

# The Transfer of Romanian Human Resources Management Practices in Multinational Companies

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## **Abstract**

*The field of international HRM as a specialist stream has enjoyed a massive increase in popularity in the last few years, as European integration draws ever closer and the internationalization/globalization debate gains momentum.*

*This article concerns the transfer of Human Resource Management practices by multinational companies (MNCs) to their overseas subsidiaries. It investigates how factors from the cultural and institutional framework of the Romanian impact on this transfer. Using data collected from MNCs subsidiaries located in Romania and local Romanian firms, we examine the degree to which several HRM practices in MNC subsidiaries resemble local practices.*

*Our empirical findings indicate that subsidiaries have adapted their HRM practices to a considerable extent, although some practices are more localized than others. Specifically, practices that do not fit well with Romanian culture or are in contrast to employee regulations show a low level of transfer. On the other hand, our interviews revealed that significant cultural changes are underway and that the institutional environment is gradually getting more relaxed, leaving more room to manoeuvre for MNCs.*

**KeyWords:** Romanian companies, Multinational Companies subsidiaries, transfer, human resources practices

JEL Classification: F23, M12

## **Background literature**

The legacy of centralized controlled economies in countries emerging from Communism was deeply rooted. In Romania, like in most countries in Central and Eastern Europe that were on soviet influence, management has been influenced by the strong concentration of power and control to the center. This affected the way companies are organized and managed. Considering the studies that were made on the investments done after 1990 on emerging markets we can notice some particularities. Here, like in Poland, Czech Republic or Hungary, there were special cases of acquisitions named *brown-field entries* (Meyer and Estrin, 2001). It is not like a Greenfield investment which gives the investor the opportunity to create an entirely new organization, but the companies that were acquired needed deep

restructuring at all level mainly also for the human resources. It facilitated quick access to local resources but the organization needed to be changed and training for employees was required. In some situations this restructuring was very extensive that it resembled a Greenfield investment. In the HR management studies that have been made in these countries such aspects are very important for the explanation of the particularities in these markets and cultures.

Human resource management has played a very significant role in international transactions and can be seen as part of the corporate strategy of the firm. Bartlett and Ghoshal (1991) have argued that HRM practices are becoming crucial because they can act as mechanisms for coordination and control of international operations.

The utilization of organizational capabilities worldwide provides MNCs with an important source of competitive advantage. The role of the corporate center in MNCs is generally assumed to be one of shaping the strategic direction of the organization and designing the strategic change programs pursued in the subsidiaries. The capability to effect internal cross-border transfers of HRM practice (along with the knowledge needed to link this practice into local organizational effectiveness) becomes a core competence. One of the ways in which this core competence is evidenced is through the process of "design influence" over local HR practice.

Two factors shape an organization's strategic international HRM system orientation: whether the parent company actually has a global (as opposed to multi-domestic) strategy or not; and whether top management believes that the HRM capability of the organization is a source of strategic advantage. The resulting orientation is of one of three types, the first of which results from a multi-domestic strategy and the second and third of which result from a global strategy as the organization develops (Sparrow et al, 2004, p.314:

- 1 *Adaptive*: seek to adapt affiliate HRM system to local conditions;
- 2 *Exportive*: seek to transfer HR policies that are seen as successful in the parent organization to the affiliates;
- 3 *Integrative*: focus on the transfer of best practice from wherever it might be found among affiliates in the organization.

A process of reform was initiated in Romanian subsidiaries by the MNCs covering both newly recruited staff in their own operations and the workforce they inherited through the purchase of local subsidiaries. 'Think global, act local' message made corporations realize that they would only be able to develop new markets by adapting or re-examining their existing products or services, so the need for genuine organizational learning on a global scale started to be in charge (Syrett and Lammiman, 2005).

For Romania the multinationals that are on the entry level are more similar to the model of MNC while the ones that have been here for a period are more "adapted" as for the *host country effect*, the influence of variables such as local culture, and legal, social, economic and political system, is bigger (Dowling et al, 1999). Despite this there have been significant changes at organization level considering Romanian joining the EU. There are more job offers available and from our study we can confirm that the employers' concern on personnel retention has increased also in the Romanian companies. More trainings and alternative ways of motivation are offered.

This article concerns the transfer of Human Resource Management practices by multinational companies (MNCs) to their overseas subsidiaries and how factors from the cultural and institutional framework of the Romanian impact on this transfer. Using data collected from MNC subsidiaries located in Romania and local Romanian firms, we examine the degree to which several HRM practices in MNC subsidiaries resemble local practices. We also looked to establish how far there has been a shift in personnel policies towards strategic human resource management.

## **Methodology**

### **Localization**

A percentage of 88% from the studied companies are located in the North East region of Romania and the rest of 12% are located in Bucharest. The sample is representative for the North East region of Romania. The MNC companies were selected considering their industries and employees number. The Romanian companies were selected on the same basis. The industries these companies belong to are: auto industry, food industry, clothes and footwear production, financial services, commerce, IT&C, pharmaceuticals and tourism.

### **Participants**

We collected data from HR responsible in MNC subsidiaries and Romanian companies. We received a total of 102 complete questionnaires, 52% were collected from MNC subsidiaries and 48% from Romanian companies. Regarding their employees number 35.3% are companies with up to 100 employees, 37.2 % companies with 100-500 employees, 27.55 % with more than 500 employees. In our survey we considered the companies that develop HR strategies and have at least one person in charge of HR. The sample is not representative for the total Romanian companies but it is representative for the companies in the North East region. From the 200 gathered questionnaires, 98 of them had information missing, sections of the questionnaire had not been answered.

### **The procedure**

The main information sources were the applied questionnaires in multinationals and Romanian companies as well as the observations made in these companies. The items of the questionnaire were developed from the Price Waterhouse Cranfield questionnaire (Brewster, Hegewisch 1994), mainly from the section regarding the human resource strategy. The questionnaires were filled in, in researcher's absence. The direct channel was formed by postgraduate students that work in those companies. All the questionnaires were addressed to the HR managers. There were consider the questionnaires that had been filled in entirely by managers. The collecting data process lasted a period of 2 months in May-June 2007. From 200 collected questionnaires we considered for our study 51% which were complete.

### **Measure**

Some items were used in order to measure dependant variables such as: strategic instruments in HRM, HRM practices (planning, recruiting, selection, performance evaluation, HR development, IT for HR). The answer scale is the close type made of answers to choose from. The common element discovered in Romanian companies and MNC is

organizational culture. We used the *independent t sample test* to find the significant differences for the two groups of companies.

### Hypotheses

Some studies (Prodan et al, 2001) show that, in Romanian companies, control and power are concentrated at top management level and this affects also the HRM developed in companies. Mainly authority delegation is reduced because of the managers' wish not to lose control.

H1. There is a connection between the development of strategic management in Romanian companies and subsidiaries

The ever-changing nature of internal and external factors forces companies to adopt strategic management in order to survive not only in the short term, but also in the long term. Strategic management practices were transferred by the MNCs worldwide to their subsidiaries and also influenced the management in the Romanian companies. The study analyzes whether there has been a shift in personnel policies towards strategic human resource management. We analyze how far personnel policies are planned, how coherent and interactive they are with corporate strategies and what developments are taking place in areas such as recruitment, training and remuneration.

H2. HRM practices in subsidiaries are affected by Romanian practices.

One of the central questions in MNC literature is the extent to which subsidiaries adapt their practices to local circumstances and behave as local firms (*local isomorphism*) versus the extent to which their practices resemble those of their parent company (*internal consistency*). Since the HR function deals with human resources and hence is confronted with differences in culture and local regulations to a larger extent than for instance the finance or production function, it will tend to be more localized than most other functional areas. Companies do learn from local differences, most of this learning remains within country borders: subsidiaries identify local needs, but also use their own local resources to meet these needs. Bartlett and Ghoshal call this local-for-local innovation.

H3. The role of line managers as decision makers in human resources management has increased both in MNCs subsidiaries and local companies.

A team at Bath University carried out a research for the CIPD and found out that front line managers play a central role in terms of implementing and enacting HR policies and practices (Hutchinson, S. and J. Purcell, 2003). They found that where employees feels positive about their relationship with their front line managers they are more likely to have higher levels of job satisfaction, commitment and loyalty which are associated with higher levels of performance or discretionary behavior. Discretionary behavior is defined as that which goes beyond the requirements of the job to give that extra performance which can boost the bottom line. Line managers also play the strongest part in structuring people's actual experience of doing a job. All these ideas conduct to the necessity that line managers can participate in the decisional process for human resources issues.

H4. There are resemblances between local companies and MNCs subsidiaries regarding the involvement of the human resources responsible in the development and implementation of the human resources strategy.

Considering the high power distance as a characteristic of the Romanian culture (Bakacsi G. et al, 2007) and the leadership style of the Romanian managers we assume that the human resources responsible is mainly involved in implementing the strategy rather than participating in the creation of it.

## **Results and discussion**

HRM has had a late development in Romania. The Romanian training company Interact made a survey on Romanian employees which results are developed in a book named *Employeescu* by Adina Luca. The first part of the book presents this study on Romanian employees, designed after the method Value Survey Module 94 of Geert Hofstede (Hofstede, 1996). According to this study recruitment is subjective and slightly formal; the selection is centralized and is often linked to friends and family members. Academic qualification is important but it is not always asked for, while the experience and references play a significant role when hire. The wages are connected with national wage level. Promotion is on the basis of family bounds, age and politic relations. The evaluation of performances is influenced by personal relations; the managers do not give feedback to their employees in order not to create fear, tension. This is why evaluations cannot identify the development needs of the people. HRM practices are according to cultural values of society.

Our study empirically verified the Hypotheses. For the first Hypotheses the analysis we made points several significant differences and similarities in some HRM practices. The mission statement, corporate strategy and human resource strategy are strategic management tools. Though these tools were several years ago associated with MNC, the local Romanian companies have been lately realizing that these elements can play an important role in realizing their long-time strategic objectives. Still there is a major difference in using these tools between local companies and MNC' subsidiaries as shown by our survey.

In MNC more than 60% have the corporate strategy, mission statement and human resource strategy established and written while only 35% of the Romanian local companies have these elements of strategic management established and written. It is still a consequence of Romanian companies reduced preoccupation for this kind of management.

The HR responsible is involved from the beginning in companies' corporate strategy in the same percentage in local companies as well as in MNC (32.76% from local companies and 32.86% from MNC subsidiaries). There is not a strong correlation between the existence of human resources strategy (written or not) and the ways the HR responsible is involved. Mainly the HR responsible is involved from the beginning and has a role in implementing the strategy, rather than being consulted for the strategy development. For local companies some explanation can be found considering the directive style of leadership of the Romanian managers. For the MNCs the strategy comes already made from the headquarters and it is locally implemented. The HR strategy is transposed in objectives and specific deadlines for the HR department with 10% more in MNC than in the local companies. There is

also a slightly difference in planning the human resource in a way that the percentage of companies that plan their HR is bigger for the subsidiaries as compared to local companies. The HRM decisions are distributed according as in the following table:

**Table 1: The distribution of decisions on the HRM issues**

| Decisions                 | Line manager |       | Line manager in consultation with HR dept |       | HR department in consultation with line manager |       | HR department |       |
|---------------------------|--------------|-------|---|-------|---|-------|---------------|-------|
|                           | S (%)        | N (%) | S (%)                                     | N (%) | S (%)   | N (%) | S (%)         | N (%) |
| Pay and benefits          | 34.55        | 46.00 | 29.00                                     | 24.00 | 10.00   | 18.18 | 18.18         | 20.00 |
| Recruitment and selection | 14.29        | 22.64 | 39.29                                     | 24.53 | 28.30   | 17.86 | 28.57         | 24.53 |
| Training and development  | 20.00        | 22.92 | 29.09                                     | 31.25 | 16.67   | 29.09 | 21.82         | 29.17 |
| Working relations         | 27.45        | 34.69 | 17.65                                     | 22.45 | 18.37   | 19.61 | 35.29         | 24.49 |
| Health and safety         | 16.98        | 30.43 | 24.53                                     | 23.91 | 21.74   | 16.98 | 41.51         | 23.91 |
| Workforce reduction       | 22.22        | 42.00 | 33.33                                     | 28.00 | 14.00   | 16.67 | 27.78         | 16.00 |
| Average                   | 22.53        | 33.11 | 29.01                                     | 25.68 | 18.24   | 19.75 | 28.70         | 22.97 |

**S**=Subsidiaries    **N**=local, national-Romanian companies

Source: Data collected from the questionnaire survey

Taking into consideration **line management**, between the two groups (MNCs and local companies) significant differences are registered in *recruitment and selection* ( $p=0,018$ ), *health and safety* ( $p=0,006$ ) and *workforce reduction* ( $p=0,000$ ). The extreme results are registered for *training and development* ( $p=0,682$ ) the smallest differences, and *workforce reduction* ( $p=0,000$ ), the biggest differences between the two groups. The factors: *pay and benefits* ( $p=0,060$ ) and *working relations* ( $p=0,078$ ) have differences for the two studied groups but these are not statistical significant.

Comparing the decisions made by **line manager and HR department as consultant** significant differences for the two groups of companies are only for *recruitment and selection* ( $p=0,003$ ), all the other factors have not significant differences. On the first place it is *training and development* having the smallest differences ( $p=0,927$ ) between groups.

When the decisions are made by **HR department and line management consultant** the differences for the two groups are on the following factors: *training and development* ( $p=0,001$ ), *recruitment and selection* ( $p=0,003$ ) and *pay and benefits* ( $p=0,013$ ). The other three factors do not register significant statistical differences, the smallest differences are recorded for *working relations* ( $p=0,898$ ).

Having the **HR department** or responsible as a single decision maker, the differences between MNC and local companies are registered for *health and safety* ( $p=0,000$ ), *workforce reduction* ( $p=0,004$ ) and *working relations* ( $p=0,038$ ). The other factors do not register significant

differences, the smallest difference being for *pay and benefits* (p=0,699).

In the last 3 years there has been an increase in line managers' responsibilities concerning pay and benefits, recruitment and selection and health and safety at work. The indexes that we used in order to evaluate HRM department have recorded significant differences in favor of international companies for the item numbers recruited which is superior ( $\Delta=5\%$ ) to the national ones. Significant differences between the studied groups are registered for *pay and benefits* (p=0,003) and *recruitment and selection* (p = 0,003), the other answers did not lead to significant statistical differences. For these decisions the role of line managers in the MNCs has increased given the need to better adapt to the local labor market and employees demands.

The human resource planning in Romanian local companies is focused more on recruitment in order to maintain the current staff ratios while MNC consider more the analysis of labor markets. By monitoring of current changes on specific employees groups there have been registered in the last 3 years the following: in the MNC women promotion has increased twice more than in local companies, the people with disabilities group has registered very slow progresses in what concerns recruitment, promotion and training in both kinds of studied companies.

**Table 2: Comparative data on HR recruiting methods used for managerial, administrative and manual positions**

| Recruitment method                            | Managerial |       | Technical |       | Clerical |       | Manual |       |
|---|------------|-------|-----------|-------|----------|-------|--------|-------|
|   | S (%)      | N (%) | S (%)     | N (%) | S (%)    | N (%) | S (%)  | N (%) |
| From amongst current employees                | 84.91      | 79.59 | 47.17     | 36.73 | 41.51    | 40.82 | 37.74  | 38.78 |
| Newspaper advertisements                      | 35.85      | 24.49 | 58.49     | 61.22 | 60.38    | 63.27 | 73.58  | 75.51 |
| Lobby, relations                              | 1.89       | 6.12  | 0.00      | 6.12  | 1.89     | 8.16  | 11.32  | 8.16  |
| Governmental agencies                         | 9.43       | 2.04  | 28.30     | 16.33 | 33.96    | 16.33 | 41.51  | 24.49 |
| Private recruitment companies                 | 30.19      | 16.33 | 7.55      | 12.24 | 9.43     | 4.08  | 11.32  | 12.24 |
| Internet                                      | 32.08      | 16.33 | 39.62     | 20.41 | 37.74    | 22.45 | 49.06  | 32.65 |
| Apprentices                                   | 1.89       | 4.08  | 9.43      | 8.16  | 13.21    | 6.12  | 39.62  | 32.65 |
| Company presentations in schools/universities | 16.98      | 2.04  | 26.42     | 8.16  | 15.09    | 6.12  | 39.62  | 26.53 |

**S**=Subsidiaries **N**=local, national-Romanian companies

Source: Data collected from the questionnaire survey

In local companies, the staffing requirements is planned for very short periods up to one year while in the MNC the planning is done for more than 2 years. IT technologies play a very important role in modernizing HRM activities. There are significant differences between local companies and MNC's subsidiaries in the way that MNCs are valorizing better IT functions by introducing it in activities such as: training and development ( $p=0.003$ ), performance appraisal ( $p=0.031$ ) and job evaluation ( $p=0.045$ ).

We found that the extent of annual paid time off, which is usually determined by local legislation, was far more likely to resemble local practices than the extent to which bonuses are used in executive compensation. The differences in recruitment measures in MNC and local companies have similarities and differences on HR categories.

As indicated in the previous table, there are differences for the recruiting of managers using *company presentations* ( $p=0.011$ ), for the technical personnel using the *internet* ( $p=0.035$ ) and *company presentations* ( $p=0.015$ ). For the clerical there is a difference for governmental agencies ( $p=0.042$ ). No significant differences were calculated for manual workers. The selection methods used in MNC are more focused on references and application forms while the local Romanian ones which use more the interview and CV but again there are no statistical significant differences.

The training needs are more assessed in MNC (81%) while in local ones only 61%, still an increase comparing to the previous years. If we compare the training areas to be covered the *business administration and strategy* ( $p=0.043$ ) and *manufacturing technology* ( $p=0.018$ ) are more demanded in MNCs subsidiaries. *Marketing and sales* is the area with the smallest difference ( $p=0.939$ ) and is a necessity for local companies even if the interest for employees' development in local companies is still low.

## Conclusions and implications

In this study we examined the degree to which several HRM practices in MNC subsidiaries resemble local practices. The considerable degree of HRM transfer and adaptation to the globalization of the market lead to the use of HRM practices in Romanian companies. There are some differences between the local companies and subsidiaries but this shows that there is a continuous flow of practices among them. The study emphasizes that there is a connection between the development of strategic management in Romanian companies and subsidiaries. There has been a shift in HR policies of the subsidiaries and of the Romanian companies towards greater coherence and interaction with corporate strategies.

Results indicate that subsidiaries have adapted their HRM practices to a considerable extent, although some practices are more localized than others. Specifically, practices that do not fit well with Romanian culture or are in contrast to employee regulations show a low level of transfer. On the other hand, our interviews revealed that significant cultural changes are underway and that the institutional environment is gradually getting more relaxed, leaving more room to manoeuvre for MNC.

Such observations can be of considerable importance to HRM practice. Our results can be valorized by MNCs when making decisions about

practices that were already transferred and which practices have to be adapted to some degree. Also the changing environment leads us to the conclusion that there should be a constant research and evaluation of which practices are best suited to a specific socio-cultural context at a certain period.

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