

TRANSCULTURAL CONTEXTS AND MANAGEMENT CHALLENGES: ETHNIC INEQUALITIES IN GERMAN LABOUR MARKET

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—Abstract —

The driving force of German economies is attributed to the powerful position of small and medium enterprises (SMEs). The shortage of skilled workers also underlines an emerging and resilient economy of Germany. However, the future prospects of SMEs depend on creative employees as key actors. Nevertheless, demographic change is perceptible so that the labour integration of resident immigrants becomes more important. But several studies investigated ethnic inequalities especially discrimination in the labour market intensifying brain drain.

Diversity management offers competitive advantages. However, it is mostly a management tool of bigger enterprise performances. This empirical case study is based on the research gap examining diversity activities in German SMEs concentrating on highly qualified immigrants. It shows that diversity management is in very little usage by SMEs so that a possible organizational intervention is recommended by the integration of diversity BSC.

Key Words: *Ethnic inequalities; Labour market; Diversity Management.*

JEL Classification: 015, J71, M51

1. INTRODUCTION

The driving force of German economy is attributed to the powerful position of the small and medium enterprises, SME, so that the global crisis did not lead to an employment decline in Germany. Their special feature is that entrepreneurial actors and stakeholders take responsibility and are liable for the company's obligations with their assets, exactly as intended by Adam Smith (Cannan, 1976). There are strong industries and successful services which are in demand worldwide.

Continuing to provide a strong and sustainable economy depends on an innovative development by talented key actors. Moreover, based on current trends of growing changes in the age structure within the population and brain drain movements, the following main challenges are underlined: retaining highly skilled staff and recruiting qualified employees.

Again and again, different empirical case studies for ethnic inequality light out less success of particularly low-educated immigrants in the German labour market. As this paper focuses on the highly-skill section of the labor market, it is actually hard to find a reason for a disadvantage by a higher endowment of immigrants with human capital. However, several field studies register discrimination. Nevertheless, immigrants and international skilled staff seem more likely to be vulnerable experiencing discrimination in the labour market than native applicants especially in SMEs (e.g. Kaas and Manger, 2012).

However, social and human capital of immigrants has changed and their educational skills open up further opportunities in new markets. About 19 per cent of the total German population (80.2 million) are migrants; approximately every fifth person is an immigrant (Stadt Siegen, 2013). The largest ethnic group in the Germany consists of Turkish immigrants. Regarding this transcultural context in Germany, the problem of ethnic inequalities in the labour market will be analyzed. This paper raises the question whether interventions by implementing diversity management or application on a culturally sensitive approach to organization

structuring are possible in order to counteract against ethnic inequalities in German labour market. There is a research gap of dedication and application of diversity strategies in hiring key actors for SMEs. As the focus of resident immigrants and their labor market integration becomes more important, workshops with foreign students were organized as well as 9 of 50 asked companies were interviewed. The case study is not finished yet, but the results show no directly usage of diversity management or diversity workforce except in the manufacturing.

The rest of the paper is structured as follows: labour market, management in dynamic complexity, research design and methodology, findings and conclusion.

2. LABOUR MARKET

The term *discrimination* comes from the Latin word *discriminare*. However, it is more than a distinction; it is mostly associated with unequal treatment. The influence to define social norms and codes and at least how discrimination is to be understood may be described as definatory power.

In the following, two conducting neoclassical theories of discrimination will be introduced. They can be described as forms of *hidden discrimination* experiences of ethnic minorities. In the first theory, discrimination is based on *tastes* or personal preferences (Becker, 1971). All labour market actors try to maximize their profits and benefits i.e. they ignore interactions with other economic actors with the result of paying costs. According to the second conducting explanation, discrimination is the result of employers' incomplete information (Phelps, 1972) so that false group beliefs are imputed instead. In economic theory, all differences in productivity are primarily regarded (Arrow, 1971). "The notion of discrimination involves the additional concept that personal characteristics of the worker which are unrelated to productivity are also valued on the market. Such personal characteristics as race, ethnic background and sex have been frequently adduced in this context" (Arrow, 1971:2).

Nevertheless, labour markets do reflect that no perfect market conditions exist in the neoclassical sense. Employers look for applicants who have the highest productivity resp. human capital fitting best to the attributes in the vacancy.

Despite of the previous theories, institutional mechanisms (e.g. school system) have also negative impacts on the educational success of immigrants which is described as institutional discrimination (Gomolla and Radtke, 2002). Finally, power differences in the labour market such as the dual-system-approach (Hartmann, 1976) may also block market entries and lead to gender-based segregations.

Ethnic inequality in the labour market has been investigated in various studies such as Damelang (2011), Granato (2003), Heath and Cheung (2007), Platt (2011) and Rawls (1971). It is commonly described that immigrants have less success in the labour market. Actually, immigrants are often touched by this unbalance in low-skilled occupations. Hence, it turns out to be difficult finding reasons for a disadvantage by a higher endowment of immigrants with human capital (cf. Granato and Kalter 2001; Plahuta 2007).

Several field studies register discrimination which also has been carried out in other countries (cf. Matemera, 2008; Carlsson and Rooth, 2007; Kalter and Kogan, 2002). Nevertheless, studies confirm that immigrants absorb contexts of experiencing discrimination in the labour market, rather than native applicants, and particularly in SMEs. To protect employers against discrimination, political reactions led to the introduction of a General Equal Treatment Act in 2006. A few years later, the Federal Anti-Discrimination Agency in Germany started an experiment with anonymous job applications as response to upcoming debates. A recent study of Kaas and Manger (2012) indicates a tendency of ethnic inequality in the labour market. They manifest that applicants with Turkish names receive much less invitations or call-backs for a job interview than German applicants. The differences of the invitation rates even become bigger in SMEs. Similar tests are also marked by studies of Neumark (1996), Goldin and Rouse (2000), Petit (2007), Mullainathan et al. (2009) for India, Rooth (2007), Weichselbaumer (2003), Carlsson and Rooth (2007), Wood et al. (2009), Bertrand and Mullainathan (2004), Drydakis and Vlassis (2007) and Goldberg et al. (1996).

3. MANAGEMENT IN DYNAMIC COMPLEXITY

Conventional management approaches interpret enterprises as easy handling machines with obvious behavior. With respect to the accelerated economic dynamism, the pressure for companies to innovate and change and to use human capital resources more effectively intensifies. In this context, monocultural companies are past-orientated, too rigid and less able to learn from experiences and adapt accordingly with a lack of creativity and innovation. The particular challenge of the management lies in a change of perspective to self-discovery, self-distance, empathy and xenophile (Bergmann and Daub, 2012).

Ensuring a vital system can be achieved by coherence activities such as comprehensibility, manageability and meaningfulness. These three components are known as the sense of coherence (SOC) (Antonovsky, 1997). Furthermore, it should be noted that with regard to the strategic orientation the competence, identity and the vision of the business play a central role.

Companies are subject of a dynamic complexity so that these turbulent systems can be characterized as organically, spontaneously and self-organizing. The main features of structures in this context are self-organisation and heterarchy. Ashby's law, also known as Law of Requisite Variety, may be stated:

"The larger the variety of actions available to a control system, the larger the variety of perturbations it is able to compensate" which creates challenges for the management (Ashby, 1958).

Diversity Management as a strategy to promote the implementation of diversity and heterogeneity in organizations is an integrated management approach. This approach was first used in the United States in the 1980s. Historically it is rooted in the social unrests of the 1950s (Brazzel, 2003). With the subsidiaries of US conglomerates, the idea came to Germany in the middle of the 1990s. The diversity of employees, cultures, strategies, functions etc. are used as a strategic resource to solve complex challenges.

Focused dimensions are visible features (e.g. gender, ethnicity, dress, age, race, physical attributes) and invisible ones (e.g. religion, skills, education, socio-economic status, political views). Over the years, three main concepts of diversity management have developed (Thomas and Ely, 1996):

- *Fairness and discrimination* approach,
- *Access and legitimacy* approach,
- *Learning & effectiveness* approach which manages diversity internally.

All three concepts are not yet pleasurable. The first and the second approach try to adapt the organisation to changing environments but disregard management view and internal integration. Actually, research projects about diversity management mostly reflect bigger companies' performances (Maxwell (2004), McDougall (1996), Süß and Kleiner (2005) and Köppel et al.; (2007)).

According to the results of Klaffke (2008), diversity management is not yet known extensively at Hamburg's SMEs. In a study, the European Commission explored the creation of diverse workplace of SMEs across Europe (2008). It is noticed that SMEs are too small and consequently don't have the financial conditions for diversity management.

4. RESEARCH DESIGN AND METHODOLOGY

In Germany, 99.3 per cent of the companies have less than 250 employees and are SMEs (Destatis, 2010). In terms of the previous described challenges of ethnic inequalities in the labour market and the results of literature review, the research question is focused on SMEs in one economic area in Germany. The aim is to find out results about the progress or implementation of diversity management and if it is a possible intervention tool for SMEs. The focus lies on highly qualified immigrants as hidden reserves. Under the terms of future challenges, the labor market integration of this target group becomes more important.

This paper is based on an empirical case study on a contextual-relational approach. The study is conducted in SMEs in and around Siegen city which is an urban agglomeration with about 99,187 inhabitants (Stadt Siegen, 2013). It's also one of the most successful industrial regions with lots of global market leaders, known as *hidden champions*. Ten per cent of the population in Siegen consists of foreigners (Stadt Siegen, 2013). Siegen already suffers from a shortage of skilled labour and the impacts of the demographic changes.

In May 2013, 50 companies in and around Siegen city were asked for an interview on a random sample from the Chamber of Industry and Commerce (IHK). In the period from June to July 2013, 9 companies responded and were interviewed in depth in German. The majority of responded companies are micro and middle-sized companies, mostly family managed with less than 50 employees.

All interviews were recorded and transcribed. The coding scheme was transformed into categories like organizational backgrounds, origins of employees, share of foreign staff and environmental influences like shortages.

Additional workshops with students from economic disciplines were organized in June 2013 with about 25 students from different nationalities at Siegen University.

5. FINDINGS

As this study is not finished yet, the results of the pretests particularly with students confirm experiences of discrimination and inequalities in the labour market, especially by applicants with a foreign nationality. In most of the cases, the people in this region were described as closed-minded. The answers of the companies have a common denominator:

- Diversity management is not directly used in the companies, but there is respect to gender and older employees;
- There is no need for ethnic diversity in the workforce, lots of foreigners work in the manufacturing. Most of the workforce are family members or/and come from the region;
- Promoting diversity as a management approach is costly, depends on the size of the company and the sector; recruiting processes pass through classical approaches;
- Smaller companies don't receive applicants from graduates. That indicates a general branding problem of the companies and the region.

The European Commission published a guide to implement diversity in SMEs in 2009. However, diversity must be present in order to initiate diversity management. The author proposes to integrate a diversity including strategy performance management tool, the *Diversity Balanced Scorecard (DBSC)* from the development of its contents to its real-time use, with particularly practice oriented active workshops. This is a developed method based on the extended BSC of Bergmann (2006) including the views of identity, learning culture and relationship. Heterogeneous participation of all stakeholders is the key factor. The BSC consists of the following dimensions:

- *Identity* (improve learning culture)
- *Internal processes and structures* (raise self-organisation, reduce requests to superiors)
- *External learning relationships* (involve experiences)
- *Resources* (time, finance) and
- *Competences* (increase social skills).

The diversity view is included in the measures like diversity recruiting and training in the HR processes, key performances and targets which are set by the management board showing appreciation to these alignments.

6. CONCLUSION

Disadvantages in the labour market are realized very often, recently demonstrated by two judgments of the European Court of Justice (ECJ, numbers: C-415/10 and C-104/10). The court refused an entitlement to information of rejected applicants, but underlines that an insufficient justification for any refusal may be a sign of discrimination.

Companies have to face impacts of pluralisation and differentiation of life-styles in order to stay attractive employers. In addition, the internationalization of the

business, the diversity of customers and their needs require companies to develop, increase creativity and innovation which is possible by raising the heterogeneity.

This paper outlined that there are still ethnic inequalities especially in the highly-skill section in the German Labour market. A research gap in SMEs is recognized so that an empirical case study was started and will be continued. SMEs interviewed in the first case study period from June to July 2013 show no ethnic diversity in the workforce at the upper level of the organisation. Diversity strategies are not integrated in the decision processes. One recommendation is to intervene in the complexity in terms of diversity integrated BSC as the first step of a change in the management of the regional SMEs; the next issue raised by the interviews focuses on a lack of employer branding. A stronger cooperation of the university and the regional economy is recommended.

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