

Human Resource Management Practices of Large Multinational Firms In Hungary, 1988-2005

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Abstract

Following almost two decades of multinational companies (MNCs) operating in the transitional economies of Central and Eastern Europe (CEE) expatriate and local managers continue to ask the following question: “How can we effectively manage the available human resources from our subsidiaries or assignees from the corporate centre?” A model of human resource (HR) practices in the subsidiary units of MNC’s in Hungary was developed from a review of the literature, extensive professional experience in the region and an interview-based survey at 42 subsidiaries of large multinational companies. This model describes the evolution of different HR variables in the light of external (macro) and internal (firm specific) factors.

Key-words: Hungarian multinational subsidiaries; Evolving HR practices; IHRM Convergence

Introduction

Previous research suggests that modern management practices from the West cannot be adopted wholesale in emerging or transitional regions of the world. Both academics and practitioners suggest that human resource policies and practices need to be adjusted to be relevant in these countries. (Brewster, 2006; Budhwar / Debrah, 2001; Ellingstad, 1997; Jarjabka, 2003). However, there are others who contend that HR functions can be moulded and changed rapidly and that convergence is close at hand (as discussed in Brewster et al., 2004; Carrell et al., 2000).

Such a contextual model of MNC subsidiary issues, including human resource management (HRM), is consistent with long standing calls for a more sophisticated approach to global HRM. “The central issue of MNEs is not to identify the best international HRM policy per se, but rather to find the *best fit* (italics in the original) between the firm’s external environment, its overall strategy, and its HRM policy and implementation” (Poole, 1990: 9). Ideally, some regional adaptation of the model presented below may be useful in gathering empirical information on regional, as opposed to global, MNC issues (Rugman, 2005).

Our inquiry also focuses on how individual HR executives may build communities of practice and apply social networks to gain the professional competencies necessary to implement these HR priorities and practices (Inkpen / Tsang, 2005; Wenger, 1998).

HR variables and the multinational subsidiary context

In undertaking a study of HR practices in the subsidiaries of MNCs in Central Europe, and specifically in Hungary, we begin by adopting a broad framework encompassing the major external and internal factors that affect the operations of such firms (see Exhibit 1) (Danis, 2003; Geppert, Matten / Williams, 2003). While a discussion concerning each item and the relationships among them in this model is beyond the scope of this paper, this model provides a context for the discussion, consistent with recent presentations highlighting the criticality of HR variables in the context of situational variables (Brewster et al., 2006; Venaik et al., 2004). The exhibit proves particularly useful when discussing the phases of development that these subsidiaries have experienced during the past 17 years in Hungary and elsewhere in Central and Eastern Europe (Martin, 2008).

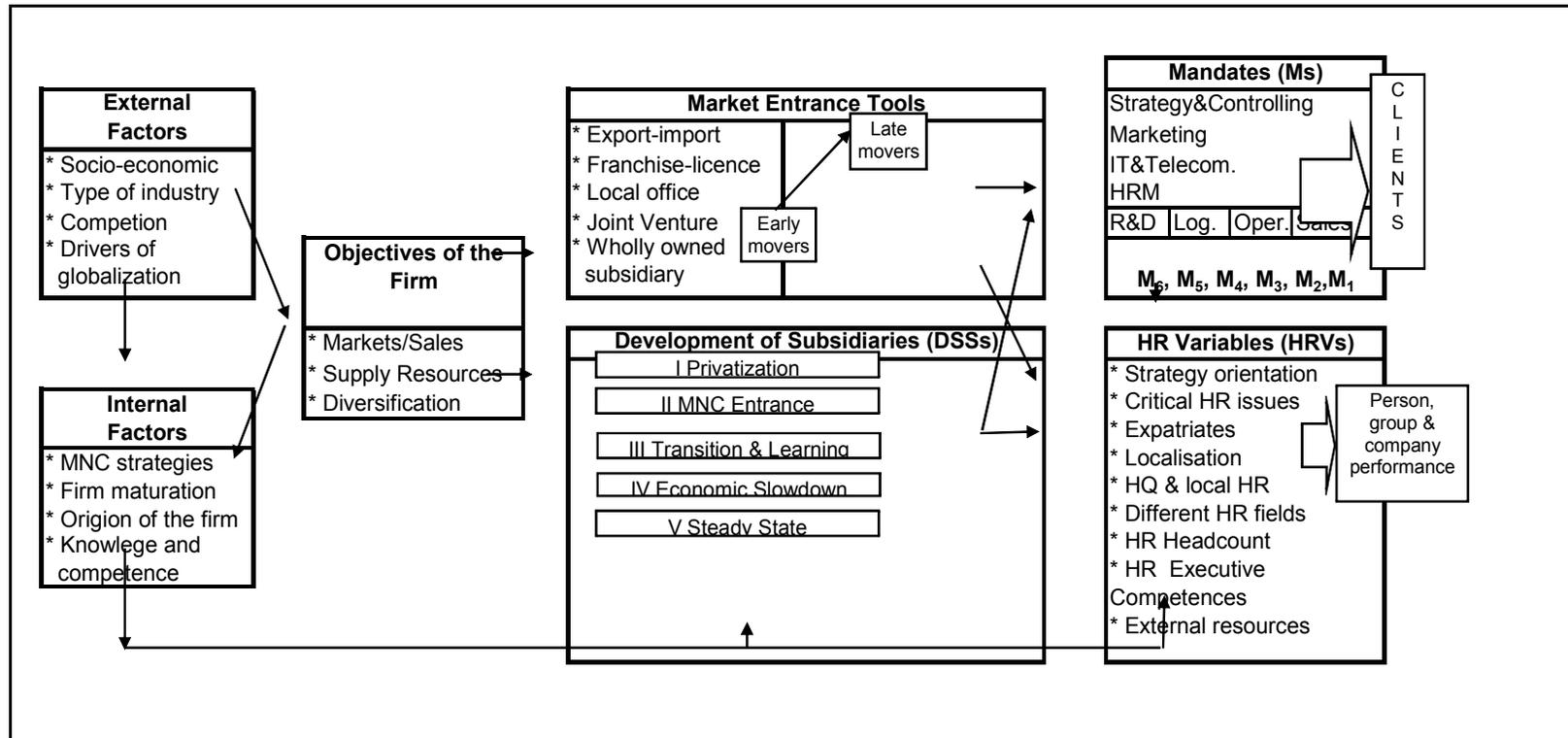
External factors Authors of international business textbooks emphasize the overriding role of “external environments” – the economic, the social-cultural, the political-legal and the

technological forces impacting MNCs (Daniels et al, 2004; Hill, 2003; and Wild, Wild / Han, 2003), Others stress competitive dynamics and the role of specific industries, complementary clusters, and the topic of local adaptation (Krugman / Obstfeld, 2003; Porter, 1980; Porter, 1990). Strong competition in a given market affords a key role to the labour force as rivals strive to acquire and motivate talented workers.

Bartlett, Ghoshal and Beamish (2008) propose that MNCs are not powerless in the face of sovereign national power, but influence governments via lobbying, making or withdrawing investments, creating or closing plants – impacting employment and expanding or restraining their market reach. They distinguish four different forms or stages of multinational corporate strategies: transnational, global, multinational (multidomestic), and international. These, in turn, have an impact on HRM requirements. Different levels of foreign involvement provide unique opportunities and challenges to host-country personnel and managers. (Dowling et al., 2008). Furthermore, MNCs come from a variety of countries and each country has a specific institutional heritage and tradition that significantly influences the management of subsidiaries.

Perlmutter argues that the local subsidiaries of the MNCs practice ethnocentric, polycentric, regiocentric or geocentric personnel policies (Perlmutter, 1969). This issue relates to the basic philosophy corporate headquarters has towards managing people in their local subsidiaries. If an MNC truly wants to be successful at globalizing, it needs to facilitate the transfer of critical knowledge and competencies (Conn / Yip, 1997; Dowling et al., 2008: 94-95; Foss / Pedersen, 2002; Manev, 2003).

Exhibit 1: HR Variables Within the Context of Multinational Subsidiaries



SOURCE: Primary research by the authors.

Internal factors: According to Ellis / Williams (1995) international **corporate strategy** is the way multinational companies ensure their competitiveness in the increasingly internationalizing markets, and the authors have identified three focal points related to this:

- ❑ External factors - with several possible reactions.
- ❑ Resource perspectives - which are largely determined by internal features of the company.
- ❑ The process approach - which focuses on the way a strategy can best be implemented.

The level of a **firm (subsidiary) maturity** is also a determining factor. It affects its management and staffing policy.

- ❑ Localisation is predicted to be integrated with subsidiary maturity. In tandem with the increasing experience of the subsidiary's local management and workforce the parent company gradually recalls or transfers the expansive expatriates.
- ❑ Another sign of maturity could be that some local employees can turn into "impatriates", while others may achieve higher level positions in other countries of the region (in Eastern Europe).
- ❑ Last but not least, the role of HR is changing. Instead of being the expert, it is gradually evolving to include activities as advisor or coach.

According to Bartlett et al. (2008) American, European and other managers react to, and handle, problems and complex situations in different ways, and **national characteristics, (origin)** affect the practices of multinationals to varying degrees.

- ❑ Management practices of American companies are based on pragmatism, action-orientation and cooperation. Americans prefer formalised solutions to complex issues; e.g. complex and

very detailed controlling reports. These managers are less successful in cultures which accept complex approaches, contradictions and conflicts.

- Japanese companies operate with collective decision-making (ringi) and cross-ownership (keiretsu), which, in addition to its obvious advantages, has serious disadvantages also. This method takes a long time, is rather costly and avoids explicit criticism of possible errors. Japanese companies are pioneers in the development of workflows and in flexible and quality-oriented solutions, but these firms often require ethnocentric staffing policy (Johanson / Yip, 1994; Bartlett / Yoshihara, 1998). In case of their overseas subsidiaries, Japanese companies depend more heavily on Japanese expatriates, rather than the formalised-administrative reporting methods of the Americans. (Tung, 1982), and the Japanese notions of life-long employment, special incentive systems or Total Quality Control (including quality circles) are applied in modified or localised forms in foreign affiliates.
- In contrast to the methods described above, most Europeans use their network of connections when they have to tackle a complex situation. This approach is rather costly, since so many people have to be rotated between the centre and the subsidiaries.

If a company strives for success on the global market, it has to develop a permanent mechanism for transferring key **know-how and core competencies**. Globalization, in fact, has caused internal knowledge- and competence-transfer mechanisms to change significantly, including explicit know-how transfer and knowledge-management (Davenport / Prusak, 2001; Polanyi, 1967; Sveiby, 1997) as well as the transfer of core competencies (Dowling et al., 2008: 92-95). Most HR- and non-HR-related cultures confirmed that multinational companies led by expatriates tend to outperform locally managed ones. Evidence supports the contention that the success of multinationals generally depends on their degree of success in finding the right

balance between global standardization and efficient local adaptation, and, in cases where adaptation to local characteristics and clientele were decisive, local companies often performed better than multinationals (Bartlett et al., 2008; Dowling et al., 2008: Chapter 9; Fahy et al., 2003). According to these authors, foreign companies are more efficient in transferring tangible assets (financial resources, brands) than local companies, whilst the latter are more successful in the utilization of the so-called “soft competencies”.

If we add the known approach of knowledge-management (Polanyi, 1967) to this finding, we can interpret this conclusion as multinational companies generally being better in transferring more standardized explicit management know-how (e.g. a job evaluation system, job descriptions, etc.) whereas in transferring non- or partly-standardized know-how, their competitive advantage is less clear (Dowling et al., 2008: 41-44; Engle et al., 2008).

Objectives of the Firm: MNCs enter foreign markets for traditional reasons (market acquisition, securing resources, and diversification), but lately they are also seeking better economies of scale and a more rational allocation of expenditures, via shifting processes and activities to lower cost nations. These realignment activities necessitate coordinating and refining HR practices, such as altering methods for expatriate compensation, reviewing training policies, and realigning the transfer of managers across borders. These HR activities are coming to the forefront around the globe (Poole, 1990). In regard to Hungary, previous research suggests that most MNCs originally came to Hungary to acquire market share and exploit local “first mover” advantages (Bangert / Poor, 1993; Leib-Dóczy , 2001; Lewis, 2005).

Entrance Activities: In the past, MNCs generally followed incremental, evolutionary growth patterns, frequently starting with exporting and then moving into collaborative schemes such as licensing, franchising, technical collaboration, joint ventures, and strategic partnering.

Alternately, some firms entered via direct investment activities, an approach at the high risk, high reward end of the spectrum. (Daniels et al., 2004; Dowling et al., 2008: Chapter 2). Today, some companies – even small and medium size firms - are willing to risk it all by following a revolutionary expansion pattern. The opportunities offered by new technologies and the rapid globalization of professional services (namely consulting, media, banking and finance) influence these more risky entrance forms. A group of newly-recognized firms, called “globally born companies” can and do enter foreign markets even if they do not have domestic sales and have no experience with the previously mentioned evolutionary patterns (Oviatt / McDougal, 1994).

Development for MNC Subsidiaries in Hungary and Central and Eastern Europe (DSS): The timeframe encompassed below began with the fall of the Iron Curtain and the Berlin Wall in the late 1980s and ended in 2004. The five phases of the model outlined below overlap. Furthermore, differences in the timing of these stages can vary by industry and with the specific experience of the various MNC subsidiaries. These five phases were developed based upon authors’ own experiences and knowledge of HR practices in Hungary. These phases were presented to all respondents as part of the initial contact prior to the interviews. Although individual firms had differing experiences, all found their firm’s experience could be understood within the wider five phase framework.

This model draws upon extant research on life cycle models new to analysis of Central and Eastern Europe (CEE). Rutherford et al., (2003: 321) state: “It is widely held that new ventures experience different kinds of problems as they grow and mature.” This life cycle or stage model of organizational growth has received considerable empirical support (Greiner, 1972; Hanks, et al., 1994; Kazanjian, 1988). Concurrently, the critical issues and problems faced by HR managers may also vary systematically with firm life cycle – recruitment and

compensation being critical issues early on and training and HR planning later on (Rutherford et al., 2003).

Phase 1: "Privatization" (PR): In the late 1980s and early 1990s the Hungarian economy was characterized by a transition from central planning to private ownership. Legal and institutional infrastructures (private capital markets, etc) were altered allowing many forms of private ownership and resource allocation (World Bank, 2002).

Phase 2: "Entrance of Multinational Companies" (EM): In this period, the mid-1990s. MNCs entered into the Hungarian economy via partnerships with state sponsored firms or through direct purchase of companies from the state. At this point MNCs also lobbied for changes in labour rules while encouraging entrepreneurship and subcontracting. Foreign capital had gained a significant position in every fundamental sector of the economy (Akbar / McBride, 2004). Today, about one out of four employees employed in the Hungarian economy works for a foreign owned firm (KSH, 2003).

Phase 3: The "Transition and Learning" (T&L) phase in mid to late 1990s was the "honeymoon" period for acquiring MNCs as they sought to balance being a good local citizen with the conversion of local production, technology, and processes to forms acceptable to home office standards. Concern was taken to understand and accommodate local interests and practices. Peng (2000: 242) states "there has been an increasing demand to create country or regional-level centers to coordinate multiple ventures and subsidiaries". At this stage of subsidiary development, the local operations were integrated into the global network of the MNCs.

Phase 4: The "Slowdown-Shakeout" (SL) period after 2000 coincides with the end of the honeymoon and completion of the transformation period. We see more realistic expectations from both the local subsidiary and the global corporate perspective. Interest shifts toward

economic rationalization and the divestiture of unprofitable units and functions. Activities may take a more regional perspective; redundant product lines and activities are relocated or outsourced. Funding for technology updates and personnel development may be postponed or even eliminated.

Phase 5: "Stabilization" or Steady State (SS) period is the current one, in which relative global economic stability and further European unification combine to provide a breathing space for large multinational corporations as they reassess the potential role in the Hungarian subsidiaries, given the changes characterizing the last 17 years. A specific example of change, followed by stability, is found in the case of one survey participant. This firm withdrew all production operation from Hungary in 2001, yet its information technology service operation is now expanding and the division is looking for new employees.

Subsidiary Mandates and HRM (M): The possible role of local MNC subsidiaries is categorized differently in various studies (see Moore, 2001). Bartlett and Ghoshal (2008: 720-723) classify subsidiaries as insignificant "black holes", locally important "implementers", largely promising "contributors" and strategically important "strategic leaders". Black et al. (1999) present "island, applying innovator and integrator" descriptions as classes of subsidiaries. These roles are based on each subsidiary's role in innovation and company knowledge transfer. Following the above authors, and according to their roles in information flow and knowledge transfer, we see the following roles for subsidiaries: passive adopter, transformer, knowledge producer and transferor. From the aspect of internationalization and globalization, Adler (1997) believes that there are exporters-importers, assignors, regional and global strategic centers.

In our study, participant firms were classified into six mandate categories (M_1 - M_6) following the lines of empirical research on MNC subsidiaries in a Western European context

(Delany, 1998: 242-244; White / Poynter, 1984) (see Exhibit 2). This classification focuses on the scope and activities, the level of control and access to resources the local subsidiary has, and the subsidiaries' role in the MNC's value chain (Porter, 1980). Delany (1998), building on White and Poynter's (1984) typology, created a hierarchy of increasingly significant subsidiary mandates. Under this model, subsidiary mandates range from "basic" – consisting of "miniature replicas" (what we call M1), to "marketing satellites" (M2), or "rationalized operators" (M3); to "intermediate" – so-called "enhanced mandates" (M4); and on to "advanced" mandates – consisting of "strategic independents" (M5) and "product specialists" (M6).

Exhibit 2: Explanation of (M₁-M₆) subsidiary mandates

Levels	Explanations
M ₁	This is a business that produces and markets some of the parent's product lines or related products in the local country. The business is a small-scale replica of the parent. It may not be engaged in all activities, such as production development.
M ₂	This is a business which markets into the local trading area products [which are] manufactured centrally. Operational activities locally will be confined to at most packaging, bulk breaking, some final processing and warehousing distributing.
M ₃	This is a business producing a designated set of component parts for a multi-country or global market. Product scope and value-added scope is limited. Marketing of the output is done by the multinational organization, often through marketing satellites. Development activities will usually be done in the parent country but sometimes new product decisions will be controlled from a head office . . . [this term] . . . will be used to encompass both manufacturing and other activities in the subsidiary such as software or product development
M ₄	This is a business that does not have control of the entire value chain of a business unit but has activities in a number of parts of the value chain. This might be a manufacturing organization with product development activities or a regional logistics brief [responsibility].
M ₅	This is a business that develops and markets a limited product line for global markets. Products, markets or basic technologies are similar to the parent company, but exchanges between the subsidiary and the parent are rare. The subsidiary is generally self sufficient in terms of value added.
M ₆	This is a business that has the freedom and resources to develop lines of business for either a local, multi-country or a global market. The subsidiary is allowed unconstrained access to global markets and freedom to pursue new business opportunities.

Sources: Delany, E. (1998). Strategic development of multinational subsidiaries in Ireland. In J. Birkinshaw and N. & Hood (eds.) Multinational corporate evolution and subsidiary development. New York: St Martin's Press. and White, R. & Poynter, T. (1984). Strategies for foreign-owned subsidiaries in Canada. Business Quarterly, 4: 59-69.

HR variables (HRVs)

In international HRM there are several key variables presented in recently reported research (Brewster, 2003; Briscoe / Schuler, 2004 and Dowling et al., 2008). This set of variables relates to the two “fits” of international HRM; first, the general business fit between the central office and the local unit (issues of control, role and informational expectations) and a second fit between specific HR practices at the global and the local level. Tensions on the business level and the HR practice level, the need to balance and sometimes “tilt” practices to one side or the other, make up much of the recent theorizing in international HRM (Engle et al., 2004).

A good example of the “first type of fit” is as follows. One of the research participants, a U.S. company, followed an evolutionary path in Hungary. With manufacturing plants in several countries of Europe, sales and logistics are handled by its European HQ. The local subsidiaries do not have a separate organizational structure. The organizational structure is described by the interviewee as pan-European. An example of the “second fit” is as follows. An interviewee states: “The trend of strong involvement of Western expats has been stopped in the reform countries of Eastern Europe (especially Hungary, Poland and Czech Republic). As the business becomes mature, we use fewer expats from the Western world.”

The present study focuses on: 1) issues related to the use of expatriates, 2) localization issues, 3) balancing headquarters and local HR practices, 4) practices in the HR functions, 5) the competencies required of HR executives, 6) external resources available to HR executives, and 7) HR trends likely in the near future. These seven issues capture many of the themes of localization and standardization as they play out in the subsidiary context (Roehling et al., 2005; Rosenzweig, 2006).

Seven Hypotheses

Our hypothesis were as follows.

H1: Primary responsibility for HR in HR Departments in Hungarian subsidiaries has changed drastically. With a growing people management awareness amongst line management, HR will lose its primary role, and authority will be shared by HR and line management.

H2: The role of HR managers will be restricted only to trade union and issues of pay and benefits.

H3: In different stages of a subsidiary's life cycle there will be different focal people issues.

H4: After having finished initial phases of development the number of foreign expatriates in Hungary will decrease and number of Hungarian impatriates will increase.

H5: Headquarters of different MNCs will try to centralize more HR activities since these activities have been underdeveloped in transitional environments such as Hungary

H6: Training and development activities will be more likely than other areas of HR to be outsourced to external providers.

H7: Historically high levels of unionization in the previous state socialist system will contribute to a relative high level of unionization in the present.

Methodology

The selection of the research method was determined by the fact that data for the five phases of the survey could be collected most effectively by the grounded theory development provided by personal interviews (Danis / Parkhe, 2002; Glaser / Strauss, 1973). We applied the "sequential logic" of research planning (Hellriegel, et al., 1998: 623), and, in preparation for the interviews, studied the transformation of HR with respect to the development of the subsidiaries. In this stage of the research process we received feedback from several local HR professionals in the Budapest region. To facilitate the preparation phase for the respondents and the collection of the

necessary data, an English language survey form was developed. Researchers filled out some informational items from firm websites, providing some background data that was verified with the respondents during the interviews.

Population characteristics

We chose large corporations that – within somewhat varying time frames – had gone through the previously described five phases of development. An important selection criterion was that participating firms should come from several nations, including large European countries, the USA, and from other regions. We contacted 50 subsidiaries, and 42 participants accepted our invitation. Of these, forty participants were legally independent companies. The remaining two were divisions of another company. The selected sample represents almost 5% of the large multinational subsidiaries operating in Hungary (see Exhibit 3).

The majority of the participating companies (90.5%) had more than 250 employees. The companies in the selected sample employ 10% of the people working for multinationals in Hungary. Almost all firms (94%) had annual revenues higher than 5 billion HUF (20 Million USD). More than two third (69%) of these firms come from industry. The rest of them represent the financial service (15%), energy-facility (9%) and IT-telecom (7%) sectors. The participating firms came from 11 different countries. A considerable percentage originated from the United States (33%), Germany (19%) and France (9%).

Exhibit 3: National Origin of Firms Participating in Survey, (By frequency and %, n=42), Hungary, 2004

Origin	Frequency	(%)
USA	14	33,3
Germany	8	19,0
France	4	9,5
Britain	3	7,1
Netherlands	3	7,1
Sweden	3	7,1
Austria	2	4,8
South-Africa	2	4,8
Finland	1	2,4
Switzerland	1	2,4
Israel	1	2,4
Total	42	100,0

SOURCE: Primary research by the authors

Each interview took two and a half to three hours. Unanswered questions and missing data were left open, and we requested a written response from the interviewed persons. In the vast majority of the cases we received follow up on these items. In the interviews we tried to find an answer not just for the “whys”, but also for the “why nots” (Kieser, 1995). Responses were taken from the interview sheets, responses were encoded, reviewed by the researchers and sent back to the respondents afterwards for an additional accuracy check. All interviews were carried out by the authors in the period between August and November 2004.

Respondent information

These items related to those positions held by the interviewees, organizational data, and economic data on the firm (i.e. revenue, total number of employees), the number of HR specialists, and subsidiary mandates as they evolved over time. The first part of the questionnaire also covered those items on strategic orientation (objectives) and key driving forces. The authors scaled HQ influences on HR practices along five levels: HR practices are Independent of HQ, Consistent with HQ, Adapting HQ processes, Applying HQ practice unaltered, and “Other”.

We added the term “other” in order to capture any exotic relationship unforeseen in the general literature on how subsidiary practices relate to HQ – e.g. no explicit relationship recorded.

We gathered information on nine HR issues for each of the five phases: 1) subsidiary’s strategic orientation, 2) critical human resources management issues, 3) the use of expatriates, 4) the level of localization of HR practices, 5) the delegation of Hungarians abroad, 6) the division of roles between corporate and local HR, 7) the role of local HR in developing and operating different HR subsystems, 8) the source of professional advancement, and 9) the most important core competencies of the respondents as HRM executives.

Note the responding specialists have predominantly (64%) spent more than 5 years in their current positions. More than one third of our interview partners (38%) have spent more than 10 years in their current position. We crosschecked their statement on basis of desktop research (analyzing internal documents, reviewing the web-site of responding firm and sending back filled response sheet to all interviewees for crosschecking) to ensure the relevance and accuracy of their perceptions. At the same time we recognize the potential for a potential lack of clarity in the long term memory of the sample executives. The queries concluded by asking the respondents to prognosticate about the important challenges facing HRM in the next 12 to 24 months.

Respondent Demographics

The personal characteristics of the HR executives interviewed are analyzed as follows: Forty five percent of the participating specialists were female. Such a high proportion of female HR managers appear to be typical in Hungary. Nearly two-thirds of the participants are over forty. All the interviewees possess university or equivalent qualifications. In those companies that are headquartered in low-context management cultures (UK, USA, the Netherlands, Ireland, and

South-Africa) the age of HR managers was significantly lower than in companies from high context cultures (e.g. Switzerland, Sweden, Austria, France and Israel). Hall / Hall (1989) state that in low-context management cultures making connections is easier, organizations are less hierarchical, business communication is quicker and firms are not so paternalistic.

A majority of the HR executives interviewed (58%) had a degree in social sciences, while 38% of them had degrees in engineering or natural sciences, and 5% of them had some other kind of education. This finding is in contrast to results from the beginning of the 1990's, when experts with a degree in social sciences were not the preferred choice of multinational companies hiring HR managers (Karoliny / Poór, 2005). All the respondents had a direct responsibility for the management of the HR field when the interviews were made.

Once again, nearly two thirds of respondents (64%) have spent more than 3 years in their current position. Nearly 50% of the respondents did not work in an HR position when MNCs entered the market. Four-fifths of the respondents spent at least three of the five phases working at their present company (either in a HRM function or in other positions). Hence, almost all the respondents had experienced firsthand many of the evolutionary changes at their present firm.

Results

Firm objectives and market entry form

One third of the participating firms entered into the Hungarian market through a “greenfield” investment, while the remaining 67% attained majority holding controlling stakes in course of privatization or by follow-up acquisition. The majority of the companies in the sample were early entrants to Hungary, except for a few companies in the telecommunications sector. Most of the participating firms arrived in Hungary using a gradual, evolutionary process.

Most companies passed through the development stages described above, but “greenfield” companies skipped the privatization stage. Joint ventures were stimulated at the end of the 1980s by legislation in 1988 (Roos et al., 1996), but this regulation was eliminated a few years later. New regulations did not emphasize controlling national sovereignty by regulating the foreign investment in the form of joint ventures. The foreign owners in the analyzed firms acquired the majority control or the “greenfield” investments between the end of the 1980’s and the mid-1990’s. This finding is at odds with a previous research report of a strong prevalence of joint ventures in Hungary (Danis / Parkhe, 2002).

The most common motive for making acquisitions in this region was to increase market share rapidly for an existing line of business. Many large American consumer goods companies have acquired one or more existing local firms Hungary. The relatively cheap labour costs (US \$0.50 – \$3.00 per hour), time worked in industry (1900-2000 hours/annum), and the availability of technically well-educated local staff influenced many MNCs to relocate their business activities from high labour cost countries to CEE countries (Ellingstad, 1997). In a few cases, a good brand image or a well-known brand name of a local producer (e.g. Tungsram, bought by GE) motivated foreign companies to invest.

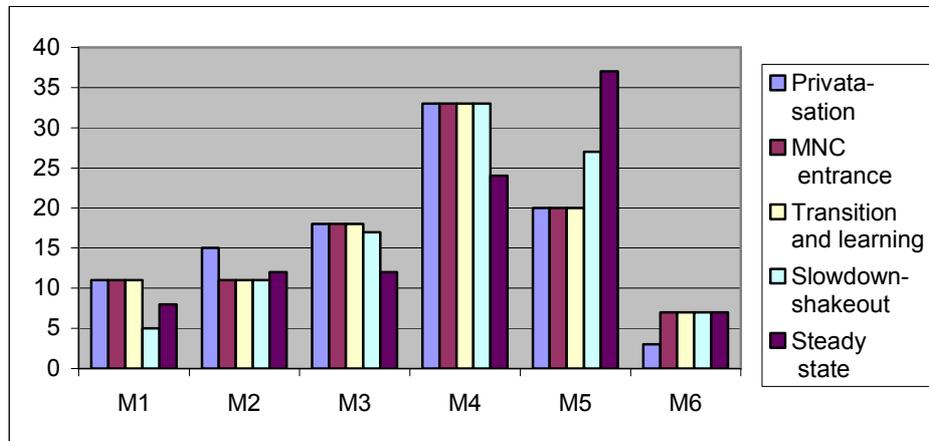
More than three-fourths (79%) of respondent companies among our sample firms stated they came to Hungary to acquire market share. Similar results are presented in previous research (Bangert / Poor, 1993; Leib-Dóczy, 2001). According to Peng (2000) four emerging types of privatized firms could be distinguished as follows: employee, manager, owner and investor controlled. All interviewed local subsidiaries in our sample belonged to the last category of firms, being wholly-owned subsidiaries of large international firms.

Strategy and mandate

Regarding inquiries on strategic orientation, (growth, stability and decline) (Barakonyi, 1999 and Wild et al., 2003) more than three-quarters (76%) of the companies indicated growth as a current strategic orientation. The stability strategy was the choice for nearly one-quarter of the companies.

Based on Delany's (1998) typology, discussed above, we classified participating firms into six mandate alternatives ranging from basic local activities to more enhanced regional or even global mandates. In all five historical phases we typically find one-quarter to one third of respondent firms belonging to the fourth mandate category (M₄) (see Exhibit 4). Recall that M₄ firms that do not have control of the entire value chain but have activities in various parts of the value chain. In addition, the number of companies belonging to category M₅ has grown during the slowdown-shakeout stage. This may be because those companies who did not leave the country during retrenchment and rationalization ended up strengthening their local subsidiary. As a result of their maturity - perhaps a better term might be "survival" - the mandate of a limited number of local subsidiaries has evolved to encompass regional markets and functions. One of the determinants of selection to the sample was a continuing presence in Hungary that spanned most if not all of the five phases inherent in our model. One of the interesting characteristics of the Hungarian "laboratory" was the availability of so many MNC subsidiaries that had the common experience of the relatively compressed and rapid changes in the last twenty year time frame (Martin, 2008).

Exhibit 4: The mandate of the responding company (By %, n=42), Hungary, 2004

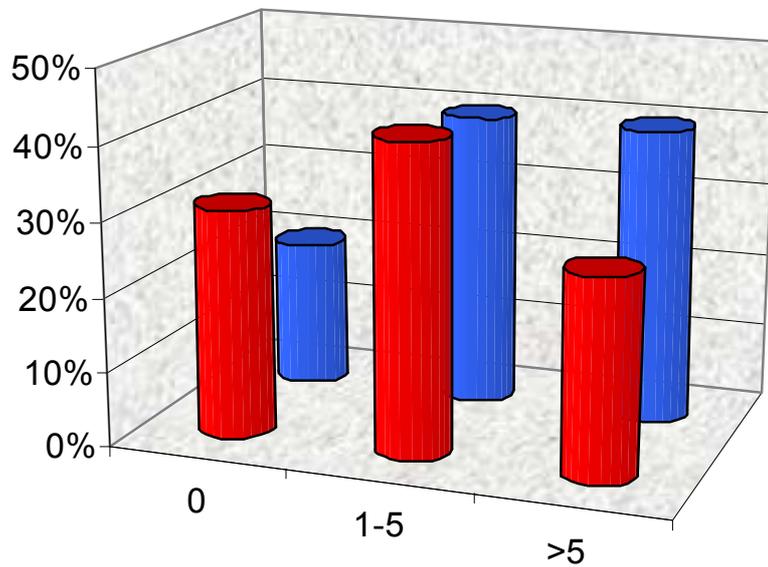


Source: Primary research by the authors

Foreign Expatriates

The number of expatriates decreases according to the level of maturity of the subsidiaries (Shenkar / Nyaw, 1995 and Simai / Gal, 2000). Expatriate managers were more frequently seen during the transition-learning phase. During the economic slowdown and the current phase there were fewer foreign expatriates. Our survey shows that the number of foreign expatriates is declining (see Exhibit 5). The number of companies not employing expatriates at all increased by 9% by the end of the last phase, while the number of organizations employing fewer foreign expatriates increased by 13%. The declining trend mentioned for executives is also evident for foreign members on the Boards of Directors.

Exhibit 5: Changes in number of foreign expats, (By %, n=42), Hungary, 2004



Source: Primary research by the authors

■ Steady state ■ Transition-learning

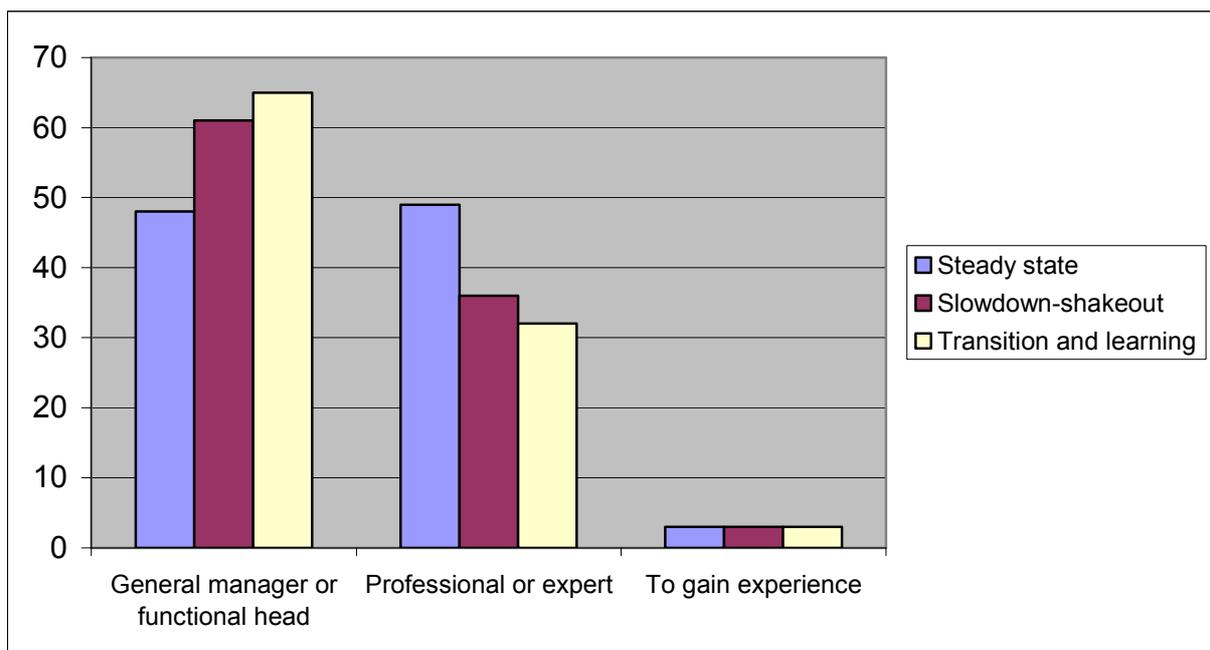
A related issue is how the role and function of the foreign expatriates has changed over time. In all periods the majority of expatriates held a management position (top level position). Currently, only 31% of the companies under review employ at least one expatriate manager. On the other hand, the number of companies employing foreigners in an expert position has decreased by 24% since the transition phase. One third of the responding organizations indicated that foreign expatriates arrived from headquarters at the time of the transition and learning phase (T&L).

Expatriate managers transferred to Hungarian operations were much older than their attendant local management team. The younger local managers had better language skills, had

travelled more and were more comfortable with risk than the more mature ones. A recent study by Peterson (2003: 64) found that “a fairly large number of the 46 multinationals [in Central and Eastern Europe, including a sub-sample from Hungary] had either an informal or formal policy of hiring employees no older than 30-35.”

It is important to note how the role and the function of foreigners have changed (see exhibit 6). In all the 3 stages the ex-pats held top and functional manager positions. On the other hand, since the period of transition the number of foreign specialists has diminished by 19%. Exhibit 5 shows clearly that in only few cases we have found trainees.

Exhibit 6: The changes in the role of foreign ex-pats (By %, n=42), Hungary, 2004



Source: Primary research by the authors

The length of assignment in Hungary varied significantly from firm to firm according to the respondents. Sometimes the expatriate keeps his/her position, but the next contract can only be renewed on new terms under which he/she loses part of the privileged expatriate remuneration

package, and the expatriate is placed on the local payroll. We were informed of a special kind of foreign assignment, associated with regionalization and cost control, spreading in countries neighbouring East European states. According to one respondent, “commuting” expatriates travel to Budapest or Bratislava on Monday morning and leave on Friday to go home to Vienna (for similar findings see Petrovic et al., 2000).

Localization and Hungarians as Expatriates

An international firm must find a proper balance between integration (centralization) and differentiation (localization) of staffing (Rosenzweig, 2006). The timing of the replacement of foreign expatriates – incurring a cost of several hundreds of thousands of euros – with local managers (who earn less) is complex. Our analysis suggests the time period to replace expatriates with local staff is shorter for acquisitions (0-3 years) than in the case of greenfield investments (3-5 years) (see Exhibit 7). In brand-sensitive industries (e.g. tobacco, environment etc.) we found the functions of corporate affairs, HR and legal affairs were all undertaken by local, Hungarian nationals.

Short foreign study and experience assignments existed at the time of the MNCs’ entrance, but more long-term foreign expatriation became practical for Hungarians during the transition period. In the transition and learning phase (T&L), the proportion of firms sending Hungarian employees abroad has grown significantly (from 38% to 75%). During the present stage, nearly two-thirds (62%) of the companies under review have sent Hungarian expatriates abroad. This is consistent with recent findings across Central and Eastern Europe (Peterson, 2003: 66-67).

Exhibit 7: The number of Hungarian ex-pats (By %, n=42), Hungary, 2004

Ranking	HR fields	HQ influences (% of all firms)	
1	Managerial selection	97,7%	High
2	Managerial compensation	97,6%	
3	Managerial training& development	97,6%	
4	Managerial recruitment	96,3%	
5	Employee compensation	64,4%	Medium
6	HR planning	57,9%	
7	Employee training and development	56,1%	
8	Employee recruitment	38,6%	Low
9	Employee selection	36,8%	
10	Industrial relations, trade unions	36,8%	

Source: Primary research by the authors

Another sign of localization is the continuously growing number of expatriates of Hungarian origin (for a review of the growing use and cultural meaning of such “in-patriates”, see Dowling et al., 2008: 95-98). The majority of them are working in the CEE region. The number of Hungarian in-patriates assigned to global HQ has also increased somewhat compared to the previous periods. During the present (SS) stage 75 % of the companies have sent Hungarian ex-pats abroad, and 31% of them have been assigned to headquarters.

This is a promising factor, according to Evans et al., (2002: 191), non-parent nationals gaining global experience is seen as a critical step in creating a truly transnational firm.

The relationship between headquarters and local HR units

Global standardization and cost saving programs were reported to have started in the course of the slowdown phase in Hungary, hence one might expect to see an increased

centralization of HR practices. Earlier, one-fourth of the companies surveyed experienced some degree of freedom in local HR decisions. Today this figure has grown to 36%. But, according to respondents, this freedom is expected to decrease with the establishment of HR-shared service centers and the increased development of network organization structures within multinational companies in the next two years. This finding may reflect a lag between centralization or regionalization of business processes and attendant centralization of HR practices (Evans et al., 2002).

There were some concerns amongst respondents that Hungarian subsidiaries might not be able to realize opportunities to become regional hubs. This problem has been mentioned by Bartlett et al., (2008: 96-97, 456-457), when a successful decentralization results in "the locals reinventing the wheel". Hence Evans, Pucik & Barsoux recommend "to transfer responsibilities step-by-step, and with due consideration to locals" (2002: 83).

In the eyes of our HR executive respondents, corporate level leaders seem to be more concerned with centrally controlling decisions for management positions, yet allow the local unit to make HR decisions for line positions (see Exhibit 8). For a parallel discussion of HR issues varying systematically by employee groups in Russia, see Fey / Bjorkman, (2001).

Centrality in staffing may be related to the mandate of the subsidiary - a mandate for transferring learning from the headquarters may be more centralized, as opposed to a mandate to create and disseminate innovation (as posited by Venaik, et al., 2005) - but our small sample size did not allow for this conclusion. Foreign expatriates, acting as country executive leaders were reportedly more prone to manage HR issues, and not allow local input (again, see Exhibit 8). This finding is consistent with Belanger et al.'s (2003: 484) statement that "labour issues are, by far, the most locally and socially embedded force of production, and labour co-operation remains

[central] to workplace innovation and efficiency.” Granted, a more centralized approaches to managerial selection, compensation and training and development may be seen as a vetting, or HQ input into the final decision and a more “hands on” and cost sensitive approach to HR issues.

Exhibit 8: Influences of HQ on Local Human Resource Functions in Subsidiaries, (By %, n=42), Hungary, 2004

Ranking	HR fields	HQ influences (% of all firms)	
1	Managerial selection	97,7%	High
2	Managerial compensation	97,6%	
3	Managerial training& development	97,6%	
4	Managerial recruitment	96,3%	
5	Employee compensation	64,4%	Medium
6	HR planning	57,9%	
7	Employee training and development	56,1%	
8	Employee recruitment	38,6%	Low
9	Employee selection	36,8%	
10	Industrial relations, trade unions	36,8%	

Source: Primary research by the authors

Different HR fields

As shown by its tenth place ranking in the HR executives priority listing in Exhibit 8, the role of labour unions has decreased sharply in significance. Not only did HQ not interfere with union issues, the HR executives we surveyed uniformly stated that unionization was not an important issue and will not be an issue in the future. This trend was reported in earlier Hungarian studies (Carrell, et al., 2000; Hethy, 1995 and Toth, 1998) and the latest Hungarian Cranet research report reinforced this trend (Poor et al., 2007) as well.

Hiltrop (1991) examined foreign and locally owned firm practices in Belgium, finding foreign owned firms were more advanced in their use of modern HR techniques and devoting more resources to HRM than domestic firms. MNCs were especially progressive in using modern HRM practices to increase work performance, communicate financial results to employees, conduct initial orientation, and promote from within the organization. Domestic firms were better at resolving disputes and handling employees' grievances. Our findings reinforce the idea that MNCs with subsidiaries in Hungary have tried to discourage the weak Hungarian trade unions with the help of global HR solutions. From other research (Hethy, 1995; Mako, et al., 2003 and Mako, 2005) we infer that unionization level is much higher among locally owned big firms than amongst MNC subsidiaries in Hungary.

According to the vast majority of respondents, training, personnel development and remuneration systems have become important topics now when compared to earlier phases of our model. This can be considered as a positive trend, as after the structural changes and the large-scale rationalizations, training and development systems can be seen as an important tool of subsidiary renewal, as well as future capability in the face of growing competitive pressures (Fahy et al., 2000; Pfeffer, 1995). Today the emphasis is not on the establishment of a structure of labor cost systems, but on finding the most cost-efficient solutions; hence the increased executive focus (ranked second in Exhibit 3) on remuneration.

HR headcount

Turning to HR activities and form, we note that the 3rd through 5th phases were characterized by an increase in the HR employee headcount, with respect to the increase in the total number of company employees – a statistically significant change (see Exhibit 9). This exhibit also supports the conclusion that during the slowdown phase and in the current period companies coming from

low-context cultures show little or no increase in headcount when compared to companies coming from high context cultures.

Exhibit 9: Correlation Among firm Staff Size, Origin of Firms and HR Variables, (n=42), Hungary, 2004

		Number of Expat staff			Number of HR professionals			Number of HR professionals	
		SS	SL	TL	SS	SL	TL	Age	Gender
Company staff number	SS (5th Stage)	,443** (,003)			,347** (,025)				
	SL (4th Stage)					,349** (,024)			
	TL (3rd Stage)			,670** (,000)			,338** (,028)		
Origin of firms from low context business culture					-,318** (,040)	-,334** (,031)		-,428** (,005)	-,306* (,049)
		Explanations: TL (3rd Stage)= transition-learning, SL(4th Stage)= global-slowdown, SS (5th Stage)=steady-state *= 5% significance; **= 10% significance							

Source: Primary research by the authors

Categorization of a given firm's individual experience with the 3rd to 5th phases were based on information from the companies' annual reports when available and our professional experiences as full time HR executives or part time management consultants in the region. As noted earlier, the prevalence of these phases was verified with the respondents for accuracy during the interviews.

In 73% of the sample organizations the HR staff headcount is more than 10, while in 46% the headcount is more than 15 persons. Currently in 76% of the companies there are less than 100 employees per one HR professional. All data show a much more traditional picture, (i.e. less downsizing in HR due to outsourcing and increased line responsibilities for HR activities) than described previously in the literature, particularly for West European firms (Brewster, et al., 2004, 2006; IBM-Towers-Perrin, 1991; Karoliny / Poor, 2005; and Saratoga, 2002). Our sample size does not allow us to isolate these potential effects (Tarique et al., 2006).

Our sample included only the large companies involved in extensive and enduring forms of foreign ownership in Hungary. These companies, as noted earlier, often take on regional HR roles. As a result of this, the constant pressures for headcount rationalization that are so characteristic of recent West European and US studies may not have reached the HR departments of most of these companies (Brewster et al., 2004, 2006).

Taken as a whole, results in this area may be interpreted as follows: If a MNC originates from country with a culture characterized by low context, then expatriates assigned to Hungary will be more likely to be younger and less HR staff will be required. Positive correlation occurs between company headcount and HR staff. Finally, increases in the overall number of employees at the subsidiary contribute to disproportionate increases in HR staff.

HR Executive Competencies

In all three periods, “cooperation” (generally described as the ability to coordinate local constituencies with other members of the regional and global firm, to build consensus as opposed to forcing issues) and “business partnership” (understanding global business models, how they relate to the local people issues at hand) were presented by respondents as core HR management competencies, while “change management”, “teamwork” and “quick decision-making” were seen as important competencies. These findings are consistent with previous discussions of HR’s role in delivering business success, creating and sustaining organizational culture, and facilitating collaboration in the global firm (Bokor et al., 2005; Roehling et al., 2005).

The success of HR professionals in international companies is said to be increasingly dependent on wide-ranging cross-cultural skills (Briscoe / Schuler, 2004). Surprisingly, cross-cultural skills were not regarded among the research participants as a key success factor. We attribute this to the MNC mandates of the respondents (mostly M3 mandates), which resulted in

only local or at best regional HR responsibilities for the responding group (Jaussaud / Schaaper, 2006; Luo, 2002; Venaik et al., 2005).

HR competencies can be acquired through formal HR training, experimental learning or significant on-the-job experiences (Roehling et al., 2005). The firms under review utilized these three different methods in close to equal proportions. We found little evidence that training has declined significantly in the steady-state phase, but some training may be more locally or regionally presented – as opposed to remotely taking place at global headquarters as was reported during the transition and learning (T&L) phase. The most typical methods are local and/or international training seminars.

External Resources

When the Iron Curtain and Berlin Wall tumbled down at the end of 1980s, the management consulting industry appeared in the CEE region relatively quickly. The local subsidiaries of MNCs offered management consultants an excellent marketing opportunity. (Gross et al., 2004). In Hungary, the use of HR consultancy services exceeded 20% of all management consulting assignments in the firms surveyed, far beyond the US or West European average of 8% to 10%. This difference may stem from the fact that this region has little tradition of management training. All 42 respondents reported that they contracted management services.

The most important findings in this area of our survey are as follows: Consultants are used most often to assist in staffing efforts. The second area in which consultants were employed most frequently was personnel development and training. The areas of motivation, benefit systems and remuneration surveys came in at third place. There appears to be stability in these rankings over the last three phases (see Exhibit 10) .

Outsourcing is still in an embryonic phase in Hungary. Although rapidly gaining ground it is largely restricted to the following activities: payroll, the use of independent contractors, car fleet management and expatriate relocation. Many firms employ “outsourced employees” (Briscoe / Schuler, 2004: 221) to simplify the consequences of downsizing and to avoid the payment of relatively high social contribution costs. These issues do not appear to be critical in Hungary at this time.

Exhibit 10: Changing Topical Utilization of External Consultants (Rank order, n=42), Hungary, 2004

Research phases Ranking of topics assigned to consultants	3rd Stage Transition-learning	4th Stage Economic Slow-Down	5th Stage Steady-State
1.	Staffing	Staffing	Staffing
2.	Salary surveys & salary management	Training and development	Training and development
3.	Training and development	Salary surveys & salary management	Organizational culture and internal communication
4.	Job and person profiling	HRIS	Salary surveys & salary management
5.	Organizational culture	Internal communication	HRIS

SOURCE: Primary research by the authors

A review of hypotheses and conclusions

This exploratory survey supports the contention that larger, foreign owned Hungarian companies are in the process of implementing a "system change" of HR as practiced throughout the country (Danis / Parkhe, 2002; Geppert et al., 2003). These Hungarian practices show diversity (both limited convergence and divergence) with the previously described European and American tendencies, in the following areas:

- H1: HRM subsidiary departments did not lose primary responsibility for HR activities in Hungary. Furthermore, line management did not take over HR responsibilities. On the contrary, larger HR departments rearrange and centralize decision-making and have added functions for themselves.
- H2: Key roles of Hungarian HR professionals in foreign owned subsidiaries conform to the needs of the business and reflect the role of building and maintaining a locally relevant and yet globally competitive culture. Communication plays a vital role in these positions.
- H3: Our research reinforces the idea that in different stages of subsidiary life cycle there are different people issues. While there are different stages that MNCs and their HRM policies go through, staffing has consistently been a primary concern, followed closely by training and development (see Exhibit 10).
- H4: We have evidence from the interviews supporting some “conventional wisdom” in IHRM - e.g. a changing role for expatriates, the withdrawal of a strong expatriate presence in mature subsidiaries, HR headcount ratios, a need for new, business oriented competencies of HR managers and internationalization of the employment of locals in a transitional environment. Similar research results have been found by other research teams in different part of the world. As recently hypothesized, we have found evidence supporting the influences of high and low context culture on decisions related to the employment of HR professionals (their age, gender and number of professionals) (Tarique et al., 2006).
- H5: In their entirety, our interviews suggest local subsidiaries of multinational companies are moving from a posture of local standardization to one apparently supporting an HR

approach in support of the “one world, one strategy” principle. The economic pressures of integrated, uniform HR systems world-wide are balanced with local programs and solutions. As Brewster (2006: 84) puts it “. . . whilst strictures and structures may tend towards commonality, values and practices probably remain fundamentally local.”

- H6: Consulting is widely used in Hungary, with staffing ranked as the top assignment, followed by training. Outsourcing is still in an immature phase in Hungary, although rapidly gaining ground.
- H7: In the majority of the participating companies, the role of trade unions is either declining or not significant. The presence of unionized employees is significant only in large corporations with Hungarian ownership, in specific industrial sectors (e.g. oil industry, pharmaceutical industry, etc.) and in the public sector.

Limitations and directions for future research

Our research results are based on interviews carried out in Hungary. Any effort to generalize to the region or to other globalizing regions characterized by rapid influxes of MNCs is premature. Another potential limitation is the choice of Hungary as representative transitional economy. Hungary is a suitable place for a survey such as we conducted; it is an appropriate laboratory (Martin, 2008: 149-152). Research processes and models can now be designed for use in the Czech Republic, Poland, Slovakia etc., where slightly different cultural and economic factors no doubt will come into play. The major contribution of our primary interviews relates to meeting a stated need for the “deep, but narrow understanding of meaning and process that can be provided by detailed comparative case studies. . .“ (Brewster, 2006: 84). Our efforts to cross check and review the accuracy of memory were an effort to deal with the inevitable tricks of

memory and “hindsight bias” this form of in-depth methodology may be prone to. Even given these efforts, we acknowledge this potential limitation to our research.

As for subsequent research, we have standardized our research approach for conducting a similar survey in several countries of the region. This project is now underway. We are also negotiating with colleagues to duplicate this research and/or conduct studies consistent with our model and on parallel issues in areas of Western Europe and the Asian-Pacific region characterized by rapid changes in political and economic policies and the mass entrance of MNC subsidiaries. Such regions include Ireland, Malaysia, and China (Cui et al., 2006; Edwards, et al., 2002; Engelhard / Nagele, 2003; Luo / Zhao, 2004; Morley et al., 1995). It is such a coordinated research effort, operating across regions (like the CEE), focusing on MNC subsidiaries, and their HR functions and processes that shows great promise in enlightening researchers and practitioners alike as to the complex blend of strategy, structure, processes, and people needed for global competitiveness.

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