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Recent Trends in Human Resource Management in Unified Germany

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Since the end of World War II, during the past decades, human resource management in Germany has undergone a strong development in both, in business practice as well in business administration theory. Up to the 1950s, corporate personnel management chiefly dealt with administrative tasks such as wage and salary payments and the administration of personnel records (*administrative phase*). Due to an acute lack of manpower, this period was followed by a phase in which the work factor was acknowledged to an increased extent. As a result, the status of human resource management in the companies was enhanced (*acknowledgement phase*). As a consequence of the beginning change of values and technologies, human resource management has experienced a constantly rising acceptance since 1970 (*integration phase*). Following these three phases there was a further development in human resource management, called the phase of consolidation in the 1980s. Personnel management in that time became more and more an equal function to other fields of management, such as production, fi-

nancing, marketing, accounting etc. During last five years there exists a new trend in human resource management especially in large-scaled companies. One can speak of a phase of restructuring within human resource management; decentralization, delegation and outsourcing of personnel management functions and decisions are key words for the newest development in the area of human resource management in Germany.

In business administration and management theory human resource management had an impressive development in Germany also during the past decades. Fifty years ago, Professor Eugen Schmalenbach, an outstanding scholar in general business theory as well in accounting, financing and organization theory between the two World Wars, advised the younger generation of scholars in giving strong interest to research in personnel management (1947). In 1961 Universität Mannheim established the first academic chair for human resource management in the German speaking area: Professor August Marx was the founder of this chair. Nowadays in universities in German language countries in Europe there are about 58 chairs and institutes for human resource management. In 1974 the German Association of University Professors for Business Administration founded a permanent committee for Personnel Management; this group of professors with annual meetings has now about 95 members. Year by year many books and papers on different problems of human resource management are published in German language. Several periodicals are published monthly.

This paper points out briefly three trends in human resource management in Germany: first some remarks to the development in this management field in general; second some aspects concerning the role

of human resource management in the process of unification in Germany since 1990; third some views to the links between internationalization and human resource management.

I. General trends in human resource management in Germany

Economical system

The existing market organization in Germany is social market economy. Taking account of the given legal and political restrictions, the individual companies have to develop their own strategies in order to engage in free competition with others. In this regard, human resource management serves as an instrument to reinforce the company's competitiveness as well as its viability. Due to its limited domestic market (81. 63 million inhabitants), the German economy has to rely to a large extent on the export of goods and services which also explains the general concentration on goods and on capital exports (*Germany's major trading partners are the countries of the European Union with a share of 49%, the US with 8% and the countries of Central Europe and Eastern Europe with 7%. In 1994 total proceeds from exports amounted to DM 685.2 billion, the surplus on foreign trade amounted to DM 74.2 billion and direct investments in 1993 to DM 319.4 billion*).

The completion of the European internal market in 1993, the coming EU monetary union and the opening of the Eastern European markets predict an increase in export-oriented activities in Germany due to its central location in Europe.

Germany only has a few of primary raw materials (*hard coal, brown coal*), a fact which compels its economy to focus on the development

and and implementation of very modern technologies. In addition, investments in the vocational training and further education of the existing human resources are high on an international level. The situation on the labor market of the unified Germany is as follows: in 1994 34.89 million out of 81.4 million Germans were gainfully employed, 13.63 million in producing industries, 14.78 million in service industries and 6.25 million were governmental employees. A total of 3.6 million were self-employed; 58.3% of employees were male and 41.7% female. The number of parttime employees currently amounts to 16.5%.

In 1995, the average salary per month of an employee was DM 4,054.00, the average hourly wage in the industrial sector was DM 18.23. Due to high labor cost which is above average, in particular the ancillary wage costs (*in 1995, they came to approximately 80.2% of the labor cost which are made up of components of statutory, negotiated and employers social security contributions*) and the worldwide smallest number of annual working hours, the German economy must achieve high productivity. Key factors in this regard are the know-how of the staff and the implemented level of technology. For this reason productions are mainly composed of products and services as a combination of these two key factors. Production sectors which require a relatively low qualification level are more and more relocated to countries with lower wages. This strategy is to secure international competitiveness. However, this tendency together with the economic structural difficulties which resulted from the reunification of Germany in 1990 caused a rise in unemployment to 9.9% (1995).

German human resource management reacts to this situation with a more individual organization of working time, the introduction of remuneration systems with variable remuneration components and

more flexible regulations in the field of employee benefits and services.

Labor law

Human resource management in Germany is subject to a wide variety of restrictions tracing back to legal and collective agreement provisions. Labor law consists of a large number of individual provisions which regulate work in dependent employment, i.e. the relation between employer and employee. The historical intention of labor law was to protect the dependent employee. Labor law can be divided into individual labor law which regulates the form of individual contracts as the basis of employment relationships and collective labor law. This part of labor law includes labor association law (*unions, employers' associations*), the collective agreements law as well as the codetermination right at plant level and enterprise level which is particularly relevant for human resource management. Totalling 36.2%, the number of unionized employees in Germany is relatively low. Yet, collective agreements made between employers and unions of a branch of industry are sometimes binding for all employees of this branch.

Industrial codetermination which is regulated in the Industrial Constitution Law of 1972 (*Betriebsverfassungsgesetz 1972*) has a significant effect on human resource management. Its main interest is to give employees a right of participation in corporate decisions. In such cases of participation, employees are usually represented by the works council (*Betriebsrat*) elected by them. The works council has different rights of participation. A large number of decisions on human resource matters such as start and end of the daily working hours, specific matters of wage structures, etc., can only be taken together by the employer and the works council.

Authorities and spheres of action for industrial human resource management

In Germany all large-size and many medium-size companies have human resource departments. The human resource department performs its tasks in cooperation with the individual corporate executives on different management levels who are responsible for direct leading of human resources. The works council in its function as employee's representation is another body that participates in the performance of certain tasks.

Based on the objectives of corporate human resource policy, which is an integral part of corporate policy, human resource management centers on human resource planning. This includes complex planning of measures and activities which are aimed at anticipating and satisfying the demand in an enterprise for human resource required to effect future performance. Subsequent areas of planning are staff recruitment and human resource marketing, human resource development and further training as well as discharge. These areas of planning serve for an optimal satisfaction of planned human resource needs with regard to the forecast number of employees and to quality, quantity, time and area requirements.

Further tasks are human resource maintenance and the development of corporate incentives. These include the corporate remuneration system, corporate benefits as well as the leadership style. In addition, human resource development and vocational training including the specific features of the German training system (*dual system*) are also original tasks of human resource management.

Present trends of human resource management

Within a short period of time many German companies have adopted management plans for solving urgent problems regarding time, cost and quality issues. Such management plans are lean management, total quality management or business process reengineering, and they have led to reorganization activities in many companies. Common traits of these concepts are an extensive decentralization of corporate functions and the elimination of unproductive functional areas. These trends lead to changes in the nature of tasks and duties and the organization of human resource departments and to the following seven consequences:

1. An increased demand of professionalization of human resource managers as a prerequisite for effective human resource work. This implies that human resource managers have comprehensive knowledge of all human resource management instruments and the preconditions for their application and of labor restrictions.
2. The separation of human resource management functions, e.g., by externalizing parts of the human resource development area. Human resource management know-how is more and more procured from human resource consulting organizations (*e.g., in the field of staff recruitment or human resource marketing*). A lot of consultants in Germany are specialised for offering services to personnel management.
3. Rising pressure for justification of human resource management activities due to an increased cost-orientation. This often leads to a changing self-image of human resource departments. Human resource work will be more and more considered as service for other functional areas of the company. As a result, human resource work

will be oriented to an increased extent to the interests and expectations of “internal customers” (*executive board, employee’s representation, executives and staff members*).

4. Tendency towards increased activities in human resource controlling to enhance corporate human resource work as an equal corporate function even in an economic sense. Especially large-scaled companies organized certain functions of human resource management in types of profit centers.
5. Long-term tendency to decentralize human resource work. The demand for closer contact to “internal customers” can only be met by a decentralization of human resource work. It also improves satisfaction of specific demands and the solution of specific problems. However, central “authorities” remain responsible for important human resource management issues such as principles of leadership, performance appraisal and remuneration.
6. Redlegation of original leadership tasks from the human resource department to immediate superiors and line managers. There is a tendency towards redelegating certain leadership tasks to immediate superiors such as the selection of new staff, discussions with individual employees as well as dismissals.
7. Use of up-to-date office automation systems and a human resource information system. The use of such systems reduces the amount of routine work in the field of human resource management.

These seven trends are more or less general characteristics for the changing process concerning human resource management in presence in many companies chiefly in large size ones. Especially in the Eastern states of Germany, in the former DDR, the unification in 1990 has introduced very new conditions for the whole economy in Germa-

ny at all and also for human resource management there with impacts for the companies in Western parts of Germany too.

II. Human resource management and unification in Germany

Economic and political issues

Economic and social policies in Germany in the 1990s are strongly dominated by issues and problems arising from reunification. Working conditions and standards of living continue to differ widely between the old and the new federal states. Some Eastern employees, especially those who are older, have found it difficult to adapt to the new tasks and new production technologies. Economic research institutions predicted at the beginning of the reunification rapid economic growth in Eastern Germany from 1992 onwards. The old large-scale corporations and public industries were split up and restructured, mostly in combination with privatization. The administration and privatization of Eastern nationalized industries were carried out by the Treuhandanstalt in Berlin, which was specifically founded for this task. It finished its main activities at the end of 1994 and is followed by a succeeding governmental institution (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*).

Labor market developments

Reunification has had a strong impact on the German labor market. Unemployment did not exist officially in the former DDR, and many East German companies operated with excess labor and outdated technology. After reunification, many companies had to be closed or

restructured, giving rise to mass redundancies. Many of the affected employees were and are currently taking part in training and retraining programs; it is an advantage that most East Germans have good basic vocational qualifications; the East German system of training and education was similar to the West German dual education system.

Because of wage differentials between the old and the new federal states, there are currently major problems. In order to avoid migration of skilled staff from the East to the West, the convergence of wage levels was proceeded much faster than increases in the rate of productivity growth in Eastern Germany.

Initial forecasts made in 1990, which predicted very rapid adjustment in the East, have proved to be far too optimistic. Production facilities in many companies were so outdated that an immediate introduction of new products or new technology was simply not possible. East Germany will gain importance as a place for investment with the expected closer cooperation of the European Community with countries in North and Eastern Europe. Its central location and the high level of education and vocational qualification of its workforce seemed to be good starting points for rapid economic progress, a prerequisite for this, however, is the technical and organizational innovation and restructuring of East German companies, as well as the improvement of the infrastructure of the whole country. Also the loss of the export markets in the East-Europe countries produced very heavy difficulties for the labor market in Eastern parts of Germany. Therefore unemployment in the new German states is still very high; its average ratio in 1995 was 14.9% (*in West Germany 9.5%*). So difficult problems are still existing for personnel management in East Germany.

Personnel management

In East Germany the administration of personnel management was much more fragmented than in Western parts of Germany. Part of it, especially the areas of selection and promotion, were strongly influenced by political criteria, and many senior personnel managers, whether rightly or not, have since been suspected of having been member of the Stasi, the intelligence service, and have been replaced. Senior personnel management positions, especially at board level, have often been taken over by West Germans. Similarly, no tradition of independent employee presentation through trade unions or works councils, existed, and this has now to be built up. In other areas, particularly job design in relation to new technology, considerable expertise exists.

The functions of personnel management in East-German enterprises and its organizational structure become similar more and more to the human resource management in companies in West Germany, inspite of the big difficulties mentioned above. Additionally it is to notice that in the East-German industry medium and small scaled enterprises are dominating; large-size companies are very few there.

III. Links between internationalization and human resource management

Market globalization and corporate internationalization have very important impact to human resource management especially in medium and large scaled enterprises.

In many German companies the human resource management function has international experience. For more than three decades numer-

ous companies have employed foreign workers together with German workers. In addition, many companies have organized international activities in several countries; they have established registered offices and branches in the USA, in the Far East and particularly in European countries.

At present in many German firms human resource management is facing two great challenges. The reunification of Germany in the year 1990 has forced the companies in the old Lands of the Federal Republic of Germany to create an efficient economy in a free enterprise system, in a liberal society and in a social constitutional state in the former DDR.

The second task of human resource management at present, is a completely different matter. The creation of the European Internal Market in 1993 does not mean the total dismantling of an inefficient and inhumane economic and social system which had existed for decades in the former DDR. Rather, the European Internal Market forms an integration of this, depending on the branch of industry, size of the company etc. distinctly different international strategies are needed. The result is a substantial restructuring of many firm's existing personnel policies.

As a result of the European integration the member states are composed of a market with more than 340 million consumers, about 150 million workers and an estimated purchasing power of DM 5000 billion. So that the social aspects will not be inferior to the economic sector with regard to this historical reorganization government leaders of the member states of the European Community passed a Community-Charter of fundamental social rights for workers in December 1989 in Strasburg. According to this Charter, milestones for social progress in

the social field were established and at the same time new goals were developed.

Some years ago at the beginning of the European Internal Market there was an intensive discussion on the possible consequences of this internationalization of the economies in the concerned European countries for the labour market and for the employment situation. That time based on research reports (*Cecchini, Marin, Data Resources, Prognos, etc.*) an increase in employment and a decrease in unemployment was generally expected. These positive expectations did not deny an initial phase which could be marked by job losses. In fact we are still remaining in this initial phase with a continuing high average ratio of unemployment in Germany. On one hand this heavy unemployment is a consequence of the difficulties in reunification in Germany and the unsolved problems there. On the other hand German industry is included in a increasing process of globalization of German economy. Therefore in presence human resource management has to contribute to the success of corporate international strategies.

International personnel recruiting

Human resource management in Germany has to prepare itself more and more for an internationalization of personnel recruiting and human resource development. Because of difficulties translating the qualifications of foreign job applicants and because of the problems with obtaining the currently-required information, German firms must expect considerable difficulties in recruiting employees from abroad. As a result, a labor and job market research for single enterprises seems to be necessary.

Personnel leadership and personnel placement

Closely linked with personnel recruiting and human resource development of the employees working for the European Internal Market on the other foreign countries is the question of their working conditions abroad and how they are to be managed. In that case leadership and field of employment are mostly dependent on the extent of internationalization or rather internationalization strategies of the respective enterprise.

The performance requirement, in the host countries is also influenced by the degree of international involvement of a company. For export, licensing or franchising other requirements apply than for setting up joint ventures, branches in foreign countries of subsidiaries. Managing across country boundaries demands flexible leadership depending on the degree of involvement. The experiences of multinational enterprises can provide important clues in this endeavor.

For a basic understanding of feasible personnel placement and leadership strategies the distinction between ethnocentric, polycentric and geocentric can be very useful. Whenever an ethnocentrically orientated personnel policy is applied, foreign management positions are mainly filled with regular staff members. The main advantage of this strategy is the relatively easy establishment of a standardised personnel policy. However, problems have to be expected regarding both the employees sent abroad and the native employees.

In this case, a positive attitude of the native employees can be expected if there are advancement possibilities for example. The difficulty of this strategy is that the consistent enforcement of the parent company policy is difficult to achieve. According to the geocentric personnel policy the executives come from different countries of origin;

they are designated for the particular positions mainly because of their qualifications and aptitude: they are chosen irrespective of their nationality. Through this the existing conflict between the original country and the host country is being reduced. The disadvantages of this strategy include high expenses and a lack of cultural integration in the respective countries.

It is not yet possible to recommend one of these strategies over another because the stage of development in the varying countries within and outside of the EC (*European Community*) is still very heterogeneous. However, it can be assumed that a combination of the strategies mentioned will evolve in time. In any case, for those responsible for managing human resources the issues of leadership and placement are becoming increasingly demanding. Thus for instance only, very complex international career guidance plans for the career of trainees who are to go to different countries have to be developed.

Remuneration

As already mentioned, the level of personnel costs (*however, not the level of unit labor costs*) in Germany is very high compared with other countries throughout the world. Considerable national differences as far as personnel costs are concerned will probably still exist within Europe and also in other parts of the world during a long period.

The international competition will demonstrate whether and to what extent the German wage level and the German social system can maintain the Status Quo or even whether other countries will adjust to it.

A general and deep decline in German standards is not to be expected; however, as far as hotly contested markets are concerned (*e.g.*

shipping trade) further job losses cannot be ruled out.

The increasing internationalization also implies greater demands on remuneration policy. Since national particularities of payment systems will also have to be observed in the future, equal payment of workers throughout most of the countries is out of the question. This is why in a company least comparable wage policy strategies have to be established in order to reach a certain standardization of remuneration for the company both at home and abroad. These principles will then have to be adjusted to the existing national payment regulations.

In order to encourage the mobility of employees across borders, additional incentives have to be provided. For working abroad expatriation allowances, compensation for foreign living costs, agreements to pay for home leave, coverage of costs for training to meet German standards, counselling, additional holidays, insurance etc. have to be considered. Such additional benefits are meant to compensate for usually less favorable conditions that are connected with working in another country.

Personnel policy strategies

In the future also considerable national differences still exist despite all progress that has been achieved in the past in different countries. International personnel management has to adapt accordingly. Against this background, increasing internationalization of a company effects an increasing complexity in the application of personnel policy instruments. This is why one can state that the requirements of personnel leadership will increase as a function of its internationalization. An international personnel management policy is particularly marked by a greater heterogeneity of personnel economic functions. The internation-

al dimension of human resource management includes the following consequences.

Increase in additional functions

Aside from the typical personnel functions, additional functions will arise for those who work abroad. These personnel departments are confronted with such problems as taxation, relocation, repatriation, international labor law, etc.

Stronger consideration of the employee's private life

With regard to the employment of workers abroad it is also obligatory for the personnel department to look after the families of the employees sent abroad (*e.g. preparation of the family for their stay abroad, looking after the relatives during the employee's absence abroad, etc.*).

Shift of emphasis of the personnel activities in the course of time

At the beginning of the employee's stay abroad the problems of the transition may be particularly acute. However, with advancing internationalization, questions of leadership and human resource development come into view. Therefore international human resource management has to become more and more flexible according to changing tasks.

Increase in external factors which in Part can hardly be calculated

Varying economic, technological, socio-cultural and political condi-

tions are an impediment to the systematic fulfillment of the tasks of executives and employees who are sent abroad. International human resource management has to take part in a general innovative management of a company.