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Path-dependent evolution of compensation systems in Central and Eastern Europe: A case study of multinational corporation subsidiaries in the Czech Republic, Poland and Hungary

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Summary This article presents the results of an embedded case study of compensation practices in the subsidiaries of a multinational corporation (MNC) in the Czech Republic, Poland and Hungary. We explore the path dependence of compensation systems in Central and Eastern European (CEE) countries prior to transformation and after the fall of state-socialist regimes. The results show that while major complementary institutions such as extensive state-socialist-type social welfare systems, which enhanced the developmental path during the state-socialist period, are non-existent during transformation, several factors on the macro, organisational and individual levels preserve the path. In addition, there are indications that the path dependence of pay practices in the region studied is moderated by a number of exogenous and endogenous sources of change, namely foreign parent companies of international subsidiaries, international management consulting companies, the growing importance and skill levels of HR professionals and generational change.

Introduction

New Central and Eastern European (CEE) European Union (EU) member states have witnessed a dramatic transformation from their previous state-socialist institutional settings towards a market economy. Human resource management (HRM) practices in all types of organisations have been affected strongly by changing ownership, management and employment structures as well as industrial relations contexts. As a result, pay systems have also undergone a radical transformation (Koubek & Brewster, 1995; Poór, Karoliny, & Farkas, 2007; Weinstein & Obloj, 2002).

Although HRM in CEE countries is often considered one of the most prominent emerging research themes in the 21st century (Scullion, Collings, & Gunnigle, 2007), academic work in this field is still rare, especially compared to a rich body of literature on industrialised countries or China as probably the most frequently studied emerging economy.

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While there are a number of examples of academic research with respect to compensation practices in CEE (cf. e.g. Poór, 2009; Weinstein & Obloj, 2002), a comprehensive analysis of institutional factors influencing pay practices is lacking.

The transformation process in CEE region countries is related to a pervasive change of political, social and economic systems. However, organisational practices in this region still seem to be determined by the institutional baggage of pre-transformation practices (Roth & Kostova, 2003). The economic organisation and transformation processes in CEE have often been referred to as ''path-dependent'' (Aguilera & Dabu, 2005; Czaban, Hocevar, Jaklic, & Whitley, 2003; Stark, 1992; Whitley & Czaban, 1998). Aguilera and Dabu (2005, p. 20) describe the path dependence argument as the belief that ''there is inertia in the process of change and that long-established and long-enforced social mechanisms have the tendency to reproduce themselves under changed circumstances''. Sydow, Schreyögg, and Koch (2009, p. 689) note, however, that ''a closer examination quickly reveals that the predominant usage [of the term in organisational research] is more metaphorical than theoretical in nature''. With respect to organisational practices, such a metaphorical use of the ''path dependence'' concept informs the researcher about the fact that respective organisational practices display features of pre-transformation systems, which might even seem to be related closely to the notion of national culture (Hofstede, 1980). For instance, in his work on comparative industrial relations, Black (2005, p. 1145) wrote: ''Cultural norms and values affect behaviour and result in different industrial relations institutional outcomes. These diverse outcomes become path dependent in large part because of the self-reinforcing nature of societal norms''. However, to understand the origin, nature and evolution of a path it is necessary to carry out research beyond the mere study of state-socialist legacies and to analyse the institutions and self-reinforcing mechanisms which have produced and enhanced a specific path.

The present study addresses the lack of knowledge about specific pay-related idiosyncrasies in CEE as well as the research deficit with respect to the theoretical explanations of compensation systems in this region. To this end, we performed an empirical analysis of pay practices in the subsidiaries of a multinational corporation (MNC) in three CEE EU member states: the Czech Republic, Poland and Hungary. Although quite different in many ways (cf., for instance, Stark, 1992 for different approaches to privatisation), these countries were used first of all because of their similarities in developmental paths during the transformation process and the current economic and political situation. All three of them belonged to the former Eastern Bloc of countries with very close political, economic and military ties with the Soviet Union. The economies of these countries during the state-socialist period were organised strictly according to the centrally planned system. After the fall of the state-socialist regimes, these nations implemented rapid reforms to their political and economic systems, and in 2004 they were among the first Eastern European countries to join the EU.

The objective of our research is threefold. Based on the results of a literature review and an embedded case study, we firstly explore and explain the origin of the path with respect to compensation practices in CEE. Secondly, we explore the path dependence of current pay systems, and thirdly, we suggest the major sources of path dissolution. Here, the path dependence theory as our theoretical approach is instrumental in explaining ''organisational inertia and the historical imprinting of decision making'' (Sydow et al., 2009, p. 689). Thus, by exploring the self-reinforcing mechanisms which led to path formation in the pre-transformation period, and the partial persistence of a specific path with respect to compensation practices in CEE, we contribute to the discussion on path dissolution as a result of a significant exogenous shock and evolutionary change in the particular environment of transformational economies. The empirical contribution of this paper to the field of international human resource management is to deliver insights into the currently underexplored specifics and nature of compensation practices in CEE.

The article is organised as follows. First, we present a literature review on compensation practices in the countries studied. Second, we outline the theoretical background of our research. This is followed by an introduction to the case study, which includes a description of particular contexts in the Czech Republic, Poland and Hungary as well as current compensation systems. We proceed — based on both literature and interview data — with a discussion on the path dependence of compensation systems, starting with a description of pre-transformation pay practices and a specific focus on the institutional constellations which formed the path. Next, an analysis of current pay practices under consideration of the same perspectives follows, including knowledge generated from our case studies. Finally, following the presentation of potential sources of path dissolution, we discuss the results of our research, illustrate the limitations of this study, develop avenues for future research and suggest possible implications for practice.

Particularities and explanations of pay systems in the Czech Republic, Poland and Hungary

A major body of literature on compensation practices in CEE transformation countries stems from the 1990s, i.e. from the first decade following the fall of state-socialist regimes. Especially in early works, legacies of the pre-transformation period and similarities with the previous system were emphasised.

For instance, in their study in Hungary, Pearce, Branyiczki, and Bakacsi (1994) identified the general use of 'person-based reward systems' in the first few years of transformation, which were grounded on personal and political considerations rather than on the competences of employees. Cyr and Schneider (1996) reported on the general dissatisfaction of Polish, Hungarian and Czech employees with their compensation systems. One of the key reasons for this discontent was the low emphasis given to rewarding individual performance, notwithstanding the fact that survey data on Czech companies showed that a large percentage of companies offered performance-related pay to all groups of employees (Koubek & Brewster, 1995). Moreover, quite large quarterly bonuses, as well as supplementary thirteenth and fourteenth month salaries, were reported to be quite common in the Czech Republic. Diverse