

## **The Long Transition? Developments in HRM in South Eastern Europe**

A central concern in the comparative HRM literature relates to identifying clusters of countries where similar HR practices are likely to be encountered, and indeed, what are the defining features of HRM in different national and/or regional settings. As noted by Brewster et al (2008) it is of no great surprise that employment systems and structures and, hence, HRM, vary from country to country – sometimes more subtly and sometimes more dramatically. This is in contrast to the 1980s and early 1990s, where the core focus centred on cultural differences (e.g., Hofstede 2001).

In understanding the paradigm shifts in the way HRM is evolving one must take into account issues such as the role of the state in areas such as public sector employment (e.g., Bolkstein, 1999), employment legislation and rules and regulations (in Europe both centrally and nationally integrated) (Blanchard, 1999), and the formal and informal role of unions (Mayrhofer et al, 2000). More recently, the debate has shifted to the realm of institutions, above all, on account of the inability of cultural approaches to account for the effects of social action and change. As such, institutions are embedded clusters of rules and norms, of which, as Parsons (1991) correctly notes, culture is but one. But, how may countries be categorized, and what is likely to differ from context to context?

Given the range of pressures loosely associated with globalization – and the uneven outcomes thereof – there has been a growing interest in comparative human resource management. The latter seeks to better understand contextual effects and their implications for theory and practice. As such, a wide variety of Comparative HRM literatures can be found within regionalized (e.g., North America, Europe, South-East Asia, Africa, Central / East Europe) and/or emerging country specific realms (e.g., China, India). One significant regional omission, within this emergence of literature, has been the area of South Eastern Europe, also referred to as the Balkans;

In general, there is strong agreement that emerging economies (of which the majority of countries in this region consider themselves) are not a homogenous group (Luo and Tang, 2007) and are undergoing significant adaptation and adjustment in response to pressures towards liberalization (Elango and Pattnaik, 2007). The literature related to the region is quite sparse, disconnected, and has generally focused on firm and country-specific understanding and less at the regional level. It is not uncommon, for example, to see literature related to countries in the region integrated within the wider context of Europe, rather than regional dynamics (e.g., Papalexandris and Stavrou, 2004) or Central / East Europe (e.g., Vatchkova, 2009).

Current interest in this particular region has been spurred on by the Europeanization process, a process which involves both a social and a deregulatory dimension; the latter two process are not always compatible, and the outcomes contested. Business and governmental issues within the region have generally been ascribed by forces outside the region but this has been seen to be

changing to a more regionalized form of evolution (e.g., Solioz and Stubbs, 2008). The region has, at least until the current financial crisis, attracted a substantial amount of foreign direct investment from both brownfield and greenfield ventures (Kiessling et al, 2008) due to the opening of the regional infrastructure, the privatization of state owned enterprises, the keen interest of multinationals to resource seekers (labor and physical), and the dramatic changes in political and economic stability of the region as a whole (e.g., Bitzenis and Szamosi, 2008). As the region has evolved, intra-regional FDI has increased dramatically, primarily based on Greek and Turkish influences within the region related to the banking sector (Bitzenis, 2009).

Current human resource management practices and policies literature in the region is limited and very fragmented –even the translation of “human resource management” in the region is problematic (e.g., Upchurch and Cicmil, 2004). No studies to date have taken a holistic view / research approach to the region and no publications (e.g., journals or books) have sought to amalgamate the said literature within the region; a review of the current countries associated with the CraNet research program showed that only three of the 20 or so countries of the region are represented in this program suggesting that, in many cases, the profession is not widely studied at national levels thereby contributing to the dearth of literature. In addition to this, regionally related literature within the broader context of the labor workforce and the changing labor markets (e.g., Rodríguez-Planas, and Jacob, 2009; Belke and Hebler, 2004; Arandarenko, 2004), employee relations (Zupan and Kaše, 2005; Croucher, 2004; Clauwert et al, 2003), and workforce development (Sarri et al, 2010; Galanou and Pripoas, 2009; Hollinshead and Maclean, 2007) is very marginal in terms of depth and continues to be fragmented.

Through the bringing together of country studies from a range of different starting points and perspectives, this special issue explores national particularities and commonalities, within the region, bringing together case studies and more general overviews in an attempt to focus understanding in what is generally seen as a peripheral region of the still-developed world. Such an approach is an attempt to bridge the region into the broader sphere of global knowledge of human resource management.

### **Institutional Frameworks, and the Region**

Institutions – that is embedded sets of formal and informal rules - mould behaviour both within and between work organizations and other social actors (e.g., Scott, 1987). Through this framework, researchers in comparative HRM have had the opportunity to compare, among other subjects, HRM philosophies and practitioner orientations across countries (e.g., Gooderham et al, 1999; Kostova and Roth, 2002; Tregaskis and Brewster, 2006), the standardization versus adaptation of HRM practices (e.g., Rosenzweig, 2005), and, in the case of international HRM, the operating variances of multinationals in a various host country situations (e.g., Brewster et al, 2006),.

There are a number of ways of defining core institutional features in South Eastern Europe. Firstly, from the within rational choice economics and finance tradition, it has been argued that it is relative private property rights that will determine what firms do (see the article by Psychogios and Wood within this special issue). Private property rights may be diluted by the countervailing power of other interest groupings in society within or without the firm, such as employees (Botero et al. 2002), where as La Porta et al. (1999; 2002) focus on legal origins. In reviewing the context of South-Eastern Europe, they suggest that a core distinction is between countries such as Greece, that have a broadly French civil law legal tradition, and those that have been more influenced by a communist one (e.g., Bulgaria and Romania). In post-communist countries, legal institutions are still in the developmental stage, and property rights are still relatively weak. But, according to La Porta et al. (1999; 2002) within civil law, property rights are also – if not quite as – weak, reflecting the underlying rationale of civil law to promote social compromises, which they hold, is likely to be detrimental to growth. Whilst the veracity of the latter claim has indeed been disputed (La Porta et al's model works best if the undeniably dysfunctional francophone West Africa is included into the civil law camp), the relevance of a central focus on historical origin itself may be contested. Firstly, as with any other institution, legal systems may evolve in a manner that involves hybridization, and, within country categories, inter- and intra- national diversity (Siems and Deakin 2009). Secondly, this approach assumes that laws actually are enforced and work in the manner intended, when there is a great deal of evidence to suggest that the enforcement of, inter alia, labour law is patchy across the region. Whilst the latter may vary somewhat from case to case, existing research would suggest that it is generally far weaker than in the mature economies of north-western Europe. Other determinants of private property rights identified in the literature could include electoral systems or the political orientation of ruling parties. But, the dominance of proportional representation electoral systems in South Eastern Europe (unlike in liberal markets, where, for a range of reasons, first past the post systems favour those with more right wing policies [Pagano and Volpin 2005]) makes the differentiation of countries within the region more difficult and complex to achieve. And, whilst there is little doubt that political ideologies of ruling parties play a part (Roe, 2003), what precisely constitutes the former and the latter in South Eastern Europe reflects specific historical experiences, and, since the financial crisis, the disproportionate power of external players, such as the incorrigibly neo-liberal IMF. In other words, what may be objectively conceived as left or right wing may be somewhat different in the region, whilst even left wing parties have had little room for maneuver since the financial crisis.

Alternative conceptions of institutions, rooted in the rather more pragmatic socio-economic tradition, do not see a single institutional feature as assuming overwhelming importance (Goergen et al. 2009; see also the Psychogios and Wood article in this special issue). Rather, institutions represent the epicenter of networks of social ties between key actors. Whilst institutions may be dynamic and subject to evolution and change, specific historical experiences, both negative and positive, are likely to have a persistent effect. This reflects the reluctance of key players to abandon familiar features, from which they can extract known advantages, for a

more uncertain future. The early Varieties of Capitalism literature focused on the most developed economies, and drew a simple distinction between liberal markets such as the UK and the US, and coordinated markets encountered in continental north-western Europe. Later, more sophisticated variations, focused on core differences in Mediterranean and post-Soviet or transitional economies, defining the latter as distinct archetypes in their own right (Amable, 2003; Lane, 2007). Now, Greece has many common features with Spain and Portugal: authoritarian rule up until the 1970s, coupled with heavily interventionist states promoting and indeed, often owning outright, an often inefficient large firms sector. Privatization and deregulation have changed the rules under which the latter operate, but embedded cultures and ways of doing things remain distinct. Outside of this large firms sector, there is a large SME sector, often consisting of family owned business, who conduct their affairs on the basis of close personal ties, and whose compliance with formal regulations is at best uneven (Brüdermann and Preisendörfer, 1998). But, as with any attempt at analytical ease, a close scrutiny will reveal a great deal of diversity; in HR terms, key differences include variations in the capacity of national training systems, in the capacity of organized labour, and the relative importance of family ties in terms of issues such as resourcing. Most notably, Greece has performed considerably more poorly than Spain and Portugal, both owing to governance failings and organizational practice. Whilst we are skeptical of an open ended project aimed at identifying every conceivable variety of capitalism (an exercise that can lapse into complex description as adverse to theorization), a case can be made that Greece represents a very distinct sub-variation of Mediterranean capitalism. What sets Greek HRM apart is explored in more detail in subsequent articles.

Whilst the post-Soviet countries in South Eastern (and Central and North Eastern) Europe are generally lumped together into a broad transitional category, it is something of a truism to state that it has been an extremely protracted transition process, and that for many countries there is no visible end point (Lane, 2007a). The frustration with this process can be seen at the organizational, governmental and European Union levels (e.g., Bastian, 2008). Some transitional countries have veered relatively close to the liberal market model (e.g., Czech Republic and the Baltics) and two have gradually moved to the coordinated market model (the Eurozone states of Slovakia and Slovenia) (see Lane, 2007). Yet, others appear to have embarked on a distinct trajectory, characterized by high levels of corruption, poor law enforcement, high inequality, the sustained impoverishment of many, yet with islands of economic activity (above all, those linked to the politically well connected prospering).

Whilst it would be easy to dismiss such national systems as entirely dysfunctional (and, hence, not systems at all), it is evident that they function in a manner that is conducive to specific, albeit narrow, sets of interests (Wood and Frynas 2006). What types of HRM could be expected to be encountered in such contexts? What evidence we have points to wholesale job losses, the inability of unions to gain headway, being constrained by both historical compromises and present pressures of competitiveness, a crisis of relevance and funding for national training systems, and the capacity of management to operate in an arbitrary fashion, unconstrained by

law? Initial evidence would suggest that rather than bringing about better governance in the region, the 2008 financial crisis has exacerbated them; those countries that have been forced to turn to the tender mercies of the IMF have been forced to undergo further budgetary cutbacks and deregulation that make better regulation and practice more difficult to promote. Whilst there is ample evidence that none of the countries in the region can build their competitiveness on ultra-cheap, super flexible labour (invariably, cheaper and more flexible labour may be found in the developing world, in an unseemly race to the bottom), it has proven extremely hazardous to disseminate alternatives, outside of a few enclaves.

This special issue is focused on HRM in the region, rather than the nature of capitalist diversity per se, but papers in this special issue do shed further light on the relationship between emerging and persistent HRM practices and adapting institutional frameworks. What, can we conclude, are the key features of HRM in the region?

First, there is a strong element of bounded diversity, with different paradigms being likely to be encountered not just in different places – for example, between the uneven regulatory context of Greece and the “wild capitalism” of Serbia (Upchurch et al. 2010) – but also in different firm types, most notably between indigenous large firms, MNCs, and small and medium family owned businesses. Secondly, at best, national training systems have battled to keep up with the changing human resource demands at the firm level, delivering either outmoded skills, and/or overly costly training out of reach to many companies and individuals (Zupan and Kaše, 2005). Thirdly, careers have generally become more insecure: firms have become a lot more opportunistic in their planning, with a large component of the workforce becoming reconciled to insecure working and/or a high degree of job mobility (Roberts, 2001). Finally, voice mechanisms are often weak and ineffectual. In post Soviet economies many unions have battled to recapture legitimacy in the wake of a transmission belt role under the preceding order, whilst in Mediterranean economies, privatization has posed new challenges. We now turn to the specific issues highlighted by the remaining articles in this special issue.

### **Emerging Research Issues**

Panayotopoulou et al explore the notion of internalization and externalization of employment in five South-Eastern European countries, namely Bulgaria, Cyprus, Greece, Italy and Slovenia based on the South-Eastern European sub-sample of the CraNet project. They examine whether the choice between internalization and externalization of employment influences organizational performance and whether this relationship changes between the different countries studied. They show that HRM practices supporting internalization have more impact on top performance than those of externalization.

Psychogios and Wood look at the effects of institutions on the practice of HRM in Greece and how alternative approaches to institutions conceptualize contexts such as Greece. Like other

Mediterranean economies, Greece has been undergoing a long evolution, marked by reforms both towards greater liberalization and greater coordination but embedded ways of doing things persist. It appears that the Greek economy is an essentially dualistic one, divided between larger organizations (both within the state and private sectors) and the SME sector: the relative importance of the latter has increased in recent years.

Sayim investigates the transfer of reward management policies of seven US owned multinationals across a broad spectrum of industries operating in Turkey. Interviews with nearly eighty representatives of these organizations (both at the headquarter and subsidiary levels were conducted. The qualitative evidence suggests a 'smooth' transfer of the US oriented policies to the subsidiaries indicating a somewhat ethnocentric approach to such policies in the respective organizations in the country.

Croucher examines whether the introduction of Western quality standards in relation to the development of employee involvement in Ukrainian manufacturing and service companies and analyses the consequences for managements' use of the institutions of employee representation. It is suggested that two models of involvement appear to be working herein: a 'direct' on similar to the US model and a direct and weakly-institutionalized indirect methods similar to a dilute version of the European model.

Wersonig et al examine perceptions of the business culture of different countries. These are seen as important for the development of human resource management and for their impact on existing and potential expatriate managers sent to those countries. By looking at four SEE countries (Bulgaria, Hungary, Romania and Slovakia), using a large sample of expatriate managers working in those countries and a control group of local managers, they report that in general the expatriates and the local managers share the same perceptions; that there are both positive and negative perceptions of SEE states; but that the negatives outweigh the positives.

Collings et al examine the link between human resource management practices and three organizational outcomes namely employee skills and abilities, employee motivation and organizational financial performance. The study also examines the association between the alignment of HRM practices with the overall strategic orientation of the organization and the three organizational outcomes. The results provide support for the contingency approach, with HRM and strategy fit being the only variable which impacts on all three outcomes considered.

Williams evaluates the prevalence of hybrid 'under-declared' employment in South-Eastern Europe. Reporting on a 2007 EU-wide survey comprising 26,659 face-to-face interviews, some 1 in 6 (16 per cent) formal employees in South-East Europe are found to be in these hybrid 'under-declared' jobs receiving on average 60 per cent of their gross salary as an envelope wage. Uncovering how, despite this employment arrangement being unevenly distributed across countries, employee groups and businesses, it is not confined to small pockets but is ubiquitous across the South-East European labour market and beyond.

## Conclusions

Whilst most of the economies of South Eastern Europe are commonly conceived of as transitional both in terms of rules and HR practices, it is clear that the transition is long one, and indeed, may represent more continuity than a transition at all. Many of the economies are at least dualistic, with weak enforcement of the law in the informal and small business sectors. Whilst larger firms are more closely bound by regulation, and are more likely to pioneer the adoption of perceived best practices from abroad, again informal networks and ties remain important. Reflecting incomplete and yet embedded institutional frameworks, bounded diversity in HR is likely to persist, reflecting pressures towards modernization and better regulation on the one hand, and towards informal “coping” on the other hand.

## References

- Amable, B. 2003. *The Diversity of Modern Capitalism*. Oxford: Oxford University Press.
- Arandarenko, M. 2004. “International Advice and Labour Market Institutions in South-East Europe”, *Global Social Policy*, 4 (1): 27-53.
- Bastian, J. 2008. “Cry wolf’ no more: external anchors and internal dynamics in the Western Balkans”, *Southeast European and Black Sea Studies*, 8 (4): 325-344.
- Belke, A. and Hebler, M. 2004. “Towards a European Social Union: Impacts on Labor Markets in the Acceding Countries”, *Constitutional Political Economy*, 13 (4): 313-335.
- Bitzenis, A. and Szamosi, L.T. 2009. “[Entry Modes and the Determinants of Foreign Direct Investment in a European Union Accession Country: The Case of Albania](#)”, *Journal of East West Business*, 15 (3): 189–209
- Bitzenis, A. (2009) *The Balkans: FDI and EU Accession*. Ashgate Publishing, London.
- Blanchard, O. 1999. “Employment Prediction and Labor Market Performance”. *Employment Outlook*. Paris: OECD.
- Bolkstein, F. 1999. “The Dutch Model: The High Road That Leaders Out of The Low Countries”. *Economist*, May 22: 75-76.
- Brewster, C., Sparrow, P., and Vernon, G. 2008. *International Human Resource Management*. Second Edition. London: CIPD.
- Brewster, C., Wood, G., and Brookes, C. 2006. “Varieties of Capitalism and Varieties of Firm”. Pp. 217-234 in *Institutions and Working Life*. Edited by James, P. and Wood, G. Oxford: Oxford University Press.

- Brüderm, J. and Preisendörfer, P. 1998. 'Network Support and the Success of Newly Founded Business', *Small Business Economics*, 10 (3): 213-225.
- Botero, J., Djankov, S., La Porta, R. And Lopez-de-Silanes, F. 2004. 'The Regulation of Labor', *The Quarterly Journal of Economics*, November: 1339-1382.
- Croucher, R. 2004. "The Impact of Trade Union Education: a Study in Three Countries in Eastern Europe", *European Journal of Industrial Relations*, 10 (1): 90-109.
- Elango, B. and Pattnaik, C. 2007. "Building Capabilities for International Operations Through Networks: A Study of Indian Firms", *Journal of International Business Studies*, 38: 541-555.
- Galanou, E. and Pripoas-C.V. 2009. "A Model for Evaluating the Effectiveness of Middle Managers' Training Courses: Evidence From a Major Banking Organization in Greece", *International Journal of Training and Development*, 13 (4): 221-246
- Goergen, M., Brewster, C. and Wood, G. 2009. "Corporate Governance Regimes and Employment Relations in Europe", *Industrial Relations/Relations Industrielles*, 64, 6: 620-640.
- Gooderham, P.N., Nordhaug, O. and Ringdal, K. 1999. "Institutional and Rational Determinants of Organizational Practices: Human Resource Management in European Firms", *Administrative Sciences Quarterly*, 44: 507-531.
- Hofstede, G. 2001. *Culture's Consequences: Comparing Values, Behaviours, Institutions, and Organisations Across Nations*, 2<sup>nd</sup>. ed., Sage, Thousand Oaks.
- Hollinshead, G. and Maclean, M. 2007. "Transition and Organizational Dissonance in Serbia", *Human Relations*, 60 (10): 1551-1574.
- Kiessling, T., Harvey, M. and Dabic, M. 2008. "Knowledge Management in Central and Eastern Europe Through Network Development and Boundary Spanners", *Journal of East-West Business*, 14 (2): 159-186.
- Kostova, T. and Roth, K. 2002. "Adoption of Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects", *Academic of Management Journal*, 45 (1): 215-233.
- La Porta, R. Lopez-de-Silanes, F. and Shleifer, A. (1999) 'Corporate Ownership around the World', *The Journal of Finance*, 54(2):471-517.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (2002) 'Investor Protection and Corporate Valuation', *The Journal of Finance*, 57(3): 1147-1170.
- Lane, D.. 2007. "Post State Socialism: A Diversity of Capitalisms?" Pp 13-39 in *Varieties of Capitalism in Post Communist Countries*. Edited by Lane, D. and Myant, M. London: Palgrave.
- Lane, D. 2007a. "Post-Communist States and the European Union", *Journal of Communist Studies and Transition Politics*, 23 (4): 461-477.

- Luo, Y. and Tang, R.L. 2007. "International Expansion of Emerging Market Enterprises: A Springboard Perspective", *Journal of International Business Studies*, 38: 481-489.
- Mayrhofer, W., Brewster, C., Morley, M., and Gunnigle, P. 2000. "Communication, Consultation, and the HRM Debate". Pp. 222-244 in *New Challenges for European Human Resource Management*. Edited by Brewster, C., Mayrhofer, W. and Morley, M. London: MacMillan.
- Pagano, M. and Volpin, P. (2005), 'The Political Economy of Corporate Governance', *American Economic Review*, 95, 1005-1030.
- Papalexandris, N. and Stavrou, E., (2004). "Human Resource Management in the Southeastern Mediterranean Corner of Europe: The case of Italy, Greece and Cyprus". Pp. 189-230 in *Human Resource Management in Europe. Evidence of Convergence?* Edited by Brewster, C., Mayrhofer, W. and Morley, M. London: Elsevier.
- Parsons, T. 1991. *The Social System*. London: Routledge.
- Roberts, K. (2001). "The New East European Model of Education, Training and Youth Employment", *Journal of Education and Work*, 14 (3): 315-328.
- Rodríguez-Planas, N. and Jacob, B. 2009. "Evaluating Active Labor Market Programs in Romania", *Empirical Economics*, 38 (1): 65-84
- Roe, M. (2003), *Political Determinants of Corporate Governance*, Oxford: Oxford University Press.
- Rozenzweig, P.M. 2005. "The Dual Logics Behind International Human Resource Management: Pressures for Global Integration and Local Responsiveness". Pp. 36-48 in *Handbook of Research in International HRM*. Edited by Stahl, G. and Bjorkman, I. Cheltenham: Edward Elgar.
- Sarri, K.K., Bakouros, I.L., Petridou, E. 2010. "Entrepreneurial Training for Creativity and Innovation", *Journal of European Industrial Training*, 34 (3): 270-288.
- Siems, M. and Deakin, S. 2009. "Comparative Law and Finance: Past, Present and Future Research". SSRN Working Paper ([http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1428247](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1428247)[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1428247](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1428247)).
- Clauwert, S., Gradev, G., Schomann, I., and Warneck, W. 2003. *Labour Relations in South East Europe*. European Trade Institute: Brussels.
- Solioz, C. and Stubbs, P. 2009. "Emergent Regional Cooperation in South East Europe: Towards 'Open Regionalism'?" *Southeast European and Black Sea Studies*, 9 (1/2): 1-16.
- Tregaskis, O. and Brewster, C. 2006. "Converging or Diverging? A Comparative Analysis of Trends in Contingent Employment Practices in Europe Over a Decade", *Journal of International Business Studies*, 37 (1): 111-126.

Upchurch, M., Marinković, D. and Zivković, A. 2010. "Wild Capitalism, Privatisation and Employment Relations in Serbia". Working paper, Middlesex University.

Upchurch, M. and Cicimil, S. 2004. "The Political Economy of Management Knowledge Transfer: Some Insights from Experience in Serbia and Montenegro", *South-East Europe Review for Labour and Social Affairs*, 7 (2): 101-120.

Vatchkova, E. 2009. "Managing Human Resources in Bulgaria". Pp 243-277 in *Managing Human Resource in Central and Eastern Europe*. Edited by Morley, M.J., Heraty, N., and Michailova, S. New York: Routledge.

Wood, G. and Frynas, G. 2006. "The Institutional Basis of Economic Failure: Anatomy of the Segmented Business System", *Socio-Economic Review*, 4, 2: 239-277.

Zupan, N, and Kaše, R. (2005). "Strategic human resource management in European transition economies: building a conceptual model on the case of Slovenia", 16 (6): 882-906.