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Metropolitan Cities under Transition: The Example of Hamburg/Germany

Amelie Boje, Ingrid Ott,
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In the intermediate and long run, energy prices and hence transportation costs are expected to increase significantly. According to the reasoning of the New Economic Geography this will strengthen the spreading forces and thus affect the economic landscape. Other influencing factors on the regional distribution of economic activity include the general trends of demographic and structural change. In industrialized countries, the former induces an overall reduction of population and labor force, whereas the latter implies an ongoing shift to the tertiary sector and increased specialization. Basically, cities provide better conditions to cope with these challenges than do rural regions. Since the general trends affect all economic spaces similarly, especially city-specific factors have to be considered in order to derive the impact of rising energy costs on future urban development. With respect to Hamburg, regional peculiarities include the overall importance of the harbor as well as the existing composition of the industry and the service sector. The analysis highlights that rising energy and transportation costs will open up a range of opportunities for the metropolitan region.

Key Words: urban development, regional specialization, structural change, demographic change, transportation costs
JEL *Classification:* R11; J11

Introduction

Decreasing transportation and communication costs which could be observed during the last several decades have been a central reason for in-

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tensified international division of labor. As a consequence there has been fast growing mobility of factors both between sectors as well as between countries, regions and cities. In this context, factor mobility mainly refers to capital and the highly skilled labor force, whereas less qualified labor, in contrast, frequently remains quite immobile at a certain location. Single branches exhibit different extents between productivity and proximity, pay different wages, and are differently affected by transportation costs that furthermore strongly vary between the transport of people and of goods. Considering transportation costs, economists observe a trend reversal: Energy prices are expected to increase significantly in the future (e. g. Bräuninger, Matthies, and Weinert 2005). Within integrated economic areas these costs represent the majority of entire trade costs, which consequently are also assumed to increase significantly.

Models of the New Economic Geography and urban economics highlight the overall importance of trade costs on the resulting economic landscape (see Krugman (1991), Fujita, Krugman, and Venables (2001), Krugman and Venables (1995) or Brakman, Garretsen, and van Marrewijk (2009) for excellent overviews). Accordingly, the existence of cities and regions results as the equilibrium outcome of the interaction between agglomeration forces on the one hand, and spreading forces on the other hand. *Concentration forces* include the firms' access to relevant markets as well as the relationship between a firm's productivity and its proximity to other market players. This relationship is frequently industry specific, e. g. due to the sharing of information, the existence of a large pool of specialized labor and/or suppliers. The resulting scale economies frequently induce increased specialization. However, as an economy evolves, diversity also contributes to prosperity (see Jacobs 1961 or Duranton and Puga 2005). *Spreading forces* include, aside from transportation costs, also housing prices and congestion, both of which are at least to some extent a function of the city size.

Empirical findings highlight the emergence of urban systems that are characterized by the coexistence of multiple large and small economic centers. The corresponding strong interdependencies are accompanied by factor mobility between cities of different sizes as well as by strong inner-city mobility. Some cities are distinctively specialized while others (particularly the metropolitan cities) are at the same time specialized in some respects but diversified if one considers the entire production structure (see e. g., Duranton and Puga (2000; 2005) or Einig and Zaspel (2008) who focus on Germany). It is obvious that due to the variety of

job and production opportunities, specialization does not contradict a diversified economic structure. In any case, cities play a central role in modern economies since they provide a wide range of both final goods and services, attract labor force and thereby also induce commuting, and serve as places for living and working.

In modern economies the impact of transportation costs is manifold: In the context of the first and second sector, goods' transportation and easy access to the world market is an important issue. Considering the tertiary sector, mostly transportation of people comes into focus. Then an additional determinant of the entire transportation costs is time. In any case, an efficient connection to infrastructure networks might compensate for increased physical transportation costs.

In order to evaluate the probable effects of rising energy costs one also has to consider the overall trends, namely demographic and structural change. They similarly affect the economic structures independent of the concrete location. Structural change implies a shift from the first and secondary sector to the tertiary sector, whereas demographic change impacts on the amount and the composition of the population and labor force (including migration). Both mentioned trends will crucially impact the development of regional production structures (see Glaeser 2008). At a less aggregate level, still little is known about specific city structures and how they will cope with future challenges. Due to regional peculiarities there is no one-size-fits-all implication, but there will be regions that benefit and those that lose as a consequence of the induced changes. Cities compete against each other in order to attract qualified labor, which is a prerequisite for being successful in the intermediate and long run, and there is 'the need for policy to anticipate the mobility of people and firms' (Glaeser 2008).

In order to derive statements on opportunities and risks and thus to derive clear-cut policy recommendations for successful future urban development, this paper focuses on Germany's second biggest city and the corresponding metropolitan region, Hamburg. The metropolitan region disposes of a sound industrial base as well as of important specializations in the tertiary sector. Due to its geographical location, the harbor is of overall importance for Hamburg's economy. Firms located there have easy access to the world market, which is of major importance for the manufacturing sector. Increasing energy prices might thus make firms' location close to the harbor more attractive. In this respect Hamburg competes with other European harbor cities, e. g. Rotterdam

in the Netherlands. With respect to the service sector, where first-nature geography advantages do not exist, the metropolitan region competes with other metropolises worldwide, especially for qualified labor. Population and labor force forecasts highlight that, contrary to the German trend, Hamburg is expected to remain a growing city during the next decades. Considering migration, commuting, structural change, and regional specialization it becomes apparent that all these aspects are differently affected by changing transportation costs. Finally, it is the interplay of different forces that shapes the future structure and hence the economic success of the metropolis. Policy recommendations include ongoing investment in the public infrastructure network, integration of working and living quarters, as well as strengthening those fields which are characterized by strong scale economies. Consolidating the arguments, it turns out that the assumed trend of increasing energy and transportation costs will open up a range of opportunities for the metropolitan region of Hamburg.

The remainder of the paper is as follows. After a short look at some key characteristics of Germany's ten biggest cities in the second section, the following sections detail general arguments arising in the context of demographic change and migration, commuting and specialization and apply them to Hamburg. The sixth section analyzes how changing transportation costs act in this context and derives policy recommendations for successful city development, while the seventh briefly concludes.

Taking Stock: Some Facts on Germany's Ten Biggest Cities

Especially cities possess ideal starting positions to cope with the challenges of demographic and structural change towards knowledge-based societies. Nevertheless, cities also compete against each other especially for the acquisition of firms and qualified labor, which both of which are important sources for ongoing economic success. Table 1 gives a short overview on some key economic characteristics of Germany's ten biggest cities that will be addressed throughout the paper and thus will help to contextualize Hamburg's specificities.

It becomes obvious that even these top ten are quite heterogeneous. There is no clear-cut relation between the sheer size of a city as measured by population or employed persons, on the one hand, and productivity as measured by income per capita on the other hand. The migration balance reveals that there is also no automatism between city size and population growth, but that there are both growing and shrinking metropoli-

TABLE 1 Some characteristics of Germany's ten biggest cities

City	(1)	(2)	(3)	(4)	(5)	(6)
Berlin	3.407.625	1.604.006	52.841	67.300	97.765	4,31
Hamburg	1.761.711	1.089.853	78.967	20.700	213.187	3,22
München	1.302.376	938.170	78.160	4.800	187.011	0,66
Köln	991.882	653.426	67.543	6.500	131.991	1,93
Frankfurt/Main	655.338	604.536	84.358	–9.800	257.944	2,12
Stuttgart	595.775	467.184	76.574	8.400	146.132	1,31
Dortmund	587.195	293.047	60.742	3.200	23.165	0,84
Essen	582.759	309.482	67.757	3.500	42.580	1,05
Düsseldorf	579.075	474.375	83.374	21.500	160.974	1,72
Bremen	547.632	325.355	70.904	22.900	84.174	0,95

NOTES Column headings are as follows: (1) population, 2007, (2) employees, 2007, (3) productivity (GDP per employee) in €, 2007, (4) forecast of balance of migration, 2006 2015, (5) commuting balance, 2008, (6) headquarters with 200 and more employees, in %, 2008. Sources: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (2008); Bundesagentur für Arbeit (2008; 2009); Statistische Ämter des Bundes und der Länder (2009); Bundesinstitut für Bau-, Stadt- und Raumforschung (2007), calculations: HWWI.

tan cities. Considering the commuting balance, the second biggest city – Hamburg – is ranked second while the biggest city, Berlin, is ranked only seventh. Altogether, some 18 % of the headquarters of firms with more than 200 employees are based in Germany's ten biggest cities, but again city size does not automatically go hand in hand with a large number of headquarters, where 'small' Düsseldorf is ranked fifth while 'big' Munich is ranked last.

These findings highlight that, although in the future all cities will face the same challenges, the corresponding implications will probably strongly vary even within the group of the metropolises. Hence it is worth taking a closer look at a single city – namely Hamburg in the context of this paper – to derive clear-cut policy recommendations concerning future urban development.

Demographic Change in Germany

Germany is an industrialized country with an ageing society. Population size increases as long as the sum of the natural population balance (number of births minus number of deaths) and the migration balance is above zero. Labor force is shrinking if the number of people at em-

ployable age goes down and if at the same time age-specific employment rates stay constant.

The size of the labor force together with its age structure determines both the quality and quantity of labor supply, an important argument for the firms' choice of location, especially in those branches that use qualified labor as the dominating input. Attractive conditions on labor markets (i. e. a large number of jobs, low unemployment rates and high wages) are important pull factors relevant to the location decision of private individuals (see, e. g., Burkert, Niebuhr, and Wapler 2008). Migration decisions, especially of highly qualified people, increasingly also depend on so-called 'soft location factors,' like quality of life, family friendliness and attractive offerings concerning the housing market, education system and public infrastructure. With respect to all these arguments, cities have advantages over rural regions. Nevertheless, a short look at table 1 already highlights that there arise quite large differences even within the group of Germany's top ten.

Figure 1 exhibits estimations regarding both the population and the labor force growth until 2025. The national demographic development is characterized by a population decline at a rate of 1.8 % and an even higher shrinkage of persons at employable age by 5.0 %. This is the immediate consequence of the ongoing demographic change. Figure 1 also highlights that the expected development strongly varies across the cities although, with the exception of Berlin, both population and labor force growth go in the same direction. Dortmund and Essen are expected to continue shrinking. Compared to the other top-ten cities, these are economically less successful (see Bräuninger and Stiller 2008 and table 1) and therefore less attractive for immigrants. Highest growth rates until 2025 are expected to occur in the cities of Bremen, Düsseldorf and Stuttgart.

In Hamburg, fertility rates have been distinctly below the replacement level since the 1970s. Recent demographic forecasts are based on the assumption that fertility rates will not recover in the near future, and hence the metropolis will only go on growing if it attracts migrants which compensate for the negative natural population balance, a fact that can already be observed for the last 20 years. Currently, Hamburg is one of Germany's economically most prosperous cities. It still exhibits above average growth rates of population and, in spite of its already big size, Hamburg's migration surplus is still expected to grow at a rate of 0.5 % (population) and a rate of 2.5 % (labor force).

To summarize: In the future, all cities are likewise confronted with the challenges of demographic change. Since current age structures, fertility

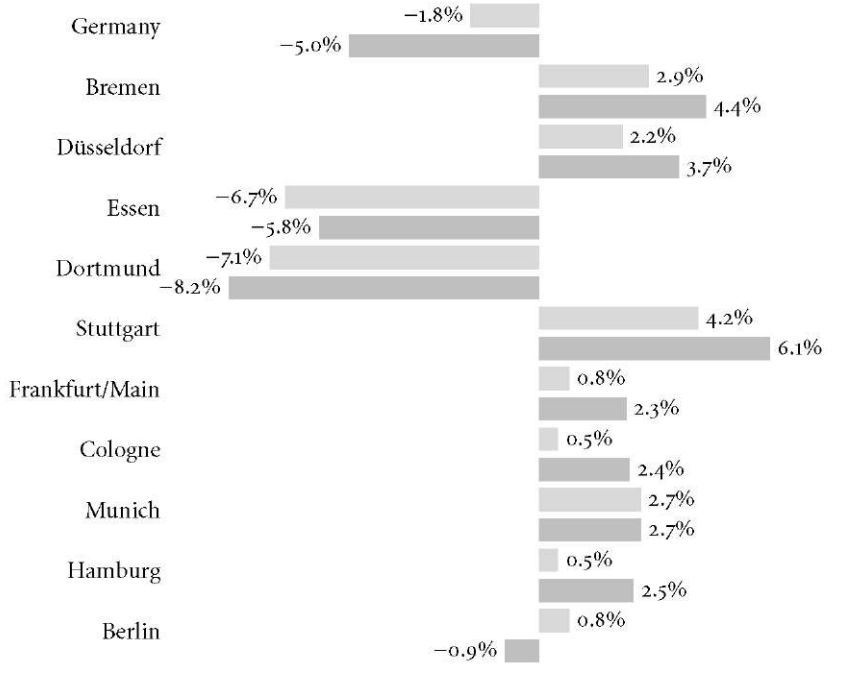

FIGURE 1 Forecast of population and labor force development, 2006 to 2025 (notes: dark gray columns denote population growth rate whereas light gray columns denote growth rate of the labor force; sources: Bundesinstitut für Bau-, Stadt- und Raumforschung 2009; HWWI)

rates and migration balances differ across space the overall development will affect the cities differently. In order to cope with these challenges cities compete for qualified labor. If labor force shortages arise, they will impede knowledge-based structural change, a trend that can already be observed in old industrialized cities in the Ruhr area or in smaller cities in East-Germany. The mentioned forecasts in figure 1 highlight that even Germany's top-ten cities are not equally successful in this respect. For rural areas it is even harder to succeed in this competition and it is widely expected that already existing disparities between cities and rural regions will be reinforced by demographic change.

Commuting

SOME BASIC REASONINGS

It is a stylized fact that cities in general attract more in-commuters than rural areas do, thereby supporting the logic of gravitation models (see Alonso 1978). This also explains why the proportion of employed people

living in neighboring municipalities of large cities and commuting there decreases the farther the municipality is located from the city. Einig and Pütz (2007) show that high-order centers are the most important centers of employment and therefore both their commuter belts as well as commuting distances have been increasing, thus allowing people to take advantage of better employment opportunities. However, in some regions there has been a trend of increased reverse commuting; the rise in commuting distances of people living in urban areas and working in suburban areas is a sign of increased work opportunities in suburban areas. Suburbanization might lead to a polycentric structure of a city with multiple employment centers in the environs of the city.

A high density of employment opportunities in the city center usually leads to congestion which increases travel times. Nonetheless, it is possible that the urban infrastructure is of better quality and quantity due to high demand relative to the suburban one; this might cause more people in urban areas and large municipalities to use public transportation as a means to travel to and from work compared to people in rural areas and smaller municipalities.

The greater the willingness to increase commuting distance or time or to migrate, the higher is the qualification, income and working position. Haas and Hamann (2008) found that the highest percentage of commuters comprises highly qualified people, particularly in western parts of Germany. At the same time they frequently work in those branches where proximity matters for productivity; contrastingly, low skilled people commute less frequently. Especially centers of employment offer more job opportunities for (highly) skilled people than for low skilled people. People with higher income and/or a higher working position travel longer distances, use public transport less, and more frequently motorized transport (e. g. Breiholz et al. 2005).

RECENT DEVELOPMENTS OF COMMUTING IN GERMANY

Commuting behavior differs across different German regions because it is determined by the spatial structure and the available infrastructure. Whereas intra-municipality commuters live disproportionately in larger municipalities, inter-municipality commuters live mostly in smaller ones (e. g. Breiholz et al. (2005) for a detailed overview). There has been a steady increase in the relative number of commuters despite a decrease in the absolute number of commuters due to a general fall in employment (e. g. Haas and Hamann (2008)). The recent trend in Germany is an in-

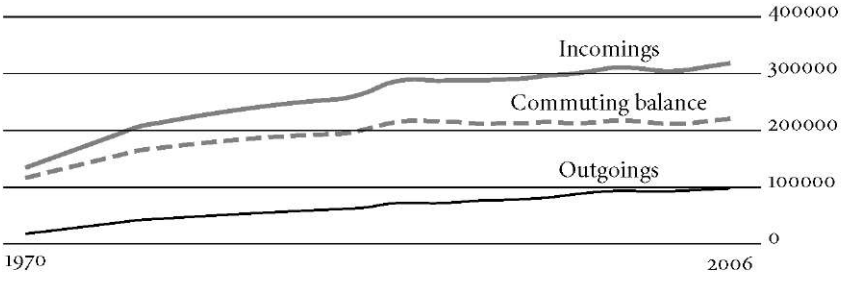

FIGURE 2 Commuting in Hamburg 1970–2006 (sources: Bundesagentur für Arbeit 2006; Statistisches Amt für Hamburg und Schleswig-Holstein 2006)

crease in the number of people commuting long distances and a decrease in the number of people travelling short distances to and from their workplace. However, despite a change in the distance commuted, the time spent commuting to and from work has remained nearly constant (see Breiholz et al. 2005). The mode of transportation chosen depends upon the distance and intra- or inter-municipality commuting. According to the Bundesministerium für Verkehr, Bau und Stadtentwicklung (2006) the degree of motorization decreases as the population in a municipality becomes larger, due to a better supply of alternative modes, congestion caused by high traffic and scarce parking space.

RECENT DEVELOPMENTS OF COMMUTING IN HAMBURG

The city of Hamburg is a center of employment where employment opportunities have steadily increased over time. There is a positive balance between the number of employees working there, which amounted to 797 514 people in 2008, and the number of employees living there, which was 584 327 people in 2008 (Bundesagentur für Arbeit 2008); consequently the number of in-commuters is greater than the number of out-commuters and the commuting balance amounts to 213 187 (see also table 1).

Contrary to the Germany-wide trend of an overall decrease of commuters, the trend in Hamburg is positive (see figure 2). From 1970 to 2006 the number of in-commuters in Hamburg more than doubled from 134 500 in 1970 to 318 500 in 2006, whereas the number of out-commuters amounted to 97 900 in 2006, which is more than five times the number of out-commuters in 1970 that was 18 200.

Klupp and Schweiger (2006) find that purchasing prices and living costs for privately owned properties in Hamburg decrease the farther the

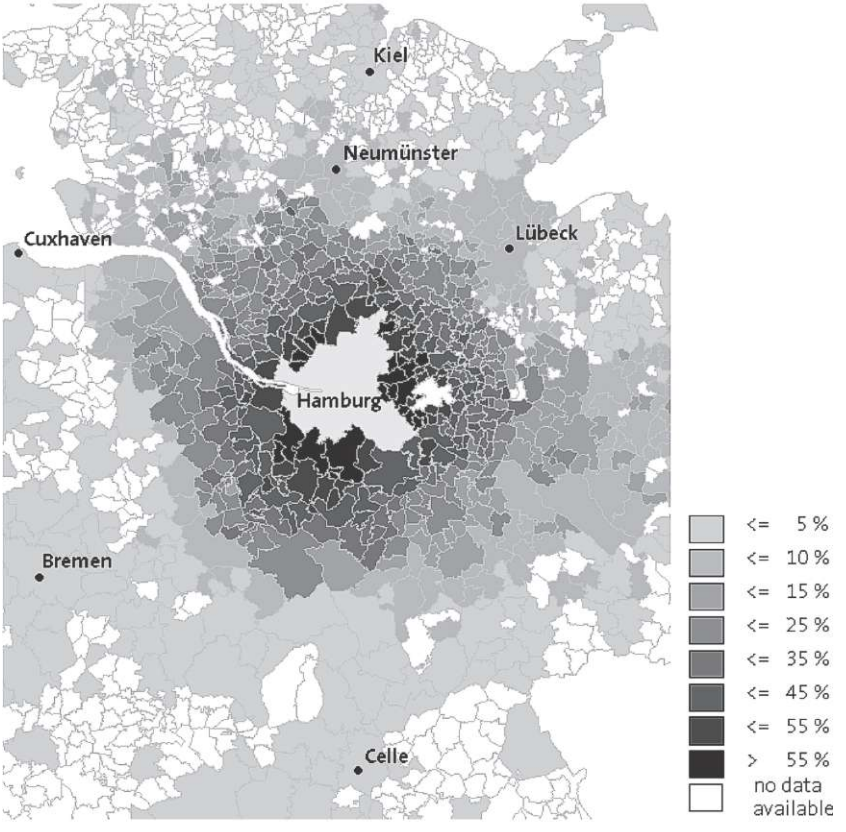

FIGURE 3 Proportion of employed persons of neighboring municipalities commuting to Hamburg in 2008 (sources: Bundesagentur für Arbeit 2009; HWWI)

location is distanced from the city centre. However, pecuniary commuting costs to and from the city centre vary extremely depending upon the distance and mode of transport chosen. It was found that using public transport is financially less expensive than commuting by car, however, the additional time costs of using the former rather than the latter means of transport increase considerably the more distanced the housing is located away from the city centre.

Figure 3 depicts the percentage of employed people that live in neighboring municipalities and commute to Hamburg. As expected, it shows that the closer a municipality is located to Hamburg, the larger is the fraction of people commuting to Hamburg.

The change in the proportion of employed persons living in neighboring municipalities and commuting to Hamburg from 1999 to 2008 is

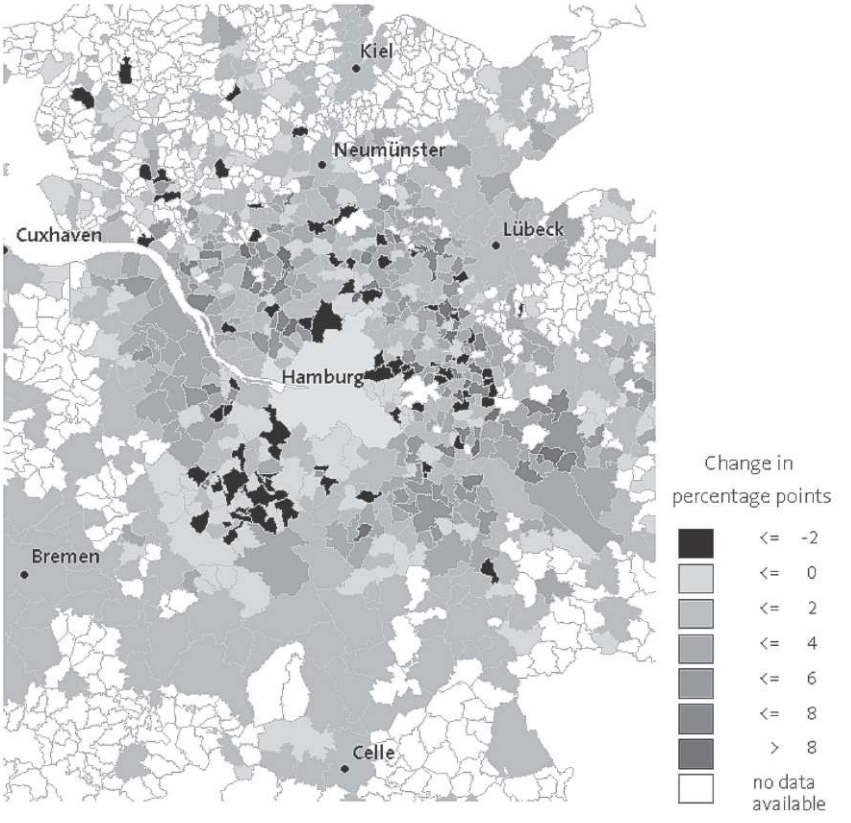

FIGURE 4 Change in proportion of employed persons of neighboring municipalities commuting to Hamburg 1999–2008 (sources: Bundesagentur für Arbeit 2009; HWWI)

depicted in figure 4. Whereas in most municipalities there has been an increase in the in-commuters to Hamburg, in some municipalities the opposite has occurred, which might be due to an increase in employment opportunities in suburban areas.

This especially applies to the area South-West of Hamburg, a region which developed quite successfully during the last decade. It is also possible that more firms have relocated to suburban areas to take advantage of lower rents and more available space than in urban areas. Consequently, more people might have considered changing the location of employment and choosing a job closer to their housing location in order to benefit from lower commuting costs. Other reasons for reverse commuting could be an increase in unemployment or retirement. How-

ever, these basic arguments cannot be unequivocally assigned to certain districts of Hamburg.

Structural Change and Regional Specialization

SPECIALIZATION IN GERMANY

Since the beginning of the Industrial Revolution the ongoing structural change from the first to the secondary sector, and nowadays to the service sector, is an undoubted fact and there is broad consensus among economists that this trend will persist during the next several decades. Most importantly, in Germany, the service sector is assumed to be the driving force for the development of both employment and productivity of the entire economy – a situation which already could be observed in the past (see e. g., Eichengreen and Gupta 2009). It has been accompanied by strong regional specialization thereby relying on two dimensions: *sectoral* specialization refers to a certain branch (e. g., in Hamburg, among others, aerospace industries or life sciences) while *functional* specialization arises as a consequence of organizational change and relies on the regional separation of management and production activities of multi-unit firms. This may be motivated as follows: Many manufacturing firms in large cities conduct their business activities at their headquarters located in the central business district (CBD), while their manufacturing plants remain in the suburbs (see Duranton and Puga 2005). In addition, many business firms (e. g. investment banks) in large cities have recently moved a part of their office activities to the suburbs. Some activities such as face-to-face communication with other business firms are conducted at the front-office located in the CBD of big cities, while the rest of their activities, e. g. back-office activities such as legal and accounting, billing, planning, or employee training, are located in the suburbs (see Ota and Fujita 1993; Chandler 1977; Kim 1999; Shilton and Stanley 1999).

Table 1 supports the hypothesis that the internationally observable trend of spatial separation of production and management activities also applies for Germany, where altogether almost 18 % of all firm head quarters are concentrated in the ten biggest cities. This spread of activities across space can be motivated for those activities where the relationship between proximity and productivity is not so pronounced as to allow for a compensation of the high concentration costs of big cities. Hence the wages paid, e. g. for back-office activities or manufacturing, are not high enough to outweigh the high costs of living arising in big cities. The cor-

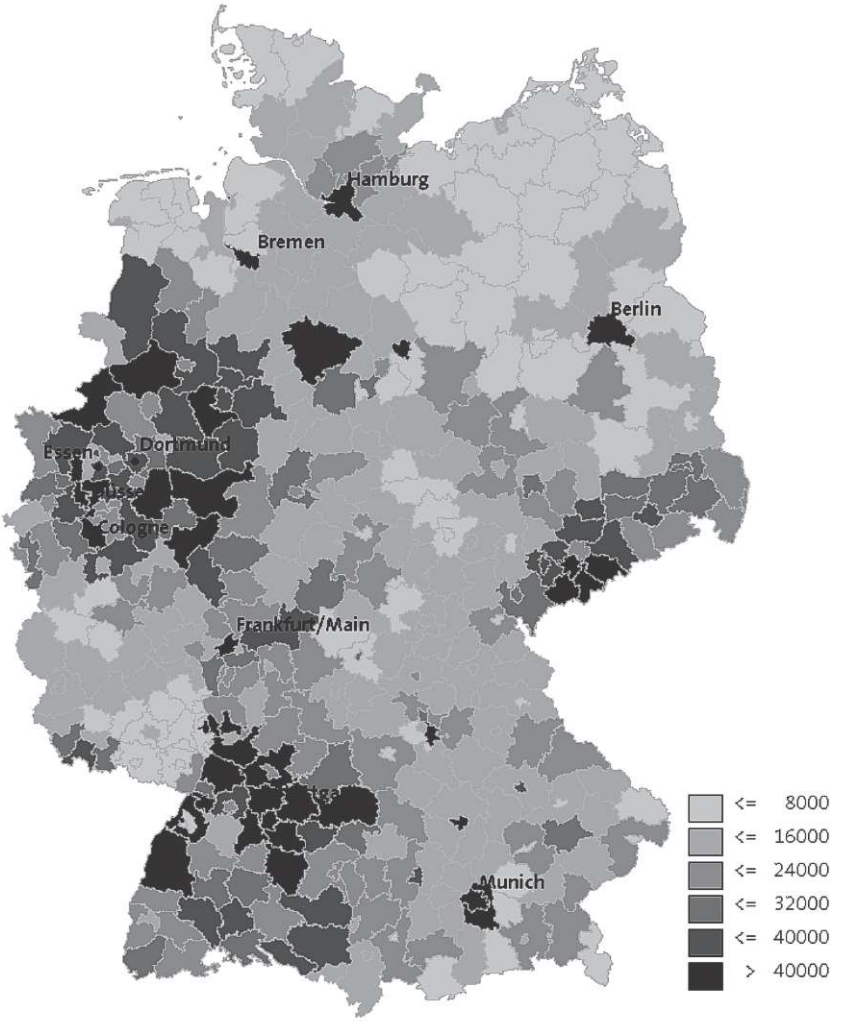

FIGURE 5 Employed persons in the field industry, without construction, 2007 (sources: Statistische Ämter des Bundes und der Länder 2009; HWWI)

responding labor markets then evolve away from the city centers thereby also affecting the location decision of integrated firms.

Usually sectoral and functional specializations go hand in hand, a fact that will be shown illustratively for the metropolis of Hamburg. The following discussion refers to the statistical classification of economic activities in the European Community and the corresponding ISIC (international standard industrial classification) classes.

A rather rough measure for the trend to functional specialization is

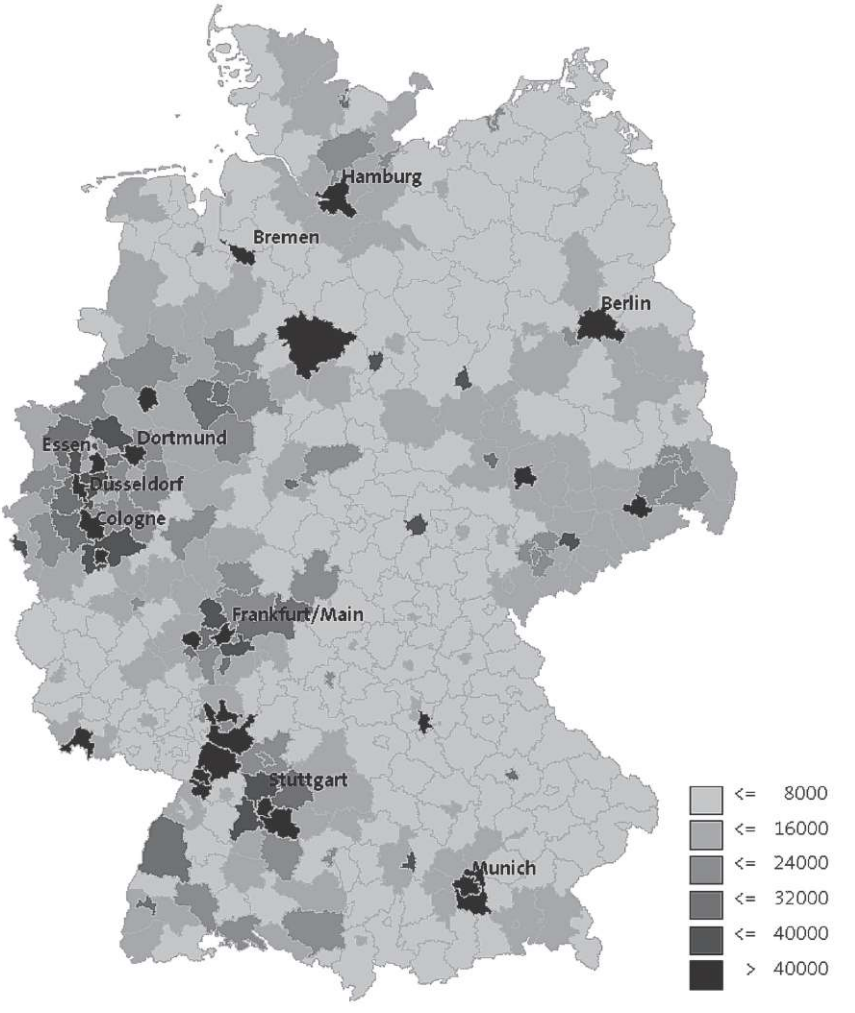

FIGURE 6 Employed persons in the field of financial intermediation, real estate, renting and business activities, 2007 (sources: Statistische Ämter des Bundes und der Länder 2009; HWWI)

provided if one looks at Germany's regional distribution of employment in the following two fields: Considering 'industry, without construction' the link between proximity and productivity is not very pronounced and employment is quite spread across space (see figure 5). In contrast, the field of 'financial intermediation, real estate, renting and business activities' is mostly concentrated in the big cities since probably proximity strongly matters for productivity (see figure 6).

Altogether, production plants move away from the big city centers and cluster in suburbs or smaller cities, in which the benefits from joint acquisition of intermediates and 'cheap' labor dominate, thereby also leading to regional specialization. Centralization in the financial branch is mostly the result of the benefits of sharing business service suppliers across firms and sectors, thereby also providing job opportunities for services that are closely related to other firm's activities. Hence, headquarters from different sectors and business services cluster in a few large cities while there emerge suburbs and specialized smaller cities that attract those activities where localization externalities are weaker.

SPECIALIZATION IN HAMBURG

Although Hamburg possesses several important industrial enterprises, its most significant economic activities are in the service sector that covers the three fields of 'financial intermediation' (35.1 %), 'wholesale and retail' (29 %) and 'private and public services' (18.8 %). Hence, altogether the service sector accounts for 82.9 % of the overall gross value added. In contrast, the industrial sector accounts for 16.3 %, while the economic importance of the primary sector with a contribution of 0.2 % is negligible. This distribution of economic activity also reflects Hamburg's employment changes of the last decade as displayed in figure 7. During the period 1999–2007 overall employment in Hamburg increased by 8.6 %, which was solely driven by the tertiary sector with a contribution of 55.2 % of the fields of 'financial intermediation, real estate, renting and busi-

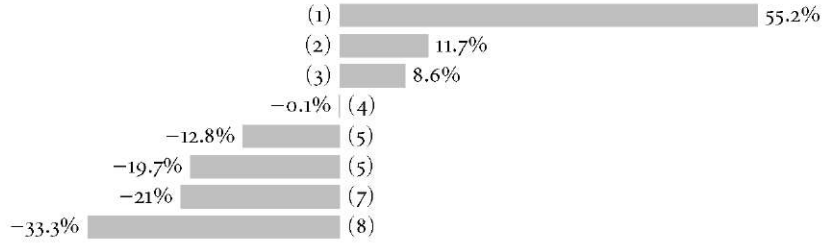

FIGURE 7 Employment change in Hamburg, 1999–2007 (notes: (1) financial intermediation, real estate, renting and business activities, (2) public administration and defence, compulsory social security, (3) total, (4) wholesale and retail trade, repair of motor vehicles and household goods, hotels and restaurants, transport and communication, (5) agriculture, hunting, and forestry, fishing and operation of fish, hatcheries and fishing farms, (6) manufacturing, (7) industry, including energy, (8) construction; source: Statistisches Amt für Hamburg und Schleswig-Holstein 2009)

TABLE 2 Specialization patterns in Hamburg, 2008

Sector/activities	(1)	(2)
Tertiary Sector: Financial intermediation, real estate, renting and business activities		
Advertising and market research	10,32	3.55
Insurance, reinsurance and pension funding, except compulsory social security	9.51	3.28
Other professional, scientific and technical activities	7.66	2.64
Rental and leasing activities	5.71	1.98
Travel agency, tour operator and other reservation services and related activities	5.71	1.97
Activities of head offices; management consultancy activities	5.06	1.71
Legal and accounting activities	4.7	1.62
Security and investigation activities	4.54	1.56
Real estate activities	4.42	1.52
Architectural and engineering activities; technical testing and analysis	4.25	1.46
Services to buildings and landscape activities	4.18	1.44
Activities auxiliary to financial services and insurance activities	4.16	1.43
Office administrative, office support and other business support activities	3.92	1.35
Employment activities	3.86	1.33
Financial service activities, except insurance and pension funding	3.68	1.27
Tertiary Sector: Wholesale and retail trade; repair of motor vehicles and household goods, hotels and restaurants; transport and communication		
Water transport	33.86	11.66
Motion picture, video and television programme production, sound recording and music publishing activities	8.52	2.93
Information service activities	8.26	2.85
Publishing activities	7.62	2.62
Programming and broadcasting activities	7.6	2.62
Warehousing and support activities for transportation	6.07	2.09
Computer programming, consultancy and related activities	4.9	1.69

Continued on the next page

ness activities,' followed by 'public administration and defense' with 11.7 %, while 'wholesale and retail trade' remained nearly constant. In contrast, employment in the first and secondary sectors was shrinking.

Taking a closer look at the single branches reveals that they contribute

TABLE 2 *Continued from the previous page*

Sector/activities	(1)	(2)
Air transport	4.56	1.57
Wholesale trade, except for motor vehicles and motorcycles	4.31	1.49
Food and beverage service activities	3.63	1.25
Land transport and transport via pipelines	3.52	1.21
Postal and courier activities	3.15	1.08
Telecommunications	3.13	1.08
Tertiary sector: Public and private services		
Creative, arts and entertainment activities	5.96	2.05
Libraries, archives, museums and other cultural activities	4.66	1.6
Gambling and betting activities	4.27	1.47
Repair of computers and personal and household goods	3.96	1.36
Sports activities and amusement and recreation activities	3.5	1.2
Activities of households as employers of domestic personnel	3.16	1.09
Secondary Sector: Industry, without construction		
Manufacture of other transport equipment	16.94	5.83
Manufacture of coke and refined petroleum products	13.76	4.74
Manufacture of tobacco products	6.28	2.16
Sewerage	5.01	1.72

NOTES Column headings are as follows: (1) share of employees in %, (2) location quotients. Source: Bundesagentur für Arbeit 2008; calculations: HWWI.

quite differently to value creation of a single sector, thereby setting the ground for sectoral specialization patterns (see table 2).

For Hamburg it turns out – as is also discussed within the literature of urban economics – that nowadays it is both, sectoral and functional specializations, that shape the economic character of the metropolis. The major importance of the service sector for Hamburg has been pointed out before. But taking a closer look, the picture becomes more differentiated and illustrates that Hamburg also possesses some specialization advantages within the field of 'industry, without construction', and hence in the secondary sector.

Table 2 summarizes Hamburg's specialization pattern as measured by the national-wide employment share of employees and the location quotient to identify regional specialization advantages more precisely. The location quotient is a widely accepted measure for regional specializa-

tion that calculates the ratio between national and regional employment shares of any considered branch. It may also be interpreted as an indicator either for the importance of proximity and productivity, or as capturing first-nature geography advantages. A value of unity reflects an average (national) occurrence and hence no specialization. The more the value exceeds unity, the more specialized is Hamburg, while the contrary applies for values falling below unity. Due to its overall importance, the listing in table 2 begins with detailing the tertiary sector, followed by those branches in the secondary sector where Hamburg also exhibits specialization advantages. The primary sector does not appear since Hamburg has no advantage in any branch here. For the sake of simplicity, only those branches are shown that refer to a location quotient that exceeds unity. Again, the classification is drawn from the EU.

It is obvious that Hamburg has strong specialization advantages in the field of 'financial intermediation, real estate, renting and business activities', with location quotients exceeding unity in all but two branches. Remarkable are the branches of 'advertising and market research' as well as 'insurance', with each of them accounting for a national-wide employment share of nearly 10 % and high location quotients exceeding 3.

The field of 'wholesale and retail trade' is composed of 16 branches, with 13 of them possessing a location quotient that exceeds unity. Here, the special role of the Hamburg harbor (and hence first-nature geography advantages) becomes apparent. It accounts for a national employment share of 33.86 % and a remarkable location quotient of 11.66, thus highlighting the outstanding specialization of Hamburg. It is followed – but at great distance – by various parts of the entertainment branch.

Considering 'public and private services', slightly specialized and non-specialized branches are nearly equilibrated: the location quotient in six branches exceeds unity, while in eight branches it falls below. Remarkable are 'creative activities' with a share of employees of 5.96 % and a location quotient of 2.05.

The field of 'industry, without construction' covers 28 branches, where Hamburg only possesses specialization advantages in four of them. Considering the metropolis, the label 'manufacture of other transport equipment' is mainly composed of aerospace industry and ship building. The strong specialization in the field of 'coke and refined petroleum' is also based on Hamburg as a harbor city. This illustrates the complementarity of the branch to the harbor in the service sector, e. g. water transport. In the fields of 'construction' and 'agriculture', Hamburg clearly pos-

sesses no specialization advantages. Consequently, they do not show up in table 2.

Overall Impact of Rising Transport Costs

As argued before, the ongoing prosperity of a city is mostly determined by the local economic structure and the continuous availability of qualified labor. Since (especially highly qualified) labor is mobile, there is a dual inducement between job creation by firms on the one hand and the quality of the local labor markets as provided by private individuals on the other. In this respect cities and regions compete against each other for qualified labor. It is also broadly accepted that successful cities of the future are those where the service sector continuously evolves over time and where additionally the secondary sector keeps on playing a significant role. According to the reasoning in the NEG, increasing transportation costs basically act as a dispersion force, thereby fostering an overall decentralization of economic activity and weakening the role of economic centers like the metropolises. Put differently, existing economic structures only persist if increasing transportation costs are compensated by a respective increase in localization economies and hence the emergence of a corresponding production structure. Another option to strengthen the role of economic centers is to compensate those forces that increase transportation costs, e. g. to outweigh higher physical transportation costs by the provision of a more efficient infrastructure network that helps saving transportation time. This argument especially becomes important if the tertiary sector, and hence mobility of people, plays a significant role for the local economic potential.

Commuting vs. migration. If an increase in pecuniary transport costs is compensated by an increase in real income, consumers might not be induced to change their behavior. The Bundesministerium für Verkehr, Bau und Stadtentwicklung (2006) finds that within the last 30 years the increase in prices for transportation has been compensated by a similar increase in real income, so that the household's fraction of real expenses for transportation has remained constant. In addition, improvements in technology and in the quality and quantity of the available infrastructure have made transportation faster, causing a decrease in time costs of commuting for which consumers might be willing to accept higher pecuniary costs. This applies mostly to qualified labor. Consequently, metropolises can react to changing transportation costs by advancing the quality of the infrastructure network which enhances the metropolis' (international)

accessibility and hence facilitates commuting. A similar result will probably be induced by the creation of work-life quarters, thereby reducing overall commuting. This argument is especially convincing in the tertiary sector, where no need exists to separate production and living areas.

Hamburg has already been active in this respect. As a consequence there are locational advantages which not only result from its harbor but also from excellent road, rail and air connections, thereby allowing high mobility not only of goods but also of people.

Referring to the inner-city structure, the associated guiding principle of 'Farsighted Growth' (Leitbild Hamburg: Wachsen mit Weitsicht) by the Senate of Hamburg aspires to substantially develop a central quarter named 'HafenCity' in Hamburg to create a dynamic, international and growing center (Hamburg Marketing GmbH 2009a). It is the largest urban development project in Europe. The HafenCity Hamburg is being built in the former harbor covering an area of 1.57 million square metres and will increase the city center by 40 % within the next 25 years. It is projected that by the year 2020 about 40 000 people will be working and 12 000 people will be living there. A prerequisite for achieving a sustainable urban development of the HafenCity is to keep pace with the increased demand for transport infrastructure (Hamburg Marketing GmbH 2009b).

Apart from the necessity to build new parking spaces, roads and bridges or to extend existing ones, an efficient public transportation system needs to be developed. Nowadays, there is frequent bus transport to and from the HafenCity, but only two stations of two underground lines are located in close proximity. In the future, two new underground stations will be built by the end of 2011 and an additional underground line will improve the connection of the HafenCity by public transportation by 2012. Then, the HafenCity will be reached from the central station within three minutes and it is expected that 35 000 passengers per day will use the new underground line (Borrée 2009). Despite a change in transportation prices, this urban development project might induce firms to settle and more people to commute into Hamburg and the HafenCity in order to take advantage of employment possibilities. Especially the increase in the quantity and quality of the public transportation system might thus contribute to ongoing economic prosperity.

Specialization. Higher transportation costs affect the existing economic structures via various channels, thereby also impacting on sectoral and/or functional specialization. It is obvious that both the extent

of localization economies and the role of transportation costs strongly differ across the considered branches, as argued along with table 2. A high location quotient is an indication for the emergence of localization externalities or for first-nature geography advantages such that the natural geographical conditions additionally gain importance. This applies clearly to Hamburg's specificities as a harbor city which allows for easy access to the North Sea and the Baltic Sea, thereby connecting the metropolitan region directly to the global market.

Most important – though not the only concentration force – are first-nature geography advantages for all activities in the field of 'wholesale and retail trade' which are closely related to the harbor (see table 2). Due to complementarities, specialization arises not only in the branch of 'water transport' but also concerning 'warehousing,' 'air transport' and 'wholesale trade.' Note that the Hamburg harbor is in strong competition with other European harbors, e. g. Rotterdam in the Netherlands, and that the entire cost of goods' transportation is composed of the costs for water and inland transport. Due to its geographical location, quasi in the midlands, and its connection to the highly-productive German infrastructure network, Hamburg has an advantage over other European harbors since the majority of transportation costs result from transporting goods beyond the sea. At a regional level, the overall importance of the Hamburg harbor for the metropolitan region might attract firms mainly in the manufacturing sector for which easy access to the world market is of major importance.

But this advantage might become less important if, as a consequence of increasing energy prices, the ratio between land costs and overall transportation costs decreases. Given this, the overall efficiency not only of the harbor but also of the corresponding hinterland infrastructure becomes important. Additionally, there arise indirect effects on those branches related to the harbor, which includes nearly all branches mentioned in the field of 'wholesale and retail trade' in table 2. Furthermore, also in the secondary sector, especially 'manufacture of other transport equipment' (which in Hamburg mainly refers to ship and plane building) and 'manufacture of coke and refined petroleum products' are closely linked to the existence and the efficiency of the harbor. However, these branches are mainly dominated by first-order geography arguments or political reasons; hence, changing transportation costs probably will not affect the industrial composition there.

In the field of 'financial services, real estate and business activities'

first-nature geography does not matter, but the existing specializations are clearly driven by localization externalities. Whether or not transportation affects firms' location choice then depends upon the importance of face-to-face contacts. In this field, changing transportation costs mostly gain relevance with respect to mobility of people instead of goods, and then travel time becomes an important cost component. A region might thus compensate for the spreading tendencies by reducing time costs. In Hamburg this argument mostly applies to 'activities of head offices; management and consulting activities', while e. g. other related activities in the context of functional specialization such as 'legal and accounting activities' or 'office administrative, office support and other business support activities' are expected to be less affected by changing transportation costs. Consequently, the recommendation for the metropolitan region of Hamburg is to proceed with enhancing the efficiency of its public infrastructure, e. g. by better access to the airport, the railway network or the inner-city public transportation network in order to reduce the firms' time costs in those branches that are characterized by strong economies of scale, and given that mobility of people is a central cost factor.

Conclusions

The economic landscape is the outcome of the interaction between concentration and spreading forces. Generally, high transportation costs act as a dispersion force, thereby affecting the location and settlement choices of individuals and firms. The analysis reveals some differentiated conclusions for future urban development of the metropolitan region of Hamburg which are based both on regional peculiarities and on general trends.

Several forecasts predict a considerable rise in the price of energy in the next several decades such that, despite technological progress, transportation costs are likely to increase. According to the reasoning of the NEG and urban economics this will crucially affect the spatial equilibrium both at the national and the regional level. Additional factors that have to be taken into account include demographic change, and correspondingly an ageing society together with increased competition for qualified labor, as well as structural change and hence the transition from the first and secondary to the tertiary sector, and thus to knowledge-based economies. These general trends will affect all industrialized countries similarly. Aside from the general trends, regional peculiarities also

have to be considered in order to assess the impact of increasing energy and transportation costs on future urban development.

This paper disentangles the various single effects and applies them to Germany's second biggest city and the corresponding metropolitan region, Hamburg. The analysis highlights that, based on the premise of maintaining the prevailing economies of scale and given that the resulting potential for the industry and the industrial sector is exhausted, increasing energy and transportation costs will open up a range of opportunities for the metropolitan region. Since Hamburg, due to the harbor, has excellent access to the global market, the metropolitan region is likely to become increasingly appealing to export-oriented industrial sectors which might attract additional firms. Besides, knowledge-based sectors have been constantly growing in the past and are expected to do so in the future. The corresponding activities, which are characterized by the strong importance of face-to-face contacts, mostly require modern telecommunications and the related infrastructure rather than modes of transportation. Nevertheless, in this context the mobility of people might not be neglected since they are frequently business travelers. An efficient infrastructure network is thus also important to attract people and firms who are active in those fields characterized by strong economies to scale. If mobility is an important issue, a reduction of time costs acts in contra to the discussed spreading forces. Otherwise, and especially since these jobs are not necessarily located at the metropolitan region, there arises the danger that jobs may migrate from Hamburg to other German or European centers which all compete for qualified labor.

Rising transportation costs will probably also affect the settlement decisions of private households, such that the city attracts people to live there in order to reduce commuting costs. Several urban development concepts, among them the HafenCity project, are aimed at strengthening the districts closest to the city center and at integrating living and working spaces. This could cut the cost of traveling to and from work. However, aside from pure activities in the city center, expansion in the district centers should also be considered.

Overall, Hamburg's migration forecast is positive, while commuting, – although Germany-wide an overall increase can be observed, – also displays some characteristics of the emergence of suburbs in the southwestern part of the center. Given the emergence of well functioning suburbs, this extends the source of prosperity for the entire metropolitan region which thus becomes even more attractive.

Considering Hamburg's specialization patterns and the interdependencies between the secondary and tertiary sector, the situation of Hamburg is quite promising. The industrial basis is provided by the harbor and the aerospace industry. In these latter cases there are also strong complementarities between secondary and tertiary sectors. Additionally, there are pronounced specialization advantages in most branches of the service sector. A closer look reveals that the associated fields and branches are quite differently affected by transportation costs. At the same time there are no first-nature geography advantages, such that these activities will necessarily remain within the city of Hamburg.

At a regional level the overall importance of the Hamburg harbor for the metropolitan region might attract firms mainly in the manufacturing sector, for which easy access to the world market is of major importance.

Policy recommendations include continuously developing the infrastructure network of the metropolitan region together with the corresponding hinterland connections in order to keep transportation of goods and people efficient. There is already some evidence for the emergence of an economic sub-center in the South-Western part of the city center. Altogether, the challenge lies in integrating the ongoing trends together with city-specific factors into a coherent urban development strategy. If this is successful, rising energy prices open up further opportunities for Hamburg.

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Quo Vadis, Slovenia? Between Framework Conditions and Internal Capabilities

Borut Rončević, Janez Šušteršič, Peter Wostner, and Tamara Besednjak Valič

We consider the new EU member states as semi-peripheral countries standing at the development crossroads. We emphasize the socio-cultural factors of development, present a model for bringing together several cultural and social influences, and test its validity by applying a fuzzy-set methodology, a rather novel approach in social sciences. We augment our analysis of internal socio-cultural factors by considering the likely changes in the external framework conditions. Focusing on demography, technology, and global economic and political structures, we outline possible scenarios for European development that will certainly affect the chances of individual countries. As our contribution, we discuss the interplay between such framework conditions and internal development capabilities and draw some implication for the case of Slovenia.

Key Words: development, socio-cultural factors of development, long-run scenarios

JEL *Classification:* E66, O10, O20, Z13

Introduction: Standing at the Development Crossroads

Catching-up of transition countries with the old EU member states is mostly considered in terms of economic development, both in the sense of the target indicator (GDP per capita levels in terms of purchasing power parity) and the key development drivers (physical and human

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capital investment, technological innovation, economic reforms).[1] It is expected that real convergence, understood along the lines of Barro (1991), will inevitably take place once the proper policies and economic structures are in place. Dissenting views are rare. An interesting example is that of Cheshire and Magrini (2000), who analyze the evolution of regional per capita incomes on the basis of the empirical growth model combined with the Markov chain method. Their results point to an inherent trend of increasing divergence both within the group of poorer regions in Europe and, especially, between the poorer and richer regions.

In this paper, we take a broader perspective on transition countries' development. In our view, the new EU member states are standing at the development crossroads. They are considered as semi-peripheral countries, whose competitiveness hinges on infrastructure investment (in terms of material, institutional, and informational infrastructure), upgrading of production programmes and leadership of enterprises (Sofian 2001 as cited in Rončević 2007, 221). We add to this perspective the importance of socio-cultural development factors. We present a model bringing together several cultural and social influences and test its validity by applying a fuzzy-set methodology, a rather novel approach in social sciences.

Taking a broader perspective on convergence implies that one is necessarily dealing with long run issues. This takes us from the world of economic forecasting to the world of building long–run development scenarios. We therefore augment our analysis of internal socio-cultural factors by considering the likely changes in the external framework conditions. Focusing on demography, technology, and global economic and political structures, we outline possible scenarios for European development that will certainly affect the chances of individual countries. As our contribution, we discuss the interplay between such framework conditions and internal development capabilities.

When drawing the implications of our analysis, we focus on Slovenia as an example of a country to which our framework applies. Slovenia is generally considered as one of the success stories of transition. The country achieved one of the highest average growth rates among the EU accession candidates, and its economic growth was by far the least volatile among transition countries. Moreover, this stable and reasonably high growth rate was achieved without major macroeconomic imbalances. Regarding social and political developments, Slovenia's unemployment

TABLE 1 The official vision for the change in Slovenia's development model

Current Development Model	Vision of the New Social Development Model
Regulation and bureaucratisation of markets	Deregulation and liberalisation of markets
Restrictive business environment	Promoting enterprise creation and growth
Relatively closed financial markets	Open and competitive financial markets
Insufficient flexibility of the labour market	A more flexible labour market
Collective social security system	Individual needs and responsibility
Corporatism of large social partners	Open, broad-based partner co-operation
Bureaucratic, hierarchical public sector	Decentralisation, public private partnership
Focus on macroeconomic and social balances	Focus on sustainable development based on structural reforms and a dynamic society

NOTES Adapted from IMAD 2005.

and poverty rates were both below the EU average. Spending on social benefits, as a percentage of GDP, was also comparable to the EU average, indicating preservation of a rather generous welfare state. Comprehensive social partnership institutions also helped preventing social unrest.[2]

Widespread optimism regarding Slovenia's development has waned in recent years. A number of economists took the opinion that incomplete economic transition created significant structural inefficiencies with negative impact on the country's competitiveness. This was reflected in the slowdown of economic convergence, as compared to several other transition countries. Weakening economic competitiveness made it increasingly difficult to finance the welfare state and to provide workers with wages above subsistence.[3] Such a critical view has been taken up in official documents. For example, Slovenia's Development Strategy (IMAD 2005)[4] has set out a thorough change in the country's development model, as presented in table 1. Our approach in this paper will help us shed some light on the realism of such a target and the necessary conditions for achieving it.

In the next section, we present a theoretical model of internal sociocultural development factors and test its validity by applying it to a set of European countries. We continue by considering different scenarios for broad framework conditions and conclude by drawing up the implications and conclusion of our analysis.

Internal Factors of Development

We understand internal development factors in terms of the capacities of a country to deal with challenges imposed by changes in external framework conditions. We focus on the less tangible socio-cultural factors of development, which were once ignored, but became popular after the 'cultural turn' at the end of the 1980s. At that time, and under the weight of empirical evidence, social scientists started to deal with the role of non-economic factors of development. These studies focused mostly on Japan and the four Asian tigers (South Korea, Hong Kong, Taiwan and Singapore). We examine in what way these factors play their role in achieving a development breakthrough and in what way we need to consider them in shaping development policies.[5]

THEORETICAL STARTING POINTS

The idea of socio-cultural factors of development is far from being new. Max Weber's well known *Protestant Ethics and the Spirit of Capitalism* (2001) emphasised the role of non-economic factors in economic development. The awareness of such a connection is also found among classical and neo-classical economists, starting with Adam Smith, and continuing with Alfred Marshall (Adam et al. 2005). We must also note the important role of Talcott Parsons, who partially followed Webber in shaping his ideas on cultural factors of social development.

Among contemporary economists, a prominent role is that of Michael Porter who introduced the concept of competitive advantages of nations, pointing out that achieving competitiveness is a highly complex and localised process depending on many direct and indirect factors, such as economic structures, quality of governance, values, culture, and past development. In sociology, the focus shifted from simple to reflexive modernisation and new forms of societal coordination related to this shift. In the theories of Anthony Giddens, Ulrich Beck and Helmut Wilke a particular role is attributed to knowledge and forms of development coordination within extremely complex modern societies. Such approaches enable us to move beyond the old dilemmas of primacy of the free market versus the state (Adam et al. 2005).

Several studies consider successful cases of countries that achieved a development leap. They show that development processes can be speeded up by a number of factors, but that most of them are connected to a specific environment. We speak of contextual specific processes (Kim and Nelson 2000; O'Hearn 1998; Battel 2003; Walsh 1999; O'Riain 2000;

Castells and Himanen 2002). That is why it is very difficult to predict the long-term consequences (success) of specific policies.

What are these necessary conditions that enable countries or regions to respond to developmental challenges? Berend points to the importance of trans-nationalisation, connected with privatisation and marketisation, in his analysis of the recent Irish success story and of the Mediterranean 'miracle'[6] (Berend 2001). To focus on Ireland, we can say that the massive inflow of FDI – fostered by easy access to the EU market[7] and a well-educated and relatively cheap labour force –, the know-how related to FDI, and the massive influx of money from EU Structural Funds played an important role (O'Hearn 1998). But had this FDI inflow not been accompanied with internal qualitative changes (increased education, institutional efficiency, etc.), it would only have served to consolidate the relatively unfavourable position of Ireland in the international division of labour. That would happen if the FDI were located primarily in the extraction sectors or if their primary purpose were to expand their own business and gain market shares in new, 'virgin' markets. The beneficial spillover effects are not possible without internal structural changes. Hence, we can argue that internationalisation and a massive influx of capital is a necessary condition. But it is not sufficient.[8]

In an earlier work on industrialisation and formation of the European periphery in the 19th century (Berend and Ranki 1982), Berend and his coauthor offered a much more refined, systematic and holistic analysis of development factors. They outlined socio-political prerequisites of change, human factors, the role of the state, the integration into the world market, foreign trade and export branches. These factors may be grouped as internal (the first three) and external (the last two). While it is clear that without external factors a country cannot succed in joining the group of affluent, developed countries (unless it undertakes a long and uncertain process of own capital accumulation), their analysis makes a strong point that internal factors are crucial determinants of a country's position in the international system.

Van Rossem also showed that development is not exclusively a consequence of the international environment, i. e. the positioning of a country towards others. Although the international environment imposes constraints on countries, especially on the economically backward ones, it does not solely determine the dependency and developmental performance of a country. His conclusion is that 'internal social, economic, and political structures and actors become vital factors in development, and

can modify the effects of the international environment' (van Rossem 1996, 524). To put it simply, the basic preconditions for developmental performance are endogenous, but we should take the input from the environment into account. This is also the starting point of the model of socio-cultural factors presented in the next section.[9]

Despite lagging behind, Eastern European countries developed specific forms of modernisation. Its impulses were rarely endogenous. If it happened, modernisation was deformed or partial. Industrialisation was not promoted by a new capitalist social class, the bourgeoisie, but rather by the aristocracy as an attempt to preserve its privileged position. Consequently, processes of functional differentiation, with a specialised economic subsystem as a result, did not take place. Production processes were therefore less efficient and did not operate with the same logic as in the earliest industrialised countries.[10] Partial forms of modernisation continued in the second half of the 20th century, which led to specific forms of modernisation, which only met some conditions of modernity. This is why some authors labelled them as 'by-modernity' (Bernik 1989) or 'deformed modernity' (Adam 1989).

A HEURISTIC MODEL OF SOCIO-CULTURAL FACTORS OF DEVELOPMENT

The importance of 'intangible' factors has been recognised for some time now.[11] They were mainly dealt with in a relatively intuitive way[12] or at a purely theoretical level (Swidler 1986). Some authors attempted at sophisticated calculations of relations between cultural and economic variables, but their conclusions were marked as preliminary (Granato Inglehart and Leblang 1996; Swank 1996). An integrated conceptual framework for comparative evaluation of specific development factors is still lacking.

In our own research, we have developed a robust and holistic model incorpotating the socio-cultural factors into analysis of developmental performance (see Adam et al. 2005; Adam and Rončević 2004). The model has applied aspects as well, as it can point to specific factors that hinder development, thereby enabling the formulation of targeted policies for sustained development.

The model has three levels. The third level is developmental performance, which is a resultant of interaction between different factors and their mutual influence; in other words, it is a result of developmental processes. Definition and operationalisation of this level depends to

some extent on specific research interests or on social, political or strategic goals. As an example of politically defined strategic goals, we can imagine a semiperipheral East-Central Europe country setting itself the goal of achieving a developmental breakthrough and joining the group of core European countries.

Developmental performance depends on a group of factors, which constitute the first and the second level of our model. The first level is built on sedimentation of past developmental trajectories and experiences (history matters). We term this factor as *civilisational competence.*[13] It is a 'latent structure of cognitive, normative, expressive and motivational elements which enable individuals and social communities to orient themselves in the different subsystems of modern (or modernising) societies' (Adam et al. 2005, 24). The concept of civilisational competence is based on two civilising principles, self-control (self-imposed discipline) and self-initiative (active participation) (Elias 1994).

The second and central part of the model consists of current and prospective factors of development. They are divided into internal and external ones. The former include *cognitive mobilisation, entrepreneurial spirit, quality of governance, social cohesion* and *social capital.* The latter include *openness* (internationalisation), implying both rational utilisation of foreign resources (such as foreign direct investments or structural funds) and active adaptation to the environment, which by definition is more complex than the system (society) itself (Heylighen 1992).

Internal current and prospective factors of development are in the focus of our research, as these are 'the most easily' influenced by specific policies. The concept of *cognitive competences* was developed to take into account the strategic role of knowledge for systemic competitiveness, as emphasized by the literature on human resources and human capital. The importance of *entrepreneurial spirit* in development is also well-recognised. Some aspects of this subject have already been studied by Max Weber. We developed our concept to take into account relevant conditions for the creation of new opportunities or even to anticipate these opportunities and react to changes in the business environment.

Moreover, one has to take into account the regulatory framework, as institutions affect enterprise performance (de Soto 2000). *Quality of governance* is hence an important factor of development. It can be expressed in a variety of ways, e. g. as protection of property rights, the administrative burden, the coordinative role of the state, support for consensus-building and its implementation through democratic proce-

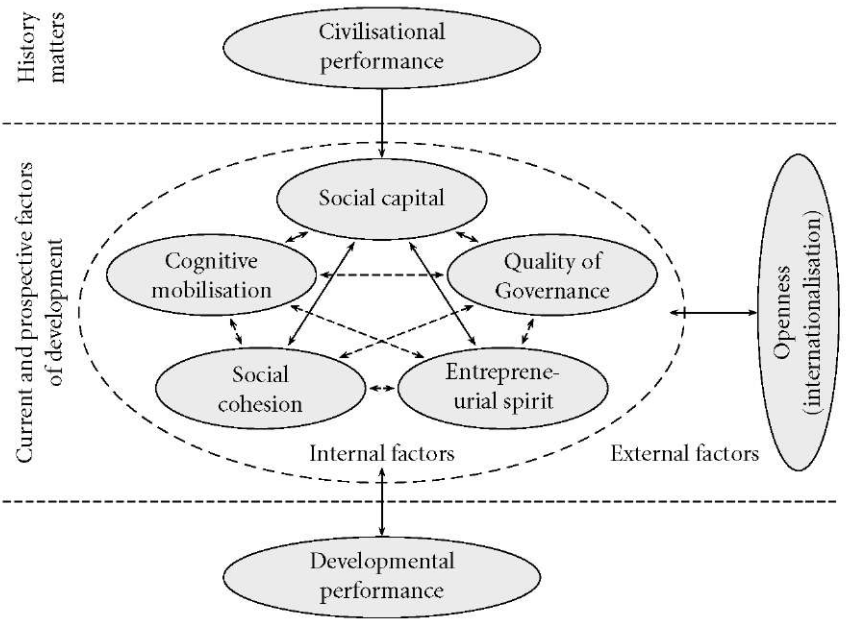

FIGURE 1 The heuristic model of socio-cultural factors of developmental performance (adapted from Adam et al. 2005)

dures, contextual intervention, regulation. *Social cohesion,* as another important factor of development (Ritzen and Woolcock 2000), does not imply a monolithic and undifferentiated society. Instead, it implies solidarity, meaningful identities and participation. It enables mobilisation and utilisation of broader potentials and contributes to consensus building, which is difficult in a society with a high level of social exclusion, extreme inequalities and anomie. Highly cohesive societies are more prone to sustained development.

The role of current and prospective factors of development depends on the organisation and utilisation of synergetic potentials. This is why social capital holds the central position within the model. We have to be careful when applying this concept (see Adam and Rončević 2003), but it can be effectively used in analysis of coordination and consensus building, reduction in transaction costs etc. It enables synergies of other current and prospective factors.

VERIFYING THE MODEL: A FUZZY-SET ANALYSIS

We shall attempt to verify the model by applying the fuzzy-set methodology for social sciences as developed by Charles Ragin (2000). This

method is widely applied in hard sciences when dealing with problems of engineering in face of ambiguity and complexity. One can hardly dispute that the problems we are dealing with in many social sciences are anything but ambiguous and complex, including the analysis of the factors of development of societies. The application of this analytical approach would seem appropriate from this perspective.

Furthermore, it is important that fuzzy-set methodology provides the researcher with 'interpretative algebra,' an approach that takes both conceptual and mathematical-analytical aspects into account, thus enabling social scientists to employ a dialogue between ideas and empirical evidence, the much-desired systematic interplay between theory and data. According to Ragin (2000, 5–6), it is possible to become involved in a much richer dialogue with fuzzy-set analysis than with 'conventional' analytical procedures for three reasons. Firstly, with fuzzy sets one can avoid problems with the usual homogenising assumptions in the analysis of large populations, and this allows for an analysis of smaller populations, such as ours (27 countries). Secondly, fuzzy sets can be used to enhance diversity-oriented research. This is potentially important in the context of our analysis, due to the fact that 'each latecomer has its own story' on the specific form of its development. Were there a different combination of necessary conditions, it would be important for our analysis to point to them. Finally, fuzzy sets can be carefully tailored to fit theoretical concepts. This is again an important aspect of our analysis.

To start the analysis we must first specify the relevant domains. These would have to be theoretically justified in certain cases, but in our analysis domains are determined by our research interest and the focus of our analysis. We have 27 relevant domains, namely the EU member states (excluding Luxembourg, Cyprus and Malta), two EFTA countries (Switzerland and Norway) and Russia.

In Adam et al. (2005), fuzzy sets have been precisely defined as different socio-cultural factors and developmental performance. Each country was assigned membership in each set. This membership is anywhere between 1 (indicating full membership in a set of e. g. developed countries) and 0 (indicating non-membership in the set). One can also decide on a certain number of anchors and thus limit available membership scores. We have decided to opt for three anchors. In addition to full membership and non-membership we also assigned partial membership (value 0.5). We used the following sets of data to assign membership scores to individual countries:

- civilisational competence was measured on the basis of the level of modernisation (this refers to political, economic and social changes occurring since the 19th century) and the geo-political position, with highly modernised countries named as core countries and the rest determined regarding their geo-political position and borders;
- entrepreneurial spirit was evaluated on the basis of the Total entrepreneur activity index, Cluster innovation environment index, Business R&D intensity, and Index of economic freedom;
- quality of governance was evaluated regarding Political rights and civil liberties ratings, the Voice and accountability index, Political stability index, Government stability index, Rule of law index, and the Corruption perception index;
- social cohesion was evaluated on the basis of Share of income and consumption, Solidarity index, and Number of suicides per 100.000 people;
- evaluation of the level of social capital was undertaken by comparing Generalized trust, Active involvement in voluntary associations and Spending time in clubs and associations;
- internationalisation was scored by taking into account Inward foreign direct investments in GDP and External trade ratios to GDP.[14]

On the basis of this procedure, we were able to assemble the data for fuzzy–set analysis in a spreadsheet presented in table 2.

RESULTS OF THE FUZZY-SET ANALYSIS[15]

After having formed the fuzzy set spreadsheet, we can attempt an empirical verification of the model of socio-cultural factors of developmental performance. We can test relationships between the three levels of the model. First is the impact of the level 'history matters' on the level of current and prospective factors. If our model is correct, the analysis would have to show that civilisational competence is a necessary cause of other factors.

According to the results of regression analysis, as presented in table 3, civilisational competence is usually the necessary cause of other factors of developmental performance, with the exception of the quality of governance. Looking at the data in table 2, we can see why this is the case. Across a range of countries, membership in the fuzzy–set 'quality of governance' exceeds their membership in the set of 'civilisational competence.' This is a consequence of democratisation in a number of

TABLE 2 Fuzzy-set spreadsheet

Country	DP	CC	SC	CM	QG	ES	COH	OP
Belgium	1	1	1	1	1	1	1	1
Denmark	1	1	1	1	1	1	1	1
Finland	1	1	1	1	1	1	1	1
Netherlands	1	1	1	1	1	1	1	1
Norway	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1
Austria	1	1	1	1	1	1	0.5	1
Germany	1	1	1	1	1	1	0.5	1
Switzerland	1	1	1	1	1	1	0.5	1
UK	1	1	1	1	1	1	0.5	1
Ireland	1	0.5	1	1	1	1	0.5	1
France	1	1	0.5	1	1	1	0.5	0.5
Italy	1	1	0.5	0.5	0.5	1	0.5	0.5
Spain	0.5	0.5	0.5	0.5	1	0.5	0.5	0.5
Portugal	0.5	0.5	0	0.5	1	0.5	0.5	0.5
Czech R.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Slovenia	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	0.5	0	0.5	0.5	0.5	0.5	0	0.5
Hungary	0.5	0.5	0	0.5	0.5	0.5	0	0.5
Greece	0.5	0.5	0.5	0.5	0.5	0	0.5	0.5
Slovakia	0.5	0.5	0.5	0	0.5	0.5	1	0.5
Poland	0	0	0	0.5	0.5	0	0	0
Latvia	0	0	0	0	0.5	0	0	0.5
Lithuania	0	0	0	0	0.5	0	0	0
Bulgaria	0	0	0	0	0	0	0	0
Romania	0	0	0	0	0	0	0	0
Russia	0	0	0	0	0	0	0	0

NOTES Abbreviations: DP – developmental performance, CC – civilisational competence, SC – social capital, CM – cognitive mobilisation, QG – quality of governance, ES – entrepreneurial spirit, COH – social cohesion, OP – openness. Adapted from Adam et al. 2005, 208.

countries with lower levels of civilisational competence that took sway in the past few decades. Interesting examples are Spain and Portugal, which have improved their quality of governance significantly since the 1970s,

TABLE 3 Relationship between civilisational competence and other development factors

Dependent factor	*p*-value
SC	0.017*
CM	0.033*
QG	0.358
ES	0.012*
COH	0.003*
OP	0.025*

NOTES * Denotes significance at 10 per cent level.

TABLE 4 Relationship between socio-cultural factors and developmental performance

Cause variable	Observed outcome**	Binominal prop.	*p*-value
CC	19	0.90	0.009*
SC	17	0.81	0.092*
CM	19	0.90	0.009*
QG	20	0.95	0.001*
ES	20	0.95	0.001*
COH	12	0.57	Not significant
OP	19	0.90	0.009*

NOTES * Denotes significance at 10 per cent level. ** The size of our sample is 27 countries, but only 21 were included in the analysis. This is due to the specifics of the fuzzy-set analysis of sufficient conditions. Namely, including cases where the outcome is 0 would positively bias the results towards verification of the researcher's hypothesis. Those cases where the cause (individual factors of development) has a higher or equal fuzzy-set membership than the outcome (developmental performance) confirm that a specific factor is a sufficient cause. Hence, the column 'Observed outcome' shows the number of cases where this is the case. The logic is: the higher the 'observed outcome,' the higher the 'binominal proportion.' The final row shows the calculated statistical significance.

especially as a consequence of the accession to the EU. Special cases are the post-socialist countries, where significant improvements also took place as part of democratisation in the 1990s, although of the quality of governance is still not the highest quality.

The second is the relationship between the two levels of socio-cultural factors and developmental performance. The model is considered as empirically verified if the factors are statistically significant necessary conditions for developmental performance:

The results show that civilisational competence, social capital, cog-

nitive mobilisation, quality of governance, entrepreneurial spirit and openness of societies are necessary conditions for developmental performance. The only factor that is not statistically significant is the level of social cohesion. However, we can note that no country with high levels of developmental performance has a low level of social cohesion, and only two countries with medium developmental performance (Hungary and Estonia) have low levels of social cohesion. Moreover, all countries with a low level of developmental performance have low social cohesion. We have therefore conducted another analysis, where we tested a different relation, namely, the relation between a poor level of social cohesion as a necessary cause of poor developmental performance. In this case the relationship was statistically significant: a low social cohesion is usually a necessary cause for a low developmental performance. But it is not a sufficient one, meaning that some other negative conditions have to be fulfilled as well.

The analysis also showed that a combination of all necessary factors is a statistically significant sufficient condition of developmental performance. This result has important implications: a country can embark on a positive development path only if all factors are present simultaneously. There has to be a cumulative effect and synergy among factors.

FRAMEWORK CONDITIONS FOR FUTURE DEVELOPMENT

Having demonstrated the importance of internal socio-cultural factors of development, we now turn to considering framework conditions that will constrain or enhance the opportunities for countries to realize their develoment potential. The most important, but certainly not exclusive, framework conditions are – in our view – economic structure of the world, political structure of the EU, demographic trends and technological developments. We do not separetely consider factors such as climate change or availability of energy, as they will impact on each of the four areas that we address.

ECONOMIC STRUCTURE OF THE WORLD

Globalisation, of course, is the main feature of economic developments in the 21st Century. The important point here is that globalisation has now enabled fast development not only of the traditional 'tigers,' which were as a rule rather small countries, but also of some 'giants,' whose economic size, by current rates of growth, may in a decade or so equal the economic size of the EU.

Such developments may create serious tensions on at least three accounts:

- *New global geography of economic activity, where new centres of economic power, but also human, financial and information capital, would reach critical mass so as to challenge the competitive capacity of the 'western' world.* This is an overly pessimistic perspective, as growth of the emerging economies also promotes growth in the now developed world. The latter, however, is increasingly forced into structural reforms, which enable opportunities to dominate over threats. If, however, modern western world economies would be unwilling or unable to adapt its working and living practices to the new global circumstances, then the new economies could become a serious challenge for the preservation of the present standard of living in the western world.
- *Unprecedented increase in demand for raw materials and energy, and the corresponding increase in pressures on the natural environment.* The new 'giants' (China, India) would, at the time when the size of their GDP equals that of the EU, create equally strong demand on the world markets as the EU does. However, as their GDP per capita would still be much lower than that of the EU, the structure of their demand will be relatively more directed towards energy, raw materials and industrial inputs. At this time, there is no clear solution for these problems. If a solution is not found, we may increasingly face rising raw-material prices, energy shortages, climate change effects etc.
- *Pressures for a different political division of the world.* The new giants will demand an equal role in the processes and institutions that govern global economic order. Given their lesser economic development (in terms of GDP per capita), and consequently a more energy and environment intensive pattern of growth, this change in balance may also imply a change in priorities on the international agenda. The stronger the shortage of the raw-materials and energy will become, the more likely it is that this process of political 'rebalancing' may involve serious conflicts, including military ones.

There are, in principle, three possible outcomes (scenarios):

- *Emergence of a new leading world power.* It may be said that in the past there was usually one super-power dominating the rest of the world in both economic and political terms. After the industrial rev-

olution, this had been the UK, and since the World War II, it is the USA. One possible outcome of current tensions is that there will emerge a new economic and political super-power. However, there seems to be no clear and easily acceptable candidate for such a leading role. Moreover, if the global political game becomes one of fighting for a dominant position, it is very likely that its outcome will be determined only through military conflict of a global dimension;

- *Emergence of a multi-polar world.* Rather than one super-power being replaced by a new one, it is possible that a balance will emerge between several economic and political blocks. One of them could still be the USA (with NAFTA?), another a much more federatively organized EU, the third one China, the fourth one East-Asia (Japan with the 'old' Asian tigers), etc. The global political game would then be one of balancing or finding a stable equilibrium between these different poles. Such a game is more likely to be solved in a non-violent way;
- *Emergence of a highly decentralized world,* with many centres of development, resembling a world of city-states and prosperous regions. Especially if a stable equilibrium between a limited number of 'poles' proves hard to establish, the process of global decentralisation may continue, leading to multiple small centres of economic development, with international political institutions and powers becoming less important.

The European Commission seems to believe in the second of the three scenarios. In its communication to Heads of States and governments (Commission of the European Communities 2007), it stresses the importance of 'Europe' speaking with one voice in the world. This communication, which is formally the Commission's interim report on the Lisbon Strategy for Growth and Jobs, is almost entirely devoted to the challenges of globalisation and to the so-called 'external dimension' of the strategy. It builds its argument on the notion of the European interest, which has to be 'specifically defined, strongly articulated, stoutly defended, and vigorously promoted,' and claims the EU to be 'the best tool to enable Europeans to shape globalisation.'

In our view, the first of the three possible outcomes (a new super-power) is the least likely, especially as development and technological differences in the world are diminishing. In the medium term, therefore, the scenario of a multi-polar world (with three or four poles) seems to

be the most natural outcome of current developments. However, it also seems at least possible, if not probable, that in the long-run (some 50 years) the multi-polar world would decentralise further in direction of the third scenario.

POLITICAL STRUCTURE OF THE EU

The big issue here is whether Europe will, in time, develop into a federation in the sense of a 'United States of Europe,' or will perhaps devolve into a more decentralised organisation. One obvious line of argument says that Europe must become more capable of acting as one entity in the world, and that to achieve this, it must also become capable of more efficient decision making internally (EC 2007). On the political level, there seems to be a lot of at least declarative support for a more federative Europe.

This argument seems so obvious to many precisely because the current decision-making procedures in the EU are complicated and often even very simple decision (such as establishing an EU-wide patent office) take several years. There seem to be two reasons for this. One is that, even in the areas where decisions are taken at the EU level, this decision-making still often involves complicated negotiations between representatives of government, plagued with perverse systematic incentives and often dealing with details that would normally be left to the executive discretion. The other is that, also in the areas where there is no genuine EU sovereignty, complicated processes of the 'open-method of coordination' have been introduced, de facto hampering the autonomy of member states and increasing the cost of decision-making.

While it is clear that the decision-making efficiency has to be greatly improved in the EU, there are at least two ways to do so:

- *The United States of Europe.* Sovereignty over an increasing number of policy areas would be transferred to the EU level. Decision making at the EU level would be simplified and would increasingly resemble that of a common representative democracy. Legislative decisions would be taken by the European parliament alone on a simple majority vote, probably subject to a veto by a senate, representing nation states or regions. The Commission would be substituted by an executive body with much broader competences. The scope for intergovernmental negotiations would be reduced to the most basic political decisions, perhaps only to agreeing on changes in the European constitution.

- *A decentralised federation.* The decision procedures at the EU level would be simplified similarly as in the previous scenario. However, much fewer issues would be transferred into the sovereign responsibility of the EU. On the other hand, for those issues over which member states would retain sovereignty, the formal coordination procedures would be radically streamlined, if not abandoned.

It is important to understand that the choice of the EU political structure is not entirely voluntary. We do not believe such a decision can be taken in top-down manner, implying that the politicians should first decide on the political structure of the EU, and then all other policies scenarios could be worked out accordingly. We believe that the decision on the structure of the EU will depend on external factors (the shape of globalisation, security and energy issues, strengths and policies of emerging 'giants' and the currently dominant US, etc.) and also on some internal political factors.

The current state of affairs in Europe does not enable us to expect any significant political changes in the short run. The reformed EU treaty, which was put in the place of the failed constitution, makes some steps towards the federative direction, but they are rather modest and actually pre-empt a more thorough discussion. The EU budget is also set until 2013, and for now it seems rather unlikely for the next financial perspective (up to 2018 or 2020) that any significant structural changes could emerge. Indeed some proposals are being put forward that could noticeably improve the present state of play, thus also improving the decision-making efficiency of the EU as a whole (see Wostner 2007), nevertheless more profound changes could only be expected after 2020.

Despite these obstacles, most current discussions point towards the direction of the United States of Europe scenario. In our view, such a scenario is only possible in the long run with increased mobility inside the Union and with radically changed citizen's perception of the Union as one home entity. With time, also the pressures of the global economic competition and insecurity may become strong enough that the political opposition to a federative Europe would lose ground. On the other hand, it may also happen that in 2020 Europe would decide to move towards the direction of a 'the decentralised federation.' It may prove a good working compromise between demands for a more effective federation and the opposition to transferring more and more competencies to the 'federal level.'

DEMOGRAPHIC TRENDS

The European demographic problem is well known. Demographic projections for the EU member states are provided by the Eurostat every few years. Detailed projections of the impact of the ageing populations on the public budgets are available for all member states in regular reports (EC 2009b). However, the possible social implications of ageing populations are less researched.

It is important to understand that the projections were prepared not with the intention of predicting the future as accurately as possible, but with the aim of highlighting the dimension and structure of the 'ageing problem.' Accordingly, projections are prepared on the assumption of no policy change and on current trends in employment and productivity. No rapid change in technology is envisaged, as projections work on the assumption of a decreasing contribution of total factor productivity to growth. Such an approach is very logical in the framework of a 'warning signal' analysis, but in order to incorporate them into overall development scenarios, some assumptions on the likely policy change should be included.

TECHNOLOGICAL DEVELOPMENT

From Malthus to the Club of Rome, economic science has predicted many dismal scenarios, but none has yet materialised. The main reason why the dismal predictions were avoided lies in the technological progress, which always succeeded in creating new opportunities and solutions at the right time to avoid a catastrophe. Indeed, in the long run, technological progress seems to be the main determinant of our well-being, both in the sense of what we can achieve and in the sense of how productive we are.

Technological progress may determine the solutions we will be able to adopt with respect to the previous issues. The increasing energy and environmental scarcity can hardly be addressed without a serious technological breakthrough. The same goes for ageing – new technologies may facilitate older people to at least partially remain in paid activity after reaching the pension age. Notwistanding some technological foresight studies and studies on the likely social consequences of technological change, technological scenarios are inherently hard to build. Technology is based on innovation, and innovation, if it is really an unprecedented novelty, is by definition hard to predict or even to imagine in advance.

BRINGING THE ELEMENTS TOGETHER

While it is hard enough to develop plausible scenarios for individual development areas, the real challenge is to bring them together in a compelling and comprehensive development vision. Here we present three attempts that we consider as important steps towards this goal.

In 1999, the Forward Studies Unit of the European Commission outlined five possible scenarios for Europe in the year 2010 (Bertrand, Michalski and Pench 1999):

- *Triumphant markets:* increasing globalisation and prevalence of the 'American economic model' (deregulation, lower taxes, entrepreneurship, downsizing of the public sector); weakening of EU common policies, integration focused on the Single Market; stronger role of regions due to a more decentralized economy;
- *The hundred flowers:* increasing economic globalisation with serious risks for political stability, crime, environment; weakening of EU common policies and withdrawal of some member states; devolution of large organizations and nation states, development of city states; public functions performed by local governments, associations and private organisations;
- *Shared responsibilities:* increasing globalisation with greater international policy coordination, led by the EU; increasing the role of EU policy coordination in education, R&D, security and justice, increasing the budget; stakeholder model of enterprise and competitive corporatism; modernisation of the public sector governance;
- *Creative societies:* slowdown in globalisation due to public discontent; strong development of common EU policies in the areas of social protection, environment, economic stabilisation; cooperative enterprises, importance of the non-profit sector;
- *Turbulent neighbourhoods:* slowdown in globalisation, developing of closed regional blocks; security concern dominating EU common policies and public opinion, rise of intolerance, increased role of the state and authoritarianism.

Braunerhjelm et al. (2000) developed three scenarios, dealing with the economic perspective of individual regions within the EU:

- Scenario of a balanced distribution of economic activity, based on substantially increased specialization of particular regions, with each of the regions finding its own market niche;

- A strong concentration of economic activity, enabled by increased labour mobility, resulting in depopulation of some areas, but without strong unemployment problems;
- A permanent polarization, dividing Europe into efficient, high income, low unemployment regions on one side, and lagging-behind regions with low income and high unemployment on the other. This scenario is likely if the increased global competition is not met by structural reforms of the EU economies.

The most extensive work in terms of future scenarios for Europe and their regions was, to our knowledge, performed in the framework of the ESPON network (www.espon.eu), where numbers of studies, usually with the perspective until the year 2030, have been performed. They are focused on particular themes (e. g. polycentricism, enlargement, transport, information society, natural hazards) as well as on impacts of particular policies (e. g. transport, R&D, CAP, energy, cohesion policy). Particularly relevant is ESPON project 3.2. 'Spatial Scenarios and Orientations in relation to the ESDP and Cohesion Policy', which includes a quantitive macroeconomic, sectoral, social and territorial model. Apart from the baseline scenario, which takes account of what we called framework conditions, they also develop a 'cohesion-oriented prospective scenario' and a 'competitiveness-oriented prospective scenario.' Depending on the policy choices by the EU and the Member States, they find significant differences in terms of concentration of economic activity in the European core, major cities, peripheral and rural areas and consequently their welfare levels. On this basis they propose the 'proactive scenario,' which aspires to put forward the right balance of policies based broadly on the Scandinavian development model.

Discussion and Conclusion: Some Tentative Implications for Slovenia's Alternative Scenarios

We began our paper by asserting that, in order to meaningfully discuss the possibilities of development catch-up, one must consider both the external framework conditions and the internal development capabilities. Success in dealing with the four big challenges stemming from changes in global economic structure, European political structure, demographic trends and technological development, is always a resultant of external forces that shape the conditions and internal processes and adaptations.

One way to analyze the interplay between framework conditions and internal capabilities is to ask whether a given framework scenario would increase the autonomy of regions and individual countries, or diminish it? In case of increased autonomy, we should focus on country-specific development assets (strengths and weaknesses). In case of decreasing autonomy, we should however expect that individual countries will broadly share the fortunes of the EU as a whole, although they may have some means to improve their relative position even in such a context. Among the scenarios outlined in the third section, we see as 'autonomy enhancing' the economic scenario of a more decentralised world and the political scenario of a more decentralised European Union. Technological progress facilitating transfer of information, decentralised organisation and 'distance work,' would also facilitate autonomy.

When asking about future trends of a country like Slovenia, one needs to consider whether it is realistic to expect that any of the post-socialist countries could in the foreseeable future be able to achieve developmental breakthrough and so to join the exclusive club of the rich countries of the European core? This would in fact be a remarkable achievement, having in mind the historically poor economic development performance. In contrast to approaches based on extrapolation of current trends, we embarked on searching for the answer to this question rather differently. We were interested to see whether these states have developed the necessary conditions for faster development.

Based on our analysis, we conlude that only some of the semi-peripheral countries have a realistic possibility to become members of the group of most developed European societies. We limit our optimism to those which were classified as countries with a medium level of developmental performance (Czech Republic, Slovenia, Estonia, Hungary and Slovakia). That means that their economies are already at the investment-driven stage of development and are capable of building capacities to improve the imported and assimilated technology and production methods, and to manage the complex transition to innovation-driven development.

The obvious question is: can what specific societies do to enhance their developmental performance? Implications of our results for shaping holistic strategies of sustainable economic development confirm some previous findings (Messner 1997; Mayntz 1987), that developmental policy makers must consider a series of structural limitations arising from their own environment. Therefore, it is not realistic to expect that simple direct interventions like increase in financial investment into spe-

cific resource or infrastructure will considerably affect developmental performance. Hierarchic or 'top-down' approaches cannot give satisfactory results. The post-socialist societies of Central and Eastern Europe need to work their way towards establishing the right preconditions for developmental performance. Successful strategies need to use sophisticated mechanisms of contextual interventions to establish the conditions where different intangible factors of development develop simultaneously.

Obviously, no clear-cut prescriptions or recipes are possible, such as those persistently advocated by numerous international institutions and scientists in the course of the past decade. If there is something that one can learn from past examples of successful transitions from the semi-periphery to the core, it is that no country did so by imitating some other country or by following such prescriptions. It needs to be clear that social scientists are not able to generate solutions in the form of 'pure' prescriptions and 'categorical imperatives'; they can at best produce hypothetical solutions in the form of scenarios, multiple options and cost-benefit or SWOT analyses. They can be very helpful by indicating and evaluating the side effects and potential risks of certain decisions and policies. And, perhaps most importantly, they can attempt to trace the necessary conditions for favourable outcomes. In the paper, we tried to establish these 'intangibles' by using a heuristic model of socio-cultural factors of developmental performance and with application of 'fuzzy-set' analysis.

Focusing on Slovenia, it scored as middle ground in all dimensions of our fuzzy-set analysis. The implication is that, in order to achieve the developmental breakthrough, the country must work simultaneously on improving all internal factors of development. For 'active societies' (Etzioni 1968) such insights can be a useful tool for self-reflection, learning and adaptation of developmental policies. But, as argued elsewhere (Rončević 2008), Slovenia today cannot be considered as an 'active society.' One can therefore question the current ability to learn from such findings.

Hence, it would make sense to predict two broad and quite distinct scenarios for the future. The main difference between these two scenarios should be the (in)ability to make a strategic shift in several very important fields at the same time. The new development model should combine positive characteristics of the more liberal economy with a European model of a partner-state, the latter nicely fitting Slovenia in terms

of its development capabilities and values. On the other hand, inability to break with the existing model would continue Slovenia's path dependency and semi-peripheral position.

As a small country, Slovenia should be naturally inclined to oppose tendencies of political centralisation in the EU and of establishing a new single global economic super-power. The rationale for this is that Slovenia would have a comparatively small influence on centralised decision-making in the EU and that it would be higly risky to depend on only one major economic partner. We should therefore consider autonomy-enhancing framework scenarios as more beneficial. However, there are areas where working together with – or simply leaning on – the EU institutions may help the country to develop its own internal capabilities. The dimensions of governance and openness, but also of cognitive mobilisation and entreprenurial spirit, are those where adopting best practices from other member states, or relying on common policies and the pressures of the common market, may prove highly stimulative for internal development processes.

Notes

1 A good example of a detailed analysis along such lines is the European Commission study on 'five years of enlargement' (EC 2009a).

2 For a thorough review of Slovenia's transition, see Mrak, Rojec and Silva-Jauregui (2004).

3 See Šušteršič (2009) for an overview of the arguments involved.

4 This strategic document sets out the vision and objectives of Slovenia's development until 2013 and includes five developmental priorities with corresponding action plans. In order for Slovenia to achieve these goals it needs to prepare and deliver sweeping structural reforms and change its existing development pattern.

5 It needs to be emphasised that our focus on 'intangibles' does not render unimportant more 'tangible' factors like macroeconomic stability. But we argue that it is not a factor which could explain the differences between highly developed and less developed countries. Stabilisation of the macroeconomic framework is only a part of systemic competitiveness genesis (Esser et al. 1996).

6 In Berend's opinion, the Mediterranean EU member states are a success story when compared to post-socialist countries. By employing long-term data on GDP, he describes a 'dramatic departure from their previously similar growth patterns' (Berend 2001, 258). But on the basis of data indicating the position in the international division of labour and GDP, we

would hesitate to talk about a success story. The substantial increase in differences between Mediterranean countries and post-socialist countries was primarily caused by a rupture of growth rates of the latter and is not evidence of the developmental performance of the former.

7 Most FDI came from the USA (O'Hearn 1998).

8 Experts put forward different views on the causes of Ireland's sudden economic growth. Some conclude that it was a consequence of a series of reasons, being present far before anything happened (Walsh 1999; Battel 2003). Elsewhere a thesis was put forward that systemic discourse, institutionalised in a long-term social partnership with strong spill-over effects, was the catalyser of existing development factors (Rončević 2008).

9 The case of Czechoslovakia is telling. Between the world wars, it was the only industrialised and developed Central European country. This was at least to some extent the consequence of successful national confrontation with the German speaking population. 'After the 1840s, the Czech lands were caught up in rivalry for economic dominance where on both sides (German and Czech) the frenzy for education, culture, journals, clubs and entrepreneurship became paramount' (Benaček 2001, 137). The Czechs were able to respond to the challenges of the industrial revolution. This was not an enforced process; it was spontaneous and highly motivated. Data on the density of industrial sites show that the country was the most industrialised part of the monarchy. In 1914, Austria had 60 factories per 100,000 population. Czech lands had 94, while the central part of today's Slovenia had only 29 (Hočevar 1965, 45).

10 In Schöpflin's (2000, 60) words: 'In Central and South-Eastern Europe, domestic models of modernity [...] were weak and not based very directly on local socio-economic patterns, but were imported from outside, often as a response to the intrusion of a power that was perceived as alien, and as a defence against that intrusion. This process of importation inevitably distorted the nature of modernity as it had evolved in the West, because the domestic context was different and the aspects of modernity that were taken over were inevitably partial. Technology has a cultural context, and the reception of technology without its enveloping culture changes its impact. Hence the repeated attempts to make 'a forced march through history' and to catch up with Europe never achieved their objective.

11 In the 1940s and 1950s, there had been much interest in studying the role of culture as a key element for understanding societies and analysing their economic and political development (e.g. by Margaret Mead, Ruth Bendict, Davis McClelland, Edward Banfield, Alex Inkeles, Lucien Pye). In the 60s, the interest dropped rapidly.

12 A good example is the yearbook Culture Matters, where these factors were

discussed by authors from fields of sociology, political science, anthropology and economics (Harrison and Huntington 2000).

13 This concept was developed by Sztompka to explain differences between developed West European and underdeveloped East European societies. We significantly changed his formulation in an attempt to improve it to observe the differences between East European societies.

14 To illustrate, let us take the example of the fuzzy – set 'developmental performance.' On the basis of Porter's definition of successful economic development as 'a process of successful upgrading, in which the business environment in a nation evolves to support and encourage increasingly sophisticated ways of competing' (Porter, in World Economic Forum 2002, 57), we defined the concept, three anchors, and their verbal labels. We then used various statistical data on patents (innovativeness and new knowledge), GDP (PPP), overall productivity and total hourly compensation for manufacturing workers, to classify the countries into three groups, and then assigned membership scores for each country (1 = high developmental performance, 0.5 = medium developmental performance, 0 = low developmental performance).

15 We analysed the data with computer programme FS/QCA, version 0.963.

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Evolving Role and Nature of Workplace Leaders and Diversity: A Theoretical and Empirical Approach

Jan C. Visagie
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Blumer (1962) regarded the 'many possibilities of uncertainty as inherent to the process of joint action.' Joint action reflects the efforts of participants to work out the line of action in light of what they observe each other doing. Leadership appears to be approached from two fundamental perspectives: an organisational perspective (the influence that is exercised to change the direction of the organisation), and an individual task perspective (the influence that is directed at changing the work behaviour of an individual). In this article, it is suggested that the symbolic interaction of perspective integrates the two fundamental perspectives in that both perspectives require meaningful, reflexive integration and meaning, group membership, organisational role and experience. The evolving role of leaders to attract, retain and connect with a diverse workforce in a changing environment gives rise to interactive leadership competency requirements. This article suggests that managing diversity requires business leaders to adopt an approach to diversity management that is sensitive not only to race and ethnic differences, but also to the background and values of all individuals at work. The empirical study was done and four hundred and forty (440) leadership styles were measured in eleven (11) organisations. The study used the Hall and Hawker (1988) inventory leadership styles and a diversity questionnaire to measure diversity management experience.

Key Words: discrimination, diversity management, engaging leadership style, experience, heroic leadership style, management, transformational leadership

JEL *Classification:* J5, J53

Introduction

An individual is constantly reacting to the organised community in a way of expressing himself. The attitudes involved are gathered from the

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group, but the individual in whom they (the attitudes) are organised has the opportunity of giving them an expression that perhaps has never taken place before (Mead 1934). This article deals with leadership within the context of the changing 21st century and proceeds to analyse diversity management, within the context of societal change, as integrated units.

The aim of this study in general is to determine the kind of leadership style organisations need to develop in order to establish a positive experience of diversity management, to continue to be successful, and to conclude with a leadership competency model inclusive of diversity management competence. Understood through the key principles of symbolic interactive leadership theory, leaders are examined through meaningful, reflexive interaction between leaders and employees in a diverse work environment.

The definitions of diversity and diversity management used in this study were briefly defined by Thomas (1990, 10), stating that workplace diversity management 'is a planned systematic and comprehensive managerial process for developing an organisational environment that works for all employees.' Diversity management was defined as the result of orientated organisational actions to harness the inputs of different individuals. 'Managing work is the organisation and integration of human effort into purposeful, large-scale, long-range activities, in the realm of action – what man's conceptual faculty is in the realm of cognition' (Rand 1986, 280).

In order to understand leadership as a component of diversity management, leadership as the independent variable is firstly analysed, whereafter diversity management as the dependant variable is examined. The questions in this research are how diversity management is experienced in the workplace, whether it differs between race, gender and age groups, and ultimately whether leadership style influences this experience. In this article, the main aim will be 'meaning' through symbolic interaction as a social product, created and not inherent in things. The subjective aspect of diversity management may differ between individual managers and employees in organisations. Diversity management experienced by individuals in the workplace and explained by symbolic interaction implies that social behaviour acquires meaning through interaction. According to Mead (1934), significant change occurs when forceful and original 'I's' appear, causing correspondingly great transformations of the 'me's' with whom they interact.

Development of Leadership and Management as a Science

The Towers global workforce study (2006) suggested new insights into what drives the global workforce and signals the end of much of the conventional 20th century wisdom about workforce management. To take advantage of a diverse workplace in the 21st century, Kreitz (2007) proposed that organisations should refine management and leadership. Because of the symbolic interaction view (which suggests interdependence between the past, present and future) that was adopted in examining the historical development of diversity, the development of management theory as a science is important in understanding leadership style as a component of diversity management in the 21st century. The evolving role of leadership and leadership style (inclusive or requisite leadership qualities) demands cognisance of the historical development of leadership and management as a science.

Classic Model of Management

Managerial models evolved during the 20th century and can be broadly divided into two phases: The classic theories before 1938 and the contemporary theories after 1938. During the first quarter of the century, the industrial revolution management model of Fayol and Taylor regarded the role of managers as planning, organising, commanding, coordinating and control (Reynders 1977). During the second quarter of the century, the human relation model of Mayo and Roethlinger was developed, which included human relations in the managerial role (Leslie et al. 2002). The third quarter of the century, after World War II, saw the systems approach of Parsons, which evaluated organisational dynamics, inclusive of contingency theory in studying managerial behaviour (Thomas 2005). In the last quarter of the century, the global management model was presented. Thomas (2005) observed that during the late 1940s, the emphasis shifted from trails and personal characteristics to leadership styles and behaviour.

Over the last 25 years, the leadership fields developed in response to the changing requirements of organisations. Hersey and Blanchard (1982) assessed that at least three areas of skills are necessary for carrying out the process of management, namely technical, human and conceptual.

Koontz, O'Donnell and Weinrich (1984, 4) defined management as 'the process of designing and maintaining an environment in which individuals working together as groups accomplish efficiently selected aims.'

Leaders are responsible for aligning and integrating the efforts of employees with the goal expectations of the organisation. House, Hanges, Javidan, Dorfman and Gupta (2004) suggested that the leader's function consists of clarifying the goals for subordinates, the paths to these goals and facilitating both intrinsic and extrinsic rewards for proper performance.

The theoretical overview of leadership theory indicates that leadership involves the function of influence, goal attainment, vision and enablement. Management theories deal with a number of variables in the management function, which could be broadly classified as the 'structured' side of management, for instance task behaviour (Hersey and Blanchard 1982), task orientation (Redding 1970), concern for production (Blake and Mouton 1961) and strategic results orientation. The 'people' approach to leadership can be found in the studies of relationship behaviour (Hersey and Blanchart 1960), relationship orientation (Redding, 1970), and concern for people and emotion (Blake and Mouton 1961) as experienced in Thomas (2005).

Management and Leadership

Management is defined as the execution function of coordinating structures and resources to ensure optimal delivery in organisations, whereas the term leadership is defined as obtaining commitment from employees. A common understanding of the word 'leader' naturally implies that there are followers over whom the leader has to exert a degree of influence.

Kellerman (2004, 44) points out that the Harvard Business School leadership theorist group under Zelenzink started to draw a distinction between leaders and managers: 'A leader is an inspirational figure while the manager handles the more administrative tasks and maintains organizational discipline.'

Transactional and Transformational Leaders

Hernez-Boome and Hughes (2006) suggested that twenty years ago the understanding of leadership in organisations was dominated by the classic two-factor approach focusing on task and relationship behaviour. Burns (1978) addressed the processes or behaviour that leaders used to motivate or influence followers. The start of the transformation of leadership is said to result from Burn's work. He provided an analysis and distillation of leadership. In his view, leadership behaviour falls within two

categories of influence, namely transformational and transactional. Boje (2000) explained that Burns (1978) based his theory of transactional and transformational leadership on Kohlberg's (1958) six stages of moral development and Max Weber's (1947) work on charismatic leaders. Weber concluded that transactional leaders were like bureaucrats and charismatic, 'heroic' leaders were the transformational ones (Boje 2000). Boje (2000, 2) points out that Bass (1985) used the definition of Burns (1978) of transformational leadership, as the 'leader who recognizes the transactional needs in potential followers but tends to further seek to arouse and satisfy higher needs, to engage the full person of the follower to a higher level of need according to Maslow's (1954) hierarchy of needs.'

Kellerman (2004, 42) suggested that the definition of Burns referred to earlier, 'still dominates the field of leadership in its view that leaders create shared meaning, have a distinctive voice and have integrity.'

Kotter on Leadership and Management

Kotter (1990) viewed leadership and management as parallel processes. He distinguished between leadership and management as follows: Management controls complexity and effective leaders produce change. Kotter (1999) referred to the interchangeable concept as the 'management leader.'

He believed that managers maintain the status quo through the processes and functions of planning and budgeting; organising and staffing; and controlling and problem-solving. Kotter (1990) viewed leadership as provocative and persistent and suggested that leaders produce constructive and adaptive change through the processes of establishing direction through corporate vision, aligning people through communication and motivating and inspiring workers. Kotter (1999) identified three basic levels of leadership, namely executive leaders (CEOs), who are responsible for articulating the vision and direction of the organisation, with little impact on the operation of the business; line leaders, who connect the lower levels to the top – they have influence on what is important and act as filters; and the network leaders, who have been identified as the third type of leader – they are the invisible force.

Leadership/Follower View

Kark and Dijk (2007, 500) integrated motivational theory and leadership. They drew on the self-regulatory focus and on the self-concept-based

theory of leadership. They suggested that 'leaders may influence the motivational self-regulatory foci of their followers, which will mediate different follower outcomes at the individual and group level.' Recently, motivation among followers has been understood in terms of leadership theories that are focused on the follower's self-concept. In the leadership follower view of Kouzes and Posner (1990), a leader's power is derived from the followers. The context is of particular relevance to the leader, as the situational demands prescribe what types of leader behaviour are deemed appropriate. The most important and crucial situation variable is that of the people whom the leader wishes to influence in order to achieve organisational goals.

Mintzberg on Leadership Management

Mintzberg provides the following description of management: managers perform ten basic roles that fall into three groupings: (1) the interpersonal role, which describes the manager as figurehead, eternal liaison and leader; (2) the information processing role, which describes the manager as the 'nerve centre' of the organisation's information system; and (3) the decision-making role, which suggests that the manager is at the heart of the system by which the allocation, improvement and disturbance decisions relating to organisational resources are made. According to Leslie et al. (2002), Mintzberg's earlier job variables dominated the attention of researchers from a hierarchical level, such as Pavett and Lau (1983), Sen and Dass (1990), and functional areas by McCall and Segrist (1980) and Paolillo (1987). Leslie et al. (2002) noted that Pavett and Lau (1983) found significant differences between middle- and lower-level managers on eight of the ten roles originally identified by Mintzberg (1974).

Mintzberg (2004) concluded that leadership and management are words that could be used interchangeably. 'Managers predict the future and leaders create it' (Mintzberg 1974, 5). In accordance with the view of Mintzberg (2004), this article uses the term leadership to include the concept of management.

The synopsis of the development of leadership theory presented above indicates that the role of leadership and management has evolved from institutional to transactional, from transactional to transformational and finally to interactive leadership.

Evolving Nature of Leadership

The role of line mangers explained through symbolic interaction is established out of what interacting people have to deal with (Wallace and

Wolf 2006). The nature of the role is established through interaction. 'When symbolic interactionists speak of role, they do not mean a social role that is specified by culture; rather they mean something more flexible and capable of improvisation' (Wallice and Wolf 1980, 242). A global survey on people and business challenges, conducted by Deloitte and Tohmatsu and the Economic Intelligence Unit (2006), found 'people issues' to be the most important strategic issue for global enterprises, driven by changing workforce demographics, increased globalisation and a relentless focus on innovation, productivity, growth and customer service. 'In the past, discussions of people issues tended to focus on the efficiency and effectiveness of human resources operations. The focus now is increasingly on leadership, talent management, performance, culture and how organisations can create more value with the people they already have' (Deloitte Touche Tohmatsu 2005).

Research by the Center for Creative Leadership (Martin 2006) found that more than 84% of respondents believe that the definition of effective leadership has changed in the last five years. Although respondents believed that interdependence is important and that challenges go beyond their own capability, the results indicated other shifts in leadership, leading to these challenges going beyond their own capability. The results indicated other shifts in leadership, leading to this definitional change, such as working across functions, working more collaboratively, improving work processes, creating novel solutions (new skills and technology), increasing its speed of response, making more effective decisions, and enhancing co-worker relationship.

Leadership as a component of diversity management is regarded as the ability of a manager to influence the activities of an individual or group towards goal achievement. As such, the inherent function of leadership is to achieve commitment of employees within the complexity of work as influenced by contextual factors.

Interactive Role of Leaders

It is clear that management, as a social process involving interactive relationship, is aimed at achieving results through others – by influencing subordinates to pursue organisational objectives. The performance of a manager will thus be measured against the output achieved, individually and collectively, by the individuals for whom the leader is directly responsible. The aim of this article is to determine the kind of leadership style organisations need to adopt in order to create a positive experience of diversity management to continue to be successful. It involves

the leader in the role of adapting to contextual, environmental factors, achieving the commitment of diverse followers, and dealing with the complexity in achieving goals.

From Financial to Human Capital Management

Nowicki and Summers (2007, 118) expressed the view that 'dominant leadership philosophy has traditionally been based on the premise that the organization is purely an economic entity.' Management's priority was to leverage the capital and the resource in the most effective way. The role of leadership was to get the strategy right, to correct the structure and link the strategy to structure through defined systems to deliver high performance. The new leadership paradigm could be regarded as one of 'purpose, process and people' (Norwicki and Summers 2007, 18).

Robertson's Model of Diversity and Inclusion (2004)

Robertson (2004) investigated the meaning of diversity and inclusion in organisations. She posited that the results of her study support a distinction between the concepts of diversity and inclusion, although the terms may not describe separate types of work environment, but different approaches to diversity management. In her results, Robertson (2004) pronounced that the management of diversity might be more complex than the two-dimensional factors of 'diversity' and 'inclusion.' Her results endorsed the argument that diversity in organisations may be supported by sets of practices to manage fair treatment issues, increase stakeholder diversity and demonstrate leadership commitment to diversity, whereas inclusion on the other hand may be supported by practices to integrate diversity onto organisational systems and processes, and encourage the full participation and contribution of all employees. The instrument constructed by Robertson (2004) measured the degree to which each of the attributes supports diversity and inclusion in organisations. The empirical investigation of the reliability and factor structure originally supports a three-factor model. One of the factors was represented by the attributes for inclusion. All the attributes were described as characteristics of an inclusive organisation. One factor, Robertson (2004) found, included items relating to employee involvement and fair treatment. Other factors consisted of the organisational attributes for diversity.

Robertson (2004, 23) commented that scholarly literature on definitions of diversity primarily focused on heterogeneity and the demographic composition of groups or organisations, while definitions of in-

clusion focus on employee involvement and the integration of diversity into organisational systems and processes. The initial research of Robertson included 48 items – 24 for diversity and 24 for inclusion. The five factors were: Fairness in treatment, Representation, Top management support, Participation and Involvement. Robertson (2004) believed that diversity and inclusion 'encapsulate' the discrimination and fairness, and integration and learning diversity paradigms suggested by Thomas and Ely (1996). On the other hand, the second diversity factor included items relating to the representation of demographic diversity at all levels and outside of organisations, such as described in the access and legitimacy paradigms of Thomas and Ely. They described the effects of their diversity management paradigms on work group functioning in a qualitative study of three professional organisations, with the aim of theory development. They found three underlying perceptions of diversity: integration and learning, access and legitimacy, and discrimination and fairness perceptions. These perceptions, they claimed, 'are governed by how members of work groups create and respond to diversity' (Thomas and Ely 1996).

Cross-Enterprise Leadership

Crossan and Olivera (2006) advocated 'cross-enterprise leadership' as the new approach for the 21st century leader. Cross-enterprise leadership is a holistic approach that recognises four emergent realities that redefine general management for the 21st century manager. The contemporary business imperative requires an approach of cross-enterprise leadership roles, which creates, captures and distributes value across a network of businesses, not just in an enterprise. Cross-enterprise leadership differs from traditional management in that it takes cognisance of managing in a complex world, where the boundaries of organisations are fluid and dynamic, cutting across functional designations, departments, and business units. The evolving role of leaders in organisations was established in an online study by Concelman and Eilersten (2005) in a Development Dimension International research project, among 2766 leaders of 187 organisations in 15 countries. Respondents rated the importance of leadership roles. The findings of this research are shown in table 1.

Diversity Management as a Function of Leadership

Gallup Organisation studies (2004), led by Conchie, of more than 50 000 leaders in diverse industries, identified seven demands of leadership: *vi-*

TABLE 1 Importance of leadership role

Role	IIR	Leaders
Strategist	61%	46%
Captivator	59%	43%
Talent advocate	52%	41%
Change driver	51%	41%
Enterprise guardian	52%	40%
Navigator	39%	35%
Mobiliser	37%	34%
Entrepreneur	40%	31%
Global thinker	19%	14%

NOTES Adapted from Concelman and Eilersten 2005.

sion, maximising values, challenging experience, mentoring, building a constituency, making sense of experience and *knowing oneself.* Thomas (1990) popularised the term 'managing diversity' and argued that diversity traditionally has been associated with multicultural, multi-ethnic and multiracial aspects of the workforce. This study suggested that to meet these demands within the context of diversity is the ultimate leadership challenge in the near future. There is, however, a defined definite trend toward multiplicity of diversity dimensions. The evolving nature of workplace diversity presented above confirms the multiplicity of diversity dimensions. The managing of diversity becomes a function of diversity. Managing diversity incorporates planning, organising and leading of individuals with differences or diversity in the workplace, to achieve the strategic goal of the organisation. Jayne and Dipboye (2004) concluded that successful diversity indicatives depend on the perceptions of top management support for diversity. Friday and Friday (2003, 864) advocated that the execution and evaluation of a corporate diversity strategy use a 'planned change' approach to acknowledge diversity and to systematically manage and inculcate this into an organisation's culture. Dreachslin (2007, 151) quoted the work of Mayo, Paster and Meindl (1996), who found that the leaders of diversity teams rated their own performance lower than leaders of homogenous teams did. Visconti (2007) referred to Fosdick, the CEO of Nebraska Medical Centre, who said: 'The successful development of diversity-sensitive organizations is significantly different from increasing the percentages of minority representations.' It requires senior leadership to openly commit to the recruitment, retention, devel-

opment, and support of candidates previously under-represented. The leadership must educate and convince others that this is of strategic value and is the long-term direction of the organisation. Dreachslin (2007) was of the view that leaders of diversity groups are challenged to ensure well-functioning productive teams and to constructively deal with conflict. Parker of PepsiCo boldly stated: 'You cannot speak about growth and being a market segment leader, without speaking about diversity and inclusion' (Cole 2007, 26). Rijamampianina, (1996) advocated that diversity does not directly influence the group and organisational performance, but rather impacts on the management system at the level of four interrelated organisational processes, namely motivation, interactive, vision and learning. Activities undertaken at any one of these four processes have an effect on the other, leading to shifts in the performance of the group or organisation (Rijamampianina and Carmichael 2005).

Employee commitment exists at three levels, namely obligation, belonging and ownership. Managing the motivational process is primarily to increase each individual employee's commitment at the ownership level, so they will be willing to perform at their highest potential, according to Rijamampianina and Carmichael (2005). Cox and Beale (1997) examined the factor that motivates leaders to support diversity actively. Similar to the diversity management continuum suggestions of Gardenswartz and Rowe (1999), they explained that the process of being an effective leader within the context of diversity management commences with awareness, which recognises that diversity has an impact on organisational performance.

Research Design

The evolving role and nature of workplace leaders and diversity management are considered the development variable, and leadership style the independent variable in the research model. Race, gender and generational differences are regarded as explanatory moderators.

Research Group

The participants in this study were 2669 respondents from 11 different organisations, and 44 managers were selected from the 11 companies. The companies were geographically distributed across the country and included selected businesses operating in South Africa as subsidiary operations in three different industries. To determine the experience of diversity management, the population is made up of all the subjects in the

11 participating workplaces. The experiences of employees who are functionally illiterate and could not complete a written or electronic questionnaire are excluded from the empirical data. The unit of analysis is the respondents and managers involved in this study from whom the data were obtained.

Research Instruments

The empirical study includes two main components, namely leadership style and experience of diversity management. The research question is studied through an intensive focus examination of the empirical context for the purpose of analysis, in accordance with symbolic interaction methodology.

Robertson's (2004) final five-factor model indicated factors comparable and inclusive of the three paradigms of Thomas and Ely (1996) – Robertson's Factor 1 (the fairness factor) aligns with Thomas and Ely's discrimination and fairness paradigm; Robertson's Factor 2 (representation of diverse groups) aligns with the access and legitimacy paradigm; and Robertson's Factor 3 (leadership's commitment) was the same as the learning and effectiveness paradigm. These three factors that Robertson found were conceptually distinct. The remaining two factors (4 and 5) (employee involvement in work systems and diversity-related outcomes such as learning, growth and flexibility) are indicators of inclusion as defined at the outset of the theoretical study. The last two factors, although similar, were separated. The results of Robertson's study suggest that Factor 4 characterises organisations that are diverse and Factor 5 organisations that are inclusive.

The questionnaires were designed as assessment tools for measuring the degree to which employees experience attributes for diversity management, ranging from practices to increase the representation of designated groups to the broader people management initiatives intended to facilitate employee participation and engagement, learning and development in the organisation. The three main sections of the instrument include Robertson's factors (2004) and Thomas and Ely's (1996) paradigms. Questions were grouped in terms of Robertson's three factors. The remaining factors (4 and 5) were incorporated into the three sections of the questionnaire.

Sampling

Random sampling was not feasible in this study. Employees and managers were invited to participate voluntarily in the research, from a 'cap-

tive audience' of managers present at the time of research, to obtain quantitative data on leadership styles, as a matter of convenience. Convenience sampling was used to establish an approximation of reality. This non-probability research does not depend upon the rationale of probability theory (Trochim 2006).

To comment on the practical significance of groups, standardised differences between the means of the population are used. Cohen (1988), as referred to by Ellis and Steyn (2003), provided guidelines for the interpretation of effect size as: small effect: $d = 0.2$, medium effect: $d = 0.5$ and large effect: $d \geq 0.8$. In this article, data with d larger than and equal to 0,8 are considered practically significant. It is furthermore important to know whether a relationship between age, gender and race and the factor on diversity management is practically significant. The article seeks to determine whether the relationship is large enough to be important. The guideline of Cohen (1988), as referred to by Ellis and Steyn (2003), is used in this study as follows: small effect: $w = 0.1$, medium effect: $w = 0.3$ and large effect: $w = 0.5$. The Spearman rank order correlation coefficient is used, and also serves as an effect size to indicate the strength of the relationship. Steyn (2005) provides guidelines for the interpretation of the correlation coefficients' practical significance as $r = 0.1$: small, $r = 0.3$: medium and $r = 0.5$: large. A parallel between the results of the diversity audit and leadership styles obtained from the PMI, as presented on the typology of leadership, is drawn using these guidelines. The unit of analysis for the correlation between leadership style and the experience of diversity management is the 11 organisations. The analysis includes data presented in frequencies and means, using the SAS system (2007) and SPSS system (2005). The data is analysed by means of various appropriate statistical analyses to infer meaning. Construct reliability and validation of the diversity management questionnaire were originally assessed and confirmed in pilot studies in a South African beverage enterprise from 2004 to 2006. The questionnaire was found suitable for this study. The Cronbach alpha values were determined for each of the subscales, including in the diversity management questionnaire used for this article. The average interim correlation with the total was determined to establish the strength of factor items. The ideal value between 0.15 and 0.5 was used. The Cronbach alpha values of all subscales were found to fall within the required criteria (between 0.65 and 0.87).

The general reliability and validation of leadership style PMI (Hall and Hawker 1988) were assessed and confirmed with the motivational scales of the Edwards Preference Schedule (EPS). The report reliability of

TABLE 2 Factor pattern for Section 2: Leadership commitment to strategic alignment of diversity

Section 2: Leadership commitment	Factor 1*
Senior managers are committed to racial equality	0.80
Senior managers are committed to gender equality	0.76
Communication on diversity issues is effective	0.72
Diversity is regarded as a strategic issue	0.72
Senior managers are committed to employing more people with disabilities	0.64
Diversity does not clash with other objectives	0.41

NOTES * Rotation was not possible with Factor 1.

this inventory was assessed by coefficient alphas of 0.77, for personalised power (heroic leadership style), 0.67 for socialised power (engaging leadership style) and 0.74 for affiliative power. All questions in the second section (table 2) of the questionnaire (strategic alignment) were retained as one factor, and all the percentage variance explained by the factor is 48.46%.

Most of the mean scores for the experience of diversity management for all three main factors were somewhat neutral, with a tendency towards the negative for Factor 1 (table 3) and Factor 2 (table 4). Respondents tended more towards the positive for Factor 3. An interesting aspect is the mean score (table 5) for Factor 3 (diversity treatment fairness), which was visibly more positive (M = 3.19) compared to the mean score for Factor 1 (leadership commitment to diversity strategic alignment) – M = 2.85 (d = 0.41) and Factor 2 (representation of diverse groups – staffing and people management) – M = 2.85 (d = 0.47). This implies that employees are visibly less positive in stating that leaders are genuinely committed to the strategic alignment of diversity management and the people management process than about social interaction between race, gender and age groups, and that work processes are fair.

The mean scores for each item included in the three main factors were regarded as significant in understanding the specific diversity management experience.

Of the total number of respondents to the diversity management survey, 19% (table 6) were senior management, 42.2% middle, junior and supervisory management and the balance of 39% were employees. The proportional representation of supervisory, junior and middle managers in relation to employees was expected in view of the fact that a large pro-

TABLE 3 Mean scores for Factor 1 items: Leadership commitment to diversity strategic alignment

Items	M	SD
Senior managers committed to racial equality	3.06	1.20
Senior managers committed to gender equality	3.20	1.10
Senior managers committed to employing disabled people	2.47	0.96
Diversity regarded as a strategic issue	3.19	1.11
Diversity communication is effective	2.67	1.12
Managers have diversity objectives in performance appraisals	2.99	1.40

TABLE 4 Mean score for Factor 2 items: Experience of representation staffing and people management

Items	M	SD
Clearly defined to improve diversity	3.07	1.27
Individual career plans are in place	2.94	1.24
Recruitment and selection policies are fair	2.83	1.26
People who deserve promotions usually get them	2.71	1.24
It is not who you know but what you know and how you perform that gets you promotion	2.96	1.38
Increasing diversity does not lower standards	3.83	1.16
Satisfied with the way potential has been assessed	2.86	1.24
Managers have the skills to develop the diversity of staff	2.75	1.21
Enough pressure is exerted on managers to develop subordinates	2.71	1.20
Receive open and honest feedback	3.01	1.26
Performance is appraised regularly	2.98	1.23
Training is based on individual needs	2.93	1.21
Employees are regularly consulted about diversity	2.30	1.14

portion of functionally illiterate employees did not complete the questionnaire.

Because the majority of the organisations were in the production sector, by far the largest number of respondents (63%) was designated in terms of the EEA, being black, coloured and Indian, while 37% were white respondents. The majority of the respondents were traditionally male (78.7%), while only 21.3% were females.

Considered generally, respondents indicated a somewhat negative experience for Factor 2 (table 4). While respondents were neutral about

TABLE 5 Mean scores for Factor 3 items: Diversity fairness treatment

Items	M	SD
Sexist comments are generally made	2.68	1.08
Racist comments are generally made	2.99	1.20
Mix at social functions	3.08	1.20
People greet one regardless of race	3.41	1.20
Willing and open to learn about cultures	3.06	1.09
Black people accuse white people of racism when white people criticise them	3.46	1.13
Women do not accuse men of sexism when criticised	2.81	1.01
My manager treats me with dignity and respect	3.66	1.17
White people believe reverse discrimination exists	3.48	1.12
Black people have the same responsibilities and accountabilities	3.52	1.01
Generation issues	3.55	1.02

TABLE 6 Level of employees

Grade	(1)	(2)	(3)	(4)
Top/senior management	475	18,72%	475	18,72%
Middle & junior, supervisory management	1070	42,18%	1545	60,90%
Employees	992	39,10%	2537	100,0%

NOTES Column headings are as follows: (1) frequency, (2) percentage, (3) cumulative frequency, (4) cumulative percentage.

whether clearly-defined targets exist, they tend to be somewhat more negative in their response that people management and staffing practices are fair.

Respondents disagreed (M = 2.9) that individual career plans are in place, or that recruitment and selection practices are fair (M = 2.8). Similarly, they did not experience promotion practices as fair (M = 2.7). Respondents were also negative in their response to 'it is who you know' rather than 'what you know and how you perform' that result in promotions (M = 2.9).

While respondents were neutral (M = 3.0) in their view that they receive open and honest feedback, they were more negative about the skill of managers to develop subordinates (M = 2.7) or that enough pressure is put on managers to develop subordinates (M = 2.7). Moreover, respondents tended to be negative about regular performance appraisal

occurrence (M = 2.9) or that training is based on individual needs. The question could be asked: Is the experience of diversity management related to leadership style? And does an engaging leadership style relate to a more positive experience of diversity management?

SPEARMAN RANK ORDER CORRELATIONS BETWEEN EXPERIENCE OF DIVERSITY MANAGEMENT AND LEADERSHIP STYLE

For the purpose of analysing the relationship between the experience of diversity management and leadership style, the respondent leaders were considered as a proportion of the leaders in each workplace with certain leadership styles. Mintzberg's leadership styles are comparable with McClelland and Burnham's (1976) leadership motives and are referred to as a typology of the leadership styles, ranging from predominantly 'personalised' (heroic) at one extreme, engaging at midpoint, to highly affiliative at the other, with two 'outliers,' namely fight/flight leadership style and even leadership.

The results of the Spearman rank order (table 7) correlations are presented next to determine the relationship between the experience of diversity management and leadership style, and more specifically to establish whether an engaging leadership style yields a more positive experience of diversity management, as suggested by the theoretical study. As explained earlier, the Spearman rank order coefficient $r = 0.3$ is regarded as a medium practical or visible relationship and $r = 0.5$ as large and a relationship important in practice, to determine the relationship between the two variables. The Spearman rank order correlation is indicated using the symbol 'SR.' Spearman rank order correlations (SR) between leadership styles and the three main factors were determined. For the purpose of these correlations, three specific questions about leadership style from Factors 1 and 3 were included. These were 'Senior managers are genuinely committed to racial equality' (Question 1, Section 1, hereafter referred to as Q1.1), 'Senior managers are genuinely committed to gender equality' (Question 2, Section 1, hereafter referred to as Q2.1) and 'My manager generally treats me with dignity and respect' (Question 8, Section 3, hereafter referred to as Q8.3; see table 7).

In addition, Spearman rank order correlations were determined for Dd2, 'People generally make racist comments.' Large significant correlations are indicated in table 7. The results for medium and large correlations for each factor are discussed. Table 5 indicates the results of the

TABLE 7 Correlation between leadership style and diversity management factors

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Factor 1	0.35	0.15	0.35	0.17	0.10	0.47	0.02
Factor 2	0.41	0.04	0.44	0.05	0.19	0.36	0.19
Factor 3	−0.06	0.09	0.22	−0.01	−0.09	−0.38	−0.01
Q1.1	0.26	0.10	0.33	0.08	0.10	0.51	0.11
Q2.1	−0.20	0.05	0.38	−0.11	0.05	−0.55	−0.07
Q8.3	0.58	0.17	0.47	0.15	0.31	0.12	0.38
Dd2	0.63*	0.03	0.69*	002	0.03	0.24	0.07

NOTES Spearman rank order correlations, MD pair wise deleted, * $p < 0.05$. Column headings are as follows: (1) heroic, (2) heroic tendencies, (3) engaging, (4) affiliative tendencies, (5) affiliative, (6) fight/flight, (7) even.

leadership style typography correlated with the experience of diversity management.

Table 7 shows that heroic leadership style correlates visibly negatively with Factor 1 and Factor 2, as well as being practically significant with Q8.3 ('My manager generally treats me with dignity and respect'). Consistent with the Mintzberg model (2004), and McClelland and Burnham's theory (1976), the engaging leadership style correlates visibly positively with Factor 1, Factor 2, Q1.1 and Q2.1 and is practically significant with Q8.3. The fight/flight leadership style shows a practically significant negative correlation with Factor 1, Q1.1 and Q2.1 and a visibly negative correlation with Factors 2 and 3. It is interesting to note that no practically significant positive correlations were established for leaders with heroic tendency leadership styles.

On the other hand, the engaging leadership style resulted in a medium positive practically significant correlation with most of the dimensions measured in this study. As could be expected, the affiliative and even styles appear to correlate positively with the experience of being treated with dignity and respect by the manager, whereas the fight/flight style correlates negatively with Factors 1, 2 and 3.

Quite significant in these specific results is the strong positive correlation (SR = 0.63) between the heroic style and Dd2 ('racist comments generally made'), whereas a negative correlation exists between such comments and engaging leaders (SR = −0.69). The theoretical explanation of behaviour associated with the heroic leadership style suggested that the heroic leadership style could lead to communication,

which could be perceived as undignified and not 'race and gender free.'

From table 7 it is clear that the predominant leadership style is affiliative tendency and affiliative (43% for the combined percentage). Heroic and heroic tendencies measure 36% (for the combined percentages) as the alternative styles in the 11 workplaces. Mintzberg's (2004) preferred engaging leadership style is less commonly found in the workplaces (12%).

Conclusion

This article dealt with leadership and diversity as key constructs. It introduced the evolution of leadership as a science and studied the evolving role of leaders to adapt to a complex world of work. The article evaluated the nature of diversity management and sought to establish leadership as a component of diversity management. The results confirmed the suggestions of Jayne and Dipboye (2004), that perceptions of diversity management are not separable from perceptions of leadership style and traits. To meet the role expectations of leaders, managers need to display interactive competencies towards effectively managing a diverse workforce. Symbolic interactionists support the understanding of diversity management, using the model of Roberson (2004). The evolving nature of leadership and diversity contextualises interactive leadership styles. The study relies on the leadership competency model, explained in Mintzberg (2004), McClelland (1975) and Burnham (1976; 2003).

As is seen from the analysis of leadership theory, leadership appears to be approached from two fundamental perspectives: an organisational perspective (the influence that is experienced to change the direction of the organisation), and an individual task perspective (the influence that is directed at changing the work behaviour of an individual). It is suggested that the symbolic interactionist perspective integrates the two fundamental perspectives – in that both perspectives require meaningful, reflexive interaction and meaning, group members, organisational role and experience. Directional, strategic, visionary and interactive leadership has been the focus of more contemporary work.

The specific objectives of this article were to determine diversity management experience in the workplace; whether the experience of diversity differed between race, gender and generational groups; and whether this experience related to leadership style. All research questions posed were answered. The results support the propositions of the research. The selected workplaces included in this research appear to have made

progress from a historically assumed, outright negative experience of diversity management towards a more neutral experience, tending, however, towards the negative. Although the respondents exhibited a more positive experience of diversity fairness (factor 3), significant differences in experience between race and gender groups were found for Factor 1 (leadership commitment and strategic alignment of diversity management) as well as for Factor 2 (representation of diversity, people management). Most respondents favour the engaging leadership style for leadership commitment and strategic alignment of diversity, as well as in the case of staffing and people management and performance management policies, other than woman, who correlate positively with heroic leadership styles (Factors 1 and 2). There is a positive correlation between the heroic leadership style and the statement 'racist comments made.' Engaging leadership, however, correlates negatively with this item. Dominant group respondents are somewhat more likely to believe that senior managers are committed to racial and gender equality, and diversity is regarded as a strategic issue. Employees believe that people mix at social functions regardless of race, greet each other and are open to learn about each other's cultures, which could indicate that social action is on social identity conscious practices. This article suggests that managing diversity requires business leaders to adopt an approach to diversity management that is sensitive not to race and ethnic differences, but to the background and values of all individuals at work. Diversity management involves an understanding of and competence in managing and motivating a diverse group of employees within the complex of societal change (Human 2005). Having concluded that leadership style influences the experience of diversity management, it is recommended that organisations adopt Thomas and Ely's (1996) integration and learning paradigm.

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The Organisational Gap Model for Hotel Management

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This paper describes the development of the organisational gap model for hotel management. It descries a management measurement instrument that helps to assess the 3 organizational service gaps that are preconditions for delivering service quality (the positioning gap, specification gap and evaluation gap). The described theoretical model was constructed based upon the four organisational gaps of the Parasuraman et al. service quality model, then redefined and reassessed. Data were gathered on the sample of 500 questionnaires from the Slovenian hotel industry and analysed with exploratory factor analysis and structural equation modelling. The results can be useful guidelines for hotel management on how to improve the service delivery process.

Key Words: service quality model, organisational gaps, multivariate analysis, hotel industry

JEL *Classification:* M1, L83

Introduction

The business environment in the hotel industry is highly competitive, each hotel directly or indirectly competing with another hotel. The highly competitive environment prompts hotel managers to meet their customers' expectations as for as possible to enable the survival and success of the business (Ivankovič 2005, 137). In order to create a sustainable advantage, firms seek to develop core competencies: unique combination of processes, skills and/or assets (Kandampully 2007; Knowles 1999, 64). As competitors move more closely together in terms of product quality, it is the service quality, developed by these core competencies, which will be used more often to create a competitive distinctiveness (Zeithaml, Parasurman, and Berry 1990, 149; Olsen, Ching-Yick Tse, and West 1992, 163; Harrington and Lenehan 1998; Groenroos 1990; Johns 1999; Kandampully, Mok and Sparks, 2001; Uran, 2004; Uran et al., 2006; Kandampully 2007). Service quality can be utilized in determining how a business produces and delivers its products and services; in how it manages its employees; and in how it builds a strong brand identity and

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reputation. It is a process that includes both the responsiveness of the service and the consistency of the service delivery. Firms that learn how to match service quality as an operational approach with their competitive methods can create a formidable and sustainable competitive advantage.

The construct service quality has been the focus of many scholarly studies (Lehtinen and Lehtinen 1982; Lewis and Booms 1983; Parasuraman, Zeithaml and Berry 1985; Cronin and Taylor 1992; Teas 1993; Kandampully, Mok and Sparks, 2001; Uran, 2004; Uran et al., 2006; Kandampully 2007). There is a list, which covers the findings of international researchers regarding service quality and what characterises successful service companies:

- The managing director should be the leading practitioner of a professional and operative leadership. That means, among other things, creating and spreading a quality policy, developing challenging goals, plans and rituals, and dividing the responsibility in the organisation.
- Service quality has become a strategic area of development and an important part of the business plan and the vision of the company's development. It is also a central task for management at all levels.
- Successful service companies are characterised by a multiple focus. They manage to satisfy the needs and expectations of customers, co-workers and owners at the same time. They emphasise quality in results, processes and prerequisites for the service and how these interact. The customer orientation is especially important.
- Quality is considered as everyone's responsibility. Every co-worker has the knowledge, resources and authority to achieve high quality. The co-workers also control the quality of their own work.
- Service development and service construction, to build-in prerequisites for the right quality when developing new services is a key-issue.
- Emphasis on the development of quality in all processes in the organisation. The point is to prevent faults, not just to detect the ones already made.
- To develop service quality is regarded as maybe the most important measure to take in order to improve productivity and profitability.
- Emphasis on complaint management. Detecting customer dissatisfaction, learning to repair mistakes, compensate and explain the cause of the quality failure.

- Emphasis on the co-workers commitment to customer-perceived total quality.
- Increased emphasis on systematic measuring of the service quality. Measuring quality from the point of view of customers, co-workers and other interested parties.

In the hotel industry, products are produced and consumed simultaneously, while in other industries production and consumption are separated in time and space. For this reason, a high quality standard is hard to achieve. Another issue is direct contact between employees and consumers, which inevitably leads to errors that can easily contribute to the possible collapse of the system. If it is accepted that these errors are inevitable, then the goal is to minimize them. The battle for quality determines the path that everyone in the tourist industry needs to follow. Using a quality system, hotel managers try to eliminate errors and improve the guest's perception of quality issues. The usual perception is that a good quality hotel is one with five stars, but nowadays it is defined differently. Quality is not defined by category, but by the capability to deliver products and services that have district characteristics, and are designed in a way to please the guests and fulfil their needs (Groenroos 1990).

Since 1985, most of the debate has centred around the conceptualization and measurement of service quality based on the gap theory stream of research (Parasuraman, Zeithaml and Berry 1985; Zeithaml, Berry and Parasuraman 1988; Zeithaml, Parasuraman and Berry 1990; Zeithaml, Berry and Parasuraman 1993; Kandampully, Mok and Sparks, 2001; Uran, 2004; Uran et al., 2006; Kandampully 2007). It is evident from the literature that most of the empirical work had been focussed on the gap 5 perception-minus-expectations framework as operationalized by Parasuraman, Berry and Zeithaml (1985).

However, the management of service quality concerns wider issues of organizational structure, philosophy and culture that can also influence service delivery and ultimately customer perceptions of service quality (Bowen and Schneider 1988; Groenroos 1990; Heskett 1987; Kandampully, Mok and Sparks, 2001; Uran, 2004; Uran et al., 2006; Kandampully 2007). The discrepancy between expectations and perceptions is reported to be caused by a series of organizational behavioural factors.

A model known as the 'gaps model' or 'service quality model' has been developed to identify problems in service delivery (Zeithaml, Parasura-

man, and Berry 1990), which defines quality service through customer satisfaction. The idea is to identify problems and mistakes through recognizing gaps in the model and trying to avoid them. Hotel management can influence service delivery by narrowing organizational gaps and by improving service quality and customer satisfaction. The service quality model assumes that the difference between the service that the customers expect and the service they actually get is due to organizational gaps (Zeithaml, Parasuraman, and Berry 1990; Candido and Morris 2000; McCarthy and Keefe 1999). These gaps can be split into (Uran 2003):

- positional gap
- specification gap
- service execution gap
- communication gap
- evaluation gap

Studying the models shows that the model of Zeithaml, Berry and Parasuraman (1990) gives the best insight into the organisation and its methodological and conceptual factors, as well as the correlation with gaps in quality service. Using the four gaps of the basic quality service model, it is possible to explain inconsistencies in delivering the expected quality of the service. By consulting the literature and conducting a preliminary quality study of organisational gaps, the author discovered some weaknesses in the widely used Zeithaml, Berry and Parasuraman model and the need to extend it using theoretical support from the model by Candid and Morris (2000). This particular model identifies 14 gaps in quality service. Even though this author believes that the aforementioned gaps could be downsized into the model presented by Zeithaml, Parasuraman, and Berry (1990), some elements of the gaps were presented more accurately and extensively.

The extended service quality model (Zeithaml, Berry and Parasuraman 1988; 1990) was the framework used for developing the organisational gap model for hotel management. The original and extended model of Parasuraman, Parasuraman, and Berry (1988; 1990) model has 4 organisational gaps with 16 dimensions consisting of 50 elements. Derived from Zeithaml, Berry and Parasuraman's (1990) extended service quality model, and based upon an in-depth review of over 300 literature units (Uran 2003) on service quality management and existing service quality models, we are able to develop the model. The theoretical model comprises 26 dimensions with more than 100 elements stemming from

the 5 organisational gaps. The focus of this paper is on the three gaps specifically aimed at hotel management rather than personnel, namely the positioning gap, the specification gap and the evaluation gap. More specifically, the goal of this paper is to test the validity of an instrument designed to assess these service gaps in the Slovenian Hotel Industry.

THE POSITIONING GAP

The hotel management perceptions of guest expectations with regard to the desired quality of a hotel service may not be in sync with real customer expectations. Zeithaml et al. (1988) suggest that the size of the positioning gap in any service firm is a function of marketing research orientation, upward communication, and levels of managers. Candido and Morris (2000) stated that the gap is defined as a management lack of understanding of customer's expectations and perception of the service. It is motivated both by lack of initiatives to listen to the customer and by the lack of correct understanding when these initiatives are taken. The authors suggested that the gap could be further enlarged to include a lack of understanding of other external information, namely a service positioning gap or service quality strategy. The service quality strategy identifies the organization's competitive scope and its concepts of quality, through a selection of, and positioning on, the fundamental quality dimensions it wants to compete with. The service quality strategy is a set of guidelines that provides orientation for everyone in the organization. Similar dimensions to this gap are noted by McCarty and Keefe (1999), who acknowledge that the gap can be caused by a lack of consumer orientation, management commitment to service quality, service quality leadership and mission/vision clarity.

The size of the positioning gap in any hotel is proposed to be a function of: marketing research orientation, customer orientation, service quality improvement leadership, management's commitment to service quality and concepts of quality. Table 1 provides an overview of each of the above factors.

THE SPECIFICATION GAP

Gap 2, the so-called management perception-service quality specification gap, occurs when hotel management correctly perceives guest expectations, but is unable to translate this information into clear specifications. Garvin (1988) and Zeithaml, Parasuraman, and Berry (1988; 1990) suggest that four factors may account for this discrepancy, includ-

TABLE 1 Factors of the positioning gap

Dimension	Elements
1. Marketing research orientation	1. Amount of marketing research 2. Usage of marketing research 3. Collecting information on guest's satisfaction 4. Collecting information on guest's expectations 5. Extent of direct interaction between managers and customers
2. Customer orientation	6. Tendency to service quality 7. Willingness to change
3. Management's commitment to service quality	8. Service quality responsibility 9. Motivating for service quality 10. Responsibility for innovation and improvement 11. Priorities 12. Resource commitment to quality 13. Existence of internal quality programs
4. Service quality improvement leadership	14. Designing the operations according to customer's expectations 15. Discrepancy between expected and perceived service 16. Understanding the working conditions 17. Openness to change 18. Communication 19. Helping employees 20. Decision making style 21. Spreading the mission/vision 22. Understanding the mission/vision 23. Resources commitment to mission/vision
5. Concepts of quality ( )	24. Service quality as a business goal 25. Employee delegation 26. Service quality awareness 27. Adequacy of service quality concepts 28. Meaning of service quality dimensions 29. Goal setting 30. System of preventing service defects 31. Effectiveness of service quality concepts

ing: management commitment to service quality, existence of goal setting, task standardization and perception of feasibility. Specifications, along the service quality dimensions, are useful to define what quality is. Frequently, organizations do not possess any kind of formal specification, which results in aggravated service variability and lower quality (Zemke and Schaaf 1989). Specifications are required to guide personnel in their activities. Specifications are also required as a means of

comparison for effective quality evaluation. Candido and Morris (2000) assert that this gap exists because of a lack of analysis, design and definition of service quality specifications, or when specifications exist because of an inconsistency between those specifications and the strategy content or the perceptions that management held of customers' expectations. Several more factors can create this gap, including: short-term profit orientation (Zeithaml, Parasuraman, and Berry 1988; 1990), internal communication-levels of management (Zeithaml, Parasuraman, and Berry 1988; 1990; Groenroos 1990; Candido and Morris 2000), poor service design, and absence of customer-driven standards.

The size of the specification gap in any hotel is proposed to be a function of: designing specifications, task standardisation, perception of feasibility, levels of management, HRM and integration/coordination. Table 2 provides an overview of each of the above factors.

THE EVALUATION GAP

The perception gap and its instrument (SERVQUAL) are the only service quality evaluation in the model. It is necessary to gain some information about service quality before the so-called moment of truth or service consumption. After assessing the model, the need for inclusion of the evaluation gap became clear. The thesis was confirmed as well by the Candido and Morris (2000) gap charting efforts. They found it necessary to have the means of comparison for effective quality evaluation. These facts are supported McCarthy and Keefe (1999), and others. The size of the evaluation gap in any hotel is proposed to be a function of:

1. measuring performances
2. feedback

Table 3 provides an overview of each of the above factors.

Methodology

Based on the literature above, an instrument was designed to assess organisational gaps in the Slovenian hotel industry. Antončič (2000) stresses the importance of validation of the constructs that have an American basis, in Slovenian contexts. This is why reason we approached the qualitative analysis of theoretical concepts by employing 15 experts from the Slovenian hotel industry. The results of qualitative analysis provided the basis for the final operationalisation of the measurement instruments. This analysis also pointed out that the theoretical concept

TABLE 2 Factors of the specification gap

Dimensions	Elements
1. Designing specifications	1. Existence of formal specifications 2. Specifications as a business efficiency measure 3. Service specifications design precision 4. Having enough information for specification design 5. Consistency between specification and business strategy and consumer expectations 6. Service specification directed towards low cost
2. Task standardisation	7. Usage of automatization 8. Necessity of investment in quality systems 9. Operations procedures 10. Amount of resources
3. Perception of feasibility	11. Cost perceptions 12. Total service fit to consumers' expectations 13. Perception of service quality
4. Levels of management	14. Number of layers 15. Flattening and inverting the hierarchical pyramid 16. Getting information from employees 17. Means of communication 18. Joint problem solving and decision making
5. Integration/coordination	19. Cooperation between managers 20. Control/supervision 21. Compatibility 22. Lack of coordination 23. Connection between subjects in the organisation 24. Education and joint projects 25. Cooperation with other organizations
6. HRM	26. Selection 27. Level of autonomy 28. Confidence 29. Meaning of education 30. Delegation 31. Helping employees 32. Perceptions of management style

cannot be tested directly, but should be divided into two models. First, the service quality model for the hotel management with the following gaps: positioning gap, specification gap and evaluation gap. Here a 7-point Likert scale was used. And the second, a model for the contact personnel with the service delivery gap and the communication gap, or a 5-point Likert scale. This paper presents only the first model. The sample, data collection and data analysis method were chosen.

TABLE 3 Factors of the evaluation gap

Dimensions	Elements
1. Measuring performances	1. Benchmarking measures 2. Responsibility 3. Self-evaluation 4. Service quality perception 5. Progress
2. Feedback	6. Time needed for collecting information 7. Spreading information about efficiency

SAMPLE

Data were collected by using the mail survey administered in Slovenia: 38 hotel companies were included, comprimising 95% of all employees in the Slovenian Hotel Industry. Altogether, 500 questionnaires for hotel managers were sent, for all the levels of management, while 100 questionnaries were addressed directly to the general managers. Some 33.6% of the sample returned usable questionnaires.

DATA ANALYSIS

The gathered data were then analysed with the chosen statistical methods as suggested by Zeithaml, Berry, and Parasuraman (1988). For exploring the gap structures the exploratory factor analysis (EFA) was used with the support of SPSS software. To confirm the gap structures the structural equation modelling (SEM) was employed with the support of EQS software. Each gap was explored individually by EFA until the appropriate structure was reached. This phase resulted in the integrated organisational gap construct that was then tested with the SEM.

Results

The results are divided into 3 parts. First, the results of EFA are presented. Special attention is dedicated to the convergent and dicriminant validity of the construct. Second, the confirmation process of the constructs is presented. Finally, the end result of the organisational gap assessment for Slovenian hotel management is presented.

EXPLORATORY FACTOR ANALYSIS

All the elements defined in theory for every identified gap were used (positioning gap with 6 dimensions and 31 elements, specification gap with 6 dimensions and 32 elements, and evaluation gap with 7 elements) for

conducting EFA by using the overall sample (163 cases). Before the analysis, all measurement items were examined for normality. No significant departures from normality were found. The existence of sufficient correlations is a more critical issue. The appropriateness of factor analysis was determined by examining the correlation matrix of gap items. The matrix had a sufficient number for justified usage of EFA. The Bartlett test of sphericity, which statistically tests the presence of correlations among underlying variables, showed that the correlation matrix had significant correlations (significant at 0.05 for all items as well as retained items). The Kaiser-Meyer-Olkin measure of sampling adequacy was 0.749 for retained items, which suggests medium adequacy.

The number of factors to be extracted was determined *a priori* on the basis of the number of dimensions. The construct had 13 dimensions. Because the gap dimensions were identified according to the different gap models (never empirically tested), we assumed that the initial number of the factors would be lower. The number of factors was then determined by using the latent root, percentage of variance and scree test critea. The scree plot of initial run indicated that 2 to 8 factors may be an appropriate number, whereas the latent root criterion indicated 5 factors (eigenvalue above 1). The percentage of variance with the final number of items for 2 factors was 47.447% to 69.583% for the 5-factor solution.

Three-to-eight factor solutions were tested. In the end, the solution with highest number of items and lowest number of the factors was chosen, as suggested by Hair et al. (1998). The majority of the items were excluded because of low communalities or factor loadings. Some were excluded because they were loaded on the wrong dimensions, or else on two dimensions. The retained solution had 4 factors with 18 items (eigenvalue 1.280, percentage of variance 63.478%). The communalities of retained items were above 0.400 (with the exception of items P15 and P20). The retained 4 dimensions, with 18 items of organisational gap for hotel management, are presented in table 4.

The factors were named: marketing research orientation (F1), service quality improvement leadership (F2), designing specifications (F3) and measuring results (F4). All dimensions have theoretical support and present key factors of the organisational gap for hotel management.

CONFIRMATORY FACTOR ANALYSIS

A confirmatory factor analysis was conducted in order to validate the findings of EFA and to examine the convergence of the organisational

TABLE 4 Factor loadings of the organisational gap for hotel management

		NKV-F1	NKV-F2	NKV-F3	NKV-F4
Marketing research orientation (NKV-F1)					
P3	Collecting information on guest's satisfaction	1.031			
P1	Amount of marketing research	0.608			
Service quality improvement leadership (NKV-F2)					
S28	Confidence		0.861		
P9	Motivating for service quality		0.723		
S29	Meaning of education		0.704		
S20	Control/supervision		0.668		
S31	Helping employees		0.661		
S24	Education and joint projects		0.656		
S27	Level of autonomy		0.635		
P20	Decision making style		0.632		
S17	Means of communication		0.521		
P28	Meaning of service quality dimensions		0.410		
P15	Discrepancy between expected and perceived service		0.322		
Designing specifications (NKV-F3)					
S2	Specifications as a business efficiency measure			0.788	
S3	Service specifications design precision			0.635	
Measuring results (NKV-F4)					
L2	Responsibility				0.712
L7	Spreading information about efficiency				0.657
L5	Progress				0.626

gap for hotel management dimensions. The methodology suggested by Antončič (2000) was used and five model fit indices were calculated: NFI (normed fit index), NNFI (non-normed fit index), CFI (comparative fit index), SRMR (standardized root-mean-square residual) and RMSEA (root-mean-square error of approximation).

Two samples were used, one for analysis the other for validation. Confirmatory factor analysis confirmed the above findings on the construct of dimensionality. All items had positive, high and significant coefficients. No items were found to differ between the samples in terms of

TABLE 5 The organisational gap for hotel management dimension's scale convergence

Dimensions	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Marketing research orientation	2	0.780	0.608	1.031	*	*	*	*	*
Designing specifications	2	0.765	0.635	0.788	*	*	*	*	*
Measuring results	3	0.705	0.633	0.765	1.000	*	*	*	*
Service quality leadership	11	0.883	0.322	0.861	0.937	0.850	0.950	0.050	0.143
Mean		0.783	0.550	0.861					
Total	18 (8)	0.798	0.322	1.031	0.904	0.930	0.960	0.050	0.060

NOTES Column headings are as follows: (1) no. of variants, (2) Cronbach Alpha, (3) Interval stand. loadings min., (4) Loadings max. Index: (5) NFI, (6) NNFI, (7) CFI (8) SRMR, (9) RMSEA.

coefficients and errors. Statistical information on each dimension's internal consistency (Cronbach alpha reliability statistic) and convergence (model goodness-of-fit indices) based on overall sample ($N = 163$) is indicated in table 5.

The marketing research orientation scale showed very good reliability (Cronbach alpha 0.780) and convergence in terms of coefficients (all were positive, high and significant). Model fit indices were not calculated, due to the low number of items (less than 3). The designing specification scale showed very good reliability (Cronbach alpha 0.765) and convergence in terms of coefficients (all were positive, high and significant). Model fit indices were not calculated, due to the low number of items (less than 3). The measuring results scale showed good reliability (Cronbach alpha 0.705) and convergence in terms of coefficients (all were positive, high and significant). Only NFI was calculated and it demostrated good convergence in terms of the goodness-of-fit indice. The service quality improvement leadership scale showed very good reliability (Cronbach alpha 0.883) and convergence in terms of coefficients (all were positive, high and significant) and some of the goodness-of-fit indices (NFI and CFI over 0.90, NNFI is above, but still good, SRMR is 0.05, as recommended, critical is just THE RMSEA value). Overall, the dimensions' scale showed good reliability and good convergence in terms of coefficients, and moderately good convergence in terms of model fit indices.

The organisational gaps for hotel management dimensions were tested for convergent and discriminant validity together in the organisational gap for the hotel management construct structural model, where di-

TABLE 6 The organisational gap for hotel management construct convergent and discriminant validity

Dimensions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Marketing research orientation (OTR)	0.696	0.540	0.446	1	0.191	0.252	0.397
Designing specifications (OS)	0.679	0.493	0.409	0.191	1	0.323	0.439
Measuring results (MR)	0.656	0.449	0.356	0.252	0.323	1	0.291
Service quality leadership (VIZ)	0.746	0.685	0.665	0.397	0.439	0.291	1

NOTES Fit index: NFI – 0.904, NNFI – 0.930, CFI – 0.960, SRMR – 0.050, RMSEA – 0.060. Models: (1) composite reliability, (2) variance extracted, (3) variance shared. Correlations: (4) OTR, (5) OS, (6) MR, (7) VIZ.

mensions were modeled as first order latent constructs and correlated with each other. The model showed reasonably good fit: NFI 0.904, NNFI 0.930, CFI 0.960,with the exception of SRMR 0.050 and RMSEA 0.060, all coefficients were found to be positive, high and significant (between 0.507 and 0.862). These results were very similar across different control groups: size of the company, random split. The model reliability, variance statistics and inter-dimension correlations are indicated in table 6.

Two dimensions demonstrated good composite reliability – at or over the threshold of 0.700 (Hair et al. 1998), two were just a little below. Variance extracted was found to be somewhat below the threshold of 0.500 for 2 dimensions. Correlations among the dimensions were all significant and ranged from 0.191 in 0.439, demonstrating convergence, but not redundancy, of the dimensions. Overall, the model's fit indices, composite realiability, variance extracted, and correlations indicate moderately good convergent validity. There is also evidence of discriminant validity, because correlations are not too high (not over 0.70) and even more importantly, because the variance extracted for each dimension is higher than the variance shared with other dimensions.

Multidimensionality of the organisational gap for hotel management construct was also tested by comparing the relative contributions of two models. The first is the model that includes only one common organisational gap first order factor (the one common factor model) and is based on the assumption of unidimensionality of the organisational gap concept. The second is the dimensions-only model that is based on the assumption of non-unidimensionality of the organisational gap concept. These 2 models are nested in the model with both dimensions and the common factor, a method that allows for comparison of the models. The comparison is shown in table 7.

TABLE 7 The dimensions-only vs. the one common factor model

Dimensions	(1)	(2)	(3)	(4)	(5)	(6)	(7)
M1: One common factor model	145.956	20	0.418	0.254	0.467	0.150	0.197
M2: Dimensions-only model	25.516	16	0.904	0.930	0.960	0.053	0.061
M3: Model with both factor and dim.	14.491	11	0.945	0.962	0.985	0.048	0.045
M1 M3: Contribution of dimensions	131.465	4	0.901	0.820			
M2–M3: Contrib. of the common factor	11.025	5	0.432	0.174			

NOTES Column headings are as follows: (1) χ^2 (all Chi-squares significant at 0.001), (2) *df*, (3) NFI, (4) NNFI, (5) CFI, (6) SRMR, (7) RMSEA.

The one common factor model indicated overall poor fit and low fit relative to the dimensions-only model in all goodness-of-fit indices. Model fit indices of the dimensions-only model and model with both the dimensions and the common factor are similar. The contributions of the 2 models are shown in the last 2 rows in table 4. Both Chi-square differnces are significant, indicating that both models may contribute to explanatory power. However the NFI and NNFI for two models' differences demonstrate that the contribution of dimensions seems to be quite substantial (NFI 0.901; NNFI 0.820), whereas the contribution of the overall factor seems to be rather minimal (NFI 0.432; NNFI 0.174). Overall, the one common factor model seems to be inferior to the dimensions-only model. This can be considered a strong indication of multidimensionality of the organisational gap for the hotel management construct. Hence, the organisational gap for the hotel management construct developed in this study can be seen as a good measure of the organisational gap for hotel management that captures both dimensionality as well as the overall shared characteristics of the organisational gap for hotel managers. It presents all the necessary evidence for the existence of convergent and discriminant validity of the construct. The organisational gap model for hotel management has 4 dimensions with 18 elements.

THE ORGANISATIONAL GAP MODEL FOR HOTEL MANAGEMENT IN SLOVENIA

The redefined organisational gap model for hotel management was tested in the Slovenian hotel industry in order to assess the size of organisational gaps in Slovenian hotels. The results are presented in table 8.

According to the result of the research, the biggest problem of the Slovenian hotel industry is the lack of dedication of the hotel managers to define hotel service specifications (mean 3. 90). On the other hand, this

TABLE 8 The organisational gap of Slovenian hotel management (163 cases)

Elements/dimensions	Min	Max	Mean
P3 Collecting information on guest's satisfaction	2	7	5.47
P1 Amount of marketing research	3	7	5.19
Marketing research orientation			5.33
P20 Decision making style	2	7	5.06
P9 Motivating for service quality	2	7	4.93
P15 Discrepancy between expected and perceived service	3	7	5.69
S28 Confidence	2	7	5.73
S20 Control/supervision	2	7	5.65
S31 Helping employees	2	7	6.02
S24 Education and joint projects	3	7	5.10
S29 Meaning of education	4	7	6.31
S17 Means of communication	2	7	5.55
S27 Level of autonomy	2	7	5.72
P28 Meaning of service quality dimensions	3	7	6.33
Service quality improvement leadership			5.64
S3 Service specifications design precision	1	7	3.48
S2 Specifications as a business efficiency measure	1	7	4.33
Designing specifications			3.90
L2 Responsibility	1	7	5.47
L5 Progress	1	7	4.43
L7 Spreading information about efficiency	3	7	5.50
Measuring results			5.13

is the area that can be addressed and developed to increase service quality. Still, the general assessment of the organisational gap of hotel management (average value 5.00) is that, although the managers understand the meaning of conducting marketing research, of service specification, of performance measurement and of implementation of service quality systems, it is nevertheless a rare practice in Slovenian hotel industry for various reasons.

Conclusion

The extended service quality model was the framework for assessing organisational gaps. The original and extended Parasuraman's et al. model has 4 organisational gaps with 16 dimensions with 50 elements. Due to

the reason that the model was not tested in the tourism or hotel industry, or explored and confirmed with appropriate statistical methods, we decided to redefine and reassess the model. Based on the in-depth review of over 300 literature units on service quality management and identification of the existing service quality models, we were able to construct the concept of the service quality gaps.

Because in the original model service quality is evaluated through gap 5 or the perception gap, we found it necessary to add the fifth gap in the service quality model- evaluation gap. It is essential to have supervision and control – or better to say assessment – of the service delivery before the consumption of the services. The service quality gap theoretical concept consists of 5 gaps (positioning, specification, service delivery, communication and evaluation) that have 26 dimensions with more than 100 elements. The focus of this paper is on the three gaps specifically aimed at hotel management rather than personnel, namely the positioning gap, the specification gap and the evaluation gap. To overcome the weaknesses of prior researches, a complex research was undertaken to identify the representative structure and dimensions.

Authors (Parasuraman et al.) of the extended service quality model suggest that the model should be tested with the appropriate multivariate statistical methods such as factor analysis. Measures of the theoretical construct affecting each gap can be viewed as an indicator of that gap. Therefore, it is possible to recast the conceptual model in the form of a structural equations model. The model was tested by collecting data on the indicators of gaps through questionnaires and by analyzing data with exploratory factory analysis, and then confirming the structure of the constructs with structural equation modelling.

The results of this study suggest that the assessment tested here is both valid and reliable. Clearly, although further testing is required, the findings are nevertheless encouraging. In the Slovenian context, some dilemmas were revealed. The Slovenian hotel managers should put more effort into obtaining the right information about their guests and planning the effective service quality systems. In order to fully use service quality as a competitive advantage, service positioning, specification and evaluation must be further explored.

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The Service University

Arild Tjeldvoll

The traditional western research university's academic freedom is increasingly challenged by external economical interests. This has consequences for what has been regarded as a key quality dimension of a *university*. The balance between institutional autonomy, academic freedom and accountability to external stakeholders is claimed to be changing in disfavour of the academic freedom kept up by the professoriate. From its stakeholders the *institution* is expected to serve politicians, state bureaucracy and market in a qualitatively different way from before, primarily from economic motives. Is academic freedom at all possible in an institution predominantly financed by producing services to meet economic criteria? A likely answer would be no, and another tentative, answer could be that yes, it is possible, due to the strong academic legacy imbedded in western academics' identity – and to the global communicative room of free actions made possible by the new information technology.

Key Words: service university, quality, academic freedom, ICT, management
JEL *Classification:* Z

All over the world the university's function and organisation is changing dramatically. Due to globalization forces the old, academic and autonomous *institution* is pushed to change its organisation and production of research and training in order to be accountable to governments and markets. The traditional balance between individual academic freedom (for the professors), autonomy for the institution and accountability to those providing the funding – is challenged. Many claim that the balance is tipping in favour of the direct economical needs of society and the market, at the cost of opportunities for doing basic research and with less opportunity 'to speak truth to the power' of state and market. The purpose of this paper is, firstly, to illustrate this new situation for the academic research university by pointing both to changed policies and to reactions from the academic community, and secondly, to reflect on how freedom and autonomy may still be achieved while forced to respond to increased accountability from stakeholders.

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More specifically, the purpose of the paper will be reached, firstly, by illustrating universities' changed situation at individual, organisational and conceptual levels; that is micro-experiences by professors, new institutional labels (enterprise universities), twisting of the concept of quality, the new mode of knowledge production and higher education as international 'free trade.' Secondly, the label most powerfully catching key features of the 'new' university – *the service university* – is outlined. Thirdly, three scenarios about university development under global capitalism are envisaged, among which, one – the academic service university – is seen as one where a fair balance between freedom, autonomy and accountability may still be possible. In concluding, some assumed conditions for keeping up the balance are envisaged.

The New World of Higher Education

THE PROFESSORS' DISCONTENT

World wide, university professors seem to feel an emotional discontent about their traditional place in the social division of labour (Tjeldvoll 2002a). The professoriate seems bewildered about how to react to the paradox that the university is given greater autonomy simultaneously with less funding from the State (Altbach 1996). Although these tendencies are global, reactions to the discontent seem to be especially strong in countries like USA, Canada, UK and Australia (Harman 1996). In these countries professors find that the university organisation and frame conditions have dramatically changed in a few years.

The status of scientific knowledge organised as disciplines seems to be declining. The basic disciplines that students of the 50s and 60s met with were status cores of the university's structure and content. Some disciplines have shrunken, changed or disappeared completely (Welch 1998). Professors see such changes as due to primarily two conditions: society's need for studies of a more practical orientation, resulting in priority for 'profession studies.' Secondly, there have appeared new and often social policy motivated research needs, anchored in e. g. feminism and multi-ethnic cultures – challenging the traditional disciplines, not least by their problem-oriented and declared multi-disciplinary approach (Welch 1998). The changed status of the disciplines has been unpleasant for many professors, because it has challenged their identity, of which the academic part is an essential component.

Pressures for changed teaching methods have also caused pains. The

traditional lecture approach has been challenged by the new ICT. 'Virtual' pedagogy is literally unlimited in relation to factors like time, space and form of communication (Weber 1996). Socio-cultural learning theory and the e-learning industry's need for 'motivated learning just in time' is illustrated in the slogan 'from teaching to learning.' The tacit message to professors is that their traditional teaching is not producing efficient learning (Tjeldvoll and Jacobsen 2002).

Students' morale and morality are different from before. When universities became institutions for mass higher education, the professor met with lots of students of a different socio-cultural background and motivation (Tjeldvoll 1999). Many students behave like the 'school tired pupils' of modern secondary schools. Their motivation for university education seems to be rather instrumental. Earlier, more students were attracted to the university by a more genuine academic interest. Now their ability to work independently seems weaker. Students are also encouraged to evaluate their professors. Such activities focus on the professors' communicative competence, including his talent for being entertaining. Many professors see student evaluations as a paradoxical activity: How can students who have not yet attained the knowledge they have come to learn, be capable of assessing the quality of professors' teaching?

Another source of discontent is the professors' changed relations to key decision makers inside and outside campus. Professors used to have a strong influence on policy decisions of the institution. Now they feel that what used to be their support staff – the Administration – has taken control over decision-making processes. The Administration has increased heavily in terms of resources and influence, and manages the university more from an administrative than from a scientific rationality. Also, the changed behaviour of the Mandator of the university, the State, is painful for the professor. It is no longer a faithful financial patron of the university. Professors feel pressure to take external work in order to bring in additional revenues to the institution.

Finally, the perhaps strongest discontent is the fear of not having a tenure position. Increasingly people are hired on contract, for a fixed time, or on conditions where it can be terminated when the Administration finds that the professor is no longer relevant to the central goals and strategies of the university (Welch 1998). Professors feel that they are increasingly addressed by a new language with a vocabulary of the market economy: Competition, quality, profit, investments, bench marking, accountability, efficiency and 'total quality management' (Donlagic 2002a).

Why have all these sources of professors' discontent become active around the turn of the 21st Century? What has actually happened to the external and internal context of the professors?

'ENTERPRISE UNIVERSITIES' APPEARING

Pressures on the higher education sector from global capitalism seem also to have produced new labels to indicate the modern character or profile or branding of an institution. In literature and debate a stream of new prefixes is appearing. The most bluntly market oriented 'new university' so far seems to be the 'entrepreneurial university' (Clark 1998). The intended meaning to be communicated is of a university being similar to an effective market-based company, which has to be acting effectively towards its surroundings in order to survive successfully. Another label is 'the innovative university' – the connotation is experienced as less provocative than 'entrepreneurial' by the professors. Actually, the content of meaning is the same. Other labels are 'the Net University' and 'the Virtual University' (Weber 1996) (e. g. Phenix University, owned by the Apollo Group). There are found different degrees of being virtual. Some are purely net-based, without any physical campus at all. Other institutions virtualise parts of their activities, often in virtual university consortia, in order to offer a broad package of competitive programmes. In the US this development includes both private and public institutions. Finally, there is the 'service university.' Studies using this concept have especially focused how traditional, public research universities in different countries respond as organisations, when the State reduces funding, and the universities themselves have to make ends meet (Cummings 1997).

Behind these new labels for a university there are certain shared background factors attached to 'globalisation,' and some specific factors caused by stress on particular aspects of the institution's goals, strategies and organisation. The shared factors are ideology, economy and communication technology. These factors are interconnected, and the Cold War may be seen as a relatively distinct starting point for this particular development of universities. The Internet and attached technologies were released in the most clear-cut forms by US defence policies, through the Government's successful co-operation with leading US research universities (Castells 1996). This co-operation affected a communication technology revolution that strongly influenced the political power balance and development in the Soviet Union, finally causing its collapse. The ideological consequences were dramatic. With the fall of the Berlin

Wall, there was also a fall of collective ideology, with a complementary advance for liberalist ideology. Liberalism and the ICT Revolution stimulated market economy and entrepreneurial thinking in corporate life, in the public sector, higher education included, and among people in general. Today the world is in practice one market (cf. WTO). The inbuilt development dynamic of the information technology and the corporations' profit motive are the key drivers of the global economy. This economy is increasingly knowledge-based, and universities are seen as the 'power stations' for supplying this economy with its core means to stay competitive – new knowledge (Castells 1994). Many are concerned about how this development will affect what is traditionally seen as university quality.

WHEN DOES A UNIVERSITY HAVE QUALITY?

Quality is a buzzword, now applied in almost all spheres of human life. Related to universities the quality issue takes a particular significance – because universities in the western world have been 'institutions' (socio-cultural cornerstones alongside e. g. the Church and the Family) representing certain value dimensions basic in our civilisation (Welle-Strand 2000).

Quality can constructively be related to Max Weber's distinction between *value* goals and *instrumental* goals (Weber 1964). Value goals are about fundamental, universal qualities (or characteristics or properties), in principle valid for all human beings. Instrumental goals are related to economic and practical issues, often decisive in order to achieve value goals. For example, it is important for a university to have a healthy economy, strong enough also to employ philosophers and sociologists researching conditions for civilisation and daring to speak truth to powers – like State and Market. The value aspect and the instrumental aspect of quality can be further explained by two labels: Quality as fitness of purpose *for* something, and quality as fitness of purpose *of* something

Quality as 'Fitness of Purpose for'

Quality may be related to how fit a particular instrument, tool or strategy is for reaching a given goal, for example, the goal of competitiveness for a university to recruit students. When the instrument, e. g. a professor's organising of learning, is producing high achievements by the students, quality of teaching as instrument has been high in terms of making the institution competitive. The instrumental 'purpose for' quality concern

is related to effectiveness, efficiency and, with globalisation as the context, increasingly to competitiveness. There is high quality of teaching activities when learning achievements by students are high, they are attained at lowest possible costs – and graduates from this institution are competitive in the job market.

Quality as 'Fitness of Purpose of'

Quality as 'fitness of purpose of' is concerned not about instruments or strategies to achieve something, but about the quality of a purpose itself. Is our aim or goal valuable? Is it a worthwhile goal we are trying to reach with instruments of high "purpose-for" quality? Instead of concentrating on the quality of the instruments, the focus here is on the essence, or meaning of what we are doing. Is the purpose important in a value and moral perspective? Quality of education can be taken as an example. Is education primarily a means for producing work competence for particular jobs? Or, is the quality of education primarily related to the student's personal development to maturity and moral standards as a responsible human being in a civilised society?

The Clash between Quality as 'Fitness of Purpose for' and 'Fitness as Purpose of'

Within higher education, in the western world, there are today observed intensive struggles between the two quality camps of 'fitness as purpose of' and 'fitness as purpose for.' Governments/Ministries of education, large groups of students and working life are concerned about higher education's quality in terms of qualifying people for being continuously competent and competitive in the global knowledge economy (Tjeldvoll 2002b). Continuous relevant competence is seen as a necessity for survival of individuals and nations in the global economical competition. A slogan from this camp frequently heard is: Learn or Burn (Welle-Strand and Tjeldvoll 2002).

The Quality as the fitness of "purpose of-camp" is represented by groups of professors and intellectuals with their value roots in both radical and conservative ideologies. They claim that success of the Quality as 'fitness of purpose for-struggle' will be at the cost of the Quality as 'fitness of purpose of' – the classic values or purposes of the university as an autonomous social and cultural institution in a civilised society. This camp claims the overall mission of a research university as a social institution to be: basic research and training of students for creative,

independent and critical thinking. Over and above a key purpose of universities should be to train young people to speak truth to power – in order to counteract dehumanising effects from the purpose of one-sided economical instrumentalism.

The paramount question in terms of universities' quality development obviously is: *Is it possible to organise a university that simultaneously can serve the purposes of human civilisation/culture-values and the needs of the economy, from which we all are surviving?* And, if yes, how is such a double purpose designed in terms of a relevant university organisation and production activities of research and organising of learning? To play a bit on words – what would be indications of *quality of the strategies* achieving Quality both as 'fitness of purpose of' and 'fitness of purpose for'?

Some stakeholders would tend to think that a functional division of labour could be that classical research universities should mainly take care of 'purpose of,' while professional schools could take care of 'purpose for.' However, some would then claim that such a division would imply an intellectual class structure within higher education – between the 'culturally educated' and the 'instrumentally trained.' Such 'inequality' might have difficulties in being accepted in a society with a strong democratic ideology. Maybe the majority of students are not interested in being 'purpose of-educated.' Maybe they wish purpose for-quality and a lucrative job. Maybe it is not possible under mass higher education to keep up the traditional purpose of-ideal, like before, for everybody. The student market may refuse it. In Norway there seem to be some irrational tensions between the purposes of academic elitism, of equality thinking and of what is needed for staying competitive as universities in an increasingly global higher education market (Tjeldvoll 2001). The tension between the two different aspects of quality may also be illustrated by the difference between Mode 1 and Mode 2 of knowledge production.

NEW MODES OF KNOWLEDGE PRODUCTION AND NEW PUBLIC MANAGEMENT

The general understanding of what science and knowledge actually are has undergone a dramatic reinterpretation during the last part of the previous century (Cowen 1996). This has contributed to loss of power for the professors (Altbach 1996). A new understanding among important stakeholders of the university as an organisation is manifested in changed principles for university management. The ideas of 'new pub-

TABLE 1 Mode 1 and Mode 2 of knowledge production

Mode 1	Mode 2
Problems of knowledge are set and solved in a context governed by academic interests of a specific community.	Knowledge is produced and carried out in a context of application.
Based on the disciplines	Cross/trans-disciplinary*
Homogeneity	Heterogeneity**
Hierarchical structure, and tends to preserve its form	Heterarchical*** and transient
Quality control by peer review judgements	Socially accountable and reflexive

NOTES * Cross/trans-disciplinary: (1) The knowledge production is started from practical problems, not from theoretical oo discipline based problems. (2) The production takes place in a 'project organisation,' not in a fixed and permanent structure, like a department or institute. When the production is finished the organisation may be closed down. (3) The knowledge production implies problem solving, including both empirical and theoretical components, and therefore contributions to the store of knowledge, although not discipline knowledge. (4) The dissemination of the results – the new knowledge – is made directly to those who have been involved in the project/production process. Mode 2 of knowledge production is dynamic, a problem solving capacity on the move. ** Heterogeneity: an increased number of placed where knowledge can be produced. *** Heterarchical: alliances and connections when establishing project organisations for Mode 2 production have in principle no limits, not least in terms of electronic/communication technology. Simultaneously there is a continuous differentiation at different places and within different activities – to increasingly sharper specialities.

lic management' (NPM) have also reached the university 'ivory towers.' The Anglo-American higher education world is at the lead in this development, and the US government seems to be pushing hard for making higher education a free trade – WTO domain (Altbach 2001). As a sum effect follows the emergence of a new type of university, where a new mode of knowledge production seems to be on the rise.

'Mode 2' of Knowledge Production

In the early 1990s, a study was undertaken with the aim of exploring 'major changes in the way knowledge is being produced,' not only in science and technology, but also in social sciences and humanities (Gibbons et al. 1994). The overall frame of reference for the study was the assumption that a new form of knowledge production – Mode 2 – is emerging, while simultaneously, the traditional discipline-based form of production – Mode 1 – is continuing, but with reduced status and reduced extent (Kvil 1998; see table 1).

Summarised, the difference between the two modes is that Mode 1

represents the traditional production of knowledge, steered by the discipline and the professors within the organisational frame of the research institute, while Mode 2 is practical and project-oriented, and produces knowledge for application within a flexible project organisation and management.[1]

'New Public Management' in the Universities (Pollitt 1995)

Mode 2 of knowledge production and changed external demands for competence, forces the university to look more closely at its own *organisation.* It has to ask whether the existing structuring of human and material resources, and the present goal-setting, decision making and communication processes affect the internal functions relevant for recruiting a sufficient number of students and for acquiring financial resources.

The relevant internal functions comprise the university's production of services like research and organising of learning. The research seems pressured to move in commissioned and applied directions. Funding for research has to be achieved through competition with other institutions. The organizing of learning has to be efficient enough to be successful in the competition for fee-paying students. The production of research and learning services also has to include tailor-made deliveries off campus – to customers' satisfaction.

The management sees these changes in the production of services as unavoidable, in order to survive financially. And, at the core of needed organisational changes is – *governance* and *management.* First and foremost the institution seems to need a board representing important stakeholders, having a motive to invest in the institution. Secondly, the institution will need a daily management that is capable of making the institution produce services of such quality that users are willing to buy them. Thirdly, the institution needs a professional administration of corporate type. The board and management have to think like corporations, in terms of future challenges and strategies. They will be accountable for the institution's 'academic competitiveness' and healthy finances in the sense that, if the institution is not competitive, they will have to leave their positions.

ANGLO-AMERICAN-DOMINATED HIGHER EDUCATION FREE TRADE

World Model Power of American Universities?

The market-oriented New Public Management development of universities is still primarily an Anglo-American phenomenon. In Europe, UK

is a distinct and dynamic example of institutional adaptation to the ideological and economical conditions following from globalization. Tendencies are similar in Australia and Canada. However, in these countries there is still strong resistance from many professors (Currie and Newson 1998). One reason for the difference in organisational behaviour between Anglo-American institutions and European Continent institutions may be found in their historically different relation to the State. On the European continent, universities have been rather strongly governed by the ministries of education, in administrative matters, while having a high degree of academic freedom. In the Anglo American world, universities have also had a high level of administrative autonomy. In common, globally, are now seen strong tensions between three main actors: professors, State and market. The speed of change in the power balance in the individual country is, however, conditioned by the specific national cultural and political legacy. While professors in England have lost tenure, and perhaps some social status, professors in Germany still have a strong position and high social status.

American elite universities seem to have a model effect for the rest of the world. Their organisation, management, forms of service production and financing are observed by public educational planners as well as private business schools around the world. The interplay between science, education, technology and capital as seen in e.g. the relations between Stanford University, the IT companies, and the venture capital of Silicon Valley, is as a model for public planners and the emerging education industry outside the US. The most recent expression of Silicon Valley's economics of education dynamic is perhaps seen in the emerging e-learning industry, where tertiary education hardware and software are found as profit making big business on the stock exchange (Trondsen 2000).

Higher Education as WTO*-Regulated Free Trade?*

The e-learning industry and the general industrialisation of higher education products seem also to have resulted in pressures for legalising higher education services as *free trade* in a global market. The World Trade Organisation (WTO) has been considering a series of proposals aiming to include higher education and in-service training as part of WTO's area of responsibility. This would imply that export and import of education products are regulated by the laws and regulations of WTO, and, hence, outside of most national restrictions (Altbach 2001). WTO and its affiliated GATS (General Agreement on Trade and Services) wish

that universities interested in international trade with education services should do so with as few restrictions as possible. The education trade would be global and comprise the establishment of branch campuses, export of degree programmes, awarding of degrees, investments in education institutions in other countries and establishing of distance education delivering education services at any place of the globe (Altbach 2001).

Still, however, the nation state has close to complete jurisdiction over its higher education activities. When in the future, the WTO/GATS regulations are in place, all types of education services can freely be exported from one country to another. One impact of the global commercialisation of education is that countries having not already established education institutions and programmes of high quality might be overrun by foreign suppliers looking for profits, without being concerned with national interests and 'quality as fitness of purpose of' (Altbach 2001).

Among the new 'entrepreneurial' universities, *the Service University* has appeared as a conceptual label productive for contrasting the new university model to the traditional professoriate-dominated research university.

Service University and Research University Compared

THE ORIGIN OF THE SERVICE UNIVERSITY CONCEPT

'Service University' was for the first time applied as a label by Canadian research administrators in 1986 (Enros and Farley 1986). While considering Canada's overall budget problems, they wondered how the universities' production could increase in terms of effectiveness and efficiency, and, hence, give better service for Canada, with similar or slimmer budgets. Research on service university development at State University of New York took as a point of departure the public authorities' budget behaviour in Canada and the states of New York, Wisconsin and Michigan. The states had started to push their public universities towards what was termed more relevant activities. The authorities' means to achieve this goal was a budget- and programme policy adapted to the State's current economic situation and the State's research needs.

THE SERVICE UNIVERSITY AND THE TRADITIONAL RESEARCH UNIVERSITY COMPARED

In 1995 an 'ideal type' of the service university was presented by Professor William Cummings (1995). Researchers from all over the world were

TABLE 2 The research university and the service university compared

Research university	Service university
Arts & science centred	Professional schools
Two-tier 1 instructional program	Post-baccalaureate degree & training programs tailored for clients
Year-long courses	One-week to four-month courses
Life-long personnel	Many adjuncts
Research organisation layered on top of teaching organisation	Service carried out in parallel units
Decentralised choice of research agenda	Central planning and contracting of service
Funding by gifts and grants	Funding by contracts

NOTES Adapted from Cummings 1995.

invited to join a research network, in order to study and compare how service university development might appear in very different national contexts.[2] The ideal type-differences between the 'traditional university' and the emerging 'service university' are seen in table 2.

While the traditional research university has two levels, under-graduate and post-graduate, with courses that usually span over one or several years, the service university is marked by professionally-oriented courses lasting from one week to four months, tailored to fit the needs of the client/labour market. While scientists are usually appointed for life, the service university has many temporary employees.

The research tasks of the university have traditionally been placed over and outside the university as a centre of education. Research assignments and priorities have been relegated to the individual researchers and their areas of interest. In the service university, education and research are organised in parallel. Responsibility for research policy also lies with the university leadership. Outside of the established teaching load, the individual employee of the traditional university can choose how to spend the time.

The service university is characterised by management's control of its academic labour force through the type of contract that is concluded with external clients on the purchase of services, either in research, teaching or consultation. Financing of these two models is fundamentally different. While the traditional university predominantly lives off allocations from the State, which does not demand a clear control of results,

the service university's survival is dependent upon the contracts it acquires, and its constant competitiveness on the market.

Based on transitory tendencies, one can characterise developments as a transfer of control of the university's total resources. With the traditional autonomous research university as a point of departure, in which tenured staff in practice have all the power to decide over principal resources, one can now sight out a gradual trend toward the other end of the continuum, where control over resources is relegated to the administrative leadership of the university on the whole.

Traditionally, it was the tenured staff of scientific personnel (the professors) who have full control over the three main resources: their own labour/time, temporary labour, extra personnel and infra-structure resources. This end of the continuum could represent an organisational laissez-faire model. The university's actual operations were a result of the interests of the individual tenured staff. Planning, joint leadership and evaluation of the university as a whole are not emphasised, or else are lacking.

Movement in the direction of the service university would seem to imply that the professors to an increasing degree are losing control over these main resources. To a larger and larger extent, the Administration is determining which resources the professors are going to have at disposal. A completely new model could be in sight: *the complete service university.* Here administration and management have full control over the professors' total labour, also their research activities. Their labour is priced in relation to what it signifies for the income-potential of the university, and the professor's work, be it research, teaching or performance of services for clients in the region is determined by what university management has agreed upon with the individual employee. Table 3 visualises this line of thought.

The various models for control over university resources can be considered as suppositions of how the trend will be. There are clearly diverse conceptions as to the degree to which this description is synonymous with reality or not. Views are weighed differently in various research environments, and in various parts of the world. Philip G. Altbach has analysed developments within higher education in an historical and international comparative overview. He has found the same tendencies as Cummings, but underscores to a much greater degree that 'the common heritage' from the Humboldt tradition still seems to withstand, and will probably continue to do so in the future (Altbach 1992).

TABLE 3 Changed control of university resources

Models	Tenured professors	Contract professionals	Facilities
Laissez-faire	Professors	Professors	?
University facilities priced	Professors	Professors	Administration
Professional service priced	Professors	Administration	Administration
Full services priced	Administration	Administration	Administration

NOTES Adapted from Cummings 1995.

How have older, traditional universities reacted to the Service University-trends? In most Anglo-American countries the transition has occurred powerfully and effectively (Currie and Newson 1998). The joint economical interests of the State and the Market have forced universities to move towards becoming service universities. In Welfare State Scandinavia the development has been slow. An illustrative example of the Scandinavian situation is the University of Oslo. In the next section empirical findings on how professors actually react to service university-developments are presented.

Academic Resistance to Globalisation: University of Oslo

In 1996 a study was made on how key actors of the University of Oslo assessed an assumed service university development at this university (Tjeldvoll and Holtet 1997). In concise terms, the Oslo-study showed that the Norwegian government wanted universities to take on greater responsibility for their budgets in the future.[3] Within the University of Oslo the following finds were made: Through its plans and programs the university had taken the consequences of the government's signals of future reduced allocations from the State. The central leadership was divided over the concept of the service university as a principle. Appointed administrative leaders (not academics) had conceptions that were more in accordance with plan documents and government intentions. Elected top leaders (tenured personnel) expressed a more ambiguous view. Elected tenured leaders on faculty and institute levels were negative towards or hesitant to the principle of a service university and its consequences. The most salient objection was that the university's traditional autonomy, its possibility to conduct basic research and its role as an independent critic of the political and administrative system, would

TABLE 4 Assessment of service development at the University of Oslo

Level	Negative (–)	Reluctant	Positive (+)
Central administration (CEO + 4 directors)			5
Central elected leadership (1)		1	
Faculty level (8 deans)	3	4	1
Department level (8 chairs)	4	3	1
Central public actors (4)			4
Regional customers (3)			3

be threatened if university budgets became dependent upon selling its services. The University of Oslo's possible 'clients' in the Oslo region had positive expectations of an improved 'client relationship' to the university, but conceived the university of today as 'a closed door.' The findings are visualised in table 4.

Summarized, nearly all the key academic actors, except two, were reluctant or straightforward – negative, while the key external users were positive to the service university idea, as long as academic independence was guaranteed.

In a new study of the University of Oslo (Currie and Tjeldvoll 2001), a sample of professors from three faculties[4] was asked to assess the present national and international influence on governance/management, financing, academic and administrative accountability and use of ICT. The study was part of a comparative project where similar issues were addressed to professors in three other countries.[5] A main conclusion was that two thirds of Norwegian professors in general were negative towards the effects of globalisation on the university's production and organisation. One third of the professors saw globalisation as an opportunity for strengthening the university. Over time, the Norwegian professors seem to be consistent in their resistance towards service university development. However, with the country's announced national 'quality reform' of higher education (2002), the Government was actually trying to implement the service university.[6]

Can the Traditional Research University Survive?

The review of studies on how universities are adapting to changed conditions internationally seems clearly to indicate a general service university development world-wide. There are, however, different assessments about how far this development will go and to which extent academic

traditions will modify what is actually happening. As public institutions, universities seem forced to some change for their survival, while trying to balance individual academic freedom and institutional autonomy with sufficient accountability to the stakeholders that provide the funding (Tjeldvoll 1998). A key question is whether the university really has an internal potential and capacity for initiating and steering such change processes for constructive survival on the institution's own independence terms. If there is not such a potential or competence present, the research university as the *culture institution* of a civilised society might disappear. Three scenarios are envisaged for future university development under global capitalism.

Academic Freedom under Global Capitalism

THREE SCENARIOS FOR UNIVERSITY DEVELOPMENT

When trying to imagine future development for the traditional research university, three scenarios are possible: bankruptcy, the knowledge enterprise or the academic service university.

1st Scenario: Universities Going Bankrupt

As deregulation continues, the institutions become even more autonomous, and, – simultaneously – more dependent on their own ability to find revenues, some institutions may not be able to survive. In a country like Norway one can imagine, firstly, a round of mergers between a university and one or more colleges of the same region. Then it may be seen that some of the 'district colleges' will have to close down due to poor recruitment and financial problems. While study fees are still not an issue in Norway,[7] there are already indications of institutions beginning to reflect on fees as a means to balance the budget. It may be just a question of time until study fees are introduced. If so, the market situation of Norwegian higher education is dramatically changed. Students' choice of institution for studies will be based on assessments of 'best rate of return.' They will be considering the relevance of study programmes and quality of teaching. Such student behaviour is likely to favour the larger and stronger institutions in terms of human resources and ability to adapt to students' needs. Those colleges which cannot attract students will have to close down. If also privatisation increases and WTO regulations come into operation, even the universities and scientific colleges in oil-rich Norway may be in trouble.

2nd Scenario: The Knowledge Enterprise

This scenario is rapidly becoming reality internationally. The number of institutions established, or changing, in order to supply customers or clients with tailor-made study programmes or commissioned research is increasing. The pattern seems to have three features. Firstly, there is the increased establishing of new, especially net-based institutions that are purely commercial. Next, there is a commercialising of some traditional research universities. They either will change to become primarily market-based, or else they will establish 'an annex-institution' to take care of commercialisation of the products that can be sold in a market. Finally, there are 'corporate universities.' Already several large corporations have established their own 'corporate university' to take care of the company's research and training needs (e. g. Norwegian Telenor). Compared to the traditional content of the concept 'university,' it does not make sense to call these knowledge enterprises – universities. To the extent that such enterprises will dominate the higher education sector, the university as 'institution' is lost.

3rd Scenario: The Academic Service University

Historically, the 'university' has always been a service university – producing services for state, working life and civil society. Included in its production of services there has developed the ideal of free, independent and critical research and teaching – as a particularly important 'service to culture and civilisation,' exemplified in the slogan 'speaking truth to power.' Will this 'civilising' service continue to be produced, when the university is forced to take more direct responsibility for its budgets, by e. g. marketing more and more services to user groups willing to pay?

Is not this already the normal situation for academically excellent, private, rich institutions in the US? They have survived well by gifts and revenues, while simultaneously producing first class scientific research, critique of capitalism included. For these institutions the present situation can hardly be seen as anything new. The more interesting question is: What will happen to public institutions in e. g. Norway, that has up to now been financially carefully protected by the State? Will they be able to transfer to 'academic service universities' of the US type? Having no tradition at all in management and financing on their own, they may face serious difficulties. In principle they ought to be able to establish systems of management and financing, making it possible for them to keep a healthy balance between academic freedom, institutional autonomy and

the need for sufficient accountability to the stakeholders supplying the revenues (the State and the market). Under certain general and specific conditions this might be possible.

CONDITIONS FOR SURVIVAL OF ACADEMIC FREEDOM

Some general frame factors obviously have negative effects on keeping up free, academic research, while other conditions may be the opposite. Among the negative conditions are ideological shifts and market economy, while Internet technology, the importance of free research for innovations and the strong western academic culture traditions are seen as positive conditions for keeping up free research.

In the global market economy, competition and profit are two key features. In order to survive, any organization has to produce services of such quality, – seen from customers' point of view – that the producer can deliver and bring profits to its Mandator (Owner).

Increasingly, also public institutions are having *boards* that represent stakeholder interests more directly, and a management that is made accountable to this board. Without research and teaching products that are seen as being of relevance and quality, and therefore are demanded by users, the institution will have a risky future. Within higher education a new rationale has emerged. Higher education is no longer a societal good that everybody as a human right should have, paid by public resources. Instead, it is seen as a good for the single individual. Higher education increases the person's 'human capital' in the labour market, and the expenses should therefore, mostly, be paid by the person. As a consequence of this principal change, also the professor's situation will be influenced by the 'student customers' needs,' and the academic freedom may hence be constrained.

The knowledge-based global market economy has widespread effects in terms of next to immediate needs for new knowledge and for new learning in most organisations. They need research and training services continuously in order to stay updated and competitive. Hence, they have to buy such services where they can find the highest relevance, best quality (as fitness of purpose for) and a price they can afford. Increasingly also public organisations find themselves in this situation. And, they do not any more necessarily only buy from their own public institutions, as before, but may go to the open market, behaving like regular customers.

The recent Norwegian higher education reform (from 2002) can be seen as an example of how a nation is trying to modernise its higher

education system in order to be better equipped to match international trends (Norwegian Ministry of Education 2000). Private higher education is given better conditions. Public money will follow the student, encouraging him or her to be conscious about choice of institution. Study programmes are made three-tier (3 + 2 + 3 years) and the old 'domestic' degree labels have been abolished in favour of internationally more frequently found degree labels (Bachelor, Master and PhD). Against strong protests from the professoriate, the Norwegian government has changed the legal framework in order to push the institutions to make necessary changes in their production, content, degree structure and organization. Seen in a totality, it is fair to claim that the global knowledge economy has meant reduced conditions for free and critical academic research.

According to Castells (1996), *The Information Technology Revolution* contributes strongly to intensifying market orientation and reinforces capitalism (of an impersonal character). The new technology is seen as the very Engine for globalising the economy. Simultaneously, the same technology has qualities for opposing global capitalism. The technology gives opportunity for different groups' effective organizing in networks, wherever on the globe they are localized. Aims and activities may be liberating or destructive. The September 11th attack is a particular dramatic confirmation of Castell's predictions from 1997, about the force of network communities.

The generalised lesson learnt, however, is that non-authorised activities, cultural or political may go on as a liberating effect of the new technology. This may also be the case for the universities. The professors may use the Net and computers for effective data collection, quite cheaply. They may co-operate with colleagues all over the globe, *uncontrolled* – and work may be done fast. Professors' actual use of the new technology differs, a lot considerably in different parts of the world. It is used a lot in market-oriented Australia (Currie and Newson 1998), while hardly at all in public institutions in affluent Norway (Currie and Tjeldvoll 2001). The technology has *the potential* both to reinforce the autonomy of the institution and to safeguard the free academic work space of professors. The precondition obviously being that the professors *see* the possibilities and are *motivated* to apply them

A particular feature of western, free research is that it generates genuinely new ideas. Looking at US universities of excellence they, on the one hand, are innovative in technology, management and economy and serve the US defence complex. On the other hand, they also have excellent re-

searchers in e. g. philosophy and sociology, speaking 'truth to power.' It is possible to imagine that these universities are competitive, academically and financially, exactly because of their ability for creative and critical thinking, embedded in their historical tradition.

As far as such creativity is expressed in their applied activities, these institutions may strengthen their position in the international market (for research and higher education). Creativity as understood within 'human capital theory' and recent growth theory, where learning and knowledge are seen as critical factors for competitiveness, may contribute to both public and private capital investments in traditional research universities (Hatteland 1995).

The western, academic cultural tradition is likely to be an important positive frame factor for continued free and critical research, even though the university in general is being commercialised. This particular tradition may prove to stay strong for a long time ahead. Even the present most typical knowledge enterprises – international private business schools – put great efforts into being seen as independent research institutions in the academic tradition. The motivation seems to be both pragmatic and symbolic. Research promotes the quality of their business. When the institution has an international reputation in terms of high quality of independent research – it gives an image of credibility. Independent research is primarily about validity and reliability in descriptions and analyses of phenomena done in a way that gives *credibility*. Credibility has great value in customer relations and marketing.[8] Both the academic tradition in itself, its cultural strength in academic environments and in the public opinion – as well as its importance for credibility in 'the chain of value creation' – can be seen as positive general conditions for keeping up free research within a market-based service university.

Concluding Remarks

Within the general conditions of global knowledge economy, information technology and the university's traditional innovative qualities, a number of specific conditions are likely to determine what is actually happening, which are the institutions that will continue as research universities, which will be pure knowledge enterprises and which will disappear. The Mandator's academic identity and opinion of research, the management's academic and administrative quality and creativity, and motivation among the professors will, in sum, determine the actual

destiny of the particular university facing global knowledge capitalism.

Taking Norway as an example, the Ministry of Education as Mandator (Owner) of the university has, after given funding and setting certain regulations, kept at fair distance from the institution's research and teaching. So far. The University Board has had a majority of representatives from the academic staff. Gradually, the Ministry has made attempts to increase the number of external representatives, in order to strengthen external legitimacy. In recent years there has been an option for institutions to freely increase and actually have a majority of external representatives. By 2002 only two of the colleges had opted for this.[9] In recent legislation, external board majority is signalled to become standard procedure.

The board majority's real opinion of science and independent research will be decisive for the development profile of the individual university. Hence, the criteria for appointment of external board members, who appoints and which persons are actually appointed, may prove decisive for the quality of the institution's inner life. In the Norwegian context it is likely that the Ministry will continue to play a key role in the implementation of higher education policies. Hence, the State's opinion of science and research will be an important specific condition for continued academic freedom. The 'State' is twofold: First there is the bureaucracy in the Ministry, not least representing old academic traditions quite strongly. Second, there is the Minister, who will change irregularly, representing different parties and ideologies. However, the Minister's identity as a result of her/his own education and socialization may be an important specific condition for university development.

Even though the University Board's decisions, in the future, normally will be decisive for the institution's goals and strategies, there will often still be independent room for action within the given policy lines – which can be exploited by the daily management of the institution. Today, the management of Norwegian institutions consists of an elected rector, and an administrative director with tenure. Popularity for being elected as rector, or reasons for being appointed as top bureaucrat have not very clearly been based on criteria of effective management for knowledge production and teaching. It has proved quite incidental whether the academic and administrative top management has had real management competence. The rectors are normally only chairpersons of the board, and a symbolic representation figure externally. The director is normally behaving from traditional bureaucratic rationality, as the Ministry's extended strong arm into the institution.

Whether university top management in the future will continue to be elected[10] or appointed, it will prove decisive what sort of academic identity the president-manager has. If the rector (with real management powers) has a genuine academic identity, there are reasons to think that the room for action given by the Board will be used to its maximum. On the other hand, if the elected or appointed top management in reality has a pure bureaucratic or economical-bureaucratic identity, the focus on revenues will over and above be more important than the conditions for free research, especially in subjects and disciplines without immediate market value.

If the university top manager, in addition to identity and status as an academic researcher, also has high competence in *corporate management*, it would add to making her/him a positive condition for the autonomy of the institution. The present system of a state appointed director bureaucrat would not suffice, when the university has to operate in a market, and take responsibility for the budget itself. Without a healthy economy base and healthy finance management, the institution would be uncertain and vulnerable. It might lose its best academic players (researchers and teachers of excellence), and by implication lose in the competition for important research and training contracts.

The top management to safeguard academic freedom will provide creative recruiting of researchers, also philosophers and sociologists, in order to have a foundation for meta science discussions, to keep up a continuous debate about the eternal academic issues. Such activities are needed in order to keep up the institution's identity and affect a convincing 'brand name' externally, as 'the research-based service university.' Hence, the top management will need to transfer resources from areas with external revenues to foundation areas, important in themselves, but not directly market relevant. One way of safeguarding the 'non-profitable' subject areas, is to earmark state funding for them.

The final specific condition for keeping up academic freedom in a market-based university, is the academic staff's opinion of their own organisation. Normally, the single professor is mostly concerned with and has identity in his own subject area. His interest for organisational issues normally is limited to how the annual budgets influence his research. In the future, the professors' degree of involvement in the university's total production and organisational development may prove decisive for the institution's position, status and international competitiveness. Such 'organisation competence' is conditioned by the academic staff's ability

to find a balance between the individually decided free research, the collective responsibility for the autonomy of the institution and the societal responsibility in relation to State, working life and the civil society. In order to keep up optimal conditions for individual academic freedom, the staff may have to assess how their preferred research is accountable for their institution – and for the society of public and private users – who finance the professors' projects and salaries.

Notes

1 An example could be the 'the semi-public Institute Sector' in Norway.

2 USA, China, Korea, Indonesia, Russia and Norway.

3 In the study the following questions were posed: (1) How do you assess a transition in the financing policy toward the universities – from mainly a responsibility of the State, to a greater dependence on selling research-based services to their clients in the region? (The respondents: administrative and academic leaders at the UO), (2) What are your expectations for the UO's possibilities of offering research-based services? (Respondents: key user groups in the Oslo region).

4 The three faculties were: Mathematics and Natural Sciences, Social Sciences and Education.

5 The other universities were located in France, Australia and the US.

6 Http://odin.dep.no/ufd/engelsk/publ/veiledninger/014071-120002/index-dok000-n-n-a.html.

7 By 2008 it is still illegal to charge fees for any regular higher education study.

8 A private business school, Norwegian School of Managaement BI, has recently taken active steps to increase ethical consciousness among staff and students. In order to more effectively (!) reach this aim, cooperation has been established with another private higher education institution, specializing in ethics, The Independent Faculty of Theology.

9 Buskerud University College is an example.

10 Recent signals from the Ministry (Autumn 2002) indicate that the institutions themselves will have the right to decide whether they shall continue the pratice of electing the rector, or change to have an appointed leader (http://www.dep.no/ufd/norsk/utdanning/hogreutdanning/kvalitetsreformen/04506).

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23–26 November 2011
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Final Paper submission: August 15, 2011
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