

# 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 MNC 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 man oeuvre for MNC.*

**Keywords:** Human Resource Management, Multinational Companies, transfer, culture, institutions, Romanian

## **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 management studies that are made in these countries these aspects are very important as they explain the particularities of these markets and cultures.

Human resource management has played a very significant role in international transactions and can be seen as part of the overall 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:

- 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. (Sparro et al, 2004, p.314)

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 alternatives 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 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, goods 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 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.

### **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 data were collected through Price Waterhouse Cooper questionnaire (Brewster, Hegewisch and T. Learning, 1993). 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 considering 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%.

### **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.

## 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.

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.

## 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 *Employeeescu* 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. 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.

The analysis we made points several significant differences and similarities in some HRM practices. The mission statement, overall 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 overall 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' overall strategy in the same percentage in local companies as well as in MNC. 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 & HRM consultant		HR Manager	
	S (%)	N (%)	S (%)	N (%)	S (%)	N (%)
Pay and benefits	34.55	46.00	29.00	24.00	18.18	20.00
Recruitment and selection	14.29	22.64	39.29	24.53	28.57	24.53
Training and development	20.00	22.92	29.09	31.25	21.82	29.17
Working relations	27.45	34.69	17.65	22.45	35.29	24.49
Health and safety	16.98	30.43	24.53	23.91	41.51	23.91
Workforce expansion/reduction	22.22	42.00	33.33	28.00	27.78	16.00
Average	22.53	33.11	29.01	25.68	28.70	22.97

S=Subsidiaries N=local, national-Romanian companies

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.

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.

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. Our research show that MNC better valorized IT functions by introducing it in activities such as: training and development and performance appraisal.

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.

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

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

S=Subsidiaries N=local, national-Romanian companies

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. The training need are more assessed in MNC(81%) while in local ones only 61%, still an increase comparing to the previous years.

Still the interest for employees' development in local companies is low. The training areas demanded are sales and marketing.

**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.

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 man oeuvre 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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