MANAGEMENT COMMUNICATION, UNIONIZATION, FDI AND COMPANY PERFORMANCE IN A DEVELOPING COUNTRY

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Abstract

We examine the associations between management direct communication to employees, unionization, foreign direct investment (FDI) and company performance in Mauritius, Africa's most successful economy, using a survey conducted in late 2011. Mauritian labor unions, in common with their continental counterparts, are strongest in the public sector. They have been characterized as weak and lacking in influence on management. Yet we find a strong association between unionization and management communication in the private sector. We also find a positive association between direct communication and company performance which we argue is likely to be an indirect consequence of unionization. FDI shows no particular effects.

Key words: management communication; labor unions; FDI; company performance; development

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1. INTRODUCTION

We examine the associations between management direct communication to employees, unionization and company performance, in the context of Mauritius, the only case of African developmental success not based on natural resources. Mauritius is widely canvassed as an African success story, a unique regional example of successful development essentially achieved through its human resources, without any element of natural resource endowments (Lange, 2003; Sandbrook, 2005; Lincoln, 2006; Sandbrook et al., 2007; Darga, 2011; Van Demorteele and Bird, 2010). It has been referred to as a national example that is widely admired on the African continent (Sandbrook et al., 2007; Darga, 2011). In the forty years since independence, successive essentially social-democratic governments have successfully diversified the economy from its previous dependence on sugar, presiding over the development of light manufacturing, textiles, tourism and finance. Considerable industrial diversification is present; the country is an open economy with high levels of FDI, which also has a significant body of domestic companies (Van Demorteele and Bird, 2010). The country has no significant regional variations on any relevant dimensions, unlike many African countries (Almond, 2011).

Strategic HRM, as in much of Africa, has long been and remains only weakly developed on the island (Ramgutty-Wong, 2004; Kamoche et al, 2004; Goolaup and Ramasawmy, 2011). Research on a small sample of ten local managers nevertheless reports a strong emphasis by these practitioners on the importance of good internal communications (Boojihawon and Hanuman-Oogarah, 2010). Labor unions are based at the enterprise level but have benefitted from considerable tripartite involvement (Fashoyin, 2010). In common

with many other labor union movements world-wide, they have suffered from a gradual decline in membership in the last thirty years. Mauritian unions have been one of a range of institutions that have been argued to have a significant influence on the country's healthy and stable civil society (Srebrnik, 2000). By contrast, Laville (2000) argues that such institutions have little impact on the disadvantage experienced by the substantial Creole minority. The latter argument is consistent with another: that they exert most influence in the public sector where the Indian ethnic grouping is most in evidence, and that their bargaining has been focused on improving this group's pay and conditions (McCourt and Ramgutty-Wong, 2003; Ramgutty-Wong, 2004).

Joseph Stiglitz, the World Bank's ex-Chief Economist, has argued that 'Labor unions … are key to democratic economic development' (Stiglitz, 2000: 22) and in doing so, he challenged the neo-liberal consensus that informed the successive forms of 'structural adjustment' policies of the International Financial Institutions (IFIs) towards African countries. These tended, partly as a conscious priority, to de-unionize their economies since unions were held, following classical economic theory, to distort labor markets (Wood and Brewster, 2007). Stiglitz stressed the broad *societal* role played by unions in developing co-operative, mutual institutions that built civil society. To some extent, arguments confined to this level may be an inevitable result of the fact that outside of the exceptional South African case, minimal evidence has been available on unionization and its effects at enterprise level in Africa. This is especially the case in the private sector, since African labor unionism has become a largely public sector phenomenon (Wood and Brewster, 2007). We therefore seek to examine how far unions are associated with an important management practice in private firms, and extend our inquiry to include company performance.

The article is structured as follows. First, we discuss the association between unionization and direct communication, advancing three tentative propositions for empirical

testing. We then introduce our data and methods, followed by our estimation and findings before concluding and revisiting our propositions.

2. DIRECT COMMUNICATION AND UNIONIZATION

Direct communication has long been seen as a key element of an organizational strategy of employee involvement, 'an umbrella term covering a wide range of voluntary employer-led initiatives designed to encourage more active employee participation in (organizational) affairs' (Caldwell, 1993: 136). Direct communication with employees on company financial performance and strategy is also one of the seven dimensions of High Involvement Management that Pfeffer (1998) identifies as generating significant economic returns. He suggests that it does so by promoting employee affective commitment and reducing intentions to quit. It seems likely to constitute part of a 'partial gift exchange' between employer and employee in those companies where employees perceive it to be strong in relation to other companies seen as realistic comparators (Akerlof, 1982).

Unionization is associated with strong direct communication in European companies (Croucher et al., 2006; Peccei et al., 2005; Tanova and Nadiri, 2010). It has also been shown to be one of a bundle of practices associated with relatively strong performance in European companies (Rizov and Croucher, 2009). Mauritian unions have been characterized as neither strong nor weak in the African context, but in common with many other labor unions in Africa, they have been portrayed as especially weak in the private sector (McCourt and Ramgutty-Wong, 2003; Ramgutty-Wong, 2004). They have been held to be focused on pay and conditions issues and judged not to be influential on management behavior (Ramgutty-Wong, 2004). These judgements are consistent with those made by experts on Africa more widely. These emphasize the predominance of 'leader-follower' relations and suggest that

more high-involvement production paradigms are normally found only among the foreign companies operating in South Africa (Wood and Brewster, 2007; Wood and Frynas, 2006). Wood and Frynas (2006) identify weak unionization as one of the institutional foundations that they argue are linked to the failure of African 'segmented business systems' to deliver successful development.

From a theoretical viewpoint, two factors potentially raise incentives for Mauritian unions to focus on demanding company information as a route to raising their utility to employees and improving their levels of influence on managements. First, local unions are largely enterprise-based, a structure likely to diminish their capacity to bargain by reference to external benchmarks (Marsden, 1999) and they are therefore likely to channel their activities more internally to the company than externally towards the political sphere. Second, local managements are increasingly pursuing union substitution policies, pushing unions to find ways of improving their appeal to both workers and managements (Ramgutty-Wong, 2009). Addressing information asymmetry between management and workers may therefore appear a viable non-confrontational strategy for demonstrating their utility that does not rely on (weak) mobilizing capacity. However, unions may be too lacking in strategic orientation or simply too weak to pursue such a policy. Moreover, it may be that as Croucher et al. (2006) suggest, the effect of unionization on management communication is not the product of union strategy. These researchers suggest that the mechanism is more indirect in that union members' attitudes to management communications are relatively skeptical and therefore managers intensify their communications efforts in seeking to convince them.

Therefore, although the current state of knowledge is too weak to permit the formulation of formal hypotheses, the literature suggests three tentative propositions. First, even though unionization in Mauritius appears weak and fragmented it might be positively associated with management communications since it addresses the information asymmetry

between management and workers. Second, given union fragmentation they may be equally likely to be influential on communications in both the public and the private sector since they may be relatively unconstrained by centralized bureaucratic regulation. Further, if the information asymmetry is more pronounced in the private sector union influence could be stronger there. Finally, abstracting from neo-classical economic theory and the philosophy underlying IFI policies, unionization could be associated with strong company performance via its expected effect on management communication, and ultimately improved employee motivation. In all three cases, as we have indicated above, some grounds exist for entertaining the reverse propositions.

3. DATA AND VARIABLES

Data

Our data are derived from the 2011 Mauritius HR survey, specially designed to cover a wide range of HR policies and practices at organizational level. The respondents are the highest-ranking corporate officers in charge of HRM. The survey instrument was developed using an iterative process between the authors and local experts.

The instrument consisted of 57 questions - many with multiple options - ranging across the full range of HR practices and including detailed information on the company. The main headings are: HRM activity in the organization; staffing practices; employee development; compensation and benefits; employee relations and communication; knowledge transfer; organizational details. The survey was administered by post in November 2011. 350 organizations in both the public and private sectors were surveyed, using a sampling frame derived from a Human Resources Development Commission (HRDC) data base of

companies employing more than ten people and specifically designed by the HRDC to be representative of employment by industry.

The considerable difficulties of conducting survey research in the local context have been stressed (Ramgutty-Wong, 2004: 55). 120 organizations returned usable questionnaires, giving a response rate of 34%. The survey instrument's complexity, the number of respondent organizations and response rate compare favorably with other Mauritian HRM surveys although theoretically, the larger number of questions might have led to a lower response (Rea and Parker, 2005). The number of questions asked is considerably larger than in previous surveys (for example, sixty six public and private organizations answering sixteen questions including multiple options and with a response rate of 33% - in Ramgutty-Wong and Gokhool (2000); forty six private companies answering an unspecified number of questions in Ramgutty-Wong (2004)). So, too, are the number of organizations responding to our questionnaire.

Public ownership is spread across all major industries and accounts for approximately one-third of employment. In our sample there are 48 such organizations and publicly-owned bodies are therefore slightly over-represented. The median number of employees in respondent companies is 200. The smallest employs 12 and the largest has 12,000 employees. The sample's industry composition is as follows: services 50%; transport, communications and utilities 23%; manufacturing 16%; construction 7%; agriculture 4%. The sample is broadly reflective of the island's industrial structure, but manufacturing and agriculture are marginally under-represented within it when measured against official figures of employment in different industries (Mauritius Central Statistics Office, 2011).

Data were input to an SPSS data entry file created by the authors in conjunction with an external company. The data were entered by one person employed by that company and

checked separately by another experienced colleague. Spot checks on the data entry were also carried out by the three researchers involved in conducting the survey.

Variables

The dependent variable - direct communication (DCOM) and the (main) explanatory variable labor union influence (TRUN) - are ordinal categorical scales. We apply Mokken's nonparametric scaling model (Mokken and Lewis, 1982) to compute our synthetic indices as in Gooderham et al. (1999) and Croucher et al. (2006). The unweighted sum of item scores forming each scale must be monotonously related to the latent true scores, as demonstrated by Sjitsma et al. (1990). The primary scaling criterion is Loevinger's H-coefficient of homogeneity. A set of items constitutes a scale if the aggregate has an H-value exceeding 0.30; values above 0.50 indicate strong scales. The scales' internal consistency is verified by Cronbach's Alpha which increases in line with the intercorrelations between scale items. Because intercorrelations among test items are maximized when all items measure the same construct, Cronbach's Alpha is taken as indirectly indicating the degree to which a set of items measures a single unidimensional latent construct. Alpha values above 0.70 indicate a strong scale.

The dependent variable, DCOM, is constructed as in Croucher et al. (2006) as a composite index capturing employer communication to employees, that is, whether organizations brief clerical and manual employees on issues of business strategy, financial performance and work organization. Each of the six questions is coded as a binary variable (yes = 1 and no = 0). We extend the index by adding responses to three more questions indicating employees' direct communication to employers such as through regular workforce meetings, team briefings and electronic communication. Each of the three additional

questions is also coded as a binary variable (yes = 1 and no = 0). Thus a ten-point scale is created, with one to nine indicating the briefing of both clerical and manual employees on all three issues and the existence of employee-employer communication; zero indicates no briefing of either category on any of the issues and no communication in any form. The reliability of our DCOM index as measured by Cronbach's Alpha is satisfactory (0.69) while Loevinger's H-coefficient is acceptable at 0.51.

TRUN is a composite index consisting of the responses to three questions designed to assess the degree of union presence and influence. The three questions are: What proportion of the total number of employees in your organization are members of a labor union? (Firms were divided into three categories: 0 percent = 0, 1–50 percent = 1, over 50 percent = 2.) Do labor unions have any influence on your organization? (Yes = 1, no = 0.) Do you recognize labor unions for the purpose of collective bargaining? (Yes = 1, no = 0.) The sum of the responses to the above questions is used to form an index that ranges from 0 (no union presence/influence) to 4 (high degree of union presence/influence). The index has high reliability as measured by Cronbach's Alpha (0.82), and a very high Loevinger's H-coefficient of 0.81.

Following the conceptual frameworks of Croucher et al. (2006) and Rizov and Croucher (2009), we control in our regression analysis for company and industry characteristics that may affect direct communication: company size (SIZE), company age (AGE) and a set of dummy variables controlling for type of industry – manufacturing (MANU) and other industries (OTHR) with services as the reference category. SIZE is a dichotomous variable with 1 indicating companies larger than the median number of company employees and 0 otherwise. AGE is a dichotomous variable with 1 indicating companies older than the median company age and 0 otherwise.

In extended specifications we also introduce the impact of company ownership on direct communication. We distinguish ownership in two dimensions, foreign (FOWN) vs. domestic and private (POWN) vs. public companies. Both variables are dichotomous, with 1 indicating foreign (private) ownership and 0 otherwise. The FOWN variable captures the impact of FDI on direct communication.

Finally, in auxiliary regressions we verify the link between performance, direct communication, and labor union presence/ influence. Therefore, we create a measure of relative performance (PERF) following Rizov and Croucher (2009) which we use as a dependent variable in the auxiliary (second stage) regressions. PERF is measured as a composite index capturing the effects of five performance dimensions: service quality, level of productivity, profitability, rate of innovation, and stock market performance. Each component dimension is an ordinal categorical variable measuring the relative position of the firm in comparison to the rest of the industry (Top 10% - 3, upper half – 2, and lower half – 1). The sum of the responses for the above five dimensions is used to form an index that ranges from 1 to 15. The index has high reliability as measured by Cronbach's Alpha (0.86), and a reasonably high Loevinger's H-coefficient of 0.66.

Summary statistics and short definitions of all regression variables are reported in Table 1. Correlation matrices for selected (first-stage) regression variables are presented in the Appendix, Table A1. The low correlations between regression variables indicate no endogeneity problems.

TABLE 1: SUMMARY STATISTICS

Variable code	Definition	Mean (s.d.)
DCOM	Direct communications in the firm indicator ranging between 0 and 9	5.308 (2.045)
SIZE	Firm size measured as a dichotomous variable with 1 denoting firms above the median size and 0 otherwise	0.567 (0.498)
AGE	Firm age measured as a dichotomous variable with 1	0.683

	denoting firms above the median age and 0 otherwise	(0.467)
MANU	Dichotomous variable with 1 denoting firms in the manufacturing sector	0.158 (0.366)
OTHR	Dichotomous variable with 1 denoting firms in the construction, agriculture and mixed industries	0.333 (0.473)
TRUN	Presence and influence of labor unions indicator ranging between 0 and 4	1.842 (1.598)
FOWN	Dichotomous variable with 1 denoting firms under foreign ownership and 0 – domestic ownership	0.267 (0.444)
POWN	Dichotomous variable with 1 denoting firms under private ownership and 0 – public ownership	0.600 (0.492)
PERF	Composite performance of the firm indicator ranging between 1 and 15	8.906 (3.578)

Note: The number of observations in the total estimated sample is 120.

4. ESTIMATION AND FINDINGS

We estimate the relationship between direct communication and the explanatory variables by Ordinary Least Squares (OLS) and Ordered Logit (OL). Because the dependent variable is categorical in nature, it is in principle appropriate to use the OL estimator. However, given that the categorization of the dependent variable, DCOM is quite fine and exhibits normal distribution, OLS may also be used. The results from the two methods are very similar and we report and discuss the OLS results, which are easier to interpret. The OL results are available from the authors on request.

TABLE 2: FULL SAMPLE: FACTORS AFFECTING DIRECT COMMUNICATION

Variables	Models		
	(1)	(2)	(3)
SIZE	-0.032 -0.300 (0.400)	-0.030 -0.281 (0.402)	0.022 -0.202 (0.404)
AGE	-0.050 -0.392 (0.426)	-0.066 -0.516 (0.430)	-0.076 -0.590 (0.432)
MANU	-0.004 -0.135 (0.544)	-0.007 -0.227 (0.538)	-0.013 -0.435 (0.539)
OTHR	-0.027 -0.431 (0.421)	-0.023 -0.368 (0.417)	-0.022 -0.346 (0.417)
TRUN	-	+0.088	+0.127

		+0.254 ** (0.125)	+0.357 ** (0.137)
FOWN	-	-	+0.021 +0.421 (0.433)
POWN	-	-	+0.088 +0.779 * (0.430)
No of Obs.	120	120	120
Adj. R^2	0.019	0.112	0.137

Notes: For each regression variable we report first the elasticity, then the estimated coefficient and the standard error (in parentheses). The level of significance of estimated coefficients is indicated as follows: 1 percent ***, 5 percent **, 10 percent *.

First, we estimate the full sample and report the results in Table 2. To test for possible endogeneity of the explanatory variables we expand the specification stepwise as in Croucher et al. (2006) and Rizov and Croucher (2009). This approach demonstrates no endogeneity problems as the coefficients in all specifications remain stable.

We begin with a base specification where the explanatory variables are the main company characteristics, SIZE and AGE and the industry controls, MANU and OTHR and report the results in column (1). These control variables do not appear significantly to explain direct communication; this could be because there is no significant variation in communication practices across these company types and may be due to the limited size of our sample. Next, we extend the specification with labor union presence and influence, TRUN and report the results in column (2). The effect of TRUN is positive and significant (at the 5 percent level) while the effects of all control variables from the previous specification remain unchanged. Finally, we introduce the controls for foreign and private ownership (column 3). The coefficient of FOWN is not statistically significant while the coefficient of POWN is significant only at the 10 percent level. The coefficients of all variables from previous specifications remain stable.

TABLE 3: OWNERSHIP SUB-SAMPLES: FACTORS AFFECTING DIRECT COMMUNICATION

Variables	Models			
	Public/Private		Domestic/Foreign	
	(1)	(2)	(3)	(4)
SIZE	-0.056	-0.069	-0.012	-0.025
	-0.503	-0.348	-0.105	-0.273
	(0.613)	(0.528)	(0.499)	(0.680)
AGE	-0.035	-0.084	-0.065	-0.092
	-0.225	-0.837	-0.492	-0.770
	(0.727)	(0.524)	(0.538)	(0.743)
MANU	-0.006	-0.023	-0.007	-0.009
	-0.245	-0.932	-0.252	-0.217
	(0.931)	(0.672)	(0.733)	(0.788)
OTHR	-0.028	-0.001	-0.039	-0.023
	-0.460	-0.339	-0.533	-0.712
	(0.644)	(0.519)	(0.502)	(0.814)
TRUN	+0.044	+0.152	+0.096	+0.088
	+0.083	+0.756 ***	+0.264 *	+0.289
	(0.204)	(0.186)	(0.150)	(0.237)
No of Obs.	48	72	88	32
Adj. R^2	0.048	0.157	0.112	0.058

Notes: For each regression the variables reported are first, the elasticity, then the estimated coefficient and the standard error (in parentheses). The level of significance of estimated coefficients is indicated as follows: 1 percent ***, 5 percent **, 10 percent *.

Ownership is an important organizational environmental characteristic that is often relevant to union presence and influence. Therefore, we further analyze the relationship between direct communication and the explanatory variables in sub-samples by ownership type and report our results in Table 3. In columns (1) and (2) we compare public and private ownership. The main finding is that in private organizations the single most important factor positively affecting direct communication is TRUN with the coefficient significant at the1 percent level. TRUN is not significant in public organizations. The finding of union importance for communication in private companies is interesting given frequent reference in the literature to union weakness in private companies. The results from the domestic vs. foreign ownership sub-samples are reported in columns (3) and (4). In the domestic sub-sample a statistically significant relationship (though only at the10 percent level) is evident

between direct communication and TRUN. TRUN is not significant in the foreign sub-sample.

TABLE 4 FULL SAMPLE: FACTORS AFFECTING PERFORMANCE

Variables	Models			
	(1)	(2)	(3)	(4)
DCOM	0.159 0.267 (0.177)		0.168 0.281 (0.180)	
$DCOM_{XB}$		0.792 1.330 *** (0.530)		1.057 1.774 *** (0.602)
TRUN			-0.022 -0.105 (0.220)	-0.036 -0.176 (0.238)
No of Obs.	107	107	107	107
Adj. R^2	0.021	0.055	0.023	0.077

Notes: For each regression variable we report first the elasticity, then the estimated coefficient and the standard error (in parentheses). The level of significance of estimated coefficients is indicated as follows: 1 percent ***, 5 percent **, 10 percent *. $DCOM_{XB}$ denotes the predicted value from the specification in Table 2 (column 3).

To complete the analysis on the link between labor union presence and influence, direct communication and, ultimately, performance we directly verify the impact of communication on firm performance by regressing (using OLS) the performance index, PERF on DCOM and report the results in Table 4 (column 1). The estimated coefficient is not statistically different from zero. From both the theoretical and econometric points of view it is likely that the estimation is affected by reverse causality as performance may affect communication leading to DCOM being correlated with the error term. Therefore, we next use the predicted value of DCOM from the estimated specification in Table 2 (column 3) and report the results in column 2 of Table 4. The coefficient of the predicted DCOM is highly statistically significant confirming the positive effect of communication on firm performance but also suggesting that the effect of direct communication on performance is indeed subject to (negative) reverse causality, i.e., high performance negatively affects direct

communication. Further, we verify the direct effect of labor unions on firm performance by adding TRUN to each of the two specifications considered in columns 1 and 2 respectively. We find that in each specification the direct impact of labor unions on performance is not statistically significant (see columns 3 and 4). We therefore conclude that labor unions (positively) impact firm performance only indirectly, and that they do so via the direct communication channel. This tends to suggest that the indirect mechanism operating through employee attitudes advanced by Croucher et al. (2006) in the case of European firms may also be in operation in the Mauritian context.

5. CONCLUSION

We examined the associations between labor union presence and influence, communication, FDI and performance. All three propositions derived from the literature and contextualized to the Mauritian environment have been upheld. We find that the associations are especially strong in the private sector, despite the higher union density and relatively stable organizational environment obtaining in the public sector. Precisely how the associations arise is unclear and would require case study research to reveal.

Our analysis presents a rather different picture of Mauritian employee relations than those depicted as typical of African companies by Wood and Frynas (2006). More successful (in the sense of better performing) Mauritian companies show no common characteristics in terms of size, age nor industrial sector and represent a grouping that merits further investigation. Foreign-owned firms do not show a particular propensity to communicate to employees and in this sense, the demonstration effects that may be assumed to constitute a positive consequence of FDI are absent. It may be that certain firm-level linkages exist between and indeed beyond the factors we have been able to observe, and case study research

would help to establish these. In addition, comparative research on employee attitudes similar to that carried out in Europe on employee responses to communications practices (Kessler et al., 2004) is lacking in Africa and is also required to provide a wider comparative frame.

Most significantly, it appears that the consequences of union presence in private companies transcend pay and conditions. The effects are unexpectedly marked, particularly when the stress by some authors both on union weakness in the private sector and their supposed concentration on narrow bargaining agendas is taken into account (McCourt and Ramgutty-Wong, 2003; Ramgutty-Wong, 2004). This lends more support for the argument that unions act as an integrating force in society than for the contrary view since they have communication effects and not only in the Hindu-dominated public service (Meisenhelder, 1997).

As we suggested at the outset, it may be that local unions' strong focus on the enterprise - a form of representation favored by U.S.-based multinational companies (Bognanno et al., 2005), constitutes a strength in stimulating management communication to employees by focusing union activities at that level. Whilst we have suggested that this may not be primarily a result of conscious union strategy, the enterprise focus may serve to buttress existing employee attitudes.

The question arises of how far our results may be generalized to other African countries. Mauritius participates in many African regional organizations, and is therefore often considered under the 'African' rubric. Yet the island has many structural characteristics that make it *sui generis*: it lacks a strong military, has a long history of tripartism and a relatively stable democracy to name just three. These and other national characteristics mean that our findings would require empirical testing in other national environments to establish how far they might be generalisable.

In any event, unionization is certainly closely associated in Mauritius with a practice that is linked to positive economic effects at the enterprise level. Thus, widespread characterizations of this form of employee voice as negative are to this extent inappropriate, at least in this national context.

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APPENDIX
TABLE A1 CORRELATION MATRIX

	DCOM	SIZE	AGE	MANU	OTHR	TRUN	FOWN	POWN
DCOM	1.000							
SIZE	-0.041	1.000						
AGE	-0.099	0.308	1.000					
MANU	0.002	0.057	0.050	1.000				
OTHR	-0.098	0.048	0.063	-0.307	1.000			
TRUN	0.146	0.283	0.292	0.129	-0.074	1.000		
FOWN	0.122	-0.043	0.005	0.151	-0.187	-0.035	1.000	
POWN	0.099	-0.028	-0.190	0.075	0.036	-0.423	0.185	1.000