

# The Impact of Host Country Effects on Transferring HRM Practices from Western Headquarters to Ukrainian Subsidiaries

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**Abstract**—The emerging markets of post-USSR countries have attracted Western multinational companies; however, weak institutions and unstable host country environments have hindered the implementation of successful management practices. The Ukrainian market, in light of recent events, is particularly interesting to study for its compatibility with Western businesses. This paper focuses on factors that can facilitate or inhibit the transfer of human resource management practices from Western headquarters to Ukrainian subsidiaries. To explain the national context's effects better, a business systems approach has been applied to a qualitative study of 16 wholly owned Western subsidiaries, dissecting the reasons for a weak integration of Western practices in Ukraine. Results show that underdeveloped institutions have forced companies to develop additional practices that compensate for national weaknesses, as well as to adjust to a constantly changing environment. Flexibility and local responsiveness were observed as vital for success in Ukraine.

**Keywords**—Business system, HR practices, human resource management, multinational companies, Ukraine.

## I. INTRODUCTION

AS almost every study on multinational companies begins with the role of multinational corporations (MNCs) in a globalized world; we would similarly like to start by highlighting the importance of these companies in emerging markets, where they spread knowledge and innovative technologies. Despite the benefits attributable to innovative practices developed by MNCs, these strategies cannot be directly applied in their subsidiaries across the globe. However, a greater transfer of best practices and fewer barriers to innovations may help companies succeed in permissive host environments. Among various management strategies, human resource management (HRM) often represents the biggest issue, while its efficacy is vital to companies' success. In post-Soviet countries, weak institutions and a lack of formal procedures complicate the realization of a globally successful Western approach to HRM. Despite the widely acknowledged importance of HRM, it has been inadequately studied in post-USSR countries (with some exceptions in Russia). In addition, Western theoretical frameworks applied in existing studies have not fully captured the complex process of transitioning to market economies and the prevalence of unpredictable informal institutions, resulting in this question being only marginally understood by scholars.

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At the same time, as Schwartz and McCann state: "Post socialism can be, and has been, treated as a site for testing existing theories, the collapse of communism and the magnitude and significance of subsequent social transformations present us with the challenge of conceptually coordinating heterogeneous aspects of action and structure." [30, p. 1546].

Consequently, a deeper investigation of large post-USSR countries, such as Ukraine, can contribute to an understanding of post-socialist transformation in organization theory.

## II. RESEARCH QUESTION AND THEORETICAL APPROACH

To contribute to the global study of comparative international HRM, this research seeks to explore the impact of host country effects on the process of transferring HRM strategies from Western headquarters to their Ukrainian subsidiaries. Western MNCs operating in Ukraine were selected as the focus in this research because they are the main agents of transfer of Western managerial practices in post-socialist economies in transition, including in Ukraine.

In the transfer of management practices to host countries, the extent to which firms can transfer their country-of-origin practices depends on the host countries' national business systems and institutions, which can either facilitate or inhibit the transfer [11]. Modern theories related to institutional analysis, such as new institutionalism [22], [9] or the 'varieties of capitalism' approach [16], [2], have proved misleading and inappropriate when applied to transitional economies [20], [13], [18]. Mykhnenko [26], while analyzing the patterns of capitalism in Ukraine, pointed out path-dependent transformations in this country, where the introduction of new elements occurs in combination with adaptations and reconfigurations of already existing institutional norms. Whitley's [36] business system theoretical framework highlights both the path-dependent nature of large-scale economic change and the often-contradictory effects of institutional transformations. Consequently, a business system approach has been adopted in this study. This approach has never been applied to Ukrainian contexts, even though it is extremely useful in analyzing host and home countries' effects in comparative studies of international HRM in transitional economies. The cultural and institutional distance between home and host countries is the key to identifying influential factors. Therefore, to observe host country effects better, MNCs were selected from distant and well-studied Western

business systems—such as the US, Germany, France, and Switzerland.

According to [36], four major institutional arenas shape the business system of countries and influence national business practices. They are the regulating role of the state in the economy; the control, education, and skills development systems; the structure of the financial sector and the ways that companies gain access to capital; and the cultural values shaping trust and authority in work and managerial relationships. All these elements play important roles in the work culture of countries and, consequently, HRM practices.

In addition to the effects of host and home countries' institutional features [34], scholars have also identified other factors, including dominance effects and pressures to integrate internationally [10]. Dominance effects can be explained as the 'idea that dominant or hegemonic states are able to exert organizational, political, and technological influences that invite dissemination and adoption across the global capitalist system' [1, p. 280]. This means that MNCs can adopt management practices from well-developed countries such as the US, considering them factors that have given rise to the economic strength of those countries of origin. The pressures to integrate internationally within MNCs is attributed to 'reduced cross-national differences in consumer tastes, the deregulation of product markets and the reduction of tariff barriers, making it more feasible for MNCs to achieve synergies between their subsidiaries' [1, p. 281]. MNCs, independent of other factors, centralize and standardize their operations across the globe.

Apart from the external factors mentioned in previous paragraphs, it is important to determine internal factors [35] and micro-political aspects [12], which also may act as barriers to or facilitators of the transfer of global practices. Among these are strategic, structural, and coordinating mechanisms, as well as various contingency factors.

Management theory suggests that companies with global strategies and structures have more standardized HRM policies and practices [6]. This contrasts to companies with multi-domestic strategies and structures, where HRM policies and practices are more adapted to local conditions.

As for contingency factors, company features such as size, age, industry, and other internal impacts might shape HRM practices. The bigger and older the company, for example, the more its practices resemble local patterns. HRM practices are generally more difficult to transfer in larger subsidiaries, and larger firms tend to adopt more socially responsible HRM practices, since they have more visibility and are under more pressure to gain legitimacy and acceptance [27]. Concurrently, more mature subsidiaries in operation for many years gain some independence from their headquarters (HQ) and develop HRM practices that fit local environments better. Service industry and industries that are more polycentric in structure, including parts of the food and drink or textile and clothing sectors, are more localized due to national preferences [11]. At the same time, globalized industries [11] - such as automotive, chemical or electronics firms - experience a higher impact from home countries, as their operating units are more

integrated into the international corporate strategies of parent companies.

Coordination mechanisms can be expressed through the extent of ownership, HQ control, the number of expatriates, greenfield or brownfield investments, the role of subsidiaries, the role of HR managers at subsidiaries, and so on. Bjorkman and Ehrnroot [3] have observed that features such as greenfield projects, higher foreign ownership, stricter control by HQs, empowered HR managers, larger numbers of expatriates and greater importance of subsidiaries facilitate the transfer of HRM practices from HQs.

In order to answer the main research question, HRM practices were split into three groups, according to the extent of their transfer and integration [19], [4] in Ukrainian subsidiaries. The first group includes local HRM practices at Ukrainian subsidiaries that MNCs have adopted from or fully adapted to the local environment. These practices reflect the national context's effects that shape HRM practices of domestic firms or force Ukrainian subsidiaries to adapt to the needs of the local environment by creating quite specific HRM strategies. The second group focuses on those HRM practices of Ukrainian subsidiaries that have been imported from Western HQs but could not be implemented or integrated due to certain national contextual effects. Finally, the third group represents standardized HRM practices of Ukrainian subsidiaries that have been successfully transferred from Western headquarters or adopted by Ukrainian HR managers from the global pool of best practices. Within each group, the factors that inhibit or facilitate certain practices represent the main point of interest, providing the clearest picture of various national effects.

### III. INSTITUTIONS AND BUSINESS SYSTEM IN UKRAINE

Historically, Ukrainian territories were split between different rulers—the Russian Empire to the east, the Austro-Hungarian Empire and the Polish–Lithuanian Commonwealth to the west, and the Ottoman Empire to the south. As a result, Ukraine inherited different cultures from its rulers and, consequently, differs significantly across its territories. More recently, the 70 years under the USSR regime brought common USSR institutional features and personal values into the everyday life of Ukrainians. However, after gaining its independence in 1991, Ukraine finally started down its own path to developing a national identity, and it is currently the biggest country on the European continent (603,628 sq. km with a population of 46 million).

In the initial stages of its transformation, it proved less attractive to foreign investors and Western researchers, which delayed its development away from its post-USSR 'bigger brother' Russia, for about 10 years. Indeed, one can argue that Ukraine followed the Russian path and was strongly attached to its powerful neighbor, including a strong dependency in resources and political, economic, and social ties between the two countries. As a result, their institutional and cultural contexts were also similar. Nonetheless, the recent crisis in Ukraine, which resulted from Ukraine president Viktor Yanukovich's refusal to sign an agreement with the EU,

revealed another feature of Ukraine: its strong desire for democracy and self-determination as a Western capitalist economy. This fact attracted the attention of the entire world and caused a serious confrontation between the West (the EU and US) and East (Russia). Being strongly dependent on its neighbors and facing identity issues, Ukraine's choice was not easy. A move towards the West would mean burned bridges with Russia, while strengthening ties with Russia would further postpone Ukraine's desired entrance into the EU. This situation shows that Ukraine combines features of both the West and East, with an internal conflict between western territories—heading towards the capitalist economy of the West and breaking from Eastern Soviet patterns—and eastern territories, which tend to merge with the East, enforcing past connections.

Gaidai [14] believes that Ukraine's economic mentality has always been predisposed to a market-style economic organization, including elements such as hard work, individualism, independence, estheticism, creativity, striving for welfare, an anti-communal and authoritarianism mentality, and self-reliance instead of expecting support from the government. In this author's opinion, these dominant elements of Ukraine's economic mentality define its major similarities to Europeans and differences from the Russian 'anti-capitalist' mentality. However, [4] also acknowledges that Ukraine has significant regional differentiation, where Russia strongly influences eastern territories.

In Ukraine, as in Russia, a socialist past creates institutional embeddedness within a centrally planned social system [8], where predominantly informal institutions have to compensate for inefficiency. As a result, the state is strongly involved in Ukraine's economy, yet product markets are weakly regulated [25]. The state provides moderate protection for domestic product markets, at the same time producing administrative burdens and barriers to entrepreneurship. The Ukrainian business structure consists mainly of a large industrial corporate sector (70%), with 17% state enterprises and only 13% family owned firms [28]. According to local business people, taxation, finances, and corruption are amongst the three most significant obstacles to doing business in Ukraine [24].

Ukraine's financial system is largely underdeveloped and bank-based, which strongly differentiates it from the market-based model of capitalism. Its capital markets are rudimentary, and institutional investors are almost non-existent. The role of the central bank is extremely important, equaling half the size of all commercial banks, which are domestically owned. Consequently, the Ukrainian government appears to be a much more active player in financial markets.

Despite the fact that the public education system in Ukraine is well developed, it provides good knowledge and vocational training in all areas except business studies. This science has just recently become useful in the Ukrainian marketplace, and universities are only slowly offering Western management courses. At the same time, many private schools have appeared in recent years, which are more flexible in program development and closer to business realities. Nonetheless,

Ukraine's businesses are not eager to encourage training for students or recent graduates, seeking only experienced employees. As a result, the bridge between education and business in Ukraine is quite weak. This can also be explained by the relatively small amount of private spending on education in Ukraine, whilst the role of the state and public spending remains central [25].

In general, industrial relations have a moderate degree of wage-bargaining centralization and high levels of trade union density, but they lack resources [7] and thus have little influence. According to Whitley [36], the inadequate system of vocational training has forced MNCs to implement more extensive training, while decentralized bargaining has replaced individual negotiation for compensation.

A reliance on personal trust built up over time coincides not just with the absence of reliable formal institutions but also with a deep mistrust towards the Ukrainian state, shared by all Ukrainians [29]. In these uncertain circumstances, people have become much more dependent on each other. Ukrainians do business in a 'relationship-oriented' way and rely on reflexive modes of trust production [17].

A weak interdependence between employer and employee has been observed in Ukraine [31]. In the continuing crisis, Ukrainian companies have laid off employees, resulting in substantial cuts in employment. State owned companies as well as some private ones 'have turned far more to unpaid and partially paid administrative leave, short-time working and unpaid employment involving wage arrears or the non-payment of contractual wages' [32, p. 46]. Notwithstanding, employees fear becoming unemployed and prefer to take wage cuts or even unpaid employment for long, uncertain periods.

Despite revolutionary attempts in Ukraine to move away from an autocratically organized government, the Ukrainian situation still corresponds to a 'state-guided' business system [36] with widespread Taylorist and patriarchal work patterns. Whitley argues that, in such environments, firms generally share common characteristics, such as high managerial control, low worker discretion, wide separation of workers from managers, low employer commitment, and job-based rewards/personal evaluations of performance. According to [36], a credit-based financial system results in low cooperation among competitors and low employer-employee interdependence. Companies experience high employee turnover, and therefore are unwilling to invest in personnel development. It also places profit gain goals ahead of growth, including profit sharing in compensation packages. Rewards at this point are tied generally to employees' positions instead of to their skills or potential. Weak trade unions and the resulting decentralized bargaining allow individual negotiation for compensation and high wage differentials. A low trust environment discourages employees' involvement in decision-making, appraising them for results only and focusing on the goal of improving performance through direct supervision.

#### IV. ROLE OF MNCs IN ESTABLISHING HR FUNCTIONS IN UKRAINE

The role of foreign direct investment (FDI) in Ukraine until recently was moderate [25], with the largest share of FDI coming from post-communist economies (Russia, the former Soviet Union, and Central and Eastern Europe). However, the share of extensively industrialized countries in total overseas investments in Ukraine has significantly increased over the past several years [33], showing the strong interest in the West of the Ukrainian economy and its belief that this country could eventually turn into a democracy like the rest of Europe. Nonetheless, the level of the multinational presence in Ukraine is still low, while the national economy appears to be dominated by private domestic capital.

Western companies in Ukraine have been investing heavily in their employees and developing scarce HR reserves. They have provided training programs and rotations across to other subsidiaries for their employees [15], developing strong corporate cultures [5] and motivating employees' initiatives by giving them freedom. Foreign owned subsidiaries in Ukraine have taken on highly standardized Western practices and have even established norms (in HR and marketing) for the local business society [37].

Of the top managers in Ukraine, about 35% are foreigners, of which 40% are Russian and the rest are European and American. This high percentage of expatriates can be explained by a lack of local top managers with Western education and skills, capable of adapting Western management practices to local market conditions.

Recruitment of new employees in Ukraine still involves corruption and appears not to include hiring young talented and promising employees [21]. Among top managers in Ukrainian companies, recruiting is still based on personal networks, where the decision to hire depends not on the candidates' qualities but on their relationships with influential people.

Compensation packages for expatriate managers in major Ukrainian companies are usually extremely generous and often even better than in their home countries. These packages include a profit sharing model and shares incentives. Monthly salaries for line managers have risen 10 times, from \$30 in the 90s to \$300 in 2008 [15]. Hence, the management skills and knowledge of most local managers have remained the same since USSR times.

For a long time, due to their Soviet heritage, Ukrainians were used to getting orders from the top, which encouraged little involvement. However, lately, rapid changes have occurred. Today, Ukrainians, who are usually quite enterprising [23] and are now more strongly involved [14], appear more motivated by immaterial rewards, such as respect, honor, and personal development. Correct interactions with employees are a success factor for managers in Ukraine. Often, a mistake among foreign managers is to underestimate their Ukrainian counterparts and enforce total control over them. This professional strategy prevents trust from developing between Ukrainian employees and foreign managers, creating barriers to understanding. Ukrainians are

used to building personal relationships rather than business ones.

Retaining employees appeared to be a difficult challenge for companies in Ukraine. Higher salaries are not always helpful as attractive prospectives in professional carriers and personal growth turn out to be deciding factors for employees. Practices such as involving local managers in co-ownership coordination develop loyalty and help them feel they are working for their own 'breweries' [21].

#### V. METHODOLOGY

This empirical research covers 16 wholly owned Ukrainian subsidiaries of Western MNCs located primarily in Kiev. The sample contains a variety of industries in manufacturing and services. The smallest number of employees at a subsidiary was 100. Both greenfield and brownfield investments were incorporated in the research.

The data collection consisted of corporate documentation, questionnaires filled out prior to the interview, and semi-structured interviews with senior HR managers at Ukrainian subsidiaries. This approach allowed triangulation of data, ensuring the trustworthiness of results. In addition, respondent validation was performed. The credibility of gathered data was further confirmed by a focus group of experts and publications in local journals.

The questions in the questionnaire were designed according to the foci of the study. The first part dealt with contingency factors; the next segment contained close-ended questions on strategy and structure and various coordination mechanisms employed by HQs; and the main section was questions about HRM policies and practices. The last part was adopted from [3], asking respondents to indicate on a five-point Likert scale whether their subsidiaries' HRM practices were more similar to home country or host country practices. This question was designed to play an important role in the overall study, measuring the extent to which Western MNCs can transfer HRM practices to their Russian and Ukrainian subsidiaries. However, the small sample size did not provide significant statistical results from this quantitative approach; therefore, the data was transformed into narrative form and analyzed qualitatively. The questionnaire was pre-tested in a pilot study and reduced, with some minor adjustments, for the main study. The questionnaire was in both English and Russian, but most managers preferred the English version, in order to gain official approval.

The interviews were recorded on dictaphones, transcribed into the original language, and translated into English. Data cleaning was applied to all transcripts, which were then sent back for respondent validation. The transcripts from Ukraine were coded and analyzed in the original languages, with the help of the computer-aided data analysis software NVivo10. The decision to use transcripts in the original languages was made because the translations failed to project the high context meaning of some statements made by managers. All quotations used to illustrate certain elements were taken, however, from translated versions of transcripts. The interview guide was adopted from [35], following the conceptual model

of the same authors. The interviews were conducted mostly in Russian (with three exceptions: two in English and one in Ukrainian) to provide respondents with some comfort in expressing their ideas.

Some companies provided additional information in the form of internal documents related to their HRM policies, reports, and so on. Corporate financial reports and governance statements were taken from the companies' official webpages. Additional information on company profiles, histories, and market presence was gathered from the Internet and various secondary sources.

Analysis of the data was performed in three directions. Vertically, each company was studied as a separate case, where all influencing factors (internal and external) were applied to each HRM practice within that company. Horizontally, influencing factors and HRM practices were compared across all studied companies. In addition, a crosscheck was done where the most common patterns were highlighted for certain impacts on HRM practices, across all studied companies.

## VI. RESULTS

The analysis of internal factors showed that contingency factors played a minor role in standardizing HRM practices. When comparing companies with quite similar characteristics of age, size, industry, and investment strategy, the level of standardization was quite different. In contrast, coordination mechanisms showed significant influence in the transfer process of HRM practices. Subsidiaries that were more independent, in terms of resources and an absence of expatriates in top positions, proved to have more local HRM practices.

At the same time, a higher level of control executed by HQs intending to standardize management practices was challenged at the level of HR managers in subsidiaries. More empowered HR managers were reportedly able to facilitate or inhibit certain HRM practices. The most interesting point in these cases was that this empowerment depended mostly on each person and was not clearly articulated by HQs. Strong personalities and self-positioning allowed these HR managers to raise objections to HQs and to defend certain positions on diffusion of or innovation in HRM practices.

The impact of strategies and structures on the extent of standardization of HRM practices was confirmed for multi-domestic companies, where subsidiaries enjoyed relative autonomy, had high levels of local responsiveness, and employed some local practices. However, the extent of innovations in these cases was quite large. In other types of companies, strategies were transnational, meaning that subsidiaries were extremely active in the overall design of strategies, combining global and local practices. Differentiation was found based on such factors as dominance effects and pressures to integrate, so in companies where pressures for integration existed, a centralization of processes was observed. In others where HQs did not insist on following their home country practices, the dominance effect came through and US practices were observed.

The impact of trade unions was confirmed as weak. In addition, few companies reported that labor councils had been created within the organization to support HR functions. Regarding the national context effects that facilitate or inhibit the transfer of HRM practices, the following results are structured according to the three groups described previously: local, non-integrated, and standardized.

### *A. Localized HRM Practices at Ukrainian Subsidiaries and National Context Effects*

In most of Ukrainian subsidiaries, the local approach to HRM practices was expressed in recruitment through personal contacts, extensive training for employees and language courses. Recruitment through personal contacts is conditioned by national context effects, including trust in personal networks and weak information flow in the labor market. Extensive training for employees is needed due to the weak central business educational system and a lack of market-oriented knowledge among older generations. Language courses represent another national context effect resulting in language barriers in MNCs: the historical isolation of Ukraine from the rest of the world and therefore the lack of foreign language literacy among Ukrainians.

Companies with lower levels of standardization predominated, with local specifics such as appraisal only by supervisors, high reward differentials, and individual negotiations for compensation. These practices can be explained by national context effects, including a lack of trust, formal procedures, weak trade unions, and an unstable environment.

As for negotiation levels, these also required more individualized and decentralized characteristics, despite the rigid pay grade systems diffused from Western HQs. HR manager 12 expressed it this way, 'I look at the market, at the person's request, and at people with similar qualifications already working for the company. I take into account experience, education, the value of the person in the market and their value within the company, and we find a compromise. There are no rigid numbers. There is the understanding that, according to our company's policy, the employee falls into one or another grade'.

In a few companies, a larger separation was found between managers and workers. Most development practices were designed only for higher-level employees and compensations showed high differentials.

### *B. Non-Integrated HRM Practices at Ukrainian Subsidiaries and National Context Effects*

Although the top positions were occupied by expatriates in most of the Ukrainian subsidiaries studied, the high costs associated with foreign employees forced HR managers to find appropriate candidates in the local market. The lack of required skills and knowledge among available Ukrainian candidates made this a great challenge, a result of underdeveloped education and vocational training in business. The practice of placing expatriate in top management positions at Ukrainian subsidiaries also demotivated local

employees from pursuing professional growth and often turned away valuable people. As HR manager 2 reported, 'They (employees) see no sense in growing and pursuing goals if someone will be taken from the outside anyway'. HR manager 15 said, 'Our company is an attractive employer; however, there are limitations of how far a manager can grow, because there is some kind of 'glass ceiling', which never lets local managers take a director's position, which is always occupied by expats'.

In order to overcome this issue, Ukrainian subsidiaries were pursuing their own methods of developing leaders. HR manager 15 stated, 'Our new task is to train Ukrainians slowly but confidently and to prepare them for top roles'.

Recruiting graduates is complicated in Ukraine because of the weak connections between educational institutions and businesses, where the latter need to expend more significant effort on promoting closer ties. Consequently, training programs for graduates, which are common in Western companies, were found only in a few Ukrainian subsidiaries. HR managers also reported that the market was unprepared for this practice, requiring companies to work harder on developing employer branding. In addition, targeted students from economics and finance faculties were not ready for hands-on experience even at the bottom level. HR manager 11 reported, 'Among seventeen finalists who remained after all selections, just ten of them went to work because the others refused, after a final excursion to the trade center'.

Avoiding discriminatory questions during the recruitment process for US-origin companies was not fully understood by Ukrainian managers, as this kind of discrimination has no legal consequences in Ukraine and is culturally accepted. As HR manager 3 put it, 'We know that in America you can't ask people about their age, etc. But this is okay in our culture'. Outsourcing recruitment to European service providers, which is common for global corporations, showed limitations when applied in Ukraine. Ukrainian HR managers expressed their concerns about the inefficiency of this practice for several reasons. First, not every candidate in Ukraine is foreign language literate and therefore would not be able to participate in this process. Second, interviews conducted by an outsider might not provide the required results, requiring additional interviews by local managers.

Succession planning, which is often recommended by HQs, represented another challenge for almost every HR manager in Ukraine. Because of the fast moving and unstable local environment, positions within companies were always changing. Therefore, if, the day before, a company desperately needed to find a candidate for a certain position, the next day, this position might not exist anymore. In addition, the high turnover limited the ability of HR managers to plan for several years ahead.

The flat organizational structure common in Germany does not always satisfy the career growth ambitions of Ukrainian employees. This issue is sometimes resolved in the initial stage of recruitment, when candidates are informed about this system. HR manager 14 explained, 'You can't say that we don't offer a career. But if you compare us to American

companies, you could say that maybe we don't. But if someone wants to, they can always find horizontal opportunities, take on some additional responsibility, or change functions within their department'.

The strategy of cross-functional rotation did not always bring expected results, as not every employee is always ready to move to another position. International mobility at this point was not an option, due to the complex procedures and many restrictions on work authorizations abroad for Ukrainian citizens. HR manager 13 reported, 'They (HQ) have never taken anyone from Ukraine yet. Even in Austria, it's very hard to get a work permit, even though the company's international'.

Training programs designed at regional HQ were not always appropriate in Ukraine because of the market's specific characteristics. HR manager 1 offered an example, 'Last year, there was a sales-oriented program that came to us from the regional office. The result was that we had to spend a lot of time adapting the materials they gave us to suit our situation here, for it to make any sense at all'. Even courses suitable for Ukraine require translation to the local language. HR manager 2 gave an example when he said, 'They made the exercises for us, for our market. We will translate them this year'.

The major difference between service providers in Ukraine and Western countries is that in Ukraine, they require prepayment because of the unstable environment, the lack of trust, and a lack of financial resources. Regional HQs dictate that the service providers (for training, insurance, and so on) must accept post-factum payment, but Ukrainian managers often rejected this practice, providing solid arguments for the inefficiency of these providers.

Mentoring at Ukrainian subsidiaries was more successful when it was an informal procedure, allowing employees to express their culturally appropriate caring to others. When new employees join companies, someone takes them 'under their wing until that they are on their feet' (HR manager 11). In companies where employees were required to provide mentoring, they resisted sharing their experience. This attitude could arise from a reasonable fear of losing their jobs.

Appraisal systems were new for Ukrainians and often difficult to execute for the lack of understanding between both managers and employees. HR manager 13 explained, 'There are some things that are not in the job description. This is something related to 'soft' competencies, which are of course measured in the hardest way, but the results show it: A wrong decision is made, a contract is signed at the wrong time, inappropriate conditions are discussed. All this is reflected in the results, which affect sales, and these are not the results we expected'.

The resistance of Ukrainian workers to participating in engagement surveys was affecting the performance results of HR managers, who are responsible for employees' involvement. Workers do not understand the reasons for and importance of this practice. Their bad memories from Soviet times make them resist cooperating in this way. The common practice among US companies of feedback is difficult to implement in Ukraine. As HR manager 4 pointed out, 'People

in Ukraine are afraid to provide feedback; they are afraid to offend their colleagues. On the other hand, they are afraid because they are not skilled at doing this. I mean, there are some cultural reasons, combined with the lack of skills. Perhaps people do not understand how to do it right. We have to change their attitudes towards feedback. We should consider feedback a gift. Children grow up with this attitude abroad, and it's much simpler for them to talk about it'.

In order to overcome this issue, HR departments of Ukrainian subsidiaries had developed specific guidelines and provided additional training. This initiative facilitated an overall change in cultural attitudes towards Western feedback patterns.

Compensation is usually based on positions and tied to financial results, comprising of base salaries and high premiums for sales managers. Subsidiaries collect data on market trends in salaries and send them to HQ. In return, they receive a strict list of salary grades with minimum, median, and maximum salary ranges for each cell of the matrix. One of the fundamental policies in compensation and promotion sets the standard or minimum salary raise as the next salary range. This approach significantly complicated retention of valuable employees in Ukraine. As HR manager 13 noted, 'Everything that has something to do with comp and ben doesn't change. Promotion programs, retention: we can't change them. Even if we really want to retain a person, raise their salary, we can't do that. For example, when an employee gets 10% instead of the desired, let's say, 30%, he gets upset and quits. There's nothing we can do here. We can try giving him a retention bonus or try to talk to him, have some kind of emotional impact... That's why I prefer to tell them about this policy during the induction'.

Periods of high inflation and the elevated demand for employees with experience in Western companies inhibit the benefits of well-structured and rigid Western compensation systems. HR manager 14 provided another example for a German company. 'The pay scale has steps with gradual raises after specific time periods. But while Germans are happy to get a 2% raise, our people laugh at 5% and complain, saying: "Don't make fun of us. That's completely ridiculous.'" High salary differentials also clashed with western compensation approaches, according to Ukrainian HR manager:

Take, for example, the salary scale: It's one and the same for everyone at the global level. But look at the difference between salaries in Germany—for managers and staff—and in Ukraine... In Germany, the difference is 3.5 times; in Ukraine, it's 11 times. So you can't physically reflect this for Ukraine in the same report as Germany.

US-origin companies provide share-based compensation plans worldwide, but in Ukraine, these were not clearly understood by employees and therefore did not function as intended. Mistrust of financial institutions and an underdeveloped capital market represented major barriers to this practice.

Local laws and regulations in Ukraine restricted several Western practices. For example, a few companies confirmed that flexible working hours were difficult to implement in

Ukraine due to local laws. Another example was 'paid extra hours'. In Ukraine, extra hours during the working week can be compensated only by monetary payment and not by compensatory leave, which is applicable only to weekends. Team dinners and incentive trips turned out to be much more expensive in Ukraine due to the local taxation system.

Finally, a diversity policy, strongly encouraged by US HQs, had minimal application at some Ukrainian subsidiaries. Ukrainian women usually preferred their family to their career, while the labor market was relatively homogeneous from an ethnic point of view.

#### *C. Standardized HRM Practices at Ukrainian Subsidiaries and National Context Effects*

Despite the above-mentioned long list of practices that are difficult to implement at Ukrainian subsidiaries, the extent of transfer was observed as being reasonably high in all studied companies. Even in companies where HQs did not insist on following home countries' standardized practices, Ukrainian subsidiaries could implement global best practices with only minor adaptations. Among successfully adopted Western practices, Ukrainian subsidiaries pointed out corporate culture, codes of conduct, competency models, assessment centers for recruitment, formal performance appraisal systems, international management development programs, and compensation consisting of fixed salaries and bonuses. The extent of standardization was observed as higher in US-origin companies and in companies where pressures for integration existed. In these companies, the only reason respected by HQs for adaptation in practices was local laws and regulations. As HR manager 3 put it, 'First, it is important to follow the laws of the country you work in and to avoid conflicts of interests'.

As a result, practices that did not confront local laws eventually were diffused to Ukraine, independent of other factors. Weak institutions and a permissive environment in Ukraine facilitated the transfer and adoption of Western HRM practices.

## VII. DISCUSSION

The empirical research supports some of the theoretical assumptions and findings of other studies described in the first sections of this paper. This study found that Ukrainian subsidiaries of Western MNCs broke from institutionally embedded patterns and tended to selectively transfer practices or develop new ones. However, the main impact on the extent of transfer and innovation originated in the subsidiaries' leadership. The top management of subsidiaries had relative freedom in choosing management practices, depending on their background. Therefore, in cases where general managers were Ukrainian or Russian—sharing the values of the Soviet system—work systems at the subsidiaries resembled domestic practices. In contrast, in most of the subsidiaries where expatriates occupied executive positions, a Western management approach had been successfully implemented. Western HQs executed significant control over the financial performance of these Ukrainian subsidiaries and their compliance, which had a direct impact on headcount,

promotions, and compensation. Compensation, in turn, was allocated according to standard grade systems and appraisal results. HQs assigned the amount of compensation for each pay grade in accordance with market trends in Ukraine. However, as it is extremely rigid, this approach did not make allowances for adjustments in a constantly changing environment and for retaining valuable employees. Formal performance appraisals were closely tied to companies' goals, which were set with input from subsidiaries, according to market trends. The process of these appraisals could be developed at HQs or subsidiaries but significantly differed from domestic firms.

HRM practices applied to executives were usually designed at headquarters and implemented in subsidiaries without further adaptation. Consequently, benefits, management training programs, and international mobility practices were all diffused from HQ and encountered some barriers to integration.

A deficiency in business studies and foreign language skills forced Ukrainian subsidiaries of MCNs to provide additional training programs to compensate for this weakness. Additional host country effects, such as individual negotiation for compensation and high wage differentials, were observed only in those companies where the levels of standardization of HRM practices and dependence on HQs' resources or control were the lowest. This suggests that more autonomous subsidiaries are more exposed to national context effects.

A weak bridge between education and business provoked—in half of the studied companies—recruitment through personal connections, unwillingness to provide training to students or recent graduates, and searches for experienced employees only. Those companies that had resources and the desire to recruit students had to build a bridge to educational institutions on their own. Several cases provided proof of the success of this approach.

In most US companies, HRM practices for Ukrainian subsidiaries were developed at regional HQs with input from Ukrainian experts. This pre-adaptation of Western standardized practices allowed a better integration of practices. Consequently, Ukrainian HR managers of US-origin companies had very few complaints about practices diffused from HQs, and the extent of standardization in these companies was extremely high. On the contrary, in Europe-origin companies, where pressures for integration without regional adaptation existed, Ukrainian HR managers expressed many concerns about the diffusion of HRM practices.

#### VIII. CONCLUSION

As a contribution to comparative HRM research, this paper provides insights into the adaptation of Western HRM practices to the Ukrainian context within multinational companies. This study was based on a theoretical framework of national business systems, where the role of host country institutions is central to analyzing possible impacts on the transfer of HRM practices from Western headquarters to their Ukrainian subsidiaries. Additional conceptual propositions were derived from a review of previous empirical studies in

the literature. The results showed that in the Ukrainian transitional environment—where formal institutions are weak—the extent of transfer depends mostly on micro-political aspects. Placing expatriates in top positions facilitates the transfer of Western management practices and ensures their implementation. The host country effects, nonetheless, have forced Western companies to develop new HRM practices, which compensate for the deficiencies of underdeveloped local institutions. Consequently, two-way communication between HQs and subsidiaries and responsiveness to local conditions are vital for success in Ukrainian HRM.

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