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Future HRM challenges for multinational firms in Eastern and Central Europe

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Abstract

This article identifies and evaluates human resource challenges for multinational companies in transitional economies in Central and Eastern European countries (CEEC). The nature of transitional economies and HRM in post-socialist societies presents a range of issues. These pertain to the lingering effects of the previous institutional environment and state directed political economies which retain influence on the type of HRM practices adopted. Challenges of talent attraction and retention, remuneration systems, diversity and cross-cultural management are considered.

Introduction: the notion of transitional economies

This thematic exploration of HRM in CEEC countries considers (1) the extent to which HRM practice is converging; (2) reasons for this, including globalization; and (3) institutional context factors which limit or facilitate this. There is a paucity of published work on HRM in transitional economy MNCs (Horwitz, 2006; Zupan and Kase, 2005), with some notable exceptions such as Budhwar and Debrah (2001), Zupan and Kase (2005), Meyer and Peng (2005) and van Agtmael (2007).

The case of Central and Eastern European countries (CEEC) is of special interest as these post-socialist countries seek to transform their inherited economies and business practices (Koleva *et al* 2010). Zupan and Kase (2005) refer to these economies as European Transitional Economies (ETEs). Volatility in the political economies of CEECs is often a feature of these markets. If van Agtmael's (2007) thesis of a fundamental global shift in economic and potentially political power to emerging markets within the next 25 years is valid, the assessment of labour market skills formation and retention at both public policy and firm policy levels is important. Western Europe represents the primary reference for these countries as 'transitional economies' (Judge, Naouhbaeva and Douglas, 2009) seeking to join the European Union and its associated institutional and regulatory framework; as well as the influence of companies from Western Europe as they increase foreign direct investment in CEEC countries. Macro and firm level labour market analyses of emerging market skills trends and multinational companies (MNCs) human resource (HR) strategies in these countries is evolving (Horwitz and Mellahi, 2009).

Transitional economies are countries which experience a high level of turbulence and complexity in a transformation process from central planning command and control political economies to market oriented economies with varying degrees of state direction (rather than control). These countries include those of CEEC which were previously part of the Soviet Union (Judge et al 2009, pp.1-3). The collapse of centrally planned CEEC systems has seen post-socialist transformational changes towards market based economies. This fundamental shift underpins the emergence of market driven rather than centrally planned economic growth of these economies, with important socio-political, institutional, regulatory shifts as more state run enterprises adopt market driven business models, with the economies of CEEC attracting more foreign direct investment. The transitional markets of CEEC countries reflect a post-socialist legacy aspects of which endure with counter influences occurring in post socialist ideology (e.g. notions of ‘new Europe and old Europe’), inward investment patterns and GDP growth (Table 1), which reinforce continued adoption of elements of past practice, differences in regulatory environments between CEEC countries and varying rates of unionism, employee protections.

Table 1. Gross Domestic Product of CEEC countries: expected percentage change 2010-2011. (The Economist, p. 113, November 13, 2010).

Country	2010	2011
Czech Republic	1.4%	2.0%
Hungary	0.3%	2.5%
Poland	3.4%	3.8%
Russia	4.2%	4.0%
Turkey	6.5%	4.4%

Percentage annual GDP growth for the region from 2004-2009 was 4%. The Economist Pocket World in Figures, 2011 Edition, p. 25.

Although the countries which are previously part of the Soviet Union have not seen GDP growth of the same magnitude as that of other emerging markets such as Brazil, China and India, most have witnessed steady GDP growth over the period 1990-2010 as emerging markets reflect important shifts in power between traditional Western markets and the emerging markets undergoing higher growth even during the severe recent recession. Today the CEE countries represent diverse political economies, cultures and history. Poland for example whilst occupied by the Soviet Union had been able to retain private enterprise activities to a greater extent than other countries in the region during this period. This enquiry is important in the context of Antoine van Agtmael's (who coined the term 'emerging markets') prediction that

'in about 25 years the combined gross national product (GNP) of emergent markets will overtake that of currently mature economies causing a major shift in the centre of gravity of the global economy away from the developed to emerging economies' (van Agtmael 2007: 10-11).

Van Agtmael (2007: 12) argues that by the middle of this century, emerging markets in aggregate will be nearly twice as large as the current developed economies. In this context, it is debatable, argued van Agtmael (2007) and Horwitz and Mellahi (2009), how far the paradigm of emerging markets and the developed/developing construct will be able to explain the fundamental shift of power under way. The economic primacy of Western developed countries is no longer a given as these nations are no longer able to take unilateral decisions affecting emerging economies. As van Agtmael (2007) concludes, it is a matter of time before a block of emerging economies headed by China increasingly calls the shots on global geopolitical and

economic issues, as for example occurred at the United Nations climate change conference in Copenhagen in December 2009.

Analytical framework – External labour market changes and internal strategic choice

There is much work to be done to strengthen the theoretical and applied underpinnings of HRM in emerging markets to understand and bring about more effective management practices Zupan and Kase (2005). There is an emerging body of work on IHRM in transitional labour markets focusing on human resource issues in emerging market firms, including forms of managerial control, HR systems and cross-cultural management (Chang, Mellahi and Wilkinson, 2009, Horwitz *et al*, 2006; Horwitz and Mellahi, 2009; Judge *et al*, 2009).

External contextual factors

Both macro-institutional level and firm-level research on external and internal labour markets is increasing. Meyer and Peng (2005) and Zupan and Kase (2005) provide theoretical perspectives on IHRM development in CEEC countries. The former posit three lines of theorising: (1) organizational economic theory, (2) resource-based theory and (3) institutional theory. Their work highlights the importance of particular contextual influences such as institutions. They outline an approach regarding institutional theory which complements organisational strategies and how research agenda in CEECs might be developed. Zupan and Kase's work posits a conceptual model for strategic HRM in emerging transitional economies of Eastern and Central Europe. They develop this by a rigorous case analysis of HRM in one country namely Slovenia (pp. 882-906). The model shows some congruence with Meyer and Peng's work on institutions and seeks to move away from normative approaches to a more conceptual and analytical approach. Zupan and Kase's model posits certain links in the

alignment of external HR context (such as institutional and legislative variables) and facilitator variables with internal HR strategy development and execution (op cit. pp.894-900). The analytical framework adopted for this paper adopts the external and internal link or alignment framework proposed by Zupan and Kase (2005).

Internal contextual factors

In evaluating these factors, Judge *et al* (2009) argue that firm level strategic performance in transitional economies is a function of ‘organizational capacity for change’. Their research in Russian firms found that this capacity is positively associated with firm performance (Judge *et al*, 2009). These authors contend that institutional turbulence associated with transformational change in transitional economies makes public policy and firm strategic choices different than in developed economies. Sources of competitive advantage and associated HR strategies have been evaluated variously in these economies. For example Judge *et al* (2009) conclude that ‘dynamic organizational capability’ for change, or what has been posited as ‘organizational readiness for change’ (Armenakis *et al*, 1993) is particularly pertinent in the ‘white water’ uncertainty and volatility of transitional economies. This would seem similar to Zupan and Kase’s notion of ‘facilitator factors’ pertaining to both external (e.g. legislation) and internal facilitators such as HR power within the firm, ‘which control for differences between ETEs’ (op cit p.895-896).

This is an instructive framework which with its posited linkage of external and intra-organisational HR factors and is utilised here. Human resource issues that have been identified in the emerging economy literature include the inappropriate use of foreign HRM policies and practices, burgeoning literature on use of expatriate skills, reliance on particularistic practices driven by local institutional and legislative regimes, nepotistic considerations, lack of transparency in often highly politicized decision-making, and a concern with procedural and

transactional HRM rather than strategic issues (Kamoche, Debrah, Horwitz and Muuka *et al*, 2004: 1-2).

Also pertinent to CEEC countries and the Zupan and Kase (2005) framework, comparative work has been done on transitional economy HRM and knowledge worker attraction and retention issues (Horwitz, Kamoche and Chew 2002; Horwitz *et al*, 2003; Horwitz, Chan, Quazi, Nonkwelo, Roditi, and van Eck, 2006). These studies evaluate the diffusion of HRM practices to and from emerging and developed economy markets. Analytically robust theoretical constructs and frameworks suggest that a further construct be added to the convergence/divergence framework as the latter's polar extremes do not reflect the integrative alternative of 'cross-vergence' (Ward *et al*, 1999). The latter refers to an overlap of values across countries, and diversity of values and sub-cultures within countries. This results in a need for closer attention to process dynamics in the design and implementation of HRM, given the more likely hybrid of human resource systems and practices. These processes are not always satisfactorily addressed in the convergence/divergence framework, as the cultural/institutional complexity of emerging markets precludes over-simplified analysis.

Many authors have challenged the tendency by MNCs as well as local managers to adopt practices with little consideration as to the contextual suitability and relevance of such practices. Some have identified the limitations of concepts formulated in the West, whereas others have offered empirical evidence on the nature of extant practices, pointing to their appropriateness or lack thereof (Kamoche *et al*, 2004). Globalization and contextual localisation of firm level HRM strategy, call for different levels of MNC control and coordination of its subsidiaries. One such mechanism used by MNCs concerned with coordination/integration is the creation of social capital – the intangible resources embedded in the network of existing company relationships

that assist in the accomplishment of necessary tasks; it allows MNCs to help bridge the gap between globalization and localization of strategic practices. These constructs of external and internal HR context, form part of the Zupan and Kase (2005) framework.

Practices such as human resource development, fair labour practices and standards, equal opportunity and employee empowerment and equitable wage structures and incentive schemes, cross-functional team development, performance management systems incentives and other practices differentiate firms with high levels of social capital from those with low levels. According to Aguilera and Dencker (2004) and Gomez and Sanchez (2005), certain of these practices may be more appropriate for certain cultural contexts than for others and in building social capital, MNCs must take into account the cultural and institutional context within which they operate. The same HR practices, for example, skills formation and human resource development, performance appraisal, or those pertaining to cross-border mergers and acquisitions, that could build trust in one country context, may fail to do so in another - each HR practice that an MNC considers implementing should be filtered through a 'localization mesh' that identifies clashes with local values, resource capabilities (such as technical and managerial competencies), culture and institutional/regulatory environment. This analysis, according to the above authors, should allow for modifications that will render the practice 'culturally fit', given that 'understanding the HR-performance relationship essentially requires exploring the heterogeneities of implementation' (Khilji and Wang, 2006: 1173). This is consistent with the Zupan and Kase's (2005 op cit p. 894) conceptual model in respect of HR strategy execution, outcomes, firm performance and the relative power of HR practitioners to effect change in CEEC country firms.

Institutional and labour market developments in transitional economies

Given the diverse regulatory regimes and ethnic demography of transitional economies, with a large underclass in several of these poorer states, emerging market MNCs many of which are former state-run enterprises will need to shift from regulatory compliance to a commitment model as vital for both competitiveness and social cohesion in the work place. MNCs in emerging markets may face a double transitional challenge – to redress historical inequalities and bureaucratic compliance culture by building more flexible organizations based on decent work and workplace rights, and to simultaneously and speedily develop its human capital capacity to compete in a harsh global economy’ (Horwitz and Mellahi 2009, p. 274). With some exceptions such as Slovenia, employment rights in a ‘Western sense’ are not well developed, though this on its own might not be a major factor deterring foreign direct investment. The extent to which strong, independent labour market institutions evolve will have an effect on the development of HRM policy and practice.

Large-scale labour absorption into a shrinking formal labour market is unlikely, given the shift of employment to service and informal, non-core work mainly outside the ambit of employment equity legislation. The priority of practical policy initiatives by government, private sector firms, labor market institutions such as sector training authorities and bargaining councils, must be large scale programmes to train and retrain for enhancing employability in changing labour markets (Horwitz and Mellahi, 2009: 275).

Consistent with Zupan and Kase (2005) and Aycan (2005), from an institutional perspective it is posited that new practices occur and interact with contextual factors and actions of decision makers . Hence HRM practices are contextual and part of a process of institutional evolution. This is pertinent against the background of theoretical notions of HR convergence and embeddedness of local context, not in a static sense, but as a developmental process. Koleva *et al*

(2010) in reference to corporate social responsibility (CSR) and associated employee relations practices found considerable diversity, including regionally developed approaches with origins in the institutional evolution of organizations. It has been argued that a ‘strength’ of the post-socialist CEEC is that they have carried over certain benign, paternalistic practices which were rooted in socialist ideals about employee relations, workplace and community well-being. Employment was sustained in the early transition of these political economies, but with increased pressures for economic transformation stemming from economic liberalization to a free market regime with attendant privatization and organizational restructuring. This traditional social contract has, as in Western countries been broken with increasingly insecure employment, flexible work practices and arguably a ‘less friendly’ HR environment more clearly focused on economic efficiency. This has presented companies in CEEC with an important challenge of transforming this paternalistic ethos of the past which was not driven by profit or efficiency motives into a ‘neo paternalistic’ milieu where the profit motive and HR practices aimed at aligning people, processes and structures with economic performance objectives of the company. However, a nuanced approach is necessary given that differences between cultural and institutional contexts of CEEC occur, with some countries such as Bulgaria reflecting a stronger culture of individualism and others such as Poland with elements of collective solidarity. In the former case, for example, research has found that direct employee participation is more prevalent than in the latter (Koleva *et al*, 2010: 283-284). The challenge of the Western notion of strategic HRM as fostering a ‘business partnership’ in relations with employees is not well established in CEEC.

Somewhat ironically, whilst the political transformation of post-socialist societies may have been of a revolutionary nature, organizational and institutional practices may tend to change

in an evolutionary way as described by Veblen (1899). Therefore organic or home grown practices may survive and mutate into new forms (rather than disappear) in response to change in the organizational environment. Hence the notion that local context as a barrier to change may not always be correct. Rather context particularism raises the intriguing prospect of change of a different order and perhaps with a different trajectory in transitional emerging markets.

Linking institutional and organizational HRM practices

Whilst there is a paucity of empirical research on HRM in CEEC MNC companies (Morley *et al*, 2009; Scullion *et al*, 2007, Zupan and Kase 2005), there is even less work on emerging market MNCs from and to CEECs. Importantly pre-transformational employment systems and practices have lingering and varying degrees of ‘institutional embeddedness’ (Roth and Kostova, 2003).

However the state directed employment system appears to have lessened as market liberalization has taken place with the influence of firm level policies and practices increasing. European Union rather than national regulatory would appear to be influences on employment and HR practices such as conditions of employment and remuneration practices. Hence a market driven strategic choice model seems to be gaining influence; this especially in foreign MNCs in CEEC countries, with local employers following or imitating these practices (mimetic isomorphism) and MNC’s transferring successful HR practices across national boundaries most often normatively directed by headquarters HR functions (Edwards, Colling and Ferner, 2007). There is in this sense, a dualism in CEEC labour markets. It is also apparent that the normative influence of ownership (foreign versus local) and the level and extent of HR proficiency varies with the diffusion of HR practices from Western MNCs and internal HR strategy formation and execution (Zupan and Kase 2005).

As regional markets become more integrated with trade and market liberalization, and labour markets become more flexible, it is postulated that pressure for convergence will increase. Yet firm level strategic choice may well be enhanced given the relatively limited level of systemic integration of employment and other rights across CEEC countries (Dibben, Wood, Le and Williams, 2010). A significant important challenge for CEEC firms is that of competitiveness and the extent to which strategic HRM approaches will be adopted to seek enhanced competitive advantage through effective management of people. How particular HR practices are aligned with firm level strategies and most importantly how local norms and practices based in a lingering post- socialist legacy, might ease and be replaced by new and different practices, are important challenges. Zupan and Kase's instructive analysis of Slovenia notes major changes in labour markets, including introduction of minimum wages, role of trade unions fighting for minimum protections and labour standards, and mitigating through defensive challenges, the effects of enterprise restructuring (op cit pp.887-888).

Similarly, the IHRM construct of 'cross-vergence' or hybridization appears to be an important challenge with increasing evidence of this occurring in CEEC. Kahancova (2007) found that new work practices emerged in a case study of an MNC with operations in Poland and Hungary where local context mediated the influence of MNC's corporate goals and values given differing local conditions, practices and values of local managers. Case study research suggests that emergent local MNCs contrary to conventional wisdom are likely to develop practices which emanate from their own history rather than being overly dependent on those of Western MNCs (Koleva *et al*, 2010: 288-289). But this evolutionary approach does reflect the challenge of hybridization as the influence of direct investing MNCs becomes more prevalent in CEEC. It

appears that the adoption of IHRM practices in CEEC derives from both increased investment and consequent influence these firms have, and an emergent managerial belief that there is much to be learned from IHRM practices, particularly as these might have a higher likelihood of adoption a local context. It may be argued that in domestic CEEC firms HRM tends to not be based on the ILO notion of 'decent work'. Large emergent market MNCs like the Tata Corporation, ICICI Banking and Mittal Steel have become significant direct investors in other emerging markets including Central European countries such as Poland and the Czech Republic, while South African MNCs such as SAB Miller, has become the second largest brewing MNC globally with operations in Eastern Europe, China USA and elsewhere.

Adopting strategic HRM

Transitional economy enterprises are challenged to look at fresh ways to attract, motivate and retain human capital – especially intellectual capital. A key facet of this is the notion of 'strategic differentiation' – a unique human resources value proposition and employer brand which makes a company both different and more competitive than other firms in its industry. The challenge here is to create an employer brand where the labour market will perceive the organization as an employer of choice. It will therefore be seen to be offering something different that cannot easily be replicated by competitors. Workplace culture, growth opportunities, flexible employment practices, valuing diversity, competitive reward and benefit systems, employment equity are all means to developing this unique value proposition. Allied to this is the notion of talent management, which enables staff to develop within the organization. By creating a unique value proposition and managing talent well, organizations will then be in a better position to manage their valuable knowledge and enhance their capacity to execute

strategies and service delivery. However it is an open question and one for further research as to the extent to which CEEC country firms offer an attraction for knowledge economy employees; this given the widely held assumption that inward investment has been on more 'low road' international division of labour approaches.

According to the global 'Aligned at the Top' study conducted by Deloitte Touché Tohmatsu and the EIU (2007), a global and cross-industry survey of 531 HR and non-HR executives, people issues are at the top of the strategic agenda for global companies. Previously, discussions of people issues tended to focus on the efficiency and effectiveness of HR operations. The emphasis is shifting to leadership development, talent and performance management, culture change, and strategies for creating more value with the people they have. The survey shows that the contribution of HR will need to change in the next three to five years – the vast majority (95%) of respondents expects HR to be perceived as a strategic, value-adding function, not just a cost centre.

It is questionable, however, whether the strategic HRM and development agenda is being effectively addressed especially in transitional economies including CEEC countries. Using CRANET data, Dany et al (2008) found that firms in countries such as Bulgaria and Slovenia tended to have the main HRM decisions mostly undertaken by line managers alone. This is a common challenge to HR leaders and senior business executives alike. HRM is in a process of transformation in transitional economies as HR functions begin to shift from a personnel administration role to one of influencing firm strategy. As the Deloitte survey argues, 'many have yet to develop the capacity and capabilities required to tackle their company's current and future strategic challenges'. There is however evidence in certain countries of co-ordinated approaches to HR practices such as selection and recruitment, compensation and training

procedures. In Russia for example, firms that have employee empowerment practices also put stronger emphasis on these practices together with work/family balance issues (Dirani and Ardichvili, 2008).

This informs the ongoing convergence – divergence debate in IHRM. ‘Ultimately skills development is a national and organization challenge and not purely a functional one. Senior line and HR executives are called to create a new vision and plan for talent management. Yet HR power may be limited. The reality in certain CEECs such as Slovenia is that HR managers report having little impact on business strategy decisions. HR specialists as a percentage of employees (0.29) are much lower than in other European countries. Zupan and Kase, op cit p.889). There is some evidence of convergence in countries such as Hungary and Turkey of practices such as HR planning, selection and recruitment, compensation and training, job evaluation and salary surveys and use of outsourcing services and increasing professionalisation of HR practitioners (Aydinli, 2010). However the extent and nature of HR practice convergence is uneven in CEECs, lending support to Brewster’s (2004) view that there remain significant differences between countries in major functional areas of HRM.

Enabling implementation of HR strategies such as talent management initiatives is a shared challenge in CEEC countries. Organizations that take the lead will undoubtedly steal a march on the competition, in terms of people and profits’ (Horwitz and Mellahi, 2009, p.273). However, a purely market driven approach to skills development is not likely to be effective in emergent markets. Although much criticized, the notion of a developmental state in CEEC markets to developing the country’s human resources in partnership with the private sector and organised labour can remove the many constraints to international competitiveness such as skills development and better education. Human resource development and education in skills and

competencies needed in an emerging market MNC's will be critical to the global competitiveness of these firms. Several sectors need both high and low level skills. The former are in the information sectors which occur in dual market transitional economies which have both developed and informal sectors. Developing markets are often characterized by low skills and high value adding occupations, with the latter in services sectors such as hospitality and tourism. Hybrid forms of HR based on MNC and local form practices may occur in nomenclature, design, content and implementation processes (Horwitz and Mellahi 2009: 273-274).

There is some evidence of reverse diffusion. SAB Miller's (South African Breweries owns the US beer company Miller) jointly owned breweries in the Czech Republic and Poland have successfully implemented best operating practices and management know-how on systems, process and technology based on Japanese practices and its experience in emergent economies. A balance will need to be struck between indigenous responses to past rigidity of state-run enterprise practices and the clear need for high performance practices. This conclusion is consistent with Aguilera and Dencker (2004) who observe differing levels of integration across countries, ranging from no integration, to partial integration, to full integration. For example, firms in the US and the UK integrate their subsidiaries to a greater extent than do firms in Japan, Germany and France. Aguilera and Dencker (2004) in positing a strategic fit framework argue that although at a broad level practices such as skills development, pay-for-performance systems are common across market economy types, at a refined level there are non-trivial differences that HR has to manage for example a compensation system in the BP Amoco merger had to be redesigned because they differed significantly and a new job structure framework were established. Thus, even firms in countries within the same market economic type will experience

some degree of localization in HRM practices and policies and therefore need to adjust the role of HRM accordingly.

Although emerging markets have taken their place as global players, their success can in turn give rise to new risks. These include investments levels which test local infrastructure and social capital with a rising impact of skills shortages. According to The Economist Intelligence Unit (EIU) Report (2008: 11), there is an overall expectation for improved condition for investors over the coming years. In the HR area CEEC labour markets were positively rated by the EIU report, more so than other risk factors such as macroeconomic and infrastructural risks. More specifically, the EIU report (2008: 17) found that of some fifteen key factors in attracting and retaining top talent 'association with a company's brand/reputations in the market' received the higher response (51%) in Eastern European firms than in any other region. The second highest response was for 'international training and development' (34%) which was comparable to the highest scores for other regions. This suggests that the influence of globalization and MNC brands and opportunities for development offered by MNCs has become important in CEEC companies. Poland for example has one of the largest global copper mining companies. Some of its IT firms are also highly competitive in European markets. However, it is equally evident that not all practices valued by Western MNCs are considered as important by CEEC firms. For example share option/share incentive schemes received lowest support (6%) and company cars/allowance received higher support (10%) than in other regions as effective talent management practices.

Conclusion

As concluded by Zupan and Kase (2005) 'ETEs are not a completely homogenous group with regard to their HRM contexts and practices though there are enough similarities to allow a

conceptual model of strategic HRM in ETEs to be developed' (op cit p. 283). Similarly, Sahadev and Demirbag (2010) in assessing the impact of foreign ownership and European integration on convergence/divergence of employment practices in emerging European economies, found in two country blocs studies there was little divergence between firms in these blocs in respect of percentage of skilled workers employed. Our analysis supports Judge *et al*'s (2009) work which posits that 'strategies often emerge' within highly uncertain environments (Judge *et al*, 2009: 1741). These strategies require robust public policy and agile, adaptable HR strategies. Following Zupan and Kase (2005), the human resource research agenda especially but not exclusively pertaining to skills development in emerging markets will require flexible and proactive public policy, supportive institutions and regulatory environment and organization-level strategic interventions to enhance national and firm competitiveness.

Talent management research in transitional markets shows that professional workers at high skill levels in knowledge intensive industries rate the following as critical to work motivation, effective utilization and retention (Horwitz *et al*, 2006, Sutherland and Jordaan 2004): autonomy and opportunity to plan and control their own work, challenging, 'stretching' and stimulating work, collegial peer and boss relations, career development and personal growth, competitive, flexible remuneration, an 'engaging' culture with direct, informal communications, work-life balance and 'decent work'. However, in CEEC clear autonomy/decision making powers received 22 per cent support. This is comparable to Middle-East, North Africa and sub-Saharan Africa and Latin America but lower than Asia-Pacific region firms (EIU report 2008: 17).

Caution needs to be exercised in assuming that transitional economy HR practices can be readily diffused between across these markets themselves, never mind between established

Western markets and emerging markets. As positive indications of economic growth occur, concomitant social development and service delivery is clearly dependent on an ability to motivate and retain scarce skills, given that CEEC markets are short of specialized and professional skills required of competitive modern economies. According to the EIU survey, raising pay to above market rates was only the fourth most effective HR practice amongst Asian firms. This appears valid for CEEC markets too. In terms of HR strategy within the firm, the top three most effective HR practices all revolved around personal growth: increased training was first, using a mentoring system, second and personal-development road maps or plans third.

It would be instructive to assess the extent of convergence not only between Western European and Central and Eastern European countries and the influence of European Union regulations and institutions (Meyer and Peng 2005), but also how this manifests between Western MNCs and emerging local MNCs within CEEC markets. Regarding the former a further distinction should be drawn between European firms and those from countries such as the United States where HR policy and practice might be strongly driven by the Centre – the global headquarters. This makes the study of IHRM especially interesting in these transitional markets. There is much potential for knowledge adding as well as original longitudinal and comparative studies given the complexity and diversity in these markets. The fluidity and dynamic tension between conflicting historical and contemporary influences and the relationships between particular features of these political economies and IHRM policy and practice, makes this region an exciting one for new frontiers of IHRM research.

A deeper understanding of IHRM in transitional CEEC markets requires four levels of analysis – global MNC HR practice diffusion, the salience of European Union institutional and regulatory environment, national regulatory systems and firm-level strategic choice models.

Future research should consider the intersects or nexus of these analytical levels though multi-disciplinary comparative research; for example the extent to which skills formation, remuneration and employment practices are converging between labour markets.

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