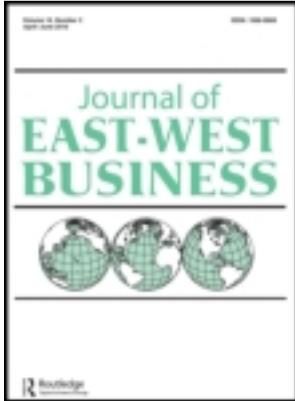


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### Factors Influencing Human Resource Management Solutions at Subsidiaries of Multinational Companies in Central and Eastern Europe

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# **Factors Influencing Human Resource Management Solutions at Subsidiaries of Multinational Companies in Central and Eastern Europe**

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*There is a shortage of empirical human resource management (HRM) literature in respect to identifying new patterns of multinational company (MNC) involvement in the Central and Eastern Europe region and the impact of ongoing MNC operations on the patterns of the HRM behavior of these companies. To counter this lack of understanding within the field, our broadly based, international survey asked 279 subsidiaries located in Croatia, Estonia, Hungary, Poland, Romania, Serbia, and Slovakia and was conducted in 2010. It aimed to describe the relationships within the companies involved—between the influencing factors and the HR solutions applied—in a statistically valid way.*

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*KEYWORDS* subsidiaries, multinational company (MNC), influencing factors, HR solutions, CEE region

## INTRODUCTION

In this study, the human resources (HR) functions and practical applications of multinational company (MNC) subsidiaries are examined in seven countries of the Central and East European (CEE) Region (Croatia, Estonia, Hungary, Poland, Romania, Serbia, and Slovakia). This research, in fact, is part of an ongoing, long-term cooperation undertaken by the Central and East European International Research Team. This is composed of researchers from different universities in the CEE region and aims to examine changing HR practices and roles in MNC subsidiaries.

In the early days of the transition, there were roughly 1,000 companies with foreign investment in the CEE region, operating with approximately \$400 million of foreign capital (Simai 1989). At that time, the authorization for foreign investment could be obtained subject to strikingly different conditions of economic control in the various countries of the region. In Hungary, for example, reform was already under way, while in Bulgaria and Romania the basic first steps still remained to be taken within the framework of their strictly planned economies. Then, however, in the early 1990s, a proliferation of local subsidiaries established by multinational companies emerged in the region (Árva 1994). In those early days, the actual investors were, for the most part, existing co-operating partners (in contract assembly work, licensing agreements, etc.), but by the mid-1990s, the number of foreign companies increased (for example, in Hungary) to nearly 30,000, and this did not change significantly in the years that followed (KSH 2011).

Multinational companies acted as the key driving forces of foreign direct investment (FDI; Carstensen and Toubal 2004; Lankes and Venables 2007; Holtbrügge and Puck 2009; Spee 2013). A recent study published by UNCTAD (2012) showed that FDI in CEE amounted to approximately \$650 billion. The subsidiaries of the companies involved in these investments currently employ more than 69 million people worldwide. Our own calculations have shown that the ratio of people employed by multinationals is significantly higher in transitional economy countries (such as those in the CEE region) than in most Western countries. In highly developed Western countries, typically only some 6% to 8% of all employees work for the local subsidiaries of MNCs, with the exception of Ireland, where this ratio approaches 50%.

In the early years of this millennium, in fact, the index showed 22.4% for Hungary, representing about 600,000 employees (KSH 2011). The figure was a little higher (25%) in Slovakia and the Czech Republic and has not changed significantly since—as borne out by more recent data. (Slovak 2010).

These figures clearly show that multinationals have established an important role in the economies and labor markets of the CEE region over the 20-odd years that have elapsed since the change of regime. This is basically why it is important for us to understand better the internal operations of the local subsidiaries of foreign companies—as well as the changes that they themselves undergo, with due regard to the specific features that characterize the various countries (Filippov and Duysters 2011).

Recognizing the importance of these issues, researchers such as Bagó and Kulcsár (1990), for example, quickly pointed out that the main difference between the operation of companies in Hungarian ownership and joint ventures was seen in the way they treated the human factor. Antalóczy and Sass (2001) detected a relatively strong correlation between the employment and average wages, on one hand, and the amount of foreign capital invested, on the other hand. Others (Falusne 2000; Golejewska 2002) drew attention to the fact that foreign working capital significantly increased the differences observed earlier in salaries and employment. This phenomenon, of course, may not only bring about considerable socioeconomic polarization but may also lead to demands for wage increases in the public sector.

Works written by researchers engaged in regional studies (Kaderjak 1996; Kertesi and Köllő 2001; Fazekas 2003; Gábor 2005, 2006) pointed out that the involvement of foreign capital had a further widening effect on existing regional disparities, even strengthening them.

Some of the authors investigating the HR characteristics underlying the social differences that emerged owing to the typical features characterizing the operation of MNC subsidiaries (Alas and Svetlik 2004; Ursic and Mulej 2005; Cui et al. 2006) had already explored HR practices in individual countries, and some had even performed analyses covering several countries. The findings of the well-known Cranet network (Morley, Heray, and Michailova 2008) specializing in international comparative studies or of researchers focusing on the investigation of managerial competencies extending over several countries (Männik, Hannula, and Varblane 2004; Brewster and Bennett 2010; Brewster and Mayrhofer 2012) are well known in the literature.

However, the literature still lacks publications concerned with empirical findings focusing on the CEE region and the HR practices of MNCs operating there. The survey presented in this article and the detailed analysis of its findings are intended to contribute to meeting this particular shortfall.

## REVIEW OF LITERATURE FOR RESEARCH MODEL DEVELOPMENT

### Global Aims and Local Factors in Subsidiaries

MNCs enter foreign markets for conventional reasons such as market acquisition, ensuring resources, and diversification. By moving processes and

activities to lower-cost countries, they are also seeking greater economies of scale and a more rational allocation of the expenditures (Dowling, Festing, and Engle 2013).

Farndale and Paawe (2007) found that the most common universal HRM practices of MNCs to emerge at global level were talent management for senior managers, open job posting, expatriate management systems, and succession planning tools. Variations in global policies are, however, characteristics of a number of HR fields such as reward policy, diversity policy, performance management system for non-senior staff, employee relations, and training. At global level, similarities are largely driven by external competitive factors resulting in the adoption of universal “best practice” and the availability of Information and Communication Technology (ICT) systems and tools.

Similarities in approach to HRM at the national level appear to stem largely from external institutional sources, such as legislation, national tradition, and expectations. Differences in approach among MNCs, at both global and national levels, are largely led by internal competitive processes, such as sources of competitive advantage (Bartlett and Beamish, 2011) corporate strategy, structure, and culture (Dowling et al. 2013).

A number of researchers are engaged not only in the study of management and/or HR practices in international companies but also in the international comparative study of HR.

Hofstede (1991), Rosenzweig and Nohria (1994), Jackson and Artola (1997) and Yan (2003) found that the different national cultures, as external contextual components, have a significant impact on the HRM structures and practices of companies. Others (Pauly and Reich 1997), however, claim that the development of technology and the globalization of competition will do away with the differences stemming from national cultures. Several of those researchers who question the growing international uniformity of HR practices—among others Gooderham and colleagues (2004)—insist that the differences in the institutional structures of the individual countries are the determinant factors.

## Development of Subsidiaries

Since the 1970s, several authors (Greiner 1972; Kazanjian 1988; Kazanjian and Drazin 1989; Hanks et al. 1994) have dealt with the corporate aspects of the life-cycle theory. Life-cycle models were developed for the study of organizational growth with the aim of investigating and determining the specific features of the stages of organizational development as the function of the factors that influence them (Rutherford, Buller, and McMullen 2003). There is no general agreement among researchers on the number of stages needed to describe the life cycle of a particular organization. The number, in fact, ranges from 3 to 10, with Timmons (1990) distinguishing just five stages of development. Other researchers use a similar scale but with a

variety of names and content for the individual stages (Hisrich, Peters, and Sephard 2010; Szerb, Terjesen, and Rappai 2007; Wdowiak et al. 2012).

For a number of years, researchers investigating the different stages of corporate development focused mainly on the issues related to general management, finance, and sales and marketing. In contrast, Lavoie and Culbert (1978) and Adizes (1988) were among the first to draw attention to the fact that the solutions used in the management of HR and also the employees' patterns of behavior are modified together with the changes in the organization's life cycle.

The major stages of company development and the relayed HR features in CEE between 1988 and 2010 can be divided into the following six categories:

*Stages One and Two—Privatization/Company Establishment.*

This period is characterized by the transition from centralized state control and state socialism to private ownership of the means of production in a wide range of industries. Legal and institutional infrastructures (the formation of private capital markets, etc.) are modified to allow for numerous forms of private ownership and resource allocation. Simultaneously, global MNCs enter the CEE economies via partnerships with state-sponsored firms, through direct purchase from the state or, indirectly, through purchase or creation via local or regional venture ownership transactions. Even before the end of the Cold War, one of the first foreign joint ventures in the CEE region was established by Siemens AG (Germany) in Hungary in 1973. Naturally, however, the great majority of foreign subsidiaries in this region were established only after the relatively abrupt changes of regime of 1989–1993 (Piispanen-Krabbe, 1990).

*Stages Three and Four—Restructuring and Development.*

Later the new owners redirected their interest toward economic rationalization, to closing or disposing of unprofitable units and activities. The key role of HR was to contribute to institutional change and transformation. Overall economic development in the region, combined with stronger foreign capital inflow, contributed to a strengthening of the newly privatized or established enterprises. HR helped people to acquire new competencies and capabilities. According to Claessens and Djankov (2002, 313), “there is a great difference in post-privatization performance across ownership-types, with the best owners (strategic foreign investors) generating productivity growth eight times higher than that of routine, individual owners.”

*Stage Five—Consolidation and Renewal.*

The majority of companies in the competitive sector of CEE economies have completed their structure-changing process following privatization; they have moved on from reconstructing the various company functions—whether for a longer or a shorter period, depending on national conditions. With the intensification of regional and global competition, the need for continuous renewal is highlighted, and in this situation, the role of HR becomes

especially important. With the appearance of a totally new economic concept, the application of knowledge and a steady renewal have become the primary motives for HR activities.

*Stage Six—Crisis and Recovery.*

The focus of this survey, this period encompasses the global economic crisis that occurred in 2008 and the slow recovery since—and, in particular, the impact of this stage on HR practices and future expectations.

Poór, Engle, and Gross (2010) accepted the applicability of the life-cycle theories to HR and developed a somewhat special adaptation of the life-cycle model that can facilitate the understanding and interpretation of HR practices used by MNC subsidiaries in the CEE region, at the same time identifying the historical stages of the transition. The present paper has the same concept but deals only with features of the latest “crisis and recovery” period. In previous surveys, we have examined specific HR issues across the five historical phases (Poór et al. 2010), and so the present paper deals only with the responses specific to phase six, the period between 2008 and 2009.

### The Origin of a Company and the Orientation of Corporate Management

Companies of different origins choose different paths to internationalization, and it should also be stressed that companies of American, Japanese, or European origin have built up their present organizational structure and hierarchy in a variety of ways (Dowling et al. 2013). For example, Americans underwent their development phases rather quickly, and Europeans used the international division structure less frequently, while Japanese companies also underwent all of the development phases, even if somewhat slowly. The culture followed by the parent company’s management is also a significant explanatory variable and may also be worth repeating; specifically the ethno-, poly-, regio- or geocentric cultural typology (Perlmutter 1969).

Rees and Edwards (2003, 12) argue that the issue of origin is important also because “companies of certain nations (e.g., American) have no regard for local conditions.” The investigations made by Dicken (2011) led him to the conclusion that MNCs originating from the same nation show more similarities than differences, or, in other words, “transnational companies keep some of their national characteristics” (Dicken 2011, 125).

### Nature and Time of Market Entry

A company cannot turn into a multinational giant at a moment’s notice and, generally, companies follow a longer evolutionary development pattern. Some firms, however, use licensing, subcontracting, or other methods, and those companies are willing to risk everything and step into the lion’s den

to follow the revolutionary development pattern (Dowling and Welch 2004). Markets in new technologies and non-product services (e.g., consulting, media, banking, and finance) might suit this approach.

Data suitable for international comparison show that the majority of international companies chose to solve the problem of gaining majority control by acquisition or by implementing a greenfield development in the region (UNCTAD 2012). Subsidiaries can “fall into two broad categories: varying from passive supporter and implementer of headquarters-level strategy to subsidiaries with a high level of autonomy” (Frynas and Mellahi 2011, 218).

An early mover (i.e., a company that is the first to launch its new product or service on the market of a new country) can obtain a significant competitive edge over other countries. This strategy can prove successful mainly in the industries that have only a small number of companies active in the market (Wild, Wild, and Han 2003). Late movers can benefit from what the early movers have already achieved, (e.g., they can entice employees trained by their competitor), but competitors already in the market have an advantage due to the position they have gained.

### Subsidiary Mandate

Several classifications have been developed for the study of the roles played by subsidiaries. Researchers focus, among other things, on the degree of internationalization (Adler 1986), or innovation and knowledge transfer (Black et al. 1999), the importance (Bartlett and Ghoshal 2000) or the mission of the subsidiary (Langer, Alfirevic, and Pavicic 2005) in their analyses.

We found the classification elaborated by Delany (1998), in which he further developed the classification of White and Poynter (1984), particularly relevant. This model distinguishes subsidiaries on the basis of their range of activities and the components of the value chain involved in their operations. The lowest level of mandate (1) means that the subsidiary is responsible only for sales, while the highest level (5) means that all of the basic elements of the value chain are performed by the subsidiary. In the analysis presented in this study, three versions or levels of mandate were used, and these are represented by variables M1, M2, and M3—as plotted in the research model (Figure 1). Specifically, the functions are

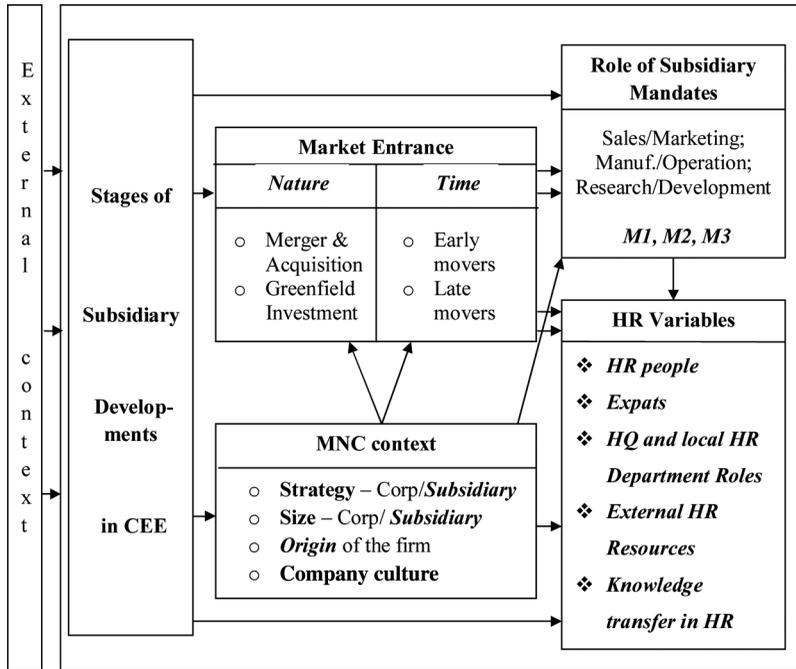
M1 = Sales and Marketing,

M2 = Sales and Marketing plus Manufacture,

M3 = Sales and Marketing plus Manufacture plus R&D.

### Strategic Orientation

As stated above, MNCs enter foreign markets for traditional reasons (market acquisition, securing resources, and diversification), but more recently they have also been seeking greater economies of scale and a more rational



**FIGURE 1** Research model: HR and its context in multinational subsidiaries.  
 Source: Primary research by the authors.

allocation of expenditure, by means of moving processes and activities to lower-cost nations (Dowling et al. 2013). 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.

In relation to the topic indicated in the subtitle, we will examine later how important the following three strategic orientations are for the respondents:

- growth, market expansion, portfolio expansion;
- stability, efficiency improvement, revenue retention, adapting to the market situation; and
- redundancies, rationalization.

### The HR Role of Corporate Headquarters and Local HR Departments

Farndale, Scullen, and Sparrow (2010) analyzed the relationship between corporate HR and international corporate HR roles considering different levels of (inter)dependence between Headquarter (HQ) and subsidiaries. In more decentralized MNCs, where subsidiaries operate independently from HQ and global process development is limited, HR is more focused on infor-

mal mechanisms of corporate control. Where the interdependent HQ-subsidiary structure is adopted, the complexity of the organization structure increases. This creates a new role for corporate HQ, acting as the guardian of an overarching, worldwide corporate culture. More independent local and regional International Human Resource Management (IHRM) structures result in smaller corporate HQ and limited numbers of corporate HR executives with limited responsibility, but the primary focus is on top management and expatriates. Here HR needs to be an “effective political influencer” to manage the internal labor market for global markets. Within this interdependent approach, HR is a knowledge manager champion, while in a more dependent structure, it is a champion of processes.

### THE RESEARCH MODEL

Many authors believe that multinational companies design and implement their management functions, including HRM, better than local companies do (Hiltrop, 1991; Harzing and Ruysseveldt 2005). Further, these multinationals apply highly efficient methods in most of their HR functions, such as performance management, communication, training new entrants, and career management, while local companies tend to focus more on staff or administrative issues.

When selecting dependent and independent variables for our research model to investigate the HR practices of MNC subsidiaries, we relied on the specific internal contextual elements of such organizations with due regard to the statements made in the literature reviewed (Fisher, Schoenfeld, and Shaw 1993; Francesco and Gold 1997). Our main aim was to describe and explain the HR practices found in the subsidiaries of MNCs in CEE in the light of these influencing factors. To investigate and explain the HR characteristics at MNCs in the CEE region, we focused on specific influencing factors, which comprised mandate, size, origin of parent company, time and mode of market entrance, and strategic orientation (Cranet 2006, 2011; Kazlakauiste et al. 2013). These factors provide a context for a discussion consistent with recent findings, highlighting the critical nature of HR variables (Brewster 2006; Venaik, Midgley, and Devinney 2005).

The inclusion of the size of the subsidiary as a determinant of HR staff is an admittedly crude metric to be added to subsidiary mandate as an effort to assess the global reach or criticality of the subsidiary operations (Bartlett and Beamish, 2011). This metric was also included as part of an ongoing cross-sectional series of sampling in the CEE region to assess any possible “rise and fall” of HR staffing in MNE subsidiaries in a region that has experienced more than its share of dramatic alterations in employment patterns in response to the developing demands of global competitiveness and turbulence in global economic development (Dowling et al. 2013, 277).

Identifying the correlations among the variables of the research model allowed us to set up and support or fail to support six hypotheses:

- H1: The mandate of the subsidiaries has an impact on HR activities.
- H2: The company's origin has an impact on HR activities.
- H3: The time of market entry of the MNC has an impact on HR activities.
- H4: The nature of the subsidiary's market entry has an impact on HR activities.
- H5: The strategic orientation of companies has an impact on the projected characteristics of HR activities.
- H6: The size of the subsidiaries in terms of employee numbers has an impact on the various features of HR activities.

## OVERVIEW OF RESEARCH

For our survey, the same questionnaire was used in all countries, translated from the English original into the languages of the countries involved. Most questions asked the participating subsidiaries to provide information on the characteristics relevant in 2008 and 2009.

Our broader survey covered the following areas:

- *Characteristics of the subsidiaries surveyed*: the most important organizational and economic characteristics (origin of parent company, year of establishment of subsidiary, main area of company operation (sector), size of organization);
- *Key indicators of the HR function*: number and workload of the staff employed in HR departments, the main indicators representing the importance, results, and efficiency characteristics of the HR activity (labor cost to total cost ratio, age distribution of employees, relative weight of training budget, level and rate of fluctuation and absenteeism);
- *Most important HR characteristics of the period examined*: importance of the HR function, foreign and local expats, role distribution between central and local HR; and
- *Data of respondents*: data on the current HR department and its employees.

Most questions related to the characteristics of the participating subsidiaries observed in 2009. In some cases (number of staff, revenue, and HR efficiency indicators) we collected data from both 2008 and 2009.

The sampling system used by us was essentially convenience sampling. The answers were mainly collected during interviews, with relatively few via [www.ceeirt-hrm.eu](http://www.ceeirt-hrm.eu) web survey. The statements in this paper are based on

the use of descriptive statistical models (frequency, distribution, average) and detailed stochastic cross-tab and correlation analysis, supported by SPSS software.

Our respondents—279 MNC subsidiaries operating in seven CEE countries—employ around 300,000 people. This is about 10% of all employees working in the CEE countries involved in the survey (Table 1).

In the total sample, 60% of the individuals participating in the survey are senior HR managers in their company (e.g., HR vice president, director, manager, or department head). Over 40% of the respondents have worked in their current positions for less than 3 years.

## Contextual Characteristics of the Companies Responding

### SIZE OF THE SUBSIDIARIES

The subsidiaries participating in the survey can be divided fairly evenly into large (52%) and small (48%) enterprises. For this purpose, we define large enterprises as employing more than 250 people. In terms of revenue, in Croatia, Estonia, Romania, and Slovakia, the majority of companies in their samples had revenues below €50 million, while in Hungary, Poland, and Serbia, the majority had more than €100 million.

### ORIGIN OF THE RESPONDING FIRMS

The subsidiaries participating in the survey came from more than 30 different countries, although more than 74% came from four particular countries: Germany and Austria (48%), and the United States and Canada (27%). The home countries of the remainder are in West and South European EU member states (11%) and from outside Europe (14%).

This broadly corresponds with the data provided by the statistical offices in Hungary (KSH 2011); Poland (Foreign 2010; List 2010); and Slovakia

**TABLE 1** Number of Respondents and the Ratio (%) of Their Employees to the Total of Employees of Companies in Foreign Ownership

| Countries involved in the survey | Number of responding subsidiaries | Ratio of people employed by respondents as % of all employees working for companies in foreign ownership |
|----------------------------------|-----------------------------------|--|
| Croatia                          | 11                                | 3  |
| Estonia                          | 45                                | 13   |
| Hungary                          | 75                                | 18   |
| Poland                           | 88                                | 12   |
| Romania                          | 17                                | 5  |
| Serbia                           | 20                                | 16   |
| Slovakia                         | 23                                | 3  |
| Total                            | 279                               | 9  |

*Source:* Primary research by the authors.

(2010), which show that most foreign direct investment in Hungary, Poland, and Slovakia was made by German, Austrian, and U.S. companies. In Nordic Estonia, the FDI ranking list is led by Swedish firms.

#### YEAR AND NATURE OF ESTABLISHMENT OF THE SUBSIDIARY

Of the total sample, nearly one-third (32%) of the subsidiaries were established before 1990 and almost a fourth (23%) between 1990 and 2000, while the remaining 45% were established after 2000. This feature of the sample suggests that the majority of the respondent subsidiaries were in the mature stage of the life-cycle models, which suggests that the responses obtained can be considered well-established solutions.

In Hungary, about 44% of the foreign owners of the companies participating in the survey were established by the way of greenfield investment, while the remaining 56% had acquired majority control in local companies during the privatization era and via subsequent acquisitions. On the other hand, in the Croatian and Serbian samples, the primary mode of entry was through acquisition (82% and 75%, respectively); the same applies to a lesser extent also to Estonia (64%). In the Polish, Romanian, and Slovakian samples, most companies established subsidiaries by means of greenfield investment (Table 2).

The great migration of MNCs into Hungary took place in the 1990s—in contrast with, for example, neighboring Slovakia, where this occurred between 2002 and 2007. Many of the large multinational companies now in Hungary have been operating here continuously for nearly two decades, although some industries (e.g., automotive components) move very rapidly, and if the situation deteriorates, these companies can walk away very quickly. However, decisions concerning staying or leaving also depend largely on whether their main customers themselves stay or leave. The role of “cheap manufacturing and service provider” of Hungarian subsidiaries with their shorter delivery times increased during the crisis.

#### STRATEGIC ORIENTATION OF SUBSIDIARIES

Almost 40% of the respondents in the total sample confirmed that they were looking for growth during the period examined, while over 35% described

**TABLE 2** Methods of Establishment (in %;  $n = 279$ )

| Method of establishment | Croatia | Estonia | Hungary | Poland | Romania | Slovakia | Serbia | Total |
|-------------------------|---------|---------|---------|--------|---------|----------|--------|-------|
| Merger & Acquisition    | 82      | 64      | 56      | 40     | 33      | 44       | 75     | 52    |
| Greenfield Investment   | 18      | 36      | 44      | 60     | 67      | 56       | 25     | 48    |
| Total                   | 100     | 100     | 100     | 100    | 100     | 100      | 100    | 100   |

Source: Primary research by the authors.

their strategy as aiming for stability. A high proportion of Polish and Croatian organizations (52% and 50%, respectively) indicated plans for growth, while the remainder were mostly focused on stability—for example, 45% of the respondents in the Hungarian sample. In the Romanian sample, nearly one-third (29%) of organizations chose redundancies.

## The HR Characteristics of the Responding Firms

### HR PROFESSIONALS

In the total sample, the average number of HR professionals per company was between one and five. Again in the total sample, the HR effectiveness ratio (average number of employees per HR professional) is above 100 in only one-fourth of the companies, while almost half of the respondents indicate a ratio below 50.

### EXPATRIATES

There are two types of long-term assignee or appointee. The first consists of those coming from abroad—either directly from the parent company or from a third country, both regarded as expatriates. The second consists of personnel from the subsidiary who are given a long-term appointment abroad—at the parent or at another subsidiary operating in another country (Dowling et al. 2013).

In the total sample, most foreign “expats” work in managerial positions. One exception is found in the Estonian sample, where foreign expatriates are more likely to be non-managers (59%). In the Romanian and Slovakian samples, we find an almost equal split between foreign expatriates in managerial and non-managerial positions.

### RELATIONSHIP BETWEEN THE HEADQUARTERS AND THE LOCAL HR DEPARTMENT

According to the data obtained, we can see that, in the sample countries, corporate headquarters provide a moderate level of operational control over the HR activities of their foreign subsidiaries. In principle, at least as perceived by the respondents, they provide general guidelines and a framework for action (58%) or have an auditor’s role (51%) as they extract information and reports from local HR departments.

In the subsidiaries of MNCs operating in Croatia and Estonia, HQs have a slightly different role, as they not only provide guidelines and a framework for local HR activity but they also supply them, in equal measure, with resources and advice. In Serbia, the majority of parent companies’ HQs provide general guidelines but also (secondarily) resources and advice. The MNCs’ foreign subsidiaries have the highest level of HR autonomy in Poland and Slovakia.

## EXTERNAL SERVICE PROVIDERS IN HR

HR departments are managed in many organizations with the involvement of external service providers. Besides traditional HR consultants, an increasing number of service providers have entered the market offering new services (e.g., labor leasing, outsourcing, interim managers).

Regarding the key HR functions, the total sample showed that external service providers were most often used in training and development and in the area of compensation and benefits.

## KNOWLEDGE TRANSFER IN HR

The respondents ranked knowledge flows between subsidiaries and parent companies as the most important. In the Polish, Estonian, and Croatian samples, the most important HR knowledge flow was shown to be that within their subsidiary and between subsidiaries. In the Hungarian sample, the respondents ranked knowledge flows from the parent company and within their subsidiary slightly higher. Our findings correspond to international research results (Wang et al. 2010), which found that the success of knowledge transfer is influenced not only by organizational structures and strategies but also by the characteristics of the expatriates involved. If the knowledge of the parent firm is critical to the subsidiary's development and if personal factors play a critical role in knowledge transfer, then it is very important for HQ to send expatriates who are motivated to transfer knowledge.

## Interconnections Between HR Variables and Assumed Influencing Factors

With the help of cross-tab analysis, this paper presents the factors that have a statistically significant association relationship with the HR variables discussed above.

The existence of association relationships between six elements of the contextual factors in our model (mandate, size, origin, strategic orientation, nature, and time of entry into the market) and five HR characteristics (number of HR staff in the subsidiary, number of expatriates, the role of the HR department of the parent, the use of external HR service providers, and knowledge transfer in the field of HR) were tested with the chi-square test, and the measure of association was calculated with the Cramer's V index (Bryman and Cramer 2001).

Our findings (presented in Table 3) show significant relationship between four contextual factors and several HR variables. Two additional factors (time and method of market entry) were found to have significant relationship with only a few HR variables.

**TABLE 3** Results of the Pearson's Chi<sup>2</sup> Test (*p*)

| HR Variables  | Mandate  | Size of subsidiary<br>(No. of employees) | Origin  | Strategic orientation | Foundation |         |
|---|----------|--|---------|-----------------------|------------|---------|
|   |          |  |         |                       | Time       | Nature  |
| 1. Number of HR staff employed by subsidiaries              | 0.047**  | 0.000***                                 | N A     | N A                   | 0.077*     | 0.017** |
| 2. Number of expats   | 0.003*** | 0.000***                                 | N A     |                       | —          | —       |
| 3. Role of HR department at HQ                              |          |  |         |                       |            |         |
| Local HR is free to make decisions                          | —        | 0.007***                                 | 0.093*  | —                     | —          | —       |
| Supply of resources and counseling to local HR if necessary | 0.008*** | —  | 0.033** | —                     | —          | —       |
| General guidelines and framework to local HR                | —        | 0.008***                                 | 0.016** | —                     | —          | —       |
| Detailed HR model, policies, and control to local HR        | —        | —  | 0.020** | —                     | —          | —       |
| 4. Involvement of external HR service providers             |          |  |         |                       |            |         |
| Planning of human resources                                 | —        | —  | N A     | 0.028**               | —          | —       |
| Recruitment   | 0.003*** | 0.052*                                   | —       | 0.012**               | —          | —       |
| Selection   | 0.034**  | —  | N A     | —                     | —          | —       |
| Training-development  | 0.037**  | 0.004***                                 | —       | —                     | —          | —       |
| Compensation-Remuneration                                   | —        | —  | N A     | 0.001***              | —          | —       |
| Labor relations   | —        | —  | N A     | 0.007***              | 0.071*     | —       |
| 5. Knowledge Transfer in HR                                 |          |  |         |                       |            |         |
| Knowledge transfer from HQ to local HR                      | 0.068*   | 0.059*                                   | N A     | 0.036**               | —          | —       |
| Role of local training in the development of HR competences | 0.023**  | —  | N A     | —                     | —          | —       |

NA, the significance of the relationship cannot be examined with the chi<sup>2</sup> test.

Source: Primary research by the authors.

\*\*\*1% (all evaluable significance level); \*\*5%; \*10%.

#### CONNECTIONS BETWEEN SUBSIDIARY MANDATE AND HR VARIABLES

The analysis of this contextual factor found significant relationships with all the five HR variables under investigations here (see Table 3.)

The chi-square test shows a relationship between the number of HR employees at subsidiaries and the mandate at a 5%-level of significance ( $p = 0.047$ ). The results of the cross-tab analysis lead to the conclusion the HR departments with one to five employees are typical of subsidiaries with mandate M1 (i.e., those concerned exclusively with sales and marketing). An increase in the complexity of the subsidiaries' activities (i.e., a rise in the mandate number) goes together with a higher frequency of HR departments with larger staff numbers (20 or more). This is the reason why 26% of subsidiaries also engaged in R&D (M3) employ more than 20 HR personnel, and only 5% have no HR staff at all.

As far as the number of expats is concerned, the chi-square test shows a correlation with the mandates of subsidiaries at all reasonable levels of significance ( $p=0.003$ ). Findings of the cross-tab analysis show, on the one hand, that the employment level of expats is rather low in the sample (typically not more than one to three people) and, on the other hand, operations with no expats are generally limited to M1 (60%), while companies with wider mandates also tend to employ a higher number of expats.

As far as the relationships between the elements of the role of HR departments at corporate HQ, which we examined, and the mandates of subsidiaries are concerned, the chi-square test shows a significant relationship in one case only—namely, in respect of the “Provision of resources and advice to local HR if necessary,” where the significance level is  $p=0.008$ . This type of relationship mainly characterizes subsidiaries with an M2 mandate (56%) and is least applied (33%) in respect of Mandate 3.

The statistical analysis performed allows us to make certain assertions about the relationship between the involvement of external HR service providers and the mandates of subsidiaries:

- The significant ( $p=0.003$ ) relationship between the external services involved in recruitment is characterized by the fact that, while 40% of the respondents do not use external partners for this purpose, this ratio is the highest (49%) in the case of M1-type subsidiaries and the lowest in the case of M3 (31%). While the former are those who increase the number most of all (19%), those belonging to M3 decrease them to the greatest extent (32%).
- The relationship between the external service providers involved in selection and the mandate is significant, as with the previous ones ( $p=0.034$ ). Here again, companies with an M1-type mandate lead the list of those who do not use external services, while they are also the ones who show the highest increase in the number of external services involved. Subsidiaries with M2 and M3 mandates are represented in the same proportion and/or report a decrease in the use of such services.
- In addition to the significant ( $p=0.037$ ) relationship between the involvement of external HR services in the field of training and development and the mandate, the cross-tab analysis found this area to be used the most intensively, considering that 75% of the respondents have such experience. The involvement of external service providers in the field of training and development was found equally high in companies with both M2 and M3 mandates (81%–82%). Those with mandate M2 make the greatest effort (40%) to keep their external service providers. The highest decrease in maintaining this practice (24%) was found in the M3 mandate companies.

In respect to the relationship between variables of knowledge transfer in HR and the mandate, the more significant points are as follows:

- Association relationships exist between knowledge transfer from HQ to the local HR department and the mandate at a 10% significance level ( $p = 0.068$ ). As far as its content is concerned, this type of knowledge transfer is more important for companies with what we might term “lower” mandates (M1 and M2) and less so for subsidiaries engaged in R&D.
- The relationship between the role of local training in the development of personal HR competences and the mandate of the subsidiary is significant ( $p = 0.023$ ; i.e., the importance of local HR training depends on the subsidiary’s mandate). Its presence is stronger (52%) in companies with R&D activities and also in manufacturing companies (42%) but has less importance in companies engaged exclusively in sales and marketing (23%).

#### CONNECTIONS BETWEEN THE SIZE OF THE SUBSIDIARY AND HR VARIABLES

The impact of subsidiary size (number of employees) on the development of the HR department and the existence of certain HR functions is also supported by the results of our survey.

As expected, the larger the subsidiary, the larger also is the staff employed by the HR department ( $p = 0.000$ ). Subsidiaries with fewer than 250 employees may have either no HR personnel whatsoever or very few—perhaps between one and five.

The significant relationship ( $p = 0.000$ ) found between the number of expats and the size of the subsidiaries can be described as weak ( $V = 0.277$ ). Cross-tab analysis revealed a similar tendency (i.e., high frequency and high relative frequency of the main diagonal; subsidiaries with fewer than 250 employees had no expats (59%), while those with 250 to 1,000 had one to three expats (33%) and those employing more than 1,000 people have 4 to 10 expats (21%)—or even more than 10; 31%).

The statistical analysis of the association between the role of HR at HQ and the number of employees revealed a number of specific characteristics.

If the variables include the practice of the HQ’s HR department allowing full autonomy to the local HR, as well as the number of employees, an association relationship can be found at all meaningful levels of significance ( $p = 0.007$ ), although the measure of the association is weak ( $V = 0.191$ ). This “hands-off” type of attitude was mainly found (45%) in companies with 250 to 1,000 employees. In cases when the HQ’s HR department provides general guidelines and a framework for local HR, a weak association ( $V = 0.190$ ) was found with the size of the company ( $p = 0.008$ ). This situation tends to prevail in large subsidiaries.

Regarding the involvement of external HR service providers and company size, our statistical analysis revealed significant relationships in two areas.

Recruiting and company size were found to be related only at a 10% significance level ( $p=0.052$ ). The involvement of external service providers tends to be more typical of large organizations (69%) and least typical of small companies (54%). Association relationships can be detected between training and development and company size at every evaluable level of significance ( $p=0.004$ ).

Concerning the relationship between knowledge transfer in HR and subsidiary, size we can state that a relationship can be detected at a 10% level of significance ( $p=0.059$ ) if the knowledge transfer is directed from HQ to local HR. This is found everywhere and with similar frequency, although the highest number was reported by the largest subsidiaries (52%).

#### CONNECTIONS BETWEEN THE PARENT COMPANY, ITS COUNTRY OF ORIGIN, AND THE HR VARIABLES

During the analysis of these relationships, we often found that the significance of the association could not be investigated with the chi-square test. The reason was that, because of the great diversity in the country of origin of parent companies, the criterion of a maximum ratio of 20% of the cells expected to have a value of less than 5 could not be met in several places. These places are marked N/A (= not applicable, meaning “they cannot be examined” in Table 3). Consequently, for this contextual factor, significant relationships were found only with the specific roles of the HR department at corporate HQ:

- The association between the hands off attitude to local HR and the company's origin appear at the 10% significance level ( $p=0.093$ ). Comparing the cross-tab values of the various company origin categories, we found that this attitude was attributed in the highest number to the central HR departments of German (40%) and East European (38%) companies. The practice occurs in only 15% of Japanese companies and in no more than some 25% of companies with owners from West European and Anglo-Saxon countries. This means practically full autonomy for the HR staff of subsidiaries.
- In respect of the next three variables, association relationships can be observed at the 5% significance level with the following values:  $p=0.033$ ,  $p=0.016$ , and  $p=0.020$ . “Provision of resources and advice to local HR when necessary” is typical mainly of East European companies (58%) and is least visible in Japanese and South Korean companies (15%). “Providing general guidelines and framework to local HR” is characteristic

mostly of companies of Anglo-Saxon origin (75%) and least of companies of German origin (46%). The practice of using detailed HR models, policies, and the control of processes and regulations by the HQ was found mainly in companies of Anglo-Saxon origin (49%) and least frequently in Japanese and South Korean companies (15%).

#### CONNECTIONS BETWEEN THE STRATEGIC ORIENTATION OF THE SUBSIDIARY AND HR VARIABLES

Strategic orientation of the subsidiary shows significant association relationship with four areas related to the involvement of external HR service providers (HR planning, recruitment, compensation–remuneration, and labor relations) as well as one element of knowledge transfer in HR (with  $p$  values between 0.001 and 0.036). Relationships with other HR variables either cannot be examined with the chi-square test or are not significant. Cross-tab values evidence the following:

- Relatively few companies use external service providers for the planning of HR. Those who do so tend to belong to the subsidiaries preferring to maintain or increase efficiency (33%) rather than to those who focus on downsizing or phasing out (20%).
- Among those who use external help with recruiting, the majority also prefer maintaining stability and increasing efficiency (64%) while external help is mainly less used by downsizing subsidiaries (35%) and used more by those focusing on growth (21%).
- External services in the fields of compensation and benefit are used primarily by subsidiaries intending to maintain their performance (64%). Very few of the respondents reported an increase in this field, and the abandonment of these services was led by companies on the way to phasing out (24%).
- The highest ratio of orders in the field of labor relations (56%) was given by companies “phasing out”—the group where the greatest increase was also reported (16%).
- Knowledge transfer from HQ to local HR is considered to be of great importance by 33% of companies following a strategy of growth and 22% to 23% of those striving to maintain efficiency or phase out.

#### CONNECTIONS BETWEEN THE TIME AND NATURE OF MARKET ENTRY AND HR VARIABLES

The chi-square showed a relationship between the number of HR employees in subsidiaries and their time of establishment only at a 10% significance level ( $p = 0.077$ ). Cramer’s  $V$  index rates this correlation as weak ( $V = 0.152$ ). The cross-tab values of the categories indicate unambiguous tendencies. For

example, larger HR staff numbers (around 20 or more) are found in subsidiaries established early (i.e., before 1995; 44%), while later arrivals tend to employ considerably smaller numbers (one to five persons). It is this latter size of HR unit that characterizes about half of the subsidiaries established between 1995 and 2000.

Significant association relationships between the method used for setting up the subsidiary and the HR variables under examination were found in only one area, namely the number of HR employees in subsidiaries. The chi-square test showed only a weak correlation at 5% significance level ( $p=0.017$ ;  $V=0.204$ ). The number of subsidiaries operating with no HR employees at all is rather low (5%–6%). Subsidiaries established as greenfield developments tend to have smaller HR staff numbers (one to five) or 54%, while subsidiaries established by acquisition typically have more (five+ employees) in their HR departments (59%).

## SUMMARY OF FINDINGS

Our hypotheses (H1 to H6) were presented in an earlier part of this study, and our review of the findings has already given us the opportunity to examine the connection between certain HR variables and the factors assumed to influence their application. This indicates the magnitude of the differences among the countries involved in the research or the nature of their different features.

We shall now turn to summarizing our conclusions with a view to proving our hypotheses, and on the basis of our experiences and the processed data (see Table 3) related to both the verbal and statistical analyses, we believe that we can draw the following conclusion.

Our findings tend to support H1. It is possible to show a relationship of association between the mandates and the different HR characteristics of the local subsidiaries of international companies involved in the survey, such as the number of HR employees, the number of expats, the relationship between the local HR and that of HQ in decision making, the involvement of external HR service providers by the management, knowledge transfer between the local subsidiary and the HQ related to HR activities, and the training solutions adopted. The wider the range of the subsidiary's mandate, the more varied are the applications of HR solutions that are open to it.

H2 was not supported by our analysis of the data in our research project. It is not inconceivable that the origin of the companies (i.e., the country in which the parent company is based) has an impact on the HR activity undertaken by the subsidiary, but it could not be confirmed on the basis of the answers given by the respondents. The result is rather surprising; since a basic principle of comparative international HRM is that

the HRM of multinational companies has an Anglo-Saxon, a German, a Nordic, and so on practice (Brewster et al. 1996; Ferner 2007). In our case, the relatively small sample and low number of items as well as the great geographical variety of the countries of origin and operation acted against the possibility of clearly defining the main characteristics, except for the division of roles between HR at local and HQ level. This means that the role of the HR department at HQ can differ depending on the country of origin.

The findings based on H3 and H4 did not show any significant deviation, and it can only be concluded that these hypotheses were not supported by means of the sample available. Neither the time of the subsidiaries' establishment nor the method of their establishment (acquisition, greenfield investment) show any impact on the prevailing HR practice or any relationship with the kind of HR solutions applied in the CEE countries involved where in-depth interviews were carried out with subsidiaries.

H5 was partially supported by our research findings with the proviso that the strategic orientation of the subsidiaries has an impact exclusively on the use of external service providers.

H6 was also supported by our research findings. The size of the subsidiary defined according to the number of employees has an impact on the changes in the various HR features listed earlier. The existence of a significant relationship is not surprising; the bigger a subsidiary, the more developed the HR department. This correlation was by no means ensured going into the investigation, given the region's historical association between political activities and personnel function and the rigors of an increasingly competitive global economy. Due to the economic crisis, HR staff numbers have declined, but our findings show that they have managed to maintain their significant numbers if not their strategic role.

### Tentative Patterns, Limitations, and Future Orientation of Research

Reviewing the six hypotheses in Table 4, a general appraisal seems in order. The hypotheses focusing on more long-term, macro-, and forward-looking variables (mandate, size, and strategic orientation) appear to have an effect on the deployment of HR resources. This longer-term and future orientation makes sense in terms of human capital theory and the idea of long-term investment in competencies and people-driven systems within distributed and interdependent subsidiaries (Bartlett and Beamish 2011, 314–331). In this sense, HR practices and activities have more explanatory power regarding where subsidiaries are planning to go “to” in the future, rather than describing where the subsidiaries come “from” in the past (MNE country of origin and market entry issues). It would be interesting to see whether this temporal and strategic pattern is duplicated in other developing economies around the world.

**TABLE 4** A Review of Findings

| Hypotheses | Survey items   | Conclusion |                   | Conclusions   |
|------------|--|------------|-------------------|---|
|            |  | Supported  | Failed to support |   |
| H1         | The mandate of the subsidiaries has an impact on HR variables  | X          |                   | The wider is the range of the subsidiary's mandate, the more varied are the applications of HR solutions which are open to it.  |
| H2         | The company's origin has an impact on HR variables   |            | X                 | Hypothesis H2 was not supported by our research project, at least partially because of the the relatively small sample and low number of items, as well as the great geographical variety of the countries of origin and operation. |
| H3         | The time of market entry of the MNC has an impact on HR activities.  |            | X                 | The time of the subsidiaries' establishment does not show any impact on the prevailing HR practices of the MNCs from our sample.  |
| H4         | The nature of the subsidiary's market entry has an impact on HR variables.                                       |            | X                 | The method of their establishment (acquisition, green-field investment) does not show any impact on the prevailing HR practices of the MNCs from our sample.  |
| H5         | The strategic orientation of companies has an impact on the projected characteristics of HR activities.          | X          |                   | H5 was supported by our research findings with the provision that the strategic orientation of the subsidiaries has an impact exclusively on the involvement of external service providers.   |
| H6         | The size of the subsidiaries in terms of employee numbers has an impact on the various features of HR variables. | X          |                   | The size of the subsidiary defined according to the number of employees appears to have an impact on the changes in the various HR features; the bigger a subsidiary is the more developed the HR department.                       |

*Source:* Primary research by the authors.

The limitations of the present investigation include the following:

- The need to increase the size of sample was evident, but at the same time, we did experience a great reluctance to divulge information in some subsidiaries of MNCs located in Romania, Serbia, and Croatia.
- One of the biggest problems facing IHRM research in emerging countries lies in the difficulty of accessing informed and knowledgeable respondents. Our efforts to use the web-survey method have not been very successful in these countries (Budhwar et al. 2010).
- In this phase, we did not examine the impacts of the institutional environment (e.g., the labor market) in the countries involved, and we could not justify making broad generalizations for this or any other global region. The sample is large enough from a statistical point of view, although disparities were found in the stratification of the organizations investigated. By this we mean that, within the whole sample, the number of respondents is not distributed as evenly as the subsidiaries in the seven countries.

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.

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