Globalisation, multinational enterprises and European integration

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Globalisation, Multinational Enterprises and European Integration Processes: Some Insights for International Human Resource Management

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1. Introduction

As the international environment continues to rapidly change and become more and more complex due to the structural adjustments that open markets command, the demand for entrepreneurs and entrepreneurial spirits at all levels of the value-added chain of production is increasing. As has always been the case under free trade, the price paid for open markets is the necessity and willingness for structural change. Significant prospects of profit will emerge for those who anticipate changes correctly and quickly. Loses emerging by such integration processes will frequently be shouldered by low-skilled workers and those enterprises who are often incapable or unwilling to anticipate and accommodate their human capital sufficiently and timely.

The 1974 Nobel prize winner for economics Friedrich von Hayek recognised in his article "The Use of Knowledge in Society" written in 1945, that centralised decision-making cannot adjust as flexibly as decentralised decision-making. True decentralisation consists of delegating decisions to those who possess the most relevant information. Or, in his own words, "The problem is precisely how to extend the span of our utilisation of resources beyond the span of control of any one mind [*or enterprise*] ."[1]

Hayek went on to argue that "economic problems arise always and only in consequence of change. T h e economic problem of society is mainly one of rapid adaptation in the particular circumstances of time and place." [2] It may to a certain extent be argued that successful managers today "share a dirty little secret – they do not understand why they are successful! Our technologies, economy, and society are so complex that it is impossible for single individuals to fully understand them. Thus, whatever success organisations achieve occurs despite the lack of comprehensive understanding by any one individual."[3]

[1] Hayek (1945), p. 527.
[2] Hayek (1945), pp. 523-24.
[3] Rycroft and Kash (1999), p. 3.

Despite this ubiquity of complexity and a limited ability to control economic circumstances, the world's future prospects appear bright as we move slowly but surely in the direction of a "global consciousness". As Stalker (2000, p.8) points out, "The essence of globalisation is that barriers between [these] entities are dissolving –and opening up the possibility of some kind of global consciousness."

Now the question immediately emerges, "How do enterprises, government agencies, and other organisations achieve success despite the limited comprehension of those who lead them?" A large element of success relies on the usage of continuously adaptive networks that know more than any individual can understand in detail.[4] Effective competition in international markets relies on effective collaboration – with rival firms in the same line of business, with customers and with suppliers – necessary to enhance the range of expertise and products to obtain access to markets.[5] New forms of internationalisation represent largely sequential flows of information stemming from the advantages of flexibility inherent in a multinational enterprise network system. Multinational enterprise activities represent a portfolio of valuable transactional options which permit the discretionary choice of changing real economic activities or financial flows from one country to the next. Multinational enterprises have the unique ability to exploit the conditions of high levels of uncertainty in international markets. Profit opportunities exist beyond the internal boundaries or enterprise organisational structures. Extending planned co-ordination across enterprise boundaries can have a significant value-added effect. Joint production economies, due to the creation of a multinational network, reduce the physical capital or labour costs of production and marketing of incremental investments. Operational and functional complementarities of firm-specific assets of multinational enterprises are increasingly becoming the key to success or failure of competitive enterprises in international markets. Economically, a multinational network is characterised by a string of options defined by institutional barriers and resource restrictions which determine its value. From the enterprise's point of view, the flexibility to transfer resources across borders is a positive contribution to its earning system. Such options provide a valuable hedge against contingent events.[6]

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[4] See Rycroft and Kash (1999).
[5] Compare Gilroy (1993), Kitson and Michie (1997), p. 72.
[6] Compare e.g. Gilroy (1989), pp. 152-155.

Thus, International Human Resource Management (IHRM) must pay due attention to the selection and recruitment of internationally qualified employees, maintain constant high levels of corporate training and development programs, offer adequate international compensation and corporate incentives, as well as an open-minded corporate executive leadership which prospects new, flexible methods of implementing networks and going beyond typical corporate boundaries.[7] The key to success is to institutionalise integrative thinking in your organisation and among employees within co-operative yet highly competitive environments.

The next section lays out a general discussion of globalisation versus internationalisation in which an attempt is made to get perspectives right based upon casual observation of current stylised facts. Section 3 briefly reviews the relative international competitiveness of Germany and Europe. Section 4 moves on to a brief outlook and some tentative conclusions.

2. Globalisation versus Internationalisation: Getting General Perspectives Right

How global are international markets today? Has the world really become a global village or a big global industrial park in which economic interconnections driven by new achievements in information technology permit boarders and time zones to be overcome? Is there a new economy shaped by global competition and technological advances in information technology in which basic economic relationships no longer apply? Is globalisation simply an overused cliché? These are interesting questions which abound in various emotional answers. But what do the stylised empirical facts tell us when attempting to find the correct answers to such questions?

The word "globalisation" has various connotations depending upon who uses it to express their feelings.[8] Given a negative connotation, growing doubts or worries emerge

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[7] International personnel management is a relatively new and exciting area of research. For a deeper analysis of the many facets of this topic the interested reader is referred to Weber, Festing, Dowling and Schuler (1998) and Dowling and Welch (1998).

[8] Compare e.g. Iammarino and Michie (1998), Fokken (1999), O'Meara, Mehlinger and Krain (2000), de Soto (2000), Giddens (2000), Eatwell and Taylor (2000), Bernholz (2000).

concerning the process of globalisation. The fears attended to the process of globalisation – or "globaphobia" – often rest on various misconceptions.[9]

One of the major misconceptions is the belief that the process of globalisation is something new, startling and out of control.[10] In fact, if one takes a closer look at the current magnitude or depth of the globalisation process quite a different picture emerges as the one painted by the proponents of the "backlash against globalisation". All the same, it is very important to take good notice of the emotional fears of the street protesters as demonstrated during the Seattle trade talks last year or this years annual meetings of the International Monetary Fund and the World Bank in Prague. Such fears of the perils of globalisation may result in new forms of protectionism and disintegration of world markets as politicians accede to accommodate their voters. Indeed, the increased politicisation of international business represents one of the most significant changes in business-government relations over the last two decades.[11]

As pointed out by a recent survey on the "New Economy", the sentiments of such protests reflect a general feeling expressed much earlier pointedly by Mark Twain as he stated "I'm all for progress; it's change I don't like."[12] It is important to understand the driving forces creating such sentiments. The process of integrating world markets is not just the inevitable result of technological change; it is also driven by trade liberalisation, which could be reversed. Let us take a brief look at some of the background developments responsible for such negative attitudes towards the unprecedented growth in international business activities, which has been prompted by a number of factors.

International trade has been a major accelerator of integration processes world wide. Global trade – as measured by total exports – increased by $2.9 trillion in absolute terms during the period 1987-1996. This represents an average annual rate of 9.3 percent (See Table 1).[13]

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[9] Compare e.g. Burtless, Lawrence, Litan and Shapiro (1998), or the title story "The Case for Globalisation" in The Economist, September 23RD-29TH , 2000, see further Gilroy (1998a).

[10] Compare e.g. Stalker (2000), Chapter one, pp. 1-10.

[11] For a review on the literature concerning multinational-government relations see e.g. Brewer (1992). Further Gilroy (1998b). The classic work in this area is Vernon (1971) and Vernon (1977). A recent popular illustration of this debate is given by the title story "The world's view of multinationals" in The Economist, January 29th-February 4th (2000b), pp.19-20; p. 25; pp. 70 cont.

[12] See The Economist, September 23RD-29TH, (2000a), p. 44.

Table 1 World Exports 1987-1996

Year	Value (billion $)	Cumulative Increase
1987	2360.1	-
1988	2969.5	25.8
1989	2907.4	23.2
1990	3379.1	43.2
1991	3477.5	47.3
1992	3726.3	57.9
1993	3727.2	57.9
1994	4241.2	79.7
1995	5081.2	115.3
1996	5261.0	122.9

Source: Director of Trade Statistics, 1992 Yearbook (for 1987-89 data), 1996 Yearbook (for 1990-92 data); and International Financial Statistics, November 1997 (for 1993-96 data).Cited according to Fatemi (2000), p. 4

On a macro-economic level there are many causes of the growth of international business. Reductions in trade barriers, the deregulation of markets and the development of regional trade blocks all have contributed to higher levels of integration and real incomes. International trading agreements such as the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), the agreements on Trade Related Investment Measures (TRIMs) and Trade-Related Intellectual Property (TRIPs), have culminated in the long awaited creation of the World Trade Organisation (WTO) in 1995. Its membership now encompasses some 139 nations. The WTO is in charge of administering, surveillance, and dispute-settlement of the above mentioned multilateral trade agreements. The underlying philosophy is one of open markets, non-discrimination and global competition in international trade and investment conducive to the national welfare of all countries.[14]

[13] See Fatemi (2000), p.4.
[14] For a detailed discussion of the evolution of GATT to the WTO see Hauser and Schanz (1995), Hoekman and Kostecki (1995).

The old conception of developing countries as exporters of natural raw materials that permit them to earn revenues to purchase imports of manufactured products from the industrialised world no longer holds. Manufactured goods now account for some 60 percent of their exports, up from 5 percent in 1955. Furthermore, the third worlds share of world exports has increased from 5 percent in 1970 to 29 percent in 1998 and continues to be on the rise given the emergence of enterprises from newly industrialised countries.[15]

As emerging economies exports continue to grow and upgrade themselves, so has the resentment of many employees in industrialised countries been maturing: the argument often put forward is that fierce competition from low-wage countries will lead to a loss of jobs thanks to "unfair" advantage of cheap labour, poor working conditions and lax environmental controls.[16] At the beginning of the 1990s the total number of jobs associated with multinational enterprises (taking direct and indirect jobs into consideration) was estimated to be about 150 million. Direct employment was estimated to be about 73 million people or some 10 per cent of paid non-agricultural employment world wide. The indirect employment effects are much greater. American enterprises accounted for the largest number of employees, followed by those employed in the United Kingdom, Germany, Japan and France.[17] To a large extent the anxieties associated with globalisation and employment are due to the stylized fact that the number of persons employed directly by multinational enterprises has increased more slowly in the past decades than the growth in investment flows. Elements of corporate restructuring due to strategies of mergers and acquisitions often led to employment acquisitions rather than employment creation.

Table 2 below ranks Europa's largest enterprises according to employment. It is interesting to note that five from ten of the above listed companies are from Germany. Due to the labour-intensive nature of service industries (e.g. La Poste, Deutsche Bahn and Deutsche Post) they are also well represented among the biggest employers.

[15] See 1998 International Trade Statistics Yearbook.
[16] see e.g. Gilroy (2000).
[17] see Transnationals (1994), p. 1.

Table 2: Europe's Largest Corporations According To Employment

Rank	Name	Country	Number Employed	World Ranking 1996
1	Siemens	Germany	379 000	6
2	Unilever	UK/Netherlands	306 000	11
3	Daimler-Benz	Germany	290 029	12
4	La Poste	France	289 050	13
5	Deutsche Bahn	Germany	288 768	14
6	Deutsche Post	Germany	284 889	16
7	Philips Electronics	Netherlands	262 500	20
8	Volkswagen	Germany	260 811	21
9	Fiat	Italy	237 865	23
10	Nestlé	Switzerland	221 144	26

Note: Rao Gazprom (Russia) ranked no. 5 in the world with 336 000 employees.

Source: Fortune, August (1997), cited according to Piggot and Cook (1999).

In comparison to executive wage levels, employee wage levels have remained amazingly moderate.[18] This may be a reflection of the fact that globalisation has increased worker insecurity occasioned by rapid technological change and corporate restructuring.[19] The Single European Market has prompted an expansion of world-wide mergers and acquisitions involving European enterprises. As illustrated in Table 3 below, the value of mergers and acquisitions involving European companies between 1985 and 1987 accounted for 20 per cent of the world total. For the period 1991-1993 this share increased to 43 per cent.

[18] Compare e.g. the website www.paywatch.org which has been set up by trade unionists to monitor chief executive salaries. The average chief executive now apparently earns 475 times as much as an average factory employee, up from a ratio of 42 in 1980 (see The Economist (2000a), Labour pains, p.23).

[19] For a survey and discussion on corporate restructuring and new forms of organizing based on European evidence see Ruigrok, Pettigrew, Peck, and Whittington (1999). For a review of the worker insecurity discussion see the World Labour Report (2000).

Table 3: Share of Worldwide Mergers and Acquisitions (%)

	1985-87	1988-90	1991-93
Intra-European	9.9	22.8	28.8
Extra-European	9.7	15.0	14.0
European Total	19.6	37.8	42.8
US Domestic	68.0	44.3	35.4
US Cross-Border	12.0	15.7	11.7
US Total	80.0	60.0	47.1
All Other	0.3	2.2	1.1
Global/Total	100.0	100.0	100.0

Source: EAG. Based on Smith and Walter (1994), European Economy (1996), page 117; cited according to Piggot and Cook (1999), page 14.

Although the motivation for European mergers and acquisitions is highly varied, Table 4 below gives a generalised impression of the most common reasons.

Table 4: Motives for European Mergers and Acquisitions (%)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
Expansion	17.1	22.1	19.6	31.3	26.9	27.7	32.4
Diversification	17.6	5.8	8.3	7.1	3.0	2.8	2.1
Strengthening Market Position	10.6	11.5	25.4	42.2	45.3	48.2	44.4
Rationalisation And Synergies	46.5	42.0	34.4	14.4	17.7	13.3	16.2
R & D	2.4	5.3	0.7	0.0	0.6	0.0	0.0
Other	5.9	13.3	11.6	4.9	6.4	8.0	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: European Commission (1994), Competition & Integration, European Economy, No. 57, Table 1, page 48, cited according to Piggott and Cook (1999), page 14.

Table 4 above suggests that the "expansion" and "strengthening market position" motives have emerged as central concerns. Since the middle 1980s there has been a decline in the importance of mergers for "rationalisation and synergy" and for "diversification" reasons. Confronted with a more rapid rate of skill obsolescence and job displacement caused by such changes in production technologies, workers have tended to emphasize job security concerns over wage concerns in their negotiations with employers.[20] The question emerging here for international industrial labour relations and human resource management is whether or not this tendency is of a long-term nature or only a transitory phenomenon?

The answer to this question is further complicated by the fact that there has been an increasing tendency for a continued shift of economic activity on a global level away from manufacturing towards services. In the recent past various manufacturing industries have been restructuring their operations and downsizing their international operations attempting to renew focus on core businesses.[21] At the same time, multinationals in the service sector have been exhibiting increased internationalisation of their activities.[22] Figures 1 and 3 below illustrate the downsizing of manufacturing activities in the major OECD countries, whereas the Figures 2 and 4 demonstrate the corresponding increase in the share of services.

[20] D'Andrea Tyson (1999), p. 11
[21] See e.g. Peters (1992).
[22] compare e.g. Enderwick (1992).

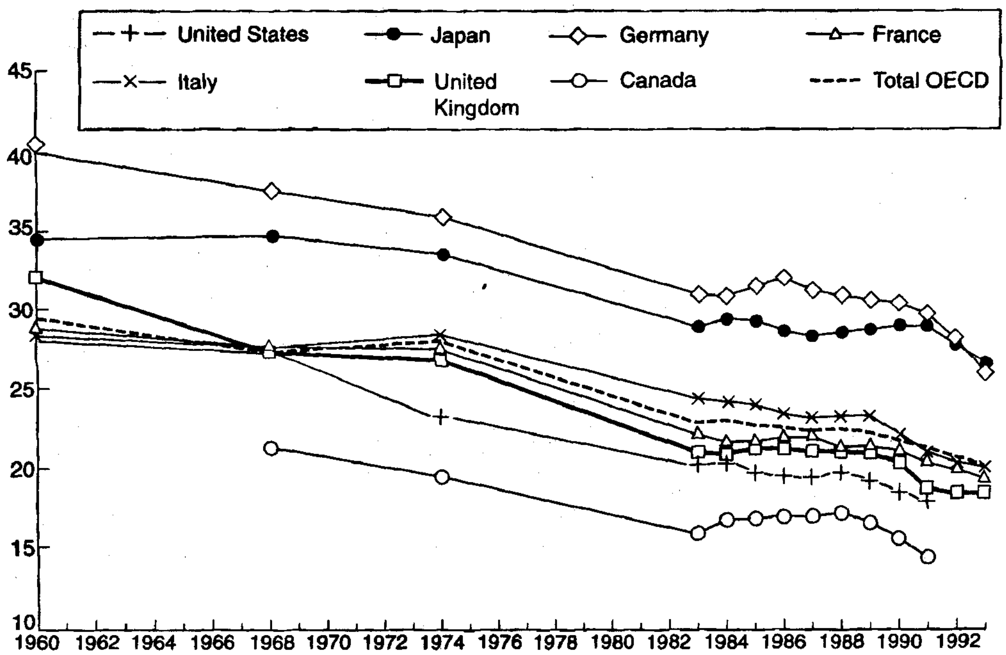


Figure 1. Value added in manufacturing as a percentage of GDP, 1960–93. *Note*: Benchmark years, 1960, 1968 and 1974, and annual data from 1983. *Source*: OECD (1995).

Cited according to Kitson and Michie (1997), p. 73.

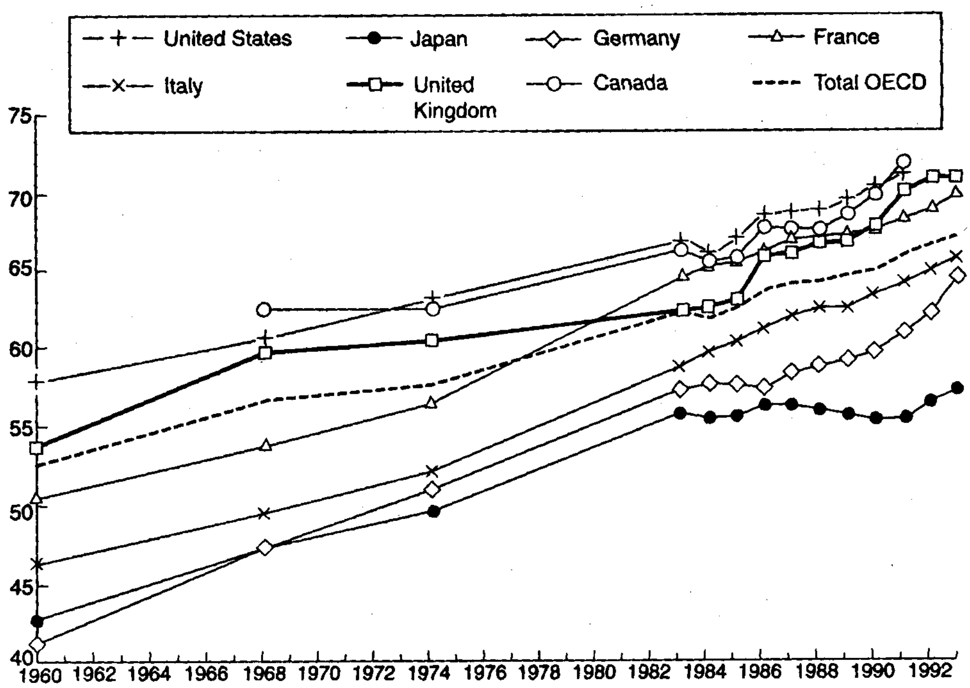


Figure 2. Value added in services as a percentage of GDP, 1960–93. *Note*: Benchmark years, 1960, 1968 and 1974, and annual data from 1983. *Source*: OECD (1995).

Cited according to Kitson and Michie (1997), p. 74.

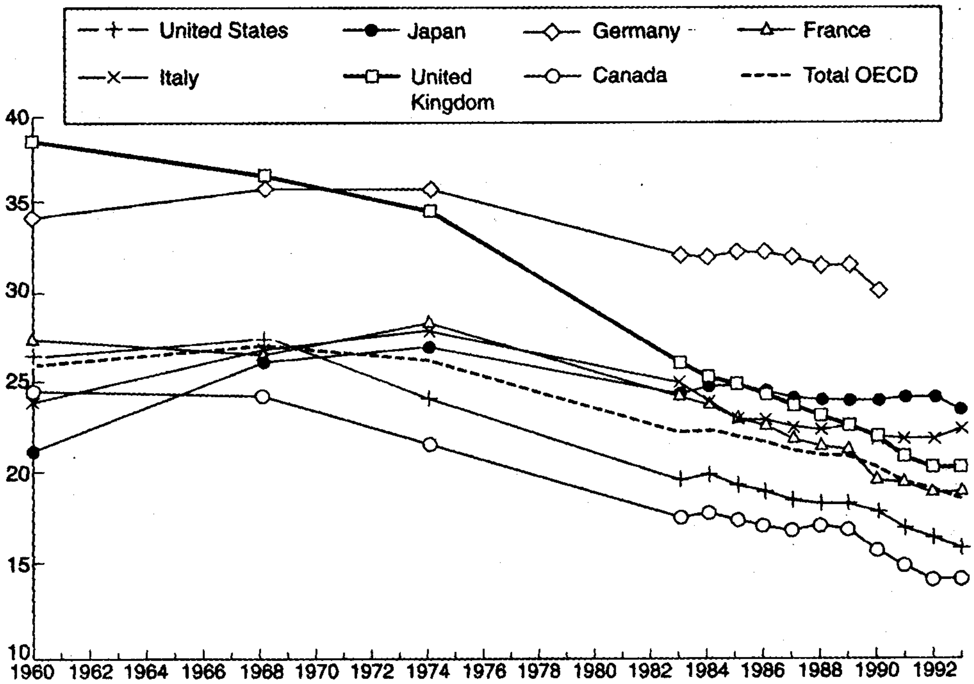


Figure 3. Employment in manufacturing as a percentage of civilian employment, 1960–93. *Note*: Benchmark years, 1960, 1968 and 1974, and annual data from 1983. *Source*: OECD (1995).

Cited according to Kitson and Michie (1997), p. 75.

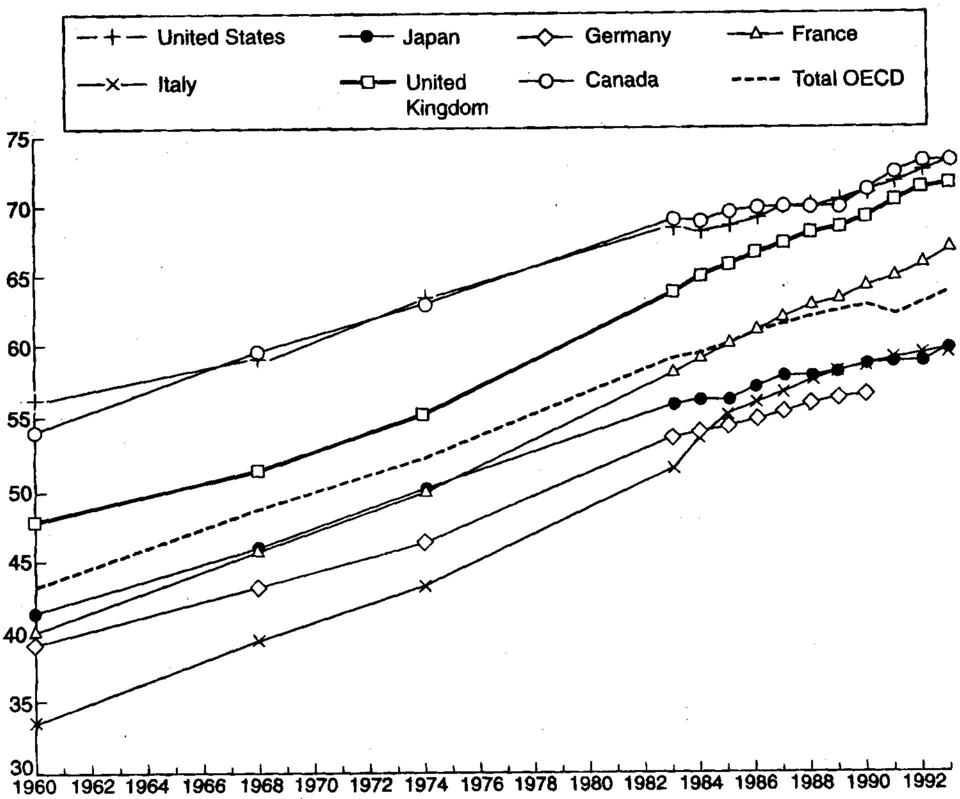


Figure 4. Employment in services as a percentage of civilian employment, 1960–93. *Note*: Benchmark years, 1960, 1968 and 1974, and annual data from 1983. *Source*: OECD (1995).

Cited according to Kitson and Michie (1997), p. 76.

Various answers may be suggested for these developments. First, it may simply be the case that there is a faster relative growth of labour productivity in manufacturing than in services. Are productivity differences the driving force? The implication being that the productivity of the service sectors remains low, leaving open the question why? Secondly, it is sometimes argued that the relative decline of manufacturing compared to the growth of services is an outcome of the changing structure of consumer demand as real incomes rise. Finally, it may be argued that the relative "decline" of manufacturing is due to the changing outsourcing policies of enterprises. Activities which were formerly carried out within manufacturing enterprises are being increasingly contracted out to the service sector. In general, the evidence corresponding to the above three explanations is of a mixed nature, leaving open much room for interpretation.[23]

The important insight of the above discussed developments from a human resource management perspective may be briefly accessed as follows. Economies suffering from relative decline, which usually goes hand-in-hand with a deficiency in formal training methods may be exposed to a substitution of on-the-job training with a narrow scope of specific skills to meet the enterprises' immediate requirements. Kitson and Michie (1997) point out that for the case of England at least training design and implementation processes often exclude worker representation. They argue that this has resulted in a dilution of the skill content of jobs which further interacts with the deterioration of the terms and conditions of employment. In the final instance, so they argue, job pessimism emerges regarding future employment prospects in certain fields discouraging new entrants. Furthermore, if hiring standards are relaxed due to labour shortages the social downgrading of the job, the dissipation of skills, the loss of competitiveness and industrial decline will be reinforced.

One must consider the situation in which the lack of employee skills presents a problem. Training programmes alone are not sufficient; as Kitson and Michie (1997, p. 87) suggest, the lack of job opportunities itself stifles skill attainment and development. It is important to realise that the stagnation of the manufacturing sector generates social deskilling which feeds the "spiral of decline" as enterprises cut back on training. Such processes may become self fulfilling as an atmosphere of low investment emerges based upon simple cost-cutting rather than capacity enhancing investments in education and training. Recent

[23] See e.g. Kitson and Michie (1997).

studies on endogenous growth processes associate a high level of importance on the growth rate of productivity with the level of education.[24] Very often the key to enterprise success or failure lies in an educated and motivated workforce that "...is able to facilitate the development of, adapt more easily to, and exploit more fully, new processes and techniques of production."[25]

Another significant stylised fact arises when one considers the importance of small and medium-sized enterprises in Europe. The European Commission defines enterprises according to the following lines:

- micro-enterprises: less than 10 employees
- small enterprises: between 10 and 99 employees
- medium-sized enterprises: between 99 and 250 employees
- large enterprises: more than 250 employees.

It is very important to observe the fact that small and medium-sized enterprises account for 99.9 percent of the total number of enterprises and roughly 80 percent of total employment within the European Union. Micro-enterprises, with less than ten employees, are the dominate group. 93.3 percent of all European enterprises employ less than ten employees. The European average of employees per enterprise is six persons (including the entrepreneur). Micro-enterprises are common in the retail distribution and personal services sector, whereas micro- and small enterprises further represent the dominant production units in the construction and wholesale sectors. Large scale enterprises dominate the communications, supporting services to transport and R& D sectors, although micro-enterprises are also significantly active in these areas. Due to differences explained partly by GDP per capita and the level of population density, northern European countries such as Germany, Luxembourg and the Netherlands commonly have a higher average enterprise size. Enterprises in the southern countries of Europe are generally smaller compared to those in the north. On average, Europe has a greater proportion of micro-enterprises when compared with the United States and Japan.[26]

[24] See e.g. Pohlenz (2000) for a literature survey and Gries (1998), pp. 97-156, for a convincing discussion of the current day German situation.
[25] Kitson and Michie (1997), p. 86.
[26] See Piggot and Cook (1999), p. 26-27.

Small and medium sized enterprises have therefore been the driving force in Europe when it comes to creating jobs. Recognising this, the Directorate General XXIII of the European Union has been attempting to: alleviate the burdens arising from European legislation for these enterprises; improve the information flows to small and medium-sized enterprises; promote small and medium-sized enterprise co-operation across boarders through the Business Consortium Network (BC-NET); and finally to enhance and improve the structural and financial environments in which they are embedded.

As the above stylised facts suggest, although a high degree of internationalisation with regard to trade and investment does exist, it can be forcefully argued that today's world is no more globalised than earlier time periods. Real globalisation requires to a certain extent the demise of the nation-state, or as Stalker (2000, p. 2) puts it the "death of geography". Indeed, if one thinks of the most recent example of the lack of "global consciousness" as exemplified by the recent unsuccessful World Climate Conference we are still a long way from getting there. Our perceptions of globalisation processes have, however, been enhanced by the changing nature and character of trade and investment flows; by the speed of communications due to new information technologies such as the Internet; and by the cheapness of transportation.

Germany's and Europe's Relative International Competitiveness

Table 5 below illustrates the relative percentage shares of selected countries with regard to the basic indicators global commodity trade, global trade in services and global foreign direct investment. As is evident from Table 6 the positioning of Germany is quite good for all three categories mentioned.

Table 5 **Globalisation: Large Countries in the Lead**

- Percentage Shares –

Global Commodity Trade 1996		Global Trade in Services 1995		Global Foreign Direct Investment 1995	
USA	13,6	USA	14,0	USA	25,4
Germany	9,2	Germany	8,7	United Kingdom	11,8
Japan	7,1	Japan	7,5	Germany	7,1
France	5,3	France	7,1	France	6,9
United Kingdom	5,1	United Kingdom	5,3	Sweden	4,1
Italy	4,3	Italy	5,1	Japan	3,7
The Netherlands	3,6	The Netherlands	3,8	The Netherlands	3,6
Canada	3,5	Belgium	3,0	Belgium	3,1
Belgium	3,0	Spain	2,5	Canada	2,7
Spain	2,1	Canada	2,1	Switzerland	2,4
Switzerland	1,4	Austria	1,8	Italy	1,9
Sweden	1,4	Switzerland	1,7	Spain	1,6
Austria	1,2	Sweden	1,3	Denmark	1,2
Denmark	0,9	Denmark	1,2	Norway	0,6
Norway	0,8	Norway	1,1	Austria	0,4
Finland	0,6	Finland	0,7	Finland	0,4

Source: IWF, national statistics, cited and translated according to Institut der deutschen Wirtschaft Köln (1998), Table 1.7.

Table 6

Growth of Real GDP

(Average Annual Percentage Change)

	1970-1979	1980-1989	1990-1996	1970-1996
OECD	3.7	2.8	1.9	2.9
United States	3.5	2.8	1.9	2.8
Japan	4.6	3.8	2.3	3.7
European Union	3.2	2.2	1.7	2.4
Germany	2.9	1.8	2.6	2.4
France	3.5	2.3	1.4	2.5
Italy	3.6	2.4	1.2	2.5
United Kingdom	2.4	2.4	1.2	2.1

Source: OECD, OECD Economic Outlook (Paris: OECD, December 1996 and June 1997), cited according to Salvatore (1998), p. 190.

Table 6 above illustrates the average growth of real GDP in the European Union (EU) and its major members relative to the United States and Japan, and the average for all industrial (OECD) countries.

In general, the average rate of growth declined in all countries and groups of countries during each decade. Germany is a slight exception for the period 1990-1996, in which it averaged even higher than the United States. The average growth rate for the European Community was consistently lower than in the United States, Japan, and the average for all OECD countries. During the 1970s, Italy, France and the United States were more successful in terms of growth rate averages than Germany and the United Kingdom. The 1980s were also a difficult period for Germany compared to France, Italy and the United Kingdom. Looking at the entire period 1970-1996, the United States grew at an average rate of 2.8 per cent per year as compared to the rate of 2.4 per cent per year for the European Union. These numbers suggest that at a growth rate of 2.8 per cent per year, the US real GDP would double in 25 years, whereas at a growth rate of 2.4 percent per year the EU's real GDP would double in 29 years.[27]

Salvatore (1998, p. 194) argues that there is no need for a growth crisis atmosphere in the European Union. Inadequate growth was not a major cause of stagnant employment in the European Union, nor was it a problem of inadequate investments per se. Indeed, the European Union invested annual investments as a percentage of GDP equal to 20.7 per cent, as compared with 19.1 per cent in the United States over the entire 1970-1996 period. He demonstrates that an analysis of further data (compare Tables 7 and 8 below) suggests that investments in Europe were used mainly to increase the capital-labour ratio (i.e. for capital deepening). This enhanced European labour productivity and real wages. Investments in the United States were on the other hand capital widening, which increased the magnitudes of employment but not labour productivity and wages.

[27] The so-called rule of 70 says that to calculate the (approximate) length of time it takes for a variable to double, divide 70 by the percentage growth rate of the variable.

Table 7
Growth of Labour Productivity
(Average Annual Percentage Changes)

	1973-1979(*)	1980-1989	1990-1995	1973-1995
OECD	1.9	1.7	1.2	1.6
United States	0.4	1.0	0.5	0.7
Japan	2.8	2.6	1.5	2.3
European Union	2.7	1.8	2.1	2.1

Note: (*) The different time breakdown is due to data availability.
Source: OECD,OECD Economic Outlook (Paris: OECD, December 1996, pp. 19 and A68)
Cited according to Salvatore (1998), p. 195

Table 8
Growth of Real Labour Compensation
(Average Annual Percentage Changes)

	1973-1979	1980-1989	1990-1996	1970-1996
OECD	2.3	-0.3	-0.6	0.6
United States	1.0	0.3	0.4	0.6
Japan	4.7	1.3	0.9	2.6
European Union	3.4	5.3	2.2	4.2

Source: OECD,OECD Economic Outlook (Paris: OECD, December 1996, pp. A15 and A18)
Cited according to Salvatore (1998), p. 195

The above Tables demonstrate that average labour productivity (defined as output per employed person) grew more rapidly in the European Union than in the United States over the time period observed. Europe was characterised by a greater increase in labour productivity which also resulted in comparatively higher real wages.

As many observers have often argued, the major reason for the slow growth of employment and rapid increase in unemployment in the European Union as compared to the United States is the rigidity and inflexibility of European labour markets. Slow European labour market adjustment has not permitted the creation of new jobs in expanding sectors founded upon the globalisation of economic activities. Technological change does not necessarily destroy more jobs than it creates. However, technological change does eliminate unskilled jobs while creating skilled jobs. Once again, from a human resource management perspective we are confronted with a mismatch between labour demand and labour supply in various skills.[28] The solution to the unemployment problem is not to retard the momentum of technological change, but to focus on increased job training and labour mobility[29] in order to match the need for a high skilled working force.

Keeping all the above caveats in mind, the problem of rising inequalities due to global integration processes will become even more complex if one considers labour force participation rates. A nation's per-person output can be divided into four features: the percent of its population that is working age (between the ages of 15 or 16 and 64); the percent of working age population in the labour force (the labour force participation rate); the percent of its labour force that is employed; and the productivity of these workers.

A new generalised stylised fact characterising labour markets in both the United States and Europe is the trend or tendency to enter the labour force late and exit early. In both the United States and Europe, forecasts suggest that the working age population, relative to the total population, will decline throughout this century (compare Table 9 below). The implication being, that in order for output (and income) per person to rise increasing living standards, this decline must be offset by increases in some, or all, of the other three factors mentioned above.

Table 9: Labour Force Participation Rates (per cent)

	France		Germany		United States	
	1967	1998	1967	1998	1967	1998
Total	67.6	67.4	69.2	70.8	69.2	77.4
Woman	47.8	60.8	47.5	62.6	47.8	70.7
Men	87.7	74.1	93.1	78.7	91.2	84.2
20-24	85.8	52.9	86.2	72	85.4	82.0
25-54	95.8	94.5	96.5	93.2	95.5	91.8
60-64	63.0	15.3	77.7	29.9	76.9	55.4
Source: Pollard (2000)						

[28] Compare e.g. Brandes and Weise (2000), p. 46.

As the Table 9 above illustrates, 77.4 percent of the working age population in the United States was in the labour force in 1998, weighed against 70.8 percent in Germany and 67.4 percent in France. Within the past thirty years, the participation rate rose sharply in the United States, to some extent in Germany, and it remained practically constant in France. Woman participation increased for all three countries significantly, while the participation rate for men declined.

The labour force participation rates of prime-aged men (25-54) have varied only slightly across countries and over time. However, there has been a decline in all three countries in the labour participation rate of men aged 20-24, especially in France. The most marked adjustment has been the reduction in the participation rates of older men (60-64). This is due basically to lower normal retirement age requirements and institutional pension systems. If these trends continue, that is if increasingly more workers enter the labour force late and exit early, unemployment rates should fall and productivity gains must increase to accommodate an increase in the income levels per person in both the United States and Europe.

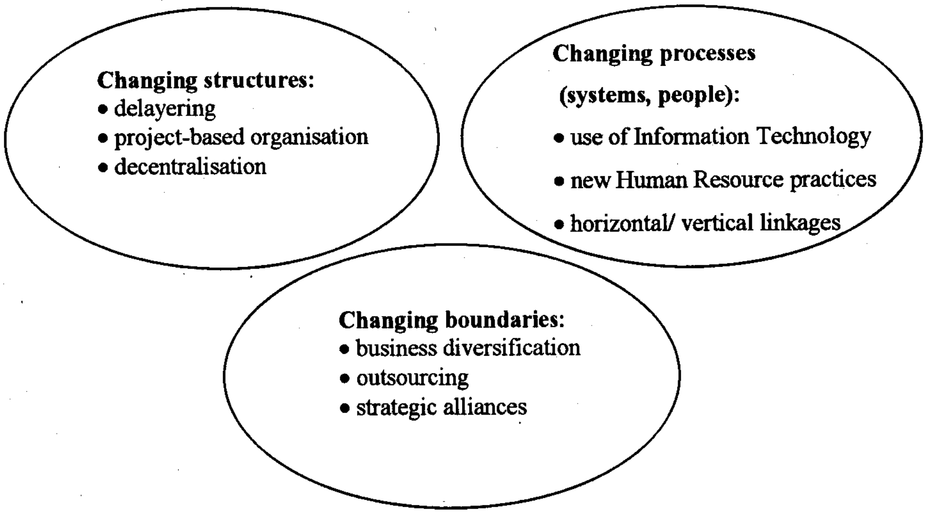
Conclusions

Changes are taking place on the boundaries of enterprises rather than at their core. The dependence of business activities on an adequate supply of decentralised networking "entrepreneurial" employees puts external environmental, educational, and even family restrictions on the enterprise's internal agenda. International human resource management depends heavily on continuously adaptive organisational networks that know how to do more than any individual can understand in detail. New workplace realities and work force demographics are challenging our traditional concepts of what enterprises really are and how they function. Corporate restructuring has been observed to be occurring along nine variables as exhibited below in Figure 5.

Endeavours to change structures, to change processes and to change boundaries are due to ongoing integration processes attempting to improve co-ordination and co-operation of separate distinct economic units in order to achieve enhanced efficiency through flexible allocation of limited global resources in the face of large risks and uncertainties.

[29] Labour mobility among EU members is two to three times lower than among US regions. See Organisation for

Figure 5: Corporate Restructuring Along Nine Variables



Source: Whittington et. Al. 1999, cited according to Ruigrok, Pettigrew, Peck and Whittington (1999), p. 44.

Taking into account that one third of the world population, i.e. one billion people, are either unemployed or under-employed there is a growing necessity to intensify research in international human resource management. Approximately 150 million persons globally are statistically registered as unemployed. Seventy-five percent of these individuals do not receive any form of social support.[30] The general mismanagement of such social contingencies is rapidly depreciating much of the world's future human capital stock and at the same time threatening the attainment of income security necessary for stable society structures and open markets free from protectionism.

Free trade is not a zero-sum game in which the widening of inequalities between winners and losers must be taken as a given. If so, the emerging social and political tensions will generate political pressures to protect industries and jobs. This in turn will lead to further disintegration of world markets and loss of world welfare as we forgo the vast potential options of human capital lost.

Economic Cooperation and Development (1986) and European Commission (1990).

[30] See ILO-Nachrichten 3(2000), p.2.

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