, employers have considerable latitude to formulate pay policies with little restriction and the hourly workers are paid least in Europe, at the same time, unequal pay is also apparent with the increased workforce participation of women (Hollinshead, 2010). However, other than payment, managerial support influences the employees' emotions as well as increasing active resistance behaviour (Gunkel, Schlaegel, Rossteutscher, & Wolff, 2015).

3. Method

3.1 Method Description

Puck, Mohr, and Holtbrügge (2006) studied the relationship between national culture and the use of web-related management techniques based on Hofstede's 4-Dimensions model of culture. In addition, Slavich et al. (2014) stated the existence of imbalanced and differently attractive brand units' images might weaken or remove the effectiveness of corporate HRM practices in keeping internal and external turnover rates low. In this survey, I identify the main HRM factors and the impact of HRM on companies' performance in both UK and Germany. In order to assess the impact of HRM strategies on corporate earnings, a number of econometric models was built. The analysis was performed using the STATA statistical package.

3.2 Sample and Data Collection

As a source of statistical information for the study, primary sources were used - annual reports of companies in the UK and Germany (since the selected companies are public, their statements are published and are publicly available). Statistics are based on the basic performance indicators of all the active UK and German companies, such as operating revenue, total assets, number of employees, number of managers and so on (closing date on December, 31 2014).

HRM strategy of the companies comes down to number of companies in corporate group, number of managers per thousand employees, gender of president/chairman as well as percentage of current market capitation in total assets.

For the descriptive statistics of the statistical data see Table 2, and the description of variables see Table 3.

Table 2. Descriptive statistics of variables

	Obs	Mean	Std. Dev.	Min	Max
Total Assets (€mm)	1882	9197.64	91196.59	0	2169622
Operating Revenue (€mm)	1841	2287.029	14626.99	-6	375897
Current Market Capitation (€mm)	1799	2052.563	8462.223	0	97552
Net Income (€mm)	1881	103.2366	762.8878	-7878	13277
Profit Margin (%)	1552	3.823338	24.15972	-99.46	99.91
Return on Shareholders' Funds (%)	1761	-3.785537	79.72279	-899.19	972.53
Return on Total Assets (%)	1814	-1.076229	20.15485	-99.92	78.64
Current Ratio (%)	1858	3.298068	6.645012	0	86.13
Number of Employees	1882	7719.407	37190.01	1	631465

Table 3. Description of variables

Variable	Description
Dependent Variable	
Log(operrev/noemp)	Logarithm of operating revenue per employee (€bb)
Explanatory Variables	
noemp	No. of employees
nocom	No. of companies in corporate group
totast	Total asstets (€mm)
pop	Population (mm)
gdp	GDP ($bb)
intres	International reserves ($bb)
Noma/noemp	No. of managers per thousand employees (‰)
Log(noma/noemp)	Logarithm of No. of managers per thousand employees (‰)
grade	Independent industrial evaluation, from U to A+ (described from 0 to 11)
gender	Dummy variable; whether the chairman/president is female (1) or male (0)
operrev	Operating revenue (€mm)
curmarcap	Current market capitation (€mm)
netinc	Net income (€mm)
promar	Profit margin (%)
retsha	Return on shareholders' funds (%)
returast	Return on total assets (%)
currat	Current ratio (%)
curmarcap/totast	Percentage of current marketing capitation in total assets (%)

4. Analysis and Results

4.1 Assumptions

Immediately prior to the modelling, the following assumptions were made:

(A1) Larger number of managers per thousand employees leads to a greater revenue as long power distance guarantees an efficient management of a company as well as due to a better encouragement on employees.

Hypothesis 1: Raising number of managers per thousand employees increases operating revenue.

(A2) The larger number of companies in corporate groups leads to a greater operating revenue as individualism makes a company function well in a more serious competitively business world and, therefore, guarantees a higher operating revenue.

Hypothesis 2: The number of companies in corporate group increases operating revenue.

(A3) The gender of president/chairman doesn't lead to a greater operating revenue in the short term, for female could do the same as male in modern society, though less trust or self-confidence are fixed on female.

Hypothesis 3: The gender of president/chairman neither increases nor decreases operating revenue.

(A4) The percentage of current market capitation in total assets negatively affects operating revenue, for short-term orientation of a company hardly make a company function well in short run and, therefore, a company may generate more operating revenue with a lower percentage of current market capitation in total assets.

Hypothesis 4: The percentage of current market capitation in total assets decreases operating revenue.

4.2 Regression Results

Model (1) was a regression of the operating revenue per employee logarithm on characteristics. In order to lower down the variance inflation factor (VIF), gdp, pop and intres were dropped in Model (2). In addition, robust of vce was used to eliminate heteroscedasticity. Let us compare the two models containing the transformed (logarithmic) variables. Different from Model (2), Model (3) included the number of managers per employee logarithm.

Table 4. Linear regression models

	(1) Coef. (Std. Err.)	P>|t|	(2) Coef. (Std. Err.)	P>|t|	(3) Coef. (Std. Err.)	P>|t|
noemp	-2.59e-06*** (3.33e-07)	0.000	-2.59e-06*** (3.80e-07)	0.000	-1.39e-06*** (2.83e-07)	0.000
nocom	.0001269* (.000052)	0.015	.0001163* (.0000514)	0.024	.000221** (.000064)	0.001
totast	-1.45e-07 (1.12e-07)	0.196	-1.38e-07* (6.60e-08)	0.037	-2.24e-07** (8.00e-08)	0.005
pop	-.3185058 (.1889607)	0.092				
gdp	-.0022518 (.0013232)	0.089				
intres	.0612253 (.0360975)	0.090				
Noma/noemp	.0003834*** (.0000255)	0.000	.0003865*** (.0000562)	0.000		
Log(noma/noemp)					.2359023*** (.0169057)	0.000
grade	.0071715* (.0028003)	0.011	.0049322 (.0027009)	0.068	.0065528* (.002627)	0.013
gender	.0179387 (.0461348)	0.697	.0210372 (.0475639)	0.658	.0315183 (.0449586)	0.483
operrev	5.70e-06*** (8.28e-07)	0.000	5.80e-06*** (1.23e-06)	0.000	6.24e-06*** (6.24e-06)	0.000
curmarcap	5.36e-06** (1.62e-06)	0.001	5.45e-06** (1.69e-06)	0.001	9.77e-06*** (1.84e-06)	0.000
netinc	-.0000326 (.0000172)	0.058	-.0000327 (.0000187)	0.080	-.0000566** (.0000181)	0.002
promar	.0043676*** (.0006547)	0.000	.0043425*** (.0009303)	0.000	.0038699*** (.0008299)	0.000
retsha	-.0004019 (.0002048)	0.050	-.0004258 (.0003365)	0.206	-.0003247 (.0003069)	0.290
returast	.0002449 (.0012563)	0.845	.0003453 (.0016508)	0.834	.0026775 (.0015555)	0.085
currat	-.0025477 (.0022527)	0.258	-.0022964 (.0031339)	0.464	-.007746* (.0032712)	0.018
Curmarcap/totast	-.000113* (.0000554)	0.041	-.0001235* (.0000496)	0.013	-.0002074*** (.0000477)	0.000
_cons	16.66122 (12.0705)	0.168	-3.684069*** (.0279591)	0.000	-3.959698*** (.0329987)	0.000
Number of obs	1398		1398		1398	
R-squared	0.2275		0.2335		0.2718	
F	25.20		12.10		22.85	
vce			robust		robust	

Note. *Statistically significant at the .05 level; ** at the .01 level; *** at the .001 level.

As can be seen in Table 4, the variable reflecting power distance became a value variable in the Model (3) as opposed to Model (2), thus improving the accuracy of the model. The coefficients of the variables also changed, but their values remained the same. Therefore, the hypothesis about the relevance of both models was not rejected. Furthermore, Model (3) proved to be better with a higher F-statistics and R^2.

However, regression analysis showed that return on shareholders' funds or return on total assets had little impact on operating revenue, i.e. company success was not determined by shareholders' income, and sometimes paying less to shareholders would yield greater results.

Regression analysis of the Model (3) showed a 0.2 coefficient for the number of managers per employee logarithm. This meant that increasing number of managers per employee by 1% will lead to a 0.759% increase in operating revenue per employee. The 0.000221 coefficient of the number of companies in corporate group variable suggested that increasing number of companies in corporate group by 1 increased operating revenue by $(e^{0.000221}-1)*100\%=0.02\%$. The model also showed that there was a positive correlation between operating revenue per thousand employees and current market capitation, 1 thousand € of which increased operating revenue by approximately $(e^{0.00977}-1)*100\%=0.98\%$. In addition, profit margin also positively affected operating revenue by $(e^{0.0038699}-1)*100\%=0.39\%$.

On the contrary, a negative coefficient was identified between operating revenue and the percentage of current market capitation in total assets, 1% of which decreased operating revenue by approximately $(e^{-0.0002074}-1)*100\%=-0.02\%$. Furthermore, there was no obvious relationship between operating revenue and the gender of chairman/president.

Thus, the assumptions presented in section 4.1 were in accordance with econometric studies of the three models.

4.3 Evaluation in Different Scenarios

Table 5. Linear regression models of UK and Germany

	(4) UK		(5) Germany	
	Coef. (Std. Err.)	P>|t|	Coef. (Std. Err.)	P>|t|
noemp	-1.53e-06*** (3.04e-07)	0.000	-1.69e-06** (4.97e-07)	0.001
nocom	.0002209 (.0001762)	0.210	.0001864** (.0000654)	0.005
totast	-2.89e-07 (1.51e-07)	0.055	-2.14e-07* (8.29e-08)	0.010
Log(noma/noemp)	.22198980*** (.0241166	0.000	.2534174*** (.0264305)	0.000
grade	.0128253** (.0045145)	0.005	.0011697 (.0035791)	0.744
gender	.0646152 (.0662673)	0.330	-.0045129 (.0599853)	0.940
operrev	5.46e-06*** (1.25e-06)	0.000	.0000114*** (2.56e-06)	0.000
curmarcap	.0000125*** (2.88e-06)	0.000	6.87e-06*** 1.76e-06	0.000
netinc	-.0000595** (.0000202)	0.003	-.0000935* (.0000404)	0.021
promar	.0032077** (.0009694)	0.001	.0054305*** (.0013793)	0.000
retsha	-.0001416 (.0001711)	0.408	-.0005755 (.0005085)	0.258
returast	.0041435** (.0015343)	0.007	-.0010457 (.0023909)	0.662
currat	-.0029526 (.0062661)	0.638	-.0110458*** (.0022452)	0.000
Curmarcap/totast	-.0002352** (.0000775)	0.002	-.000169** (.0000538)	0.002
_cons	-4.018427*** (.0556934)	0.000	-3.931856*** (.0417644)	0.000
Number of obs	838		560	
R-squared	0.2719		0.3094	
F	16.54		13.48	
vce	robust		robust	

Note. *Statistically significant at the .05 level; ** at the .01 level; *** at the .001 level.

Companies in the UK and Germany had different HRM conditions in most of the aspects. Model (4) and Model (5) shown in Table 5 were the regressions of companies in UK and Germany separately, and tried to check if the effects of HRM in the two different countries told a different story.

Regression analysis of Model (4) and (5) still showed a significant positive effect of the number of managers per employee logarithm on operating revenue in both of the countries, as well as current market capitation and profit margin. While the number of managers no longer affected the operating revenue in the UK.

In addition, a negative coefficient was still identified between operating revenue and the percentage of current market capitation in total assets in both the two countries, and there was still no obvious relationship between operating revenue and the gender of chairman/president in both countries.

All the companies could be divided into banks and industrial companies, regressions of the two scenarios were exhibited in Table 6.

Table 6. Linear regression models of bank and industry

	(6) Bank		(7) Industry	
	Coef. (Std. Err.)	P>|t|	Coef. (Std. Err.)	P>|t|
noemp	-.0000153* (7.22e-06)	0.043	-1.57e-06*** (3.02e-07)	0.000
nocom	-.000033 (.0000882)	0.711	.0002944*** (.0000809)	0.000
totast	-2.35e-06 (1.64e-06)	0.162	5.83e-07 (4.81e-07)	0.226
Log(noma/noemp)	.1920257 (.1270533)	0.142	.2402094*** (.0171052)	0.000
grade	-.0050999 (.0127619)	0.692	.0064283* (.0027109)	0.018
gender	.0235484 (.2078386)	0.911	.0207891 (.0476627)	0.663
operrev	.000184 (.0001129)	0.114	5.73e-06*** (1.48e-06)	0.000
curmarcap	.0000116 (7.07e-06)	0.111	9.98e-06*** (1.94e-06)	0.000
netinc	-.0001539 (.0001147)	0.190	-.0000734** (.0000224)	0.001
promar	.0080723* (.0038529)	0.045	.0038937*** (.0008904)	0.000
retsha	-.0079539 (.0063913)	0.223	-.0003066 (.0003087)	0.321
returast	.0108142 (.0232721)	0.646	.0026627 (.0016221)	0.101
currat	-.0024386 (.003829)	0.529	-.0088949 (.003913)	0.023
Curmarcap/totast	.0000123 (.001499)	0.993	-.0002106*** (.0000481)	0.000
_cons	-3.914119* (.1981032)	0.000	-3.963179*** (.0343613)	0.000
Number of obs	44		1354	
R-squared	0.5322		0.2770	
F	2.56		23.25	
vce	Robust		robust	

Note. *Statistically significant at the .05 level; ** at the .01 level; *** at the .001 level.

According to the regression analysis of Model (6) and (7), all the HRM factors except gender of

chairman/president significantly affected operating revenues of industrial companies, while none of them had any effect on operating revenues of banks. That is to say, HRM factors had significant effects on industrial companies but had no relationship with operating revenues in banks.

5. Conclusion

European countries share many similarities in their activities in HRM, which contribute to the forming of the European Union and the integration among these countries. In relation to this approach, common policies and legal rules have been established to discipline all members of the European Union. At the same time, however, cultural and historical factors in each country form the differences in adapting these rules in the aspects of employee resourcing, training and development, pay and so on, which especially exists in the UK and Germany who are the typical Coordinated Market Economy (CME) and Liberal Market Economy (LME) respectively.

According to the empirical analysis, longer power distance led to more operating revenue per employee except that in banks. Furthermore, individualism guaranteed more operating revenue, but only in Germany and the industrial companies. On the contrary, a negative coefficient was identified between operating revenue and the short-run orientation especially in industrial companies. Additionally, there was no obvious relationship between operating revenue and the gender of chairman/president. Therefore, understanding the core features of HRM within EU and the effects of them on operating revenue is important to develop business and search for partnership in this area.

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