

## An Analytical Overview of the Transfer of Employee Remuneration Practices in Slovakia

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### Abstract

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The article deals with the issue of transfer of selected human resource management (HRM) practices, employee remuneration, from the parent company to subsidiaries in the host country. This study compares the remuneration of workers in subsidiaries of multinational companies (MNCs) and local companies located in Slovakia, testing statistically significant differences in the use of specific forms of remuneration (extraordinary bonuses, regular bonuses, shares, cafeteria employee benefit system). The research sample consists of 194 HR managers of MNC subsidiaries and local companies operating in Slovakia, out of which 92 are managers of subsidiaries and 102 are managers of local companies. The rate of use of various forms of compensation was determined through a Likert scale, in which HR managers were asked to respond on a scale from 1 (not a commonly used form of compensation) to 5 (the most frequently used form of remuneration). In order to fulfil the objectives of the study, 4 hypotheses were formulated and tested using the Student's t-test. The research results confirmed only one hypothesis, which shows that the remuneration systems in the subsidiaries of MNCs and local companies do not differ significantly, thus we can speak of a low rate of transfer of HRM practices tested.

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**Keywords:** International human resource management, HRM practices, multinational companies (MNCs), system of remuneration, transfer of HRM practices.

### 1.0 Introduction

The successful transfer of HRM practices and procedures from the parent company to the subsidiary established in the host country is a prerequisite for achieving effective management of human resources in international organizations.

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The successful organization of the transfer and acceptance of HRM practices in the host country is a guarantee of success of human resource management in an international environment (Taylor, 1996; in: Riege, 2007). The effective transfer of HRM practices of the parent company in the host country at the same time represents a significant competitive advantage for organizations operating in an international environment (Flood, 2003; in: Riege, 2007). One of the current problems in international human resource management is the extent to which subsidiaries act as local companies and their capacity to adjust to the parent company, if necessary or to some global standards (Rosenzweig, & Nohria, 1994).

### **1. Theoretical background of the issue of transfer of HRM practices**

Stroh and Caligiuri (2005) highlight the impact of effective international human resource management on the performance of the organization itself. However, the best practices of human resource management may not always be transferred fully into other countries due to cultural and institutional differences (Zhang, 2003; Ferner, 1997). Therefore, many MNCs aim to find a balance between the need to employ the best HRM practices with the need to adapt them to local practices and customs (Poustma et al., 2006). Kostova and Roth (2002) identified this phenomenon as "institutional duality (dualism)." An appropriate balance between these two requirements will positively influence organizational performance.

International firms are forced to seek a balance between global integration and the need to respect the conditions of the host countries (Bartlett, Ghoshal, & Beamish, 2008). The balance between these two aspects will depend on the extent to which an international organization accepts the more global or the more local approach (Evans, Pucik, & Barsoux, 2002). Morris, Snell and Wright (2006) reported that MNCs should seek to develop common practices of human resource management and share the best practices from all parts of the organization in order to create a global system whose goal is to achieve consistency and efficiency in all countries in which the MNC operates. At the same time, various MNC subsidiaries seek recognition and development of HRM practices that are relevant to their local market, workers' rights, cultural traditions and so on. The aim of global standardization of HRM practices is to achieve cohesion, transparency and consistency of geographically dispersed workforce through a unified set of principles and objectives (Evans, Pucik, & Barsoux, 2002).

The use of common management practices aims to unify the conditions and expectations of employees. This approach also aims to facilitate better process management and to increase their efficiency (Bloom, Milkovich, & Mitra, 2002).

The purpose of localization is to respect local cultural values, traditions, legislation and other institutional conditions. The need to implement the methods and techniques successfully applied in an environment may however not be successful in another setting (Gunnigle et al., 2002). The challenge of many MNCs is therefore to create a system that operates efficiently in different countries, respecting local differences while achieving global consistency (Kamoche, 1996; in: Dowling, Festing, & Engle, 2008). Taylor (1996; in: Riege, 2007) explores the transfer of HRM practices as he puts forward three general strategic international focuses of human resource management:

### 1. *Adaptive focus*

Adaptive focus is characterized by systems of human resource management in the subsidiaries which adapt to the conditions of their local environment.

### 2. *Export Strategy*

Export strategy uses a transfer of HRM practices to subsidiaries due to the perception of accuracy and efficiency practices created conditions for the parent company.

### 3. *Integration strategies*

International companies using the integration strategy seek to create generally accepted practices which are applied both in the parent and the subsidiaries.

## **1.1 Implementation of remuneration in terms of MNCs**

Many MNCs are forced to address the issue of domestic transfer rates of remuneration practices of the host country. There are obvious problems related to deep-rooted national and corporate values that affect the rewards system, and thus present a challenge in their universal application (Poutsma, Ligthart, & Schouteten, 2005). The strategy of international remuneration is linked to the creation of an integrated approach to the building of remuneration policies and practices that are beyond the mother country.

This approach should be integrated in the sense that it takes into account the corporate objectives of the mother country while adapting strategies of other countries. Still, it is necessary to consider the extent to which the strategy should be centralized or decentralized (Armstrong, 2009).

In order for international businesses to successfully manage employee compensation, it is necessary to understand: (Dowling, Festing, & Engle, 2008)

- the employees,
- tax and other laws relating to remuneration,
- the local habits and the host environment,
- practices in various foreign countries,
- the current fluctuation rates,
- the impact of inflation on remuneration.

The successful implementation of workers' compensation in a MNC requires sufficient knowledge on the standards in the field of labour law, tax law, the specifics of HRM practices in different countries. Such a level of knowledge of local conditions often requires advice from a specialist, leading many MNCs to hire various consultants and or to outsource such a position.

In case of highly internationalized organizations, we see more efforts to standardize practices on a global basis. Dowling, Festing and Engle (2008) quote Schering AG as an example of a company, which seeks to standardize remuneration practices globally. This German pharmaceutical company has established a global system of performance evaluation for top managers across the whole company (Festing et al. 2006; in: Dowling, Festing, & Engle, 2008). The firm has also implemented a standardized bonus system for top management, which aims to foster a culture of high performance and facilitates single focus for all managers.

Effective international management requires certain sensitivity and an appropriate level of adaptation to the conditions and customs of the host country on staff in their delivery, remuneration and other personal activities.

Inconsistency between cultural, social and political attributes of HRM practices in the home country and the host country can lead to consequences, such as difficulties in recruiting and hiring suitable candidates, conflicts in labor relations or unsatisfactory work performance of employees (Dowling, Festing, & Engle, 2008). MNCs are faced with a serious question, that is, which processes and practices can and should be transferred to the host country and to what extent should they be adapted to the local country with a view to their effective implementation at the local level.

## **2. Methodology**

Based on an analysis of several studies, it was our aim to investigate whether MNCs transferred HRM practices to subsidiaries operating in Slovakia. Given that the rate of transfer of various HRM practices may vary, the attention was focused only on one specific HRM practice, specifically employee remuneration. For the purposes of this research, one specific group of employees was studied – managers. In order to determine whether MNCs operating in Slovakia tend to apply the principle of localization or standardization, we performed a comparison of the implementation of remuneration between MNCs operating in Slovakia and local companies. The aim of the research is to verify the existence of statistically significant differences between subsidiaries and local companies in implementing certain aspects of the remuneration of managers, namely:

1. The rate of utilization of extraordinary bonuses (for high performance, success, etc.).
2. The rate of use of regular remuneration (in achieving the desired performance).
3. The use of shares for employees (profit sharing, savings).
4. The rate of use of the cafeteria system.

To obtain the primary data, we used a standardized questionnaire, which was distributed to HR managers of subsidiaries and local companies in person and via e-mail. The research sample consisted of 194 HR managers of the subsidiaries and local companies, out of which 92 were managers of MNCs and 102 were managers of local companies.

The rate of use of various forms of compensation was determined through a Likert scale, in which HR managers were asked to respond on a scale from 1 (not a form of compensation used in the company) to 5 (a frequently used form of remuneration). To meet the research objectives, four hypotheses were tested with a use of a Student's t-test. The significance level was set to 0.05.

### 3. Results and Discussion

*H1: There exists a statistically significant difference between local companies and subsidiaries of MNCs in the utilization rate of the extraordinary bonuses.*

The first aspect, which was the subject of comparison of local companies and subsidiaries of MNCs, was the use of extraordinary bonuses, i.e. bonuses that are paid to managers on special occasions (mainly for extraordinary performance, success, etc.). The test showed that there is no statistically significant difference in the rate of use of this form of remuneration between the subsidiaries and local companies. The H1 hypothesis was thus not confirmed. The average values for both samples of companies are around 3, which indicates that this remuneration is used moderately. The results are shown in Table 1.

**Table 1: Statistically significance of the difference in the use of extraordinary bonuses**

	Mean (average)	SD	t	p
local company	3.15	1.53	-1.337	0.189
MNC subsidiary	3.80	1.54		

**Source:** output of Statistics 21

*H2: There exists a statistically significant difference between local companies and subsidiaries of MNCs in the utilization rate of regular bonuses.*

The remuneration of managers is specific in that it is in most cases linked to the fulfilment of certain set of tasks and goals. Bonuses are often awarded to managers as for of incentive, i.e. a form of bonus to the fixed salary that reflects the performance of the manager. The study investigates whether the subsidiaries of MNCs and local companies differ in providing regular bonuses to managers.

As Table 2 shows, for both types of companies, the mean Likert scale is around 2, that means that regular bonuses are used less frequently than special bonuses. The t-test did not confirm the H2 hypothesis and thus that local companies and MNC subsidiaries do not differ in the utilization rate of the regular remuneration.

**Table 2: The statistical significance of the difference in the use of regular bonuses**

	Mean (average)	SD	t	p
local company	2.30	1.34	0.262	0.795
MNC subsidiary	2.20	1.06		

**Source:** output of Statistics 21

H3: *There exists a statistically significant difference between local companies and subsidiaries of MNCs in their use of shares as bonuses for employees.*

Some companies offer the option to participate in the success of the company to incentivise the managers. It can be in form of financial participation (such as share of profits or savings) or even ownership of assets (for example, through shares). The rewards system is more frequently used in larger and economically strong companies. One of the aims of the research was to focus on whether and to what extent companies use this type of remuneration and whether there are differences between subsidiaries and local companies. The results show that this type of remuneration is rarely used, as regular bonuses and the results are very similar in local companies and MNC subsidiaries. The hypothesis was thus rejected based on the results of the t-test. Here again, it is clear that the MNC subsidiaries and the local companies are not different in their use of forms of remuneration. The results are shown in Table 3.

**Table 3: Statistical significance of the difference in the utilization of profit or loss**

	Mean (average)	SD	t	p
local company	2.45	1.64	0.680	0.501
MNC subsidiary	2.10	1.62		

Source: output of Statistics 21

*H4: There is a statistically significant difference between local companies and subsidiaries of MNCs in the use of the cafeteria system.*

The cafeteria system is a modern way of compensation of employees, it is a program of optional benefits. Its principle is that the employees may select a set of benefits, which they are really interested in. The aim is to give employees the benefits that have a stimulating effect and therefore they take into account the individual needs and interests of individuals. We investigated whether this method of remuneration is used in organizations and to what extent. The results show that the local companies use this system only rarely, while MNC subsidiaries use them at a higher rate. The results of t-tests confirmed in this case, there is a significant difference between the subsidiaries and local communities, thus the H4 hypothesis is confirmed. The results are shown in Table 4.

**Table 4: Statistical significance of the difference in the use of the cafeteria system**

	Mean (average)	SD	t	p
local company	1.50	0.83	-2.614	0.013
MNC subsidiary	2.65	1.79		

Source: output of Statistics 21

## Summary

This paper aims to determine the extent of transfer of HRM practices from the parent company to subsidiaries established in the Slovak Republic as the host country. In order to investigate this, the study looked at the various forms of remuneration. It was assumed that if we find a statistically significant difference in the use of some form of remuneration in MNC subsidiaries compared to local companies, it would indicate that the practice is carried out along the lines of the parent company and that there exists a transfer from the environment of the home country to the host country. However, the results did not confirm such transfer of practices in most cases. The research shows that MNC subsidiaries and local companies do not differ in how they award extraordinary and regular bonuses and use the shares of the company as a motivator. This finding can be justified in two ways.



The first reason may be the fact that MNCs are applying the remuneration principle of localization and therefore apply a remuneration system native to the host country. This may be an effort to create equal conditions of remuneration, to which local employees are accustomed to and which they consider standard. Furthermore, it may also affect certain legal standards applicable in the country and finally, it can also be the influence of the local trade unions. We can thus say that the host country manages a number of factors which influence international organizations which choose the localization approach in their remuneration strategy in their subsidiaries.

The other factor that may justify the rejection of the hypotheses in three cases is the impact of globalization, leading to the elimination of differences between countries in the area of corporate governance and in the implementation of business processes. It can also be caused by the need to increased transparency and hence the need for simpler and cheaper administration.

Out of the four factors examined, only one hypothesis was confirmed, namely that MNC subsidiaries and local companies differ in the use of the cafeteria system. It was found that while most local companies do not use the cafeteria system, some MNC subsidiaries utilise it, although not too intensely. This finding could be attributed to the fact that this form of employee benefits in Slovakia is relative new and is not the typical way to provide benefits in companies.

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