

**Compensation Systems in Central and Eastern Europe: A Case Study of
Multinational Corporation Subsidiaries in the Czech Republic, Poland and
Hungary**

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ABSTRACT

This article presents the results of an embedded multiple case study of compensation practices in the subsidiaries of a multinational corporation (MNC) in the Czech Republic, Poland and Hungary. Based on institutional, path dependency and efficiency perspectives, we analyse the impacts of European and national legislation, trade unions, the professionalisation of HR functions and specific labour market conditions on compensation practices in Central and Eastern European (CEE) countries. The results indicate the limited impact of regulative environments and trade unions on the discretion of international employers to introduce specific compensation elements. Simultaneously, the strong influence of company-specific, labour market and normative variables is identified. The results of the study have been used to develop testable propositions, presented in a model of the adoption of compensation practices in CEE.

INTRODUCTION

New Central and Eastern European (CEE) member states have witnessed a dramatic transformation from their previous state-socialist institutional settings towards a market economy. Human resource management (HRM) practices in all types of organisations have been affected strongly by changing ownership, management and employment structures as well as industrial relations contexts. As a result, pay systems have also undergone a radical transformation.

Although HRM in CEE countries is often considered one of the most prominent emergent research themes in the 21st century (Scullion, Collings, & Gunnigle, 2007), academic work in this field is still rare (for an exception see Morley, Heraty, & Michailova, 2009). While there are a number of examples of quantitative surveys and qualitative work with respect to compensation practices in this area, a comprehensive analysis of institutional factors influencing pay practices, taking into account the fragmented character of post-socialist capitalism (Martin, 2008), is lacking. This represents an important challenge for research and a practical problem for firms active in this region.

The present study addresses this research deficit by analysing empirical evidence from three CEE European Union (EU) member states: the Czech Republic, Poland and Hungary. Data on the development of compensation practices has been collected in subsidiaries of an MNC in these countries and thus covers the international segment of the local economies. In accordance with the analytical framework proposed by Festing and Sahakiants (2010), possible institutional influences stemming from the EU, local governments, trade unions, the professionalisation of HR functions and path dependencies with respect to management practices in enterprises during the state-socialist period as well as efficiency pressures resulting from local labour market specificities are discussed.

The article is organised as follows. First, we outline the theoretical background, which is followed by an introduction to the case study including a description of the particular environments and factors influencing compensation systems in the Czech Republic, Poland and Hungary. In the discussion part of the article, the authors summarise the key findings with respect to the distinct field of compensation management in MNCs' CEE subsidiaries and present a set of testable propositions summarised in a model depicting influences on the process of the adoption of compensation practices in the CEE region. In the conclusion, the authors illustrate the limitations of this study and avenues for future research, and discuss possible implications for practice.

THEORETICAL BACKGROUND

After 1989 the countries of the CEE region experienced a dramatic transformation in their political, social and economic systems. Macro-level phenomena such as a rapid privatisation process, the inflow of foreign direct investment (FDI) and the market orientation of local economies induced a change of management systems at the micro-level. However, organisational practices in this region still seem to be determined by the institutional baggage of pre-transformation practices (Roth & Kostova, 2003). Moreover, according to Greenwood and Hinings (1996), the analysis of change dynamics should also include the market context. Taking into account these influences, in our analysis of the transformation of compensation systems as one of the key organisational practices, we explicitly consider the limited applicability of institutional theory to immature and thus less stable institutional environments (Newman, 2000).

Path Dependency

An important feature of CEE capitalism models is their fragmented character, as identified by Martin (2008). He differentiated between four segments of so-called *post-*

socialist capitalism: state-owned enterprises (SOEs), privatised firms, de novo companies (established during the transformation period) and the international segment. An analysis of different segments is important in explaining compensation practices in CEE organisations for several reasons. Firstly, as indicated by Brewster, Wood and Brookes (2008), ownership types, at least as a dichotomy between local and international companies, significantly influence the choice of organisational practices. Roth and Kostova (2003) confirmed the significant impact of ownership type on organisational practices specifically in CEE transformation economies due to a varying degree of embeddedness in the previous institutional setting. Secondly, Cooke (2004) called for a differentiated approach even in the analysis of companies belonging to the international segment and to the determinants of the adoption of ‘Western’ and local—notably those previously used by SOEs—organisational practices. Thus, we argue that different segments are expected to be associated with different degrees of embeddedness in pre-transformation employment relations. Consequently, the transformation of organisational practices within these segments is influenced to varying degrees by pre-transformation employment systems. Table 1 presents different levels of such embeddedness spread between two extreme cases: SOEs are supposed to be highly embedded in socialist employment relations, but it is less so for the international segment. These arguments reflect the notion of path dependency, which in this study refers to “the extent to which pre-transformation employment systems influence current compensation practices” (Festing & Sahakiant, 2010: 208).

Insert Table 1 about here

Efficiency-based Arguments

In the past, one of the major features of centrally planned CEE economies was significant homogeneity across levels of compensation, irrespective of the formal qualification (Flanagan, 1998). To date, supply and demand for a specific qualification on the labour market seems to have a major impact on the pay level. If, for example, secretaries able to speak two foreign languages are scarce, their salary could be much higher than that of a technical specialist who does not have such a scarce qualification (Poór & Engle, 2005). This delivers evidence for market-based considerations of compensation practices in CEE countries, which reflects the specific situation with respect to supply and demand for certain qualifications in this region.

Institutional Isomorphism

According to the institutional approach, organisational structures and performance are affected by the relevant institutional environment (for a summary of research on this topic cf. Scott, 2001: 151-180). Following the argument of the importance of social legitimacy, DiMaggio and Powell (1991) emphasised the significance of mechanisms of institutional isomorphism featuring coercive, mimetic and normative pressures.

Coercive Isomorphism reflects forces stemming from legal regulations. It has been suggested that, besides direct government regulations, the European Union constitutes the main source of coercive pressure in this region (Czaban, Hocevar, Jaklic, & Whitley, 2003). However, while there are legislative acts at the European level for other HRM topics, e.g. concerning working time and working conditions, legal recommendations on wages, salaries or financial participation schemes are still lacking. As the previously strong role of the state in determining wages and salaries has diminished, labour legislation in CEE countries to date can be characterised by a tendency towards liberalisation.

A second important coercive isomorphic pressure with respect to HRM can be attributed to trade unions (Hayek, 1980). However, it has been argued that due to their role in the former centrally planned economies they still lack legitimacy as the representatives of employees. Although trade unions played a major role in the distribution of social benefits prior to the transformation, their current impact on HRM practices, and especially compensation, seems to be rather limited either due to their continuing passivity (Aguilera & Dabu, 2005) or weakness (Gennard, 2007).

Mimetic isomorphism is characterised by imitation processes. In situations of uncertainty, i.e. when the impact of a certain organisational practice on goal achievement is not clear, organisations tend to reproduce measures used by other (successful) organisations. With respect to compensation, the transfer of *best practices* may include pay-for-performance or stock ownership schemes. Poór and Engle confirm this by stating that companies in this region are “mimicking ... common West European and US pay practices” (2005: 5). As there is no common understanding of such practices, we define Western or modern pay design as containing both monetary compensation elements linked to individual productivity and output quality as well as company performance and non-monetary components of total rewards aimed at increasing motivation and employee qualification. Pay-for-performance or stock-based compensation schemes are typical examples of the former, while quality of work or training programmes are often implemented as part of the latter rewards. However, empirical evidence on modern pay practices in CEE countries is rare. We therefore assume that subsidiaries of MNCs are more likely to mimic best practices implemented at the company headquarters or other subsidiaries.

Normative isomorphism can be analysed from various perspectives. On the one hand, it is often referred to as stemming from prevalent “values, beliefs, norms and assumptions ... in a given country” (Kostova & Roth, 2002: 217). For instance, Balkin (2008) suggests that

high CEO pay can be explained by normative attitudes towards income inequality expressed through values such as individualism (Hofstede, 1980). On the other hand, normative isomorphism is also seen as the result of professionalisation (DiMaggio & Powell, 1991).

Scott (2001) points out that there is a multitude of normative aspects in a given society. We assume that during the institutional transformation process there are two competing influences: path-dependent values, norms and expectations and new embryonic values, norms and expectations characterising a high performance context. In this study, however, we distinguish between path dependency as the impact of pre-transformation organisational practices and normative isomorphism, which promotes Western-type organisational practices and structures. Thus, as suggested by Festing and Sahakiantz (2010), we separate the analysis of path-dependent factors from normative isomorphism in the form of the professionalisation of the HR function, which has a crucial role in designing compensation practices and strategies, for example, in the decision as to what extent modern pay practices are adopted.

While in CEE countries we can observe a reported minor legitimacy and a low strategic importance of the HR function in the majority of enterprises (Koubek, 2009; Poór, 2009; Poór, Karoliny, & Farkas, 2007; Zupan & Kaše, 2005), along with the insufficient qualification of the majority of HR professionals (Koubek, 2009; Zupan & Kaše, 2005), this does not seem to be the case in most Western MNCs. On the contrary, the discussion on country-of-origin effects has indicated that MNCs attempt to transfer successful HRM practices from headquarters to their subsidiaries (Edwards, Colling, & Ferner, 2007). Based on this argument, it can be assumed that the high importance of the HR function at the headquarters may positively influence the importance of the local HR department in the subsidiary and thus its decision-making authority and propensity to promote modern compensation practices.

METHODOLOGY OF THE CASE STUDY

Due to the limited empirical evidence on compensation practices in the CEE region and the necessity to explore path dependencies, which involves retrospective research, this study follows a qualitative logic. This involves an in-depth, multiple embedded case study (Yin, 2003), which enables the generation of new knowledge. Here, the theoretical background including institutional influences, path dependencies and efficiency-based consideration serves as a basis for addressing “theory-driven research questions that extend existing theory” (Eisenhardt & Graebner, 2007: 26).

The case study was conducted at the subsidiaries of a large North-American MNC (called *ABF International* in order to maintain anonymity) in the Czech Republic, Poland and Hungary. These subsidiaries belong to the division operating in the field of transportation equipment manufacturing. By conducting a multiple case study, which includes subsidiaries of one MNC, we were able to control such variables as global company strategy and industry traits. For instance, in all the countries studied the MNC used the same initial market entry mode, namely acquisition.

Data for the case study on the MNC were gathered using a combined data collection method. Basic information was collected through twelve semi-structured interviews with managers at the Global Compensation and Benefits Department and vice-president at the Division Headquarters, HR Directors, representatives of top management, two trade union leaders and a works council president at the respective subsidiaries, as well as with an employee of the shared-services unit responsible for compensation and benefits. Thus, instead of aiming at a large number of respondents, we performed our study based on the interviews given by the most informed stakeholders with respect to compensation systems. The interviews were recorded digitally, transcribed and subsequently analysed using NVivo Software. In addition, secondary data such as internal company presentations and annual

reports were analysed. These datasets included facts about the company, the corporate strategy, the HR strategy and global HR policies and practices. This type of triangulation was used to enhance the validity of the data.

The results were analysed, focusing mainly on measurement validity. In order to assure external validity, i.e. to guarantee that respondents and researchers used the same language and that the researchers interpreted the documents correctly, the case was proofread repeatedly by the Head of HR of a local subsidiary and discussed with a corporate executive responsible for HRM in the respective division of ABF International. To ensure internal validity, each of the authors first analysed the data independently from each other. Then interpretations were combined in order to describe the final results of the case study.

RESULTS

Both ABF International subsidiaries were large production sites during the state socialist period. They were privatised in the 1990s and acquired by ABF International between 1998 and 2005. Currently, the subsidiaries of ABF International are producing sophisticated, large metal constructions for further assembly into an end product as well as transportation equipment for supply to final customers. Situated in industrial locations, the subsidiaries currently employ between about 750 and 850 internal employees each and a significant number of contract workers amounting up to 300 people. Each of the subsidiaries studied is among the most important employers in the region.

The Context of the Countries Studied

All the CEE countries studied were, until 1989, centrally-planned economies and socialist republics belonging to the Council for Mutual Economic Assistance (COMECON). These states have witnessed the rapid transformation of their political, legal, economic and social environments over the last two decades. Nowadays, the countries have representative

democracy systems and market economies. In 2004, all of them became member states of the European Union.

Three main features of the local labour markets were indicated by the interview partners:

1. Significant differences in pay levels between various regions of the countries studied became evident, notably between capital cities and provincial towns. These significant pay differences were a major challenge with respect to personnel recruitment including top-level managers. In the case of Hungary, it was stated that the compensation packages for top managers were comparable to pay levels in Budapest, the capital city.
2. Two different effects were observed with respect to labour mobility in CEE countries. On the one hand, labour mobility within national borders was very low, one of the reasons for which could be the path-dependent attitudes of the working population. In centrally planned economies, labour mobility was significantly hampered by housing policy (Buckley, Hendershott, & Villani, 1995) inasmuch that houses and flats were distributed by the authorities in a situation of extreme demand and used by management to attract and retain employees.

This was a way to stabilise the employee numbers, because in the past the turnover was very high and if the factory offered a flat, there was a chance to stabilise 60-70 per cent of personnel here and build a core team at the company (Deputy Director, ABF Poland).

In Poland and Hungary, low internal labour mobility was in sharp contrast with the reported high international mobility of the skilled workforce:

People are mobile if you are talking about moving to the UK, Ireland or to Germany, but they are not mobile if they are to change their place of residence within Poland (HR Director, ABF Poland).

3. There was a scarcity of a labour force with certain qualifications, especially with respect to employees with a combination of technical and foreign language skills. This scarcity was not only a direct consequence of the first two features, but also seemed to be a result of lacking international contacts under state socialist regimes beyond the countries belonging to the COMECON.

Compensation System at ABF International

Standardisation vs. Localisation. As an MNC with a global presence, ABF International implements elements of a universal rewards policy. These include standardised compensation packages for ABF corporate executives worldwide, including stock-based long-term incentives (LTI), universal key performance indicators (KPIs) and a framework for managing the compensation system. The latter includes standardised annual salary increase approval procedures. Moreover, salary levels all over the globe and for all groups of employees are set at the market median levels.

Localised compensation practices. The compensation of local employees, often including local top management, falls under the exclusive responsibility of the local company's management. Pay packages are determined in accordance with collective bargaining agreements with the local trade unions. Information on market pay levels as well as the prevalence of benefits is provided by several leading management consulting companies. Table 2 presents performance-related compensation elements and non-monetary rewards in all the countries studied.

Insert Table 2 about here

As shown in Table 2, compensation systems at CEE subsidiaries of ABF International are quite different with respect to pay-for-performance schemes and non-monetary compensation elements. In Poland and Hungary the variable pay for non-management employees is calculated based on both quantitative and qualitative indicators. In the Czech Republic, individual pay-for-performance plans for non-management employees have a reverse incentive nature (Milkovich & Newman, 2008). This means that the direct superior, who is responsible for determining the level of individual incentives, has the authority to reduce the incentive in cases of poor performance or discipline at work.

In addition to the fixed and variable parts of compensation, the local company's management provides various allowances ranging from retention bonuses to housing allowances. Non-cash compensation elements include employer contributions to a private pension plan, a company sponsored life insurance programme, annual flu vaccination, a subsidised canteen service and vouchers for medical products and services. A special feature of social benefits provided by the subsidiary in Poland is the company social fund, which all enterprises need to set up in accordance with legal regulations. In Poland, this fund is set up from employer contributions and can be used both for monetary payments and for subsidies, e.g. subsidised holidays.

Neither of the local subsidiaries of ABF International offers stock ownership plans for local employees.

Influence of path dependency on local compensation practices

Pre-transformation compensation practices. Compensation systems at enterprises during the state socialist period were characterised by centrally planned wages, significant bonuses and a variety of social benefits provided to employees.

Both Polish and Czech factories implemented performance-related compensation systems prior to transformation. The employees were interested in over-fulfilling the plans and thus in securing additional income to rather low centrally planned wages. At the same time, the over-fulfilment of plans was regarded as a normal phenomenon with respect to both personal and company performance:

It was impossible for a state-owned company not to fulfil the plan. It was always obvious that the plan will be at least fulfilled (Shop steward, ABF Czech Republic).

According to the representative of the Polish trade union, the distribution of more difficult and thus better paying jobs, according to the approved technological cards, was lacking transparency and depended on personal relations:

He [leader of the production group] was distributing technological cards to the foremen and, of course, the foremen were leaving the best paid jobs to themselves and then distributing the rest among their friends. And the newcomers, the new employees, were, of course at the very end (Trade union representative, ABF Poland).

On top of the performance-related bonuses, the employees were enjoying considerable monetary allowances. The Deputy Director of ABF Poland, who held a management position prior to transformation, stated:

I see the biggest difference between the past and today in the structure of pay, the proportion between the regular salary and bonuses. In the past, the bonuses or additional allowances sometimes amounted to 50 per cent of the total gross salary (Deputy Director, ABF Poland).

Some of these allowances are quite common in Western companies, e.g. harmful working conditions allowance, an allowance for performing hazardous work, functional allowances or a thirteenth month salary. However, some allowances such as for self-control or additional duties such as serving breakfast to the employees are quite peculiar to the pre-transformation compensation system. Probably the most controversial allowance was the coal allowance in Poland, which was provided to employees on a monthly basis to heat their homes and sometimes amounted to 10 per cent of their basic pay.

Moreover, there was a special annual premium distributed by the team leader in Poland out of the wage fund. Again, the distribution system was lacking transparency:

There were no criteria he [leader] was basing this on; it was just his will and his subjective approach (Trade union representative, ABF Poland).

In addition to monetary compensation, there was a large social network owned and provided by the factories during the state socialist period:

There was a kindergarten owned by the factory, there was a medical centre, there was a doctor in every department on the company payroll. The company owned recreation centres at the seaside, and if you wanted to go on a summer holiday you needed to pay just a fraction of the regular price... All the employees who were working at these facilities were employees of the factory, even a cook at the seaside location (Trade union representative, ABF Poland).

These benefits were managed by the Social Matters Department and came mostly from the company's social fund. Indeed, social funds were obligatory at all Polish enterprises during the state socialist period (Weinstein & Obloj, 2002) and represented an important feature of pre-transformation employment relations in other Eastern bloc countries (Aczel, 2005; Stasek, 2005).

All these additional allowances and social benefits were used by company management to attract employees:

In the past, the wages were one factor. It was the information that we pay per hour [piece-rate system based on planned hours per operation]. The second one was additional allowances. And thirdly, additional social benefits. It was the information that we had a swimming pool, a kindergarten, a recreation area, our own transport, buses (Deputy Director, ABF Poland).

In this respect, the representatives of top management at the ABF subsidiaries studied emphasised the importance of housing as a social benefit:

And, I think, a very important additional aspect is that our factory—as a lot of companies in Poland—offered flats. After two, three, five years of work there was a chance to receive earlier than normal a standard flat. It was a huge advantage, because only big companies could afford that. At the peak period we had more than 700 flats (Deputy Director, ABF Poland).

Thus, housing was probably one of the most significant—or even the most significant—tool for attracting employees:

It was normal that well-performing employees received a flat free of charge if they changed their employer (General Director, ABF Czech Republic).

Path dependencies of current compensation practices. Current pay systems do not seem to bear any explicit features of the pre-transformation systems. According to the interview partners, this is due to the inefficiency and overall low attractiveness of the previous systems: rather low centrally planned wages, instability of income within the piece-rate system, low health and safety standards, increased injury risks due to the constant pursuit of over-productivity and a non-transparent incentive distribution system. However, some elements of the compensation systems seem very similar to those prevalent in the pre-transformation period.

As indicated by the HR Director of the Polish subsidiary, the social fund is the most prominent system to survive from the pre-transformation period:

The most important feature from the old times is still the social fund and the benefits you can get from the social fund. The employees appreciate it and it is quite important for them. In addition, the trade unions are really active in that aspect as well.

Nowadays, it is required by the Polish law enacted in 1994 to set up such a social fund at Polish enterprises employing more than 200 employees. However, as described by the representative of a trade union at ABF Poland, the structure and allocation of the resources of the current social fund differ from those prior to transformation:

Of course, the benefits financed from the social fund were different because of all these facilities we had, so the disposition of the social fund was mostly related to those facilities. There were employees responsible for the management of this fund (Trade union representative, ABF Poland).

These days, the financial resources of the social fund are used for additional payments, depending mostly on the per capita income of employee family members, including financial

aid and Easter and Christmas bonuses. The Christmas bonus is a replacement for the thirteenth month pay that existed prior to ownership change. However, there is no legal obligation to establish a company fund in the Czech Republic and there is no such fund in the Czech subsidiary. Nonetheless, according to the shop steward at the Czech enterprise, this system is still often implemented by SOEs in the Czech Republic.

In the Czech Republic, with respect to social benefits and prerequisites constituting a significant part of the total compensation at state socialist enterprises, several interview partners indicated the absence of specific expectations of employees in this field. They seem to be aware of the fact that a company operating in a market economy cannot afford its own social network of facilities, as prevalent during the pre-transformation period. The reasons for the provision of current benefits are either efficiency-driven or a response to institutional pressures. Indeed, subsidised meals or private insurance plans are also widespread in Western enterprises. At the same time, vouchers for medical products and annual vaccinations are a response to local regulations.

However, very similar to socialist-type benefits are different types of welfare aid and cultural benefits provided in Hungary. These benefits range from vacation vouchers to school starting package for employees with schoolchildren, which, according to the Managing Director of ABF Hungary, can definitely be regarded as a rudiment of the socialist past and “are not ABF-specific” (Interview with the Managing Director, ABF Hungary).

With respect to pay-for-performance, there is evidence that the current variable compensation system at ABF Czech Republic lacks motivational elements, which is a similar scenario to bonus systems at state socialist enterprises. The General Manager of the subsidiary put it this way:

For most of the people... the bonus system is not something additional, but is

the part of the fixed salary.

However, while this system seems to lack efficiency with respect to motivational effects, as there is no direct link to performance, it is clear and transparent and thus differs significantly from the premium systems distributed from the wage fund prior to the transformation.

The HR Director of ABF Czech Republic indicated also that there is a strong aspiration on the part of employees for seniority-based pay.

People are also used to the perception that they should be paid for years of service. In other words, it is not competence or seniority in the field of expertise that matters but that they should be granted an extra payment beside the yearly salary increases just for the fact that they have worked for this company for 30 years.

A seniority-based system is also implemented in the Polish subsidiaries of ABF International and can be seen as a path-dependent practice of allocating additional rewards and better paying jobs to employees with longer organisational tenure. It should be mentioned, however, that seniority-based compensation systems are also reported in the context of more stable and traditional institutional environments elsewhere, especially in Asia. On the other hand, the compensation system in Hungary is not seniority-based, which can be attributed to the relatively insignificant role of trade unions compared to the subsidiaries in the Czech Republic and Poland.

According to the Hungarian HR Manager, among the main features of the pre-transformation compensation systems are large wage differentials between employees who perform comparable jobs and possess comparable skills due to the lack of transparency as well as political and personal privileges. At present, the company management is consistently

working on eliminated such wage differentials, which still exist in the Hungarian subsidiary of ABF International.

Table 3 below summarises the path-dependent compensation practices identified during the study.

Insert Table 3 about here

With respect to path dependencies, it was noted by the interview partners that industry traits and grounding history also influence compensation design. An HR director expressed this idea as follows:

I think that the number of blue collar workers and their opinions could also be one of the influencing factors on the compensation and benefits system. The answer to this question would surely be different if we had a consultancy or a bank or an IT-company here. So it depends on the employees, on the level of their education and their expectations and what they are (HR Director, ABF Czech Republic).

Here, industry traits that predict the level of unionisation and the type of initial market entrance (e.g. Greenfield investment versus acquisition) seem to have an impact on compensation strategies including the level of worldwide standardisation.

So, the level of unionisation of our industry and of our business is, I think, more than average. It is not comparable with the situation, for example, of Google, which is a Greenfield establishment with short and dynamic development (HR Director, ABF Czech Republic).

Labour market pressures on local compensation design

Over the last four years, the subsidiaries of ABF International in the Czech Republic, Poland and Hungary have been confronted with a considerable increase in manpower; company management have had to cope with the recruitment of employees possessing very specific and scarce industrial qualifications. In the Czech Republic, this was aggravated by the very tight labour market, especially in 2007-2008, and by the geographical proximity of some major production facilities in the field of transportation equipment manufacturing, especially automotive and automotive components manufacturing. In Poland, according to the HR Director in ABF Poland, the recruitment of new personnel in these settings was a very challenging task due to the abovementioned international migration of the skilled labour force from Poland as the direct consequence of EU accession in 2004.

As a response to these challenges, instead of trying to win employees from other manufacturing companies in the region by offering higher pay, the studied subsidiaries of ABF international have now developed alternative strategies to attract and retain personnel. The interview partners in Poland indicated that they attract employees by offering, beside salary, non-monetary benefits such as training programmes and favourable working conditions. ABF Czech Republic has developed a strategy of recruiting employees in cooperation with local employment agencies and educating them at an internal training school in order to develop the necessary qualifications. Thus, the Czech subsidiary concentrates on recruitment and personnel development measures, in line with the corporate market median payment philosophy, instead of trying to attract personnel by offering excessive compensation. At the same time, the company's management provides the abovementioned commuting and housing allowances as well as lump sum awards for employees with rare qualifications, which are expected to represent an incentive to stay with the company. Such a retention bonus is also provided by ABF Poland. In Hungary, the company provides housing

loans to its employees. This is also used as a retention scheme as there are penalties in case of early employment contract termination.

Isomorphic pressures on CEE subsidiaries of ABF International

According to Festing and Sahakiantz (2010), human resource management practices are expected to be influenced primarily by the EU, national governments and trade unions as sources of coercive isomorphism as well as by the MNCs that exert mimetic influence. In addition, the professionalisation of HR functions in CEE enterprises as a form of normative isomorphism plays an important role in the promotion and implementation of modern pay practices.

The EU and National Legislation. As expected, the interview partners indicated the rather insignificant or no direct influence of the European Union on compensation management.

It was stated by the Polish interview partner that EU Membership and subsequent labour force scarcity had an impact on salary levels in the country:

The whole sector of production in Poland needed to revise salary levels. So, in order to attract people and to keep the people we had on board, we needed to increase the salary level by 10-12 per cent (HR Director, ABF Poland).

At the headquarters level, an example of the direct impact of EU legislation for a limited group of employees is the Posted Workers Directive, which stipulates that the compensation and work conditions of foreign workers posted to an EU member state should be set up in accordance with the current standards in this country. This legislative act is perceived as imposing additional difficulties with respect to the expatriate or inpatriate management of employees.

The indirect influence of the EU is seen in the adoption of EU legislation with respect to employee information and consultation rights as well as health and safety. The trade union representative in ABF Poland stated the following:

There are EU directives with regard to health and safety and Poland has to comply ... Of course, we [ABF Poland] have very high standards, but there are some companies that adjust their working conditions and look at the way things are being done in the West.

The impact of government regulations with respect to the remuneration of employees is perceived in a twofold way by the management of ABF International. On the one hand, the interview partners at the headquarters stressed the high level of the social contributions paid by employers in the CEE countries analysed, which significantly influences labour costs. On the other hand, the local company's management indicated the rather limited impact of government regulations on the way compensation systems are set up at the subsidiaries of ABF International. For instance, the average total compensation of a shop floor employee in the Czech Republic exceeds minimum wage levels by more than three times. The situation in Poland and Hungary is very similar.

Moreover, there are examples of company management introducing compensation elements and benefits, which in some other EU member states are regulated either by national legislation or by industry-wide collective bargaining agreements. Such examples include the introduction of 25 days paid vacation in the Czech Republic, instead of the 20 days required by local labour laws, or a commuting allowance paid by the employer to cover transportation costs, which in a number of other European countries are deducted from personal income tax.

Trade unions. After 1989, trade unions played a minor role with respect to compensation practices due to their limited power and lack of legitimacy. Even "Solidarity",

the first independent trade union in a country belonging to the Eastern bloc, which had significant political power from 1980, has recently experienced decreasing influence and diminishing support among employees.

During the transformation period, national governments enacted legislation to regulate the collective bargaining process and introduced tripartite bodies consisting of representatives of government, employers and trade unions to maintain dialogue and social peace.

The trade unions provide a major input in the negotiation of social benefits and perquisites, especially with respect to those promoted by the government in the form of regulations or tax advantages, for example life insurance, health care vouchers, canteen service. In Poland, trade unions, together with management, also play a path-dependent role in managing social funds.

This engagement in the area of social benefits and perquisites can be interpreted as a path dependency from the traditional role of trade unions in former socialist enterprises. The trade unions were in charge of political training and elements affecting social life, and valued by their members for their role as distributors of various social benefits. Membership in the unions in this era was rather a formal obligation, which resulted in a lack of legitimacy in the eyes of their members. According to the statement on the web page of the Czech trade union, “this prevails until today in the odd attitudes the public has towards the union activities” (Czech Metalworkers' Federation KOVO, n.d.). For instance, the shop steward mentioned in his interview:

If someone comes to me and tells me that he wants to cancel his membership in the union, because we are not offering—and he is remembering the old times—any recreation possibilities any more, I say: “Yes, you are right, we are not as mighty as God himself and we cannot offer it” (Shop steward, ABF Czech

Republic).

Consequently, in addition to its role as a representative of the employees during collective bargaining, in response to the explicit expectations of its members the Czech trade union provides its members with various social benefits ranging from vouchers for sports facilities to discounts on mobile telephone tariffs.

Overall, each interview partner indicated the rather cooperative attitude of the trade unions towards the negotiation process with respect to both the negotiation of annual wage and salary increases and the implementation of new compensation practices:

If we come up with an idea ... we are not faced with the problem that there will be a strong resistance from the unions and that the unions will say: "We do not like any of your proposals at all and we are not even prepared to discuss the circumstances." They are more moderate. They say: "OK, I understand your point, let's sit down and discuss the implementation." So, I would say that the unions are quite cooperative (HR Director, ABF Czech Republic).

This was also confirmed by the HR Director in ABF Poland:

Trade unions do not pose strict demands, but pay more attention to cooperation and negotiation.

Thus, the influence of trade unions in the CEE subsidiaries studied is perceived by local management as allowing for much more flexibility in designing a compensation system, even with respect to pay-for-performance for all groups of employees, which has traditionally been related to the negative attitudes of trade unions elsewhere (Milkovich & Newman, 2008). The HR Director at ABF Czech Republic stated the following:

I think that the Czech system [with respect to trade unions] gives more flexibility to work with the variable compensation part.

For example, it has been reported that the representative of the Czech trade union supports the planned introduction of a pay-for-performance plan for employees below the middle management level based on individual KPIs. This change is seen positively by the trade union as a way of abandoning the existing discretionary system and implementing a more transparent appraisal model.

HR Department. Human resource management in post-socialist economies has probably undergone the most dramatic changes during the transformation period. As they played no role and delivered no input into pay determination in the pre-transformation period and acted in a purely administrative and political controlling capacity, it was expected that in many cases the HR departments of enterprises in this region would still be lacking both legitimacy and the necessary qualifications. At the same time, as predicted in the literature (Festing & Sahakiant, 2010), it was expected that the roles and the levels of professionalisation of the HR departments of local MNC subsidiaries would be rather significant.

The example of the HR function at ABF International confirmed this. Although local compensation management is the sole responsibility of the local HR department, the HR function is tightly integrated into the worldwide system. The HR directors of the local company are HR business partners for their respective countries and responsible for implementing company-wide standards and procedures at the local subsidiaries of ABF International, which indicates a strong normative pressure on the HR function as a whole. This normative pressure seems to stimulate HR managers in subsidiaries to adopt best practices such as, for instance, KPI-based pay-for-performance schemes.

At the local level, HR managers are highly involved in informal HR networks in their respective countries. For instance, in Poland, they take part in the regular HR managers' meetings of leading MNCs in the region. These informal networks are expected to represent a source of both normative and mimetic pressure on organisations. In fact, it seems that on the local level they represent a more significant mimetic influence than management consulting companies, which are more intensely alluded to at the global level.

Moreover, it was indicated by the interview partners that an increasing number of companies in CEE countries, including large SOEs, are strengthening their HR departments and implementing strategic HR management measures as a response to labour force scarcity.

DISCUSSION

After 20 years of transformation and several years of EU membership for the majority of CEE countries, the analysis of compensation practices in this region is still a challenging field of research. Even in international companies, as in the subsidiaries studied in this article, there is still—although rather insignificant—evidence of path-dependent pre-transformation management practices, which are opposed to strong normative pressures stemming from the headquarters of the MNC and transmitted by HR professionals.

Based on the results of this case study of compensation practices in the subsidiaries of an MNC in the Czech Republic, Poland and Hungary, we suggest the following propositions, which can be tested in a follow-up investigation:

1. Although the present study is related to the international segment of CEE economies only, it delivers evidence on a higher degree of path dependency of compensation practices in other types of companies. This confirms the assumption of a different level of embeddedness in pre-transformation HR practices (cf. Table 1) depending on the firm type. The most prominent example is the enterprise social fund. In Poland, although path-dependent in its

nature, this is rather a result of coercive, i.e. regulative, influence. However, the establishment of such a fund in Czech companies is a manifestation of path-dependent practices contingent on the ownership type and founding history of the companies as well as industry traits.

Proposition 1a: The path dependency of compensation practices in CEE is contingent on the ownership type of enterprises.

Proposition 1b: The path dependency of compensation practices in CEE is contingent on the founding history of enterprises.

Proposition 1c: The path dependency of compensation practices in CEE is contingent on industry traits.

2. The adoption of modern pay practices depends on normative pressure, notably as a result of the professionalisation of HR managers. The intensity of such an influence in MNCs seems to depend on the respective strategic importance attributed to the local HR function by the headquarters and on the extent of the international standardisation of compensation practices.

Proposition 2a: The intensity of normative pressure on the HR function within the MNC influences the adoption of modern pay practices in subsidiaries.

However, it is necessary to take into account the various levels of path dependency of existing compensation practices, mainly due to varying levels of embeddedness in pre-transformation employment relations systems (cf. Table 1). Thus:

Proposition 2b: The influence of the HR function on the adoption of modern pay practices is moderated by the path dependency of compensation practices.

3. As the influence of EU regulations is perceived as rather weak and national laws are reported as delivering only limited constraints for designing compensation practices, company

management is relatively free to design pay systems. In our case, company management both at the headquarters and the subsidiary underlined the company's philosophy of strict compliance with local labour legislation, especially with respect to the recognition of and cooperation with trade unions and employee representatives.

Proposition 3: Cooperation with trade unions depends on respective company-wide corporate governance policies.

4. Due to the abovementioned positive attitude of company management towards collective bargaining and the weakness of trade unions in the CEE countries studied, trade unions are perceived as partners rather than as an impediment to designing compensation practices. However, their influence seems to depend on the founding history (e.g. a historic role in a large, previously state-owned production plant) and industry.

Proposition 4a: The influence of trade unions on compensation systems depends on the history of collective bargaining at a given enterprise.

Proposition 4b: The influence of trade unions on compensation systems depends on industry traits.

Moreover, it has been shown that trade unions often promote path-dependent compensation practices. Hence:

Proposition 4c: The influence of trade unions predicts the path dependence of existing compensation practices.

5. The local company's management strives to introduce pay practices for local employees similar to those implemented at the global level, e.g. pay-for-performance plans based on a set of KPIs, which represents a mimetic pressure on MNC subsidiaries. However, there is evidence that CEE companies belonging to other segments make efforts to adopt Western HR

practices in response to the tight labour market situation and are thus exposed to mimetic pressures.

Proposition 5: The extent of the adoption of modern pay practices in CEE countries depends on the labour market situation.

Based on the above propositions, Figure 1 presents a testable model of adoption for modern compensation practices in CEE countries. The numbers in circles denote the respective propositions.

Insert Figure 1 about here

CONCLUSIONS

Based on the framework suggested by Festing and Sahakiantz (2010), as well as the results of an embedded case study (Yin, 2003) of pay practices at the subsidiaries of a large North-American MNC in the Czech Republic, Poland and Hungary, we analysed the compensation systems in CEE companies belonging to the international segment. Furthermore, we studied the impact of the local labour market conditions, trade unions, the EU and local legislation as well as HR functions on compensation systems.

Although we conducted a multiple case study of compensation practices in CEE countries, our research was limited to the international segment only and included one case study carried out in each country, which limited the validity of results with respect to other types of firms in this region. Thus, theory-driven variance and divergence were limited or non-existent (Pauwels & Matthyssens, 2004). In addition, the retrospective approach may lead to bias, as cognitive dissonances might occur (Festinger, 1957). This means that there is a risk that the interviewee could describe events in a different way today than how they actually

happened in the past. In order to avoid such dissonances, the interviewees were advised of these risks and, in addition, asked to repeatedly proofread the case. Notwithstanding the limitations of the case study research concerning the generalisability of results, this investigation generated new knowledge in providing a model that can be used to replicate this study in subsidiaries in other CEE countries as well as in other groups of companies within the international and further segments. On the one hand, a multiple case study of the CEE subsidiaries of an MNC could be instrumental in better understanding the influence of isomorphic, path-dependent and efficiency-based pressures on international companies in particular and CEE business organisations in general. On the other hand, a replicated study of compensation practices in companies belonging to state-owned, de novo and privatised segments could deliver further information on the impact of founding history and ownership structure on the design of pay systems in CEE countries.

Thus, the present study could serve as a reference point for the analysis of compensation practices in other types of organisations. Given the absence of the strong normative influence of a foreign owner and a varying degree of efficiency pressures on other types of firms, companies belonging to different organisational segments of CEE economies are expected to behave differently with respect to the mimicking of Western-type pay practices or the continuity of path-dependent compensation designs. The set of propositions developed in the discussion section of this article may serve as a basis for the quantitative study of pay practices in CEE countries.

We believe that the present case study has the potential to be a first step towards an encompassing understanding of compensation system transformation in the CEE region. This kind of research can deliver not only an important input to theory-based explanations, but also can serve as a basis for evidence-based management, as “using evidence makes it possible for well-informed managers to develop substantive expertise throughout their careers as opposed

to the faddish and unsystematic beliefs today's managers espouse" (Rousseau & McCarthy, 2007: 84).

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TABLE 1**Classification of Firms in CEE Countries by Ownership, Foundation History and Level of Embeddedness in Pre-Transformation HR Practices**

Type of firms	Date of establishment	Level of embeddedness
State-owned	Prior to transformation	Very high
Privatised	Prior to transformation	High
De novo	During the transformation	Moderate
International:		
<i>Joint ventures</i>	Mostly during the transformation	Low
<i>Subsidiaries of MNCs</i>	Mostly during the transformation, depending on the market entry mode	Very low

TABLE 2

Localised Compensation Practices at the CEE Subsidiaries of ABF International

	Czech Republic	Poland	Hungary
Variable Compensation:			
<i>Pay-for-performance</i>			
Top management	Yes	Yes	Yes
Middle management	Monthly bonus	Annual bonus	Annual bonus
White collar staff	Monthly bonus	Monthly bonus	Annual bonus: team leaders only
Blue collar employees	Monthly bonus	Monthly bonus	Monthly bonus
<i>Stock ownership</i>			
	No	General Manager	No
Non-monetary compensation:			
Private pension plans	Yes	Yes	Yes
Private life insurance	Yes	Yes	No
Subsidized food	Yes, canteen	No	meal vouchers
Medical services	vouchers for medical products, medical vaccination	private medical care	No
Additional holidays	5 days	2 days	No
Other social and welfare benefits	No	No	Vacation checks, tickets to cultural and sports events

Continued

TABLE 2
(Continued)

	Czech Republic	Poland	Hungary
Other monetary pay:			
Group leader allowance	Yes	Yes	yes, annual bonus
Retention bonus	Yes	Yes	No
Commuting allowance	Yes	No	Yes, pro km rate
Housing allowance	Yes	No	Yes
Annual bonus for all employees	Yes	Yes, from company social fund	No
Other monetary benefits	No	From the Company social benefits fund: financial support in individual cases (e.g., low per capita income)	School starting packages for employees with schoolchildren, extra pay for employees with families with low per capita income

TABLE 3
Path-dependent Features of the Compensation Systems Studied

	Czech Republic	Poland	Hungary
Variable pay	<i>Probably.</i> Reverse incentive system. Not performance-related; taken for granted	<i>No.</i>	<i>Probably.</i> Remaining wage differentials between employees performing comparable jobs and possessing comparable skills.
Social benefits	<i>No.</i> Only with respect to union membership.	<i>Yes.</i> Social benefits fund: Due to government regulations.	<i>Yes.</i> Social and welfare benefits
Seniority-based pay	<i>Yes</i>	<i>Yes</i>	<i>No</i>

FIGURE 1
Model of Understanding the Adoption of Compensation Practices in CEE

