

## **Rules, Regulations and People Management: Critical analysis on employee promotions and relocations in the state owned companies of countries under transition process**

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### **Abstract**

Empirical evidences and reports from international organizations monitoring countries under transition process indicate that some aspects of leadership and people management in latter countries are characterized with phenomenon of cronyism. Therefore, this paper attempted to analyze the impact of rules and regulations regarding people management improvement, especially in area of employee promotions and relocations. The paper doesn't claim that organizations need to install more rules and regulations in general because too many regulations result in establishment of archaic bureaucracy. We insist to develop specific rules regarding the Human Resource Management in order to protect employees from subjective managerial approach. Moreover, the paper attempted in critical manner to clarify that generic rules and regulations regarding people management leave to much space for subjective interpretation of them, thereby can be unfairly implemented. Our empirical evidence and literature review found that unfair employee promotions and relocations are more prevalent in state owned companies, resulting in poor job commitment and in de-motivation of employees. In our analysis we brought up some recommendations in order to improve people management. Finally, it was concluded that public institutions should take into considerations changes in respect of employee management, which would tackle partiality and subjective promotion and relocations of employees.

**Keywords:** Rules, employee promotions, state owned companies, transition process.

### **Introduction**

In a historical retrospective the human civilization progress has been in direct proportion with installation of rules and regulation. By installing rules and regulations the humans have given away some of their personal rights in order to function better as a society. Historical evidences make clear that more or less organized groups throughout history, such as tribes, clans or modern state governments although having amongst them outstanding leaders who have inspired people in achieving different goals, needed to install adequate rules and regulations in order to establish a functional – organized system.

In the dynamic world we are living it is very difficult to find ideal charismatic leaders. Instead norms, laws and regulations are becoming relevant substitutes for them. Furthermore, sometimes leaders use their power to attain their own interests. In this context the need of rules and regulations gets more importance. Nowadays, especially for a state owned companies is very important to develop such a formal system of rules and regulations which will protect the company from the manager's conflict of interest, and moreover, protect the employees from the

subjective managerial treatment. In order to be effective those rules and regulations must be clear, transparent, sanctioned by a certain norm and fairly implemented. Pablo Zoghbi-Manrique-de-Lara (2010) suggests that when formal regulations are unfairly implemented, they lose their validity and efficiency. This, according to the author results to destructive work behavior and workplace deviance. Thus, we insist also in the use of detailed rules in order to avoid promotions and employee evaluations based on subjective managerial treatment. The latter would also tackle the phenomenon of cronyism and corruption.

In correlation to latter arguments, this paper is about to analyze some aspects of rules and regulations in an organization and their role in improving people management with its main focus at employee promotions and relocations at state owned companies of countries under transition process.

The next section of the paper provides an overview of state owned company's people management characteristics, focusing in the process of employee promotions and relocations.

In the third section literature review is provided.

In the fourth section recommendations are drawn, followed by conclusions in the last section.

### **The process of promotion and relocations in state owned companies of the countries under transition process**

Most of the countries which are under the process of transition are characterized by high level of informal economy the phenomenon of favoritism in some particular companies. The latter phenomenon is seriously expressed in state owned companies. The current situation leads to poor applicable leadership and inadequate people management. Moreover, in order to achieve their personal goals and to satisfy the external influence, the decisions about promotions, relocations, important trainings of public employees, and alike, are made based on cronyism and nepotism. In return the senior management secures the latter's personal loyalty. It is obvious that the most important managerial decisions are made based on subjective assumption of managers rather than on rules and regulations. Moreover, the rules and regulations in most of state owned companies are extremely generic, leaving much space for managerial subjective interpretation of them.

### **Introductory to employee promotions and relocations process in countries under transition process**

In the countries with fragile democracies, which are under the transition process, the external influences such as influence of politics and business community in promotions and relocation aspects of employees at public institutions is considerable. It is known and moreover, many scholars have emphasized at their academic publications that public organizations rely more on rules and regulations compare to private ones (e.g. Boyne, 2002; Zhan and Rainey, 1992). Historical evidences show that the establishment of such a system of rules and regulations in public organizations has been developed in order to tackle the negative phenomenon's, such as of cronyism and nepotism. However, in countries

under transition process with a fragile democratic system and political instability the implementation of rules and regulations in power is not on satisfactory levels. The rules in power for these issues seem to be within the EU framework. However, there is a need to make them more specific and take care that their implementation be within the limits of regularity, fairness and impartiality.

### **Relocations**

In a normal organization relocations are undertaken to improve the performance and for the professional development of its employees. According to Mathiesen and Tissington (2008) the intra-organizational transfer of an employee from one location to another can be used for the professional development and represent a key element for human resource development.

This may be a correct conclusion for the private companies. However, we argue about this conclusion when dealing with state owned companies, especially for the organizations in countries under transition process.

We claim that there are many cases that relocations of employees in state owned companies are made based on subjective assumptions of a senior manager, individual preferences and influenced by grapevine. Empirical evidences indicate that during this process there are cases of not taking much consideration of the educational background of the employees, neither for their work performance. It is obvious that the rules and regulations in power in most of the state owned companies in the countries under transition process about employee relocations are generic leaving to much space for subjective managerial interpretation and with no willingness to establish a rotational relocation system. The current system of relocations based on individual preferences and affected by grapevine is resulting in de-motivation of employees. There might be cases that a change in the position of the head of particular directorate will result in complete change of the line managerial structure within that directorate. Hence, all the trainings and human investments achieved previously for building up effective professional development would go vain. Moreover, the new relocated employees would need time to adapt on the new working environment. This also has direct effect in the normal flow of every day working operations.

### **Promotions**

In the most state owned companies in the countries under transition the application for a new higher position requires some competencies such as, educational background, working experience, etc. Until this stage everything about the process looks transparent and regular. The problem starts when the process interacts with human subjective assumption and it is characterized with elements of cronyism. In addition, the process is characterized with procedural injustice. According to Omar, Sulaiman and Wan (2012) procedural justice is "Perceived fairness of the procedure used in the decision making" (p. 99). Since the procedures and regulations are too generic, there is a tendency of management to interpret the promotion related procedures in a subjective manner. This situation leads to inefficiency and confusion and is caused by subjective managerial approach. This

phenomenon compromises the rules of engagement and is an extreme example of cronyism.

### **Literature review on rules and regulations and people management**

Modern literature provides many academic publications regarding the role of rules and regulations in improving the management of human resources.

Khatri and Tsang (2003) relate the issue or noncompliance to the rules and regulation in power with the phenomenon of cronyism. The mentioned authors in their article "Antecedents and consequences of cronyism in organizations" define cronyism as: "Favoritism shown by the superior to his or her subordinate based on their relationship, rather than the latter's capability or qualification, in exchange for the latter's personal loyalty" (p. 289). Furthermore they claim that cronyism is against the fair employee appraisal and also an unethical management practice. Furthermore, as emphasized by Antonio Argandona (2001) adequate rules and regulations in an organization can be a great tool to tackle corruption. According to Avolio and Bass (1993) the organization is anarchic without either clear purposes or rules and regulations to control activities. However, some authors relate the installment of rules and regulations with the bureaucracy (e.g. Casey, 2004; Olsen, 2007 Zhou, 1993). In this regard Catherine Casey (2004) analyzing the issue of authority and bureaucracy based on Max Weber contest classifies the types of power and domination rules in three groups:

1. Charismatic;
2. Traditional;
3. Rational – legal;

According to Casey, Weber considered the third rational – legal one as the ideal type of legitimate authority in bureaucratic organizations. Furthermore, the same author claims that the rational – legal rules contribute in the structuring of the hierarchy and what's more important they also contribute in the aspect of separating the rules from the person administrating them. In terms of problems state owned companies face with managerial subjective interpretation of rules, we consider the latter conclusion of Catherine Casey as very important especially in tackling the phenomenon of cronyism.

### **Literature review on relocations**

Many scholars have elaborated the issue of employee relocation, however in most of the academic publications the main focus of scholars was the analysis of the willingness of employees to relocate in interaction with changes it will produce in the family, such as leaving the family for a certain period of time or moving the family to the new job location (e.g. Bubwhar, Le and Tissington, 2010; Ebi and Rusell, 2000; Jack, 2010). They have also found that the age factor is an important factor in willingness to relocate, claiming that old employees show a higher resistance to relocate compare to young employees. We found that there is a lack of academic analysis regarding the relocations that occur within organization where the problem of geographical distance is not an issue. Our main analysis about the relocation at public institutions is related with the arbitral relocations which are

not based on adequate standards, but are carried out unilaterally and without any prior information, causing job insecurity and low job commitment. According to Cheng et al (2010) organizational commitment tends to decrease when employees experience job insecurity. Ebi and Dematteo (2000) found that if the relocation decisions are made involuntary the employee support for organization would weaken since the employees will perceive the transfer as forced by the senior management, without their willingness. Relocations, either internal or external are accompanied with a serious employee resistance to change. According to Eilam and Shamir (2005) even relocation from an office to another is accompanied with resistance to change. Furthermore, they state that this resistance will be more expressed if the change is in opposition with the self concepts of the employee and vice versa.

### **Literature review on promotions**

According to Sharabi (2011) a promotion is not only gratitude or reward, but also a chance for self fulfillment and career advancement.

Many scholars in their publications have analyzed the issue of non rational promotions, respectively the issue of employee promotions not based on merit (e.g. Arian, Sharabi and Simonovich, 2012; Omar, Sulaiman and Wan, 2012; Roberts, 2010). Omar, Sulaiman and Wan (2012) suggest that perceived fairness during the promotion decisions affect positively in organizational commitment and employee performance. Whereas perceived inequity reflects negatively in organizational commitment, job performance and increases the employee intentions to leave the organization. Furthermore they highlight the issue of establishment of procedural rules and regulations in order to improve the employee promotion process. In their recent article "High-tech and public sectors employees' perception of factors influencing promotion" Arian, Sharabi and Simonovich (2012) compared the differences between public and private sector in promotion based on Murray (1975) classical study "Comparing public and private management – An exploratory essay". In this article we found very interesting two factors affecting employee promotion process: a. Criteria for the goal realization, and b. Dependence upon the system. According to first factor, during the process of promotion in the private organizations promotion criteria are purely economic, whereas, in public state owned organizations the main considerations are to achieve a consensus between the interested parties in the process. According to second factor, private companies are free from politicization, whereas public state owned organizations are often impacted by politics. Reviewing literature, in the article of 1987 with unknown authors "Equal employment opportunity", we found a case where an official was found guilty by a court in United States (McIntosh v. Weinberger, 42 EPD 1 | 36,927) for concealing the evidences of tests during the employee promotion process. This is a classical example of procedural violation. According to Tortia (2008) the phenomenon of procedural unfairness is much more expressed in public state owned organizations, rather than in private ones.

## **Analysis of the issue – findings and recommendations**

We believe that problems many employees face in their career development within state owned companies in countries under transition process, come as a result of misinterpretation and generalization of the rules and regulations in power, which is resulting in poor and inefficient people management. Countries under transition process are in a process of transformation and change, this, as a result of implementation of the EU standards in public agencies. However, the implementation of these changes doesn't always go in concordance with the ratified laws. Moreover, the regulations and rules in power are extremely generic, thus, leaving to much space for subjective managerial interpretation. The lack of specific rules and regulations and their noncompliance is resulting in:

Uncertainty of employees about their near and mid professional future in the agency. That's because the relocation of employees are not necessarily undertaken in accordance with any professional or periodical standard. Promotions and relocations not based on rational standards and a regulations are resulting in incurrence of extra cost for trainings and professional development of employees. There is no continuity in professional development of employees, and alike. These points emphasized usually result in de-motivation of employees which has a direct effect in daily working operations.

We believe that this situation characterized with inadequate people management could be improved by undertaking following actions.

1. Issuing administrative orders about employee promotions and relocations. Administrative orders enable to get adequate answer about who, why, when, what and where. In addition administrative orders are the key instruments in breaking down the generic rules not only in promotion and relocation process but also regarding general issues.
2. Establishing regular exchange of information between HR sector and the respective directorates.
3. Building up a rotational relocation system. This action would reduce the subjective managerial power. Instead the relocation decision would be made based on a certain standard. Moreover, this move would reduce the external pressure regarding the relocations.
4. Strict implementation of Code of conduct, aiming to tackle conflict of interest, etc.

## **Conclusions**

Our empirical evidence about the human resource management in the most countries going under transition process, indicate lack of efficient people management. The current situation is characterized with ambiguity in respect of rules and regulations. It was found and moreover supported by literature review that generic rules and regulations lead to inefficient people management. In addition, generic rules and regulations leave a space for subjective interpretation of them. Subjective interpretation of rules results in appearance of elements of

cronyism. This situation comes also as a result of external pressure, especially from informal political channels and business community.

Our analysis in this paper was focused on installment of specific rules and regulations regarding the process of employee promotions and relocations, as two neuralgic aspects with a big effect in motivation and job satisfaction employees. In many state owned companies of the countries which are under transition process the rules and regulations in power do not provide a fair and impartial employee management, especially in promotion and relocations aspects. Having in consideration the current situation and literature review we have come with findings and proposals. Those proposals refer to specification of rules and regulations, ensuring transparency and reducing the negative external pressure from informal channels. Moreover, countries under transition process should take into consideration standards of European Union towards people management and what is more important establish adequate norms to ensure fair, impartial and rational implementation of rules and regulations.

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