Analysing the interplay of factors affecting the implementation of HRM within service sector MNCs: the case of Cypriot sub-units.

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Abstract

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Analysing the interplay of factors affecting the implementation of HRM within service sector MNCs: the case of Cypriot sub-units.

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This thesis examines the implementation of HR practices within Cypriot sub-units of service sector MNCs. It attempts to shed light on the decision-making process which takes place at the local unit and highlight the forces which shape this. Existing literature, albeit influential, seems to be constrained by the underlying notion that HQ seek to transfer HR practice to the local unit. Hence, researches have attempted thus far to explore the factors which facilitate or hinder the transfer.

However, this thesis uses a bottom-up approach and shifts the emphasis from the top to the bottom level without assuming proactive, vertical transfer of practices. However, influence from the top level is by no means ignored. On the contrary, intra-organisational aspects and pressures have been incorporated in the integrated model used for this analysis. The integrated model, as such, incorporates influences from four different theoretical approaches in order to study HRM within sub-units. Indeed, findings from this thesis illustrate how external and internal forces interplay to shape HR policies and practices locally. The multi-dimensional approach suggested in this thesis contributes to the literature by highlighting the interplay of factors which shape HRM within MNCs. This allows for a deeper understanding of how HRM occurs at local level. Findings from this thesis can also be extended beyond to a range of other countries and sectors.
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CHAPTER I: Introduction

1.1 Introduction - Rationale

HRM in MNCs is a topic which now attracts a lot of attention from academics and practitioners alike. Given the increased globalisation and the growing presence of large MNCs around the world, it is a matter of strategic importance for governments and workers, trade unions and managers. Scholars have adopted a range of theoretical approaches, in books and journals published, to study this while an increasing number of countries are examined, beyond key liberal market economies such as UK and US. The complicated nature of MNCs, since it operates in a number of different nations, is reflected even in advertisements of large firms like HSBC. Hence, research has been extensively interested in how MNC’s manage their global operations and also how HRM is implemented in the various units of the organisation.

This thesis examines the implementation of HR practices within sub-units of service sector Multinational Corporations (MNCs) in Cyprus. In so doing, it analyses the complexity which surrounds employment-related decision-making at the local level, rather than at HQ which allows for a detailed review of how practices are actually implemented in the case study organisations. Drawing from a variety of different theoretical approaches, an integrated model is employed to highlight the interplay between four clusters of factors which shape HRM. These clusters are namely institutions, culture, intra-organisational characteristics and global pressures.

It needs to be acknowledged that an MNC is in itself a complex form of organization since by definition operates across the borders of national states and societies. Contrary to the simpler form of organizations - the local firm - a multinational consists of sub-units which may be located in a number of different countries and are ‘controlled’ by a central unit located in the country of origin of the MNC, namely the head-quarters (HQ). Hence, literature has been predominantly concerned with how labour is managed at the various host-country units in order to assess the extent to which it reflects top-level strategies.
1.2 The MNC setting

MNCs are key players in globalised economies which even though they have the power to circumvent national regulations and policies (more easily than national firms\(^1\) can), are still bound by international standards (Navaretti & Venables, 2004). They hold a unique position in business not only with their cross-border activities but also with the way they create or implement choices on how to operate within this global environment (Farndale and Pauuwe, 2007).

Consumers usually have a vague perception of the role which MNCs play in their lives. Nevertheless, from this point of view we cannot truly appreciate the vast effects that the MNCs have on the global economy and employment. These effects can be made more explicit if one considers some important data and figures regarding the activities of MNCs around the globe. Latest figures (World Investment Report, 2007\(^2\)) reveal that 78 000 parent MNCs are operating at the time in the world which control approximately 780 000 foreign affiliates. These subsidiaries employ 73 million employees around the world and the total employment accounts for an estimated three per cent of the global workforce. This is even more interesting when compared to previous data which illustrate the growth rate of multinationals around the globe. In 1999, estimates suggested that 53 000 MNCs had global activities, controlling 450 000 subsidiaries and selling goods and services estimated at $9.5 trillion (Edwards et al., 1999). Additionally, in the early 1990s estimations showed that MNCs – parent and subsidiaries combined – were responsible for 75% of the world’s commodity trade (Dunning, 1993). This means that MNCs, for the past twenty years at least, have had the upper hand in controlling the globe’s primary resources and consequently affecting the economic stability around the globe. Global FDI inflows grew in 2006 for the third consecutive year to reach 1.306 billion dollars which was 38% higher than in 2005. If we consider that this was probably due to a weakening dollar in 2006, then we can speculate even more drastic increases in global FDI inflows.

MNCs are distinguished from other firms by having two major sets of business and management phenomena that other organizations do not have: (1) internalization strategies, as overall concepts and patterns of extending operations from domestic base to other

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1 National firms are defined as firms which operate in a single country’s market.
countries and (2) practices of corporate control geared to facing specific problem that their subsidiaries in different societies are embedded in different societal contexts (Harzing & Sorge, 2003). Various researchers and scholars have also argued that an important source of competitive advantage for MNCs is the utilization of their organization capabilities on a worldwide basis through the leveraging of their management practices across their subsidiaries (Gooderman et al., 2006). One of the few remaining sources for competitive advantage, are namely the human resources (Tregaskis, 1998). MNCs demonstrate a strong element of strategic integration between human resource and business issues (Tregaskis, 1998). More importantly is that despite that, as technology and capital became commodities in domestic markets, the only thing left really to distinguish firms, and thereby allow them to gain competitive advantage, were skills in managing their human resources (Reich, 1990; Farndale and Pauuw, 2007).

Overall, MNCs offer great potential for developing and testing organization theories (Evans, 1981), albeit the fact that some researchers have argued that organization theory still has difficulties dealing with MNCs as distinctive organizations (Morgan & Kristensen, 2006). In the past twenty years the globalization phenomenon, including the study of MNCs, can be regarded as anything but uncontested (Geppert et al., 2006). This occurs because MNCs provide a context characterized by substantial heterogeneity and complexity (Roth & Kostova, 2003; Tregaskis, 1998). In addition, plurality at the individual level is reflected in the wide variety of backgrounds, cognitive templates and biases (Roth & Kostova, 2003).

MNCs differ significantly from domestic firms not only in terms of their activities but in their need to manage different and conflicting pressures which are not present in a single local context. This is illustrated if we are indeed to consider that “geographic dispersion and multiculturalism that the international firm faces adds a need for competency and sensitivity that it is not found in the domestic firm” (Briscoe and Schuler, 2004, p.29). Correspondingly, since MNCs operate, by definition, in more than one social, cultural and technological context, they are bound to feel the burden of competing pressures that result from this multidimensional setting (Tregaskis, Heraty & Morley, 2001). The direct effect of this for managerial decisions is best exemplified by Geppert and Williams (2006, p.49) who state that “managers face a dilemma in that they need both internal legitimacy (within
the MNC itself) and external legitimacy (within the local context)” and this argument is supported by a number of other authors in the field.

The variation in MNC practices ultimately is reflected in the following taxonomy: ethnocentric, polycentric and geocentric (Perlmutter, 1969; Harzing and Ruysseveldt, 2004). When referring to the approach towards selecting HR practices, ethnocentric MNCs seek to transfer national, home-country behaviours, norms and practices to the units and expect the units to simply adopt them in an explicit attempt to standardize practices and procedures. This is also illustrated through the extensive use of expatriates. Managers in ethnocentric multinationals are unsurprisingly nationals from the parent country and are thus appointed so they can follow the parent country’s management style. This is contrary to the polycentric strategy where firms tend to adapt the practices which are already embedded in the local environment or at least adopt practices which are consistent with the host-country environment. In this case, managers are local nationals and their management style follows the one which other local firms embrace; an indication of decentralized control which leads to adoption of local practices by the subsidiary (Mohan, 2006). Meanwhile, geocentric MNCs adjust their practices according to worldwide or global principles and in these types of organizations, the best people are selected from an international pool of candidates and managers are most likely either parent country nationals, local nationals or third country nationals. This taxonomy is very similar to Bartlett and Ghoshal (1989) where global firms exercise centralized control over their subsidiaries’ practices, multi-domestic ones allow for adaptation to the indigenous practices and transnational multinationals adhere to a global model of best practices.

What must be noted though is that, one of the tenets underlying most writings on this perspective is that such taxonomy is perceived as an explicit strategic decision made by the MNC (Farndale and Paauwe, 2007). Equally, MNCs are conceived as organizations which have “the ability to leverage internal knowledge and aid in coordination and cooperation” (Taylor, 2007, p.337). For example, Fenton-O’Creevy et al. (2008), suggest that American MNCs in particular are expected to be proactive and to control their subsidiaries through the use of expatriate managers, since it is believed that the local managers’ embeddedness in the local setting might hinder their willingness to challenge their norms in the firm’s best interest. However, this typology on its own accord does not offer an extensive account
of the parameters that shape HR decisions at the subsidiary level and ignores external influences on HRM. In addition, it does not provide adequate explanations regarding the variation of practices across different subsidiaries of a single MNC.

1.3 Multinationals and HRM

Differences exist between human resource management (HRM) and international human resource management (IHRM), either in terms of its role or its function. Human resource management is perceived to be a system (or a process as it will be called from now on in this study) that incorporates (a) specific HRM practices (i.e. recruitment, training, appraisal and rewards), (b) formal HRM policies which dictate and restrict the development and implementation of specific HRM practices and finally, (c) depends upon HRM philosophies which indicate the value attached to an organization’s policies and practices (Jackson and Schuler, 2007).

An alternative definition argues that human resource management (HRM) is best considered as the range of policies which have strategic significance for the organization (Brewster and Tyson, 1991) and which are typically used to facilitate integration, employee commitment, flexibility and the quality of work life as well as meeting broader business goals such as changing organizational values, structure, productivity and delivery mechanisms (Sparrow et al., 1994). These policies and/or practices are perceived by some as the activities which an organization carries out in order to maximize the effectiveness of its human resources (Pudelko and Harzing, 2007).

Other scholars have conceptualized HRM not only in terms of its purpose and function. For example, it has also been claimed that it encompasses four principal dimensions, i.e. commitment, flexibility, quality and integration (Guest, 1987). Additionally, HRM is perceived in terms of four different themes in the employment relationship, namely an integration of HR policies with business planning, a shift in HR responsibility, a shift from collectivism and unionism to management and increased weight on commitment (Sisson, 1993).

In addition, Torrington et al. (2005), have proposed that the difficulty of conceptualizing a definition for HRM lies in the point of departure, that is whether you view HRM as a set of management activities or as the particular approach to the management of people. The first
‘label’ refers to not only identifying four key objectives regarding staffing, performance, change-management and administration but to delivering them as well. Whereas the second term denotes that energy is directed towards satisfying management needs for human resources and more attention is paid on planning, monitoring, and control rather than meditation. This is illustrated when we claim that the first one is ‘workforce centred’ whereas the second is ‘resourced centred’ (Torrington et al., 2007, p.10).

From this distinction the notion of strategic HRM has emerged as well. HRM gains even more importance when one considers its strategic nature and its contribution to the competitive advantage that a firm might have or may wish to retain. Thus, this process is expected to be such that ‘attracts, develops, motivates and retains employees who ensure the effective functioning and survival and organization of its members’ (Jackson and Schuler, 2007, p. 24).

This clearly relates to the distinction which can be found between the ‘Michigan’ (Fombrum et al, 1984) and ‘Harvard’ model (Beer et al, 1984). Whereas the former assumes that the business strategy precedes decision-making regarding HR and in which model employees are perceived as a resource like any other, the latter assumes that business strategy is interlinked with the HRM strategy and it is not simply leading it. The ‘Harvard’ model is of essential strategic importance since it perceives employees not simply as ‘means to an end’ (Guest, 1999) but as sources of strategic importance. In this school of thinking HRM is seen as ‘proactive, integrative, part of an employee commitment perspective and long-term in focus’ (Marchington and Wilkinson, 2008, p.5).

Further, this model tends to treat HRM as a system in its entirety while acknowledging the role of various stakeholders at the same time (Marchington and Wilkinson, 2008). Hence, these principles are of importance when we are moving this debate to an international level. This is especially important in a multinational context. A multinational corporation is itself a complicated and multidimensional system and when it comes down to managing its human resources in different socio-economical and institutional environments, it needs to gain legitimacy from various stakeholders involved in the system.

Hence, the notion of strategic international human resource management has emerged. This is defined as ‘human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact
the international concerns and goals of those enterprises’ (Sparrow et al., 1994, p.422) and this definition is consistent with Schuler (1992) and Wright and McMahan (1992) who define strategic human resource management and thus distinguish it from human resource management. As Pfeffer (1998, p.17) claims, ‘people are the strategy’. It was also suggested that firms gain a competitive edge through ‘their wise and innovative use of human resources’ (Schuler & Jackson, 1996, p.6). Consecutively, human resource management, especially in its strategic sense, is responsible for dealing with every aspect of the organization that relates to the human resource, the human capital, and the people employed by and working for the organization.

In a multinational organization, HRM has been characterized as the glue that holds their global operations together (Teagarden and Von Glinow, 1997). The HR function in MNCs adds value to the firm because of its ability to manage the delicate balance between overall coordinated systems and sensitivity to local needs, including cultural differences, in a way that aligns with both business needs and senior management philosophy (Sparrow et al., 2004). At this point, it is also important to note that the study of HRM within MNCs is crucial since as Malbright (1995) pointed out ‘globalization occurs at the level of the function, rather than the firm’, while always keeping in mind that HRM is a function that affects all other functions within a MNC.

When attempting to define IHRM we can start from the obvious observation that it focuses on how different organizations manage their people across national borders (Sparrow, Brewster, Harris, 2004, p.4). A broader definition of IHRM however, states that it is “about understanding, researching, applying and revising all human resource activities in their internal and external contexts as they impact the process of managing human resources in enterprises throughout the global environment to enhance the experience of multiple stakeholders, including investors, customers, employees, partners, suppliers, environment and society” (Briscoe and Schuler, 2004, p.20, emphasis added). This conceptualization of IHRM’s nature is a salient point of departure when we endeavour to analyse the process and complexities in HRM in MNCs. We should not hence underestimate the effects that all other parties, either internal to the firm or external, have on the process. Likewise, the dynamics of a variety of factors seem to interplay leading to different outcomes in different
cases. Thus, our focus should be on pinpointing these factors and further explaining the ways in which they shape on the HRM process.

Briscoe and Schuler (2004) have stated a number of ways in which managing people in multinational and domestic firms differ. First an international HR department needs to get involved in tasks such as foreign taxes and work visas, which are included in the management of international assignees or expatriates. This also means that a deeper knowledge of foreign countries and their local legislation or business systems is needed. Hence, since a multinational operates in a number of different countries by definition HRM, in such an organization, is responsible for dealing with a greatly expanded and constantly changing mix of employees and in addition international HR departments need to be involved with employees to a higher degree than the one required in domestic situations. Not only that, but international and multinational settings demand the management of external influences (like national cultures) and are hence accountable for problems and difficulties that are related to the human aspect of the organization. However, this suggestion implies that international HR departments are located in the home country of the organization, they dispatch employees (expatriates) abroad and they are only pre-occupied with their management. This is based on the assumption that expatriates are in turn responsible for managing people in the host country but this is not always the case (Perlmutter, 1969).

Although IHRM research is progressing across a wide range of topics, there are several areas that suffer from either neglect or oversight and hence more empirical research is needed (Ricks et al., 1990). Not only that but more empirical research and theorizing are especially needed with regard to actor rationales, communication and influence strategies and questions of MNC configuration (Dorrenbacher and Geppert, 2005). Overall, MNC is used as either the subject of study or as a context for the study of particular phenomenon while it was suggested that the three main purposes of using MNC context are to (1) study MNC-specific phenomena, (2) further validate or expand established theories and (3) develop new theory (Roth and Kostova, 2003).

Overall, IHRM studies have focused on three main topics: (1) management of expatriate employees, (2) comparing HRM practices used in different countries and (3) management of human resources within MNCs (Tempel et al., 2006a). The influence of home and host
countries on HRM practices in MNCs is part of the third debate and has become a distinctive line of inquiry within the field of IHRM (Quantanilla & Ferner, 2003). These pressures from both the host and home environments are even more evident since people are perceived to be the most nationally specific resource that a company possesses (Sparrow et al., 2004). More specifically, HRM issues are perceived and manifested in diverse ways in different countries and environments (Taylor, 2007) which thus creates a need for the MNCs to deal and manage a number of tensions. Putting the point more generally, the main tension with which MNCs are faced arises due to the variation between the setting of the parent company and the various settings in which the subsidiaries operate.

1.4 Thesis’ Aims and Structure

1.4.1 Main Aims

This thesis is primarily concerned with the implementation of HR practices at the local level and the factors which shape the HRM process at the point of contact with customers. Existing studies tend to privilege one theoretical approach over another. The polarization between home and host country effects is challenged in this study. The quest is no longer to explore whether practices in sub-units resemble more the ones in the country-of-origin or in the local setting. Literature has already shown that some practices get standardised while some get adapted to fit local standards. The standardisation vs. localisation has long been accepted. The fundamental question that one should ask is not whether HR practices are standardised or localised, but rather how they are shaped at the local level.

Also, this study is challenging traditional lines of thinking within the field which suggest that MNCs are proactive about the transfer of HR practices, only for the transfer process to be hindered or facilitated by various factors. The argument in this thesis conceptualizes transfer of practices as one of a range of possible outcomes of the interplay between the four clusters of factors. The influence of HQ is by no means ignored; merely it is seen as an intra-organisational influence itself which contributes to the moulding of HR practices.

Overall, the main attempt here is to produce a multi-dimensional model which draws upon the four broad influences on HRM found in existing literature. These components are namely institutions, culture, intra-organisational characteristics and global pressure. This
thesis does not favour one single approach but rather benefits from the contribution of all major schools of thought. As such, and as will be argued throughout this thesis, a comprehensive model which consists of all four clusters is better positioned to provide a richer and more pragmatic depiction of how HRM is shaped in host-countries. This is based on the fact that it takes into consideration both external and internal forces, while at the same time appreciating the influence by either top-level or local actors.

In sum, the thesis’ main aims are:

- To shift the emphasis of analysis from the top to the local level
- To suggest an approach which moves away from the traditional perception that HQ proactively seek to transfer practices
- To highlight the interplay between forces which shape HR practices within local sub-units
- To produce a multi-dimensional model which can be used in the analysis of the HRM process within MNCs

1.4.2 Structure Outline

Chapter II reviews existing literature in the field and argues that existing theoretical frameworks have not provided sufficient coverage of the forces which shape HRM. The first part of this chapter reviews various theoretical approaches to the study of HRM within MNCs. This serves the purpose of illustrating that the use of one single approach limits our understanding of how decisions regarding employment are made at the local level of the MNC. The second part, hence, questions assumptions in traditional streams of research which imply that HQ proactively seek to transfer practices because they are faced with a dilemma between internal consistency and local adaptation. Finally, the third part elaborates on the suggested approach of this thesis. This alternative approach synthesizes elements from all four theoretical perspectives mentioned in the first part to construct a model. This multi-dimensional framework is better positioned to capture the multifaceted HR process and can possibly account for more eventualities than any single perspective.
**Chapter III** examines the methodological approach to the study of HRM within local sub-units. Initially the epistemological and ontological assumptions which underpin the study are discussed. A constructivist approach, which is part of the phenomenological life-world analysis, is embraced herein. The main assumption of this approach is that social phenomena are constructed by actors in a given context. Hence, qualitative methods are necessary to generate data to answer this study’s research questions and aims. The process of generating data is explained in detail in this chapter. Moreover, the rationale behind certain methodological choices, such as sampling, is justified. Finally, the limitations of these methods are discussed.

**Chapter IV** provides a detailed discussion of the context in which this study is set. First, the national context of Cyprus and second the sector’s characteristics are described. Since Cyprus has received little attention in the literature, this chapter elaborates on its national characteristics. This is a crucial part of the analysis as the model used in this study accounts for both external and internal parameters which affect HRM within MNCs. Hence, this chapter provides a detail account of these exogenous factors. More specifically, this chapter begins by providing background information on Cyprus in terms of its history, culture, institutions and economy. Thereafter, the specifics of its national business system in terms of labour market, industrial relations and HRM are discussed. Following this, section 4.4 goes into detail about what distinguishes the service sector, in comparison for example to manufacturing. This is especially important as empirical research on HRM in service firms is limited and existing models studying HRM within MNCs have tended to focus on the manufacturing sector.

**Chapters V and VI** are the main empirical chapters. Detailed case studies on each firm in the sample are provided here. Findings were divided in these two chapters based on: type of ownership. In Chapter V sub-units which were fully-owned or had limited liability ownership were included compared to Chapter VI which constituted of franchises and affiliated members. This dichotomy prevailed over other possibilities which were considered (type of subsidiary, type of occupation etc) since more common patterns could be found among firms by this categorization. However, the analysis in Chapter VII illustrates that no single organisational aspect shape the sub-unit’s HRM process.
The cases studies are structured as follows: a brief background of the MNC is provided before elaborating on the history of the local sub-unit. Following that, details on the size and market position of the unit are presented. Consequently, a detailed examination of the sub-units HR Department, HR philosophy and HR practices is offered. In this section, an attempt has been made to highlight how the HR process is implemented locally and pinpoint various factors which shape this in Cyprus and beyond. Consistency in the structure of the case studies is deemed as very important in order to further analyse these findings in Chapter VII.

**Chapter VII** presents the discussion of these findings and relates them back to the literature. Discussion in this chapter is organised around two parts. The first part discusses the use of an alternative multi-dimensional approach and how this has indeed augmented knowledge on HRM within Cypriot sub-units of service MNCs. The second part analyses the influence of the four clusters of factors identified in Chapter II and attempts to illustrate, throughout the discussion that these forces interplay together to ultimately shape HRM. Moreover, this discussion further emphasises the complexity which underpins employment-related decisions in host-country units.

**Chapter VII** outlines the final conclusions reached in this study. Here, conclusions from the four influences are brought together to illustrate the contribution of the integrated model produced by this thesis’ findings. Further, in this chapter contributions of the thesis are discussed. This thesis makes both methodological as well as theoretical contributions to the literature. As such, this thesis will contribute to the literature by enriching our appreciation of the complexity which surrounds HRM and by highlighting the interplay of factors which shape it. This raises implications for future research, as it provides the literature with a comprehensive model for further investigation of the phenomenon in hand, and also for particular policy-makers.
CHAPTER II: Theoretical approaches to the home/host country effects debate

2.1 Introduction

This chapter reviews the major approaches that have been taken when attempting to explain the process of HRM at the subsidiary level. First though it must be noted that a vast number of approaches were used in this field. For instance, configurational approach attempts to focus on patterns of HR practices that are holistic and mutually reinforcing and have a correlation with organizational performance (Delery and Doty, 1996; Som, 2007) while the behavioural perspective concentrates on the employee behaviour as the mediator between strategy and firm performance (Schuler and Jackson, 1999). Likewise, the complexity perspective assumes that ‘system-level, path-dependent resources and capabilities only emerge out of the dynamic, interplay within a given system and allows for the creation of creative and adaptive […] capabilities of the organization’ (Som, 2007:811).

However, as extensive research of the current literature shows the vast majority of empirical research is based on four dominant schools of thought. These approaches are namely the institutionalist, culturalist, universalist and contingency approaches. However, the argument put forward in this chapter is that to draw on a single approach as a framework to explain and understand the complicated dynamics, which result in specific HR practices at the subsidiary level of a MNC, would be unwise. Therefore, in this part these four approaches will be reviewed in part to illustrate the limitations of using one single approach. The next part of this chapter will discuss in detail the interplay of various forces related to these individual approaches and question the popular suggestion in the literature that MNCs are faced with a dilemma regarding whether they need to adopt or adapt their practices and hence seek to transfer HR practices to the host-country.

These streams of literature, which advocate that MNCs are faced with a duality, usually use one of these approaches as the lens through which HRM is viewed. When analysed further though, it becomes clearer that despite their contribution they still provide an insufficient understanding of how employment-related decisions at the local level are made. This, in turn, questions the concept of such dilemmas or dualities in the first place. This is based on the fact that existing literature (i) appears to assume that HR practices are
transferred or diffused from the HQ to the subsidiary (or in some cases reversely transferred back to the HQ) and (ii) sets out to explain how this transfer takes place. The shortcomings in this line of thinking are addressed in detail later.

In both these streams of research, there is a tendency to privilege one theory over another. In addition, these seem to fail to grasp the pragmatic, dynamic and dialectic process of managing employment at the subsidiary level. That is why the aim of this chapter is to articulate a more encompassing framework. With such a model in hand, a research would be more able to account for the multiplicity of aspects which can determine how management of people at the subsidiary takes place. Not only that, but a secondary aim is to initiate some further discussion and debate on how this phenomenon should be approached in the future and to advocate that a new bottom up approach should be employed. With respect to this last argument, the fourth part of the chapter will illustrate why such approach is better equipped to describe the HRM process at the subsidiary level, compared to the current approaches.

It must be noted from the outset though that throughout this review, the term ‘subsidiary’ will be used in accordance to existing literature. However, latter parts of this thesis will challenge it and the term ‘sub-unit’ will be used instead as this terminology does not assume that the MNC fully owns the local unit, as the notion of a ‘subsidiary’ implies.

2.2 Theoretical Approaches which explain HRM drives

2.2.1 Institutionalist approach

The institutionalist approach as a point for departure for explaining differences in HR practices between organizations (or nations at a macro-level), is often employed in IHRM literature. Institutional analysis tends to concentrate on and emphasize national differences (Smith and Meiksins, 1995) and it must be noted that the institutionalist argument is twofold. First, institutionalism largely rejects economistic explanations about firms, their strategy and structure (Morgan and Kristensen, 2006). Second, and most important, is the argument that assumptions, beliefs and expectations exist in a given society which influence how organizations should be organized, why they are useful and which functions are expected to perform or avoid (Tempel and Walgenbach, 2007).
The key institutional features, according to Whitley (1999) are the state, the financial system, skill development and control system and finally trust and authority relations within that context. For instance, it has been suggested that state and civil institutions include education, vocational training patterns, occupational formations employment relations and trade unions (Smith and Meiksins, 1995). In terms of MNCs, institutions are perceived as a set of rules, norms and assumptions that shape economic and business activity on the one hand and structure the choices of actors in MNCs on the other, either that is at the HQ or the subsidiary level (Edwards et al., 2007).

The suggestion that we should no longer treat the global economy as an ahistorical ‘structure’ existing in tension with historical national institutions was also put forward in the literature (Smith and Meiksins, 1995) but it is equally important to note that from both a theoretical and an empirical perspective, institutions and culture are and shall be treated as two different concepts. For example, Giddens (1979) distinguished between institutions and the social system, wherein the latter best describes culture. Notwithstanding, Hall and Sockise (2001) profess that ‘institutions of a nation’s political economy are inextricably bound up with its history’ (p.13). This occurs because institutions are formed by actors and actions in each country while at the same time repeated historical experience establishes the norms and expectations that determine the future coordination of actors. This approach has been mainly informed by either the neo-institutionalist (Kostova, 1999; Kostova and Roth, 2002; Roth and Kostova, 2003) or the national business system tradition (Whitley, 1999; 2000) which includes the varieties of capitalism approach (Morgan and Christensen, 2006).

Whitley’s (1999) typology of business systems were distinguished in terms of (a) their degree of ownership-based coordination of economic activities, (b) the extent of non-ownership or alliance form of organizational integration and (c) the employment relations. Putting it differently, national business systems are characterized by the extent of ownership control or ownership integration of production chains, by the extent of alliance coordination of production chains or collaboration between competitors, and by the extent to which employer-employee interdependence exists. Thus, the six business types which Whitley has indicated are namely (i) fragmented, (ii) coordinated-industrial district, (iii) compartmentalized, (iv) state-organized, (v) collaborative and (vi) highly coordinated.
This classification indicates the degree of centralization and hence how autonomously managers can operate. For example, the coordinated-industrial district type is dominated by small firms with extensive cooperation across production chains and within sector, which in turn relies heavily on worker commitment. This type is ‘limited to Italy or even northern Italian industrial districts’ (Brewster, 2004, p. 372). In contrast, the compartmentalized type, refers to models found in the US and other Anglo-Saxon economies such as the UK or Ireland, and is a type which is dominated by large firms with low levels of commitment and cooperation between firms, stakeholders, employers and employees. American firms, for instance, are characterized by a high degree of individualism or entrepreneurism and are also ‘subject to pressures for short-term returns to shareholders’ (Edwards and Ferner, 2002, p.96) They also have considerable leeway in terms of HRM with freedom to operate contingent pay policies, have sole responsibility for training and development (Brewster, 2004), are subject to minimal influence from TUs and are not used to multi-employer bargaining (Muller, 1998). Hence, it has been suggested that American firms operating abroad try hard to avoid co-determination (ibid). Similarly, British firms place emphasis on relatively narrow training, formal certification of skills and reliance on key actors who are perceived in the market as experts (Edwards and Ferner, 2002).

Further, collaborative types rely on large units owned by alliances where stronger collaboration between employer and employee can be found. The typical example is Germany, where the alliance of banks owns a noteworthy amount of large units and decisions are based on tripartite collaboration between the state, the unions and the organizations (Hall and Soskice, 2001).

Although employing a somewhat different vocabulary, Hall and Soskice (2001) distinguished between liberal and coordinated markets; the former are driven by supply and demand pressures in the market and an ‘arm’s length exchange of goods or services in a context of competition and formal contacting’ (p. 8) whereas the latter depends more heavily on non-market relationships, especially relationships between various actors in the environment such as the organization, the state and the trade unions. Similarly, Coates (1999) suggested three models: the market led (UK and USA), the state-led (Japan) and the negotiated/consensual one (Germany/Sweden).
In addition, Amable (2003) expanded the above suggestions and counter-proposed five different models of capitalism: market based, social-democratic, continental Europe, Mediterranean and Asian capitalisms. These models have a geography-based denomination, as the author claims, for simplicity reasons and ‘should not be taken too literally’ (p.14). Market based capitalism is based on product-market competition and labour market flexibility while financial markets are instrumental to a firm’s capacity to react to adverse shocks in its environment due to lack of an adequate welfare system. Examples of a market based country include the USA and the UK. Social democratic models, like Sweden, on the other hand do not simply achieve flexibility through lay-offs or market-based adjustments but rather through moderate employment protection with mechanisms such as a coordinated wage bargaining or easy access to retraining. France is an example of the Continental European capitalism. In this case, a higher degree of employment protection and a less developed welfare state exist, under the umbrella that a centralized financial system provides.

A somewhat different model is the Mediterranean, which includes countries like Italy or Greece, and where more employment protection and less social protection are observed due to relatively low level of product market competition. Finally, the Asian model is highly dependent on business strategies of the large firms which collaborate with the state and a centralized financial system which, in turn, leads to phenomena like employment for life.

However, Amable himself admits that not only ‘homogeneity within nations may be questioned’ but that ‘the sub-national level may be more relevant for comparative analysis’ (2003, p. 13). In turn, aspects such as the business practices, patterns of firm’s organization and regulatory environment will differ between a single country’s regions. Hence if we are attempting to engage in comparative analysis between subsidiaries which operate in a number of different countries we need to be wary of employing an institutional framework for our analysis. Instead, an interesting concept is that of institutional complementarities (Hall and Soskice, 2001) where two institutions can be complementary with each other if the presence of one increases the returns from the other.

Nonetheless, the main argument of institutionalists is that decisions made by MNCs are influenced mainly by macro-environment factors and institutions (Tregaskis et al., 2001).
These external pressures demand that an organization adapts both its structures and practices in order to show high responsiveness to these economic and social forces (Quintanilla and Ferner, 2003; Smith and Meiksins, 1995). In terms of HRM practices, it can be claimed that its central tenet is that organizations which share the same environment will employ similar practices and thus become “isomorphic” with each other (Kostova and Roth, 2002). Institutionalist scholars, hence, share the belief that variations between practices are the mere product of how the institutions operate or how the national business system works in a specific country. For example, extensive use of downsizing in certain countries is attributed to the fact that they are liberal economies and therefore market-oriented, de-regulated and with less state intervention, like the USA or the UK (Hall and Soskice, 2001). Another interesting aspect of this perspective is that at the micro-level the explanations rest on supply-side assumptions, i.e. ‘that organizations are determined by their outputs: different ingredients producing different national cakes’ (Smith and Meiksins, 1995, p. 243).

Furthermore, it has been advocated that the institutional complexity with which MNCs are faced, since they do not operate solely in one economy, of their home country, is considerable and this puts barriers in the way of convergence (Quintanilla and Ferner, 2003). Moreover, national institutions, either in the form of financial, educational or industrial relations systems, are deeply interrelated with the way local organizations operate (Geppert and Williams, 2006), thus they cannot function independently of these systems. To put it another way, institutions chronologically precede organizations, in terms of their existence. Thus, practices at the local level are possibly shaped by these institutions, perhaps leaving little scope for flexibility to the MNC. However, the degree of this flexibility is determined according to either the relative strength of the local institutions or the institutional distance between home and host country. Figure 1 illustrates how this tension takes place within MNCs (Geppert et al., 2006, p. 1454). It is apparent in this figure that a vertical, interrelation exists between HQ and various subsidiaries and both these are affected by their respective national institutions.
Clearly, this approach alone provides a mono-dimensional view, even though insights offered by this approach are beneficial to the development of any conceptual model. Yet, it still does not recognise the extent of the complexity which surrounds HRM at the local level. First, the fragmentation between the different typologies which is observed in this approach, renders the choice for one single framework for analysis, challenging. Second, this approach suffers from lack of attention to the pragmatic relationships between the national context (or multiple national contexts), the organization and the subsidiary. Third, institutionalism’s definition implies that at its core it is concerned with how the social embeddedness of firms in particular contexts shapes their structure and processes (Morgan and Kristensen, 2006), however this ‘social embeddedness’ can paradoxically be accounted for by both institutional and cultural aspects.

Lastly, if this approach suggests that because of the market, the economy or even the business system in country X, organizations will behave in certain ways, are we to expect that even the majority of organizations exhibit the same behaviour regardless of industry, size or type of ownership? After all, institutionalists themselves have claimed that ‘multinationals, therefore, clearly have different approaches to transferring elements to their subsidiaries depending on their markets, their broader strategic objectives and their national origins’ (Morgan and Kristensen, 2006, p. 1477). Obviously, strategic objectives are not related to institutions while natural origins entail both an institutional and a cultural element as was mentioned earlier.
2.2.2 Culturalist approach

As mentioned previously, institutions and culture seem to be interlinked and it is challenging to pinpoint how one informs the other, which one precedes the other and at which specific point in a national context one starts and the other finishes. In other words, to accurately conceptualize institutions and culture as two separate and independent entities is extremely difficult. For example, Scandinavian countries are renowned for their advanced national welfare systems. A welfare system is an institution but can this also be attributed to cultural reasons? In other words, we have the archetype chicken or egg question: which came first? Nonetheless, scholars have defined each concept and certain theories have emerged from these definitions. Especially culture was defined through the use of certain dimensions which are thought to account for what can be perceived as national culture.

When applying this approach to the study of organizational phenomena, Smith and Meiksins, in 1995, stated the central question: ‘Are organizational methods and theories culture-bound or culture-free?’ (p. 241). For those embracing the culturalist perspective, the main argument is that MNCs bear the legacy of the values and attitudes characteristic of the home country’s culture while the transfer is shaped by both this and host country cultures (Edwards et al., 2007). Culture, hence, can often be seen as a barrier for practices to be adopted in a host country if the culture differs significantly from that of the home country. The culturalist approach is, admittedly, heavily based on Hofstede’s work who was one of the first scholars to examine and define culture (1983, 1991, 2001).

Trompenaars (1993) argued that culture is the way in which people solve problems. However, the best-known definition is that of Hofstede (1991, p.1) who described culture as ‘the collective programming of mind which distinguishes the members of one group or category of people with another’. His main focus was national culture and argued that there are four dimensions on which (national) countries vary and these are (a) power distance index, (b) uncertainty avoidance index, (c) individualism vs. collectivism and (d) masculinity vs. femininity. Later, in 2001, he added a fifth dimension; the long vs. short term. The most important thing to bear in mind regarding this approach to the study of culture is that no absolute values exist. Dimensions are scales on which countries (or organizations) are placed. This means that two countries which both have a high index of,
for example, uncertainty avoidance, can still exhibit different levels of this. Obviously, these observations render this approach problematic but the downsides will be discussed in detail further on in this part.

Power distance index (PDI) describes the degree to which in a national culture the power possessed by institutions and organizations is or should be distributed unequally (Marchington and Wilkinson, 2008). Countries like Greece, India or even the Arab countries have consistently exhibited that institutions and organizations have unequal distribution of power, thus rendering these in the cluster of the high PDI countries.

People in countries with high uncertainty avoidance index (UAI) apparently do not feel comfortable in ambiguous situations and attempt to avoid them. A characteristic example of such national context is Greece, where people have an explicit tendency for increased and guaranteed job security; hence prefer to be employed in the public sector (which offers job for life security). On the other side of the index, Scandinavian or Anglo-Saxon countries are known for their flexibility in employment.

Further, the individualism vs. collectivism index (I/C) refers to the extent to which individuals in a national context belong in strong and unified social group (and feel strongly about them) or aim to achieve personal achievement. Family networks are dominant in collectivist countries, such as Greece and nepotism is an accepted phenomenon which dominates employment situations or expectations. Conversely, in highly individualistic countries, such as the USA or UK, meritocracy is deemed to be the dominant feature as each individual’s promotion, pay etc depend on the individual’s performance and attitude towards the firm.

Last the masculinity vs. femininity index (M/F) attempts to account for the degree to which the dominant values in a country are ‘male’, like focus on career progress and development or status improvement. On the other end of the index, ‘feminine’ values have their core in more ‘soft’ or emotional aspects, such as work-life balance, emotional labour, welfare system etc. Unsurprisingly, in Anglo-Saxon countries people are mostly career driven and have an increased number of women in employment compared to Arab countries for example. Greek people scored high on the masculinity index.
Nevertheless, it must be noted that Hofstede’s work on culture has been widely criticised. Hofstede collected his data by distributing 116 000 questionnaires to IBM’s employees between 1967 and 1972 and analysed them purely through the use of computer while he, as the researcher, was distanced and independent from the respondents of the questionnaires (Easterby-Smith, Thorpe and Lowe, 1991). Hence, other researchers have raised four major issues of concern which are (a) the representativeness of the study, (b) the perpetuation of national stereotypes, (c) the explanatory power and (d) the complexity of these dimensions (Marchington & Wilkinson, 2008; Rubery & Grimshaw, 2003).

The most prominent critic of Hofstede’s work is McSweeney (2002), who argues it has certain conceptual and methodological flaws. In his own words (p.91): ‘How does Hofstede conceptualize national culture? He treats it as implicit; core; systematically causal; territorially unique; and shared.’ The first criticism relates to the study’s method for collecting data, i.e. the use of questionnaires. In McSweeney’s opinion ‘respondents shared a single monopolistic ‘organizational culture’ common between and within IBM subsidiaries’ (p.95).

Hofstede’s study is criticised mainly for the assumptions on which it is based; the three discreet components of organizational, occupational and national culture, that the national culture can be identifiable at the micro-local level and is uniform, national culture creates questionnaire response difference analysis and that it is the same in any circumstance within a nation. In other words, did the single organizational setting of IBM not affect the ‘mind software’ of the respondents? Can fifty respondents account for the whole population in Singapore? Will people in all Arab countries behave in the same way or have similar expectations? Even in a single country like Germany can we no longer observe differences between the west and the east part? And can we deduce all these to the micro-level of a workplace to shape expectations about the behaviour of people based on their national origins?

Despite that, Hampden-Turner and Trompenaars (1993) agreed with Hofstede that culture derives from differences in behavior but argued that there are seven alternative (or similar in some cases) dimensions which best account for what we perceived as culture. Their dimensions are (i) equality vs. hierarchy, (ii) individualism vs. communitarianism, (iii) time as sequential or synchronic, (iv) universalism vs. particularism, (v) achievement vs.
ascription, (vi) inner vs. outer directed and (vii) analyzing vs. integrating. Again this work attracted wide criticism since it does not detail its methodology and it aims at practicing managers and/or international workers (Darlington, 1996).

How have scholars interpreted these dimensions though, in terms of employment? In effect, it can be argued that employees in some countries may rely heavily on timetables and schedules, stick to plans and facts, are job-oriented and are able to emotionally separate their social from private life whilst in another country employees do not enjoy being restricted by tight or rigid timetables, are people-oriented and emotional, interweaves social and professional actions and are flexible with their plans (Lewis, 2006). Interestingly enough, MNCs can operate in culturally different countries. Hence, creating policies based on what ‘perceptions of reality’ are in one country (or even in a third one) could create problems and conflicts which might hinder the process of managing and controlling human resources at the subsidiary level.

Hofstede (1983) stated that if managers do not take into consideration these cultural differences, they will experience a great cultural shock, unless they are willing to change their management style. In support of Hofstede’s arguments, Schneider and Barsoux (2003, p. 134) state that “in MNCs, those at headquarters need to understand and appreciate how the local level strategy is formulated and implemented in order to best integrate it with corporate-level strategic management”. What must be understood when conducting cross cultural research is that “cultural diversity is not something that is going to go away tomorrow, enabling us to plan our strategies on the assumption of mutual understanding” (Lewis, 2006, p.xvi) and accepting the differences between countries and integrating them into a business plan can constitute a powerful edge for MNCs themselves (Schneider and Barsoux, 2003).

2.2.3 Universalistic approach

The universalistic approach claims that certain HR practices are found to consistently lead to higher organizational performance and should thus be employed if the firm is seeking to enhance its efficiency and effectiveness (Pfeffer, 1998; Purcell, 1999). Based on this approach, one may expect that HR practices which are successful in one part of the MNC
can be distributed across the sub-units with the same success or even that a number of practices that are perceived globally as ‘best’ should be adopted in different subsidiaries.

Likewise, Pfeffer (1998) was one of the first to suggest that a “single best way” of managing human resources in organizations exists. His model of best practices includes the following seven: (i) employment security and internal labour markets, (ii) selective hiring and sophisticated selection, (iii) extensive training, learning and development, (iv) employee involvement, information sharing and worker voice, (v) self-managed teams and team-working, (vi) high compensation contingent on performance and (vii) reduction of status differentials.

However, this proposed set of “best practices” has been criticised because it does not take into account either the cultural and institutional national context or the specific organizational characteristics of the individual firm (Pudelko, 2005). Thus we have a conflict between the rhetoric and the reality that might exist (Legge, 1995) which leads us to question how HR decisions are taken and implemented at the subsidiary level of MNCs when a large number of both internal and external factors interact to shape the outcome.

Purcell (1999) refined this ‘best practices’ approach by suggesting the HR architecture around which an HRM strategy should be built. This approach suggests that best practices vary not only within organisations but across occupations as well. Further, Lepak and Snell (1999) have proposed a matrix of four groups of human capital and associated types of knowledge. This is based on two dimensions: strategic value and uniqueness. Strategic value refers to the set of skills of employees that improve a firm’s effectiveness and efficiency in order to ultimately realise its strategy while uniqueness represents the extent to which skills and knowledge are specialised or firm specific (Lepak and Snell, 2007). The four groups produced by this matrix can hence indicate what type of employment system firms should adopt. For example, high uniqueness and low strategic value indicates the so-called alliance partners which possess idiosyncratic knowledge. This in turn, as authors claim, leads to a collaborative type of HRM. At the opposite end, where uniqueness is low and strategic value high, job-based employees can be found and a productivity-based HR system is used. Yet, it is still unclear ‘how does a global HR architecture impact the composition of the HR systems’ used to manage various sub-units (Lepak and Snell, 2007, p.219).
Further, it has been claimed that MNCs, due to global competitive pressures – such as efficiency imperatives – end up being the recipients of the dissemination of “best practices” (Quintanilla and Ferner, 2003). As Sparrow et al. (2004) point out overall the reasons for convergence can be categorized in four main themes: (a) power of markets, (b) transaction cost economics, (c) like-minded international cadres and (d) cost, quality and productivity pressures. This occurs through “the continuous comparison of and adaptation towards best practice, in order systematically to close the gap with the best performer” (Pudelko, 2005, p.2045). The dominance of US firms disseminating what is perceived as ‘best practice’ has been argued in the literature (Brewster, 2004).

This dominance effect implies that followers in a market will attempt to copy the leader in order to improve their competitive position. What this theory does not take into consideration though is that differences between the best performer and the follower might actually be more beneficial for the latter. If lack of best practices in a developing country implies lower labour cost for the best performer then this is the desired benefit for employers. The best performer keeps labour cost low while the developing country attracts FDI. In the same respect, subparts of MNCs might be more competitive if lack of best practices means lower costs. Additionally, MNCs might desire that their subsidiaries in host countries exploit the local market, conditions and practices rather than having the same set of standardized best practices, if this route ensures greater organizational efficiency and effectiveness.

A problem with this ‘best practice’ approach is that these models have failed to establish their superiority over time (Coates, 1999). Superiority was affected by various factors, business cycle being one of them. Consequently, the examples above beg the question whether the current perceived ‘best’ model will be changed after the recent and on-going financial crisis. Since, at the moment, the US employment model is perceived as the most advanced and innovative (Muller, 1998) and similar ‘symptoms’ are observed like in the 70s, such as the fall of dollar, rise of unemployment and state intervention to preserve crucial financial institutions, it is legitimate for one to be skeptical as to how appropriate this model is to be disseminated to other countries.

According to Purcell (1999), the best practice model which is universally applicable ‘is good and persuasive but it misses the point on the link between strategy and HRM’ (p. 27).
Not only that but it has been claimed that scholars who support the best practice model are sometimes prescriptive without even clearly explaining the basic assumptions on which their model relies (Boxall and Purcell, 2008). Further, what constitutes ‘good’ and ‘bad’ can be generalized only within a specific cultural or institutional mindset, an Anglo-Saxon mindset (Boxall and Purcell, 2008). This premise alone renders a model which suggests the one best way for all firms to manage their employees unfeasible and utopian even.

For instance, in Russia and Poland studies show that diffusion of best ‘Anglo-Saxon’ practices is rather difficult and is hindered by high degree of cultural and institutional distance (D’Annunzio-Green, 2002; Hetrick, 2002). Further, it has been illustrated in previous studies that in Turkey the American individualistic perspective fails because of the Turkish collectivistic culture and the expectations for permanent employment in an organization (Wasti, 1998). Another basic difference between the way HRM works in US and Turkey is that even though American models of best practice propose collaboration, they are inapplicable in a Turkish context since Turkish managers are more likely to use force with subordinates (Wasti, 1998).

### 2.2.4 Contingency approach

Compared to the approaches reviewed so far, the contingency view is a so-called mid-range approach which ‘seems to provide a realistic means of using some of the salient attributes of the systems concept for the study of complex organizations’ (Negandhi, 1983, p.20). In short, this perspective states that the adoption of certain practices depends on both the external and the internal environment in which the organization operates and it allows for interaction effects on the presence of contingent variables (Delery and Doty, 1996; Evans, Pucik and Barsoux, 2002, Som 2007). Formally, fit has been defined as the ‘degree to which the needs, demands, goals, objectives and/or structure of another component’ (Nadler and Tushman, 1980, p.40).

In ‘best fit’ theory, firms can achieve vertical (external) or horizontal (internal) fit – or both. Interestingly, ‘most models of ‘best fit’ are concerned with what is meant by external fit and with how to achieve it. There are then flow-on implications for internal fit’ (Boxall and Purcell, 2008, p. 51 – italics added). Hence, scholars who attempt to grasp a holistic
understanding of the HR process in a subsidiary should consider both the vertical and horizontal actions and their implications on specific HR practices.

‘Authors subscribing to a contingency perspective assumed that the task environment, product market, size of organization, its form and structure or its production technology, were the key influences on management, occupational structure and work organizations’ (Smith and Meiksins, 1995, p. 242). Hence, factors such as the size of the subsidiary, its age or its stage in the life-cycle, the way by which it has grown (mergers and acquisitions, joint venture etc), the type of the subsidiary (greenfield/brownfield), expatriate presence at the subsidiary or even information technology can be expected to exercise some form of influence, to a certain extent, on the formation of HRM.

For example, Pulignano (2006) argued that ‘comparison between the different subsidiaries in the same host country, illustrates that institutional national contexts do not determine outcomes in themselves’ (p. 514, emphasis added). Nor do cultural differences alone or global competition benchmarking. Even though the influence of culture, institutions or what is generally perceived as ‘best’ on the formation of HR policies and practices can be accepted, the influence of internal factors also needs to be acknowledged. It would be remiss of scholars not to concede that both external factors (i.e. institutions, culture, varieties of capitalism etc) and internal factors can shape the implementation of HRM at the local level.

This school of thought covers a range of models ‘which advocate fitting the HR strategy to its surrounding context’ (Boxall and Purcell, 2008, p.51). One example is the business network view. It has been explicitly stated in the literature that MNCs consist of diverse subsidiaries operating in unique environments, which cannot be adequately addressed by a uniform organization-wide structure (Ghoshal and Nohria, 1997). In fact, it has been suggested that the structure of the MNC is essentially a differentiated network of linkages; between HQ and subsidiaries and between different subsidiaries – in addition to the ‘local’ linkages between individual subsidiaries (Forsgren et al., 2005). Hence, a uniform approach does not address variations within the organisation.

Another model which fits broadly with the contingency approach is the resource based view. At its core, the resource view of strategy theorizes that for sustainable competitive
advantage the firm must have unique and rare resources which competitors cannot reproduce (Purcell, 1999). People are some of these critical resources. This is especially decisive in services firms as the following chapter will claim. In firms where no tangible products are produced or sold, human resources, undoubtedly, constituted the key success factor.

In fact, it has been argued that the contingency view presumes that the environment is remarkably ‘faceless’, but still sufficiently comprehensive for the corporate HQ to decide upon such things as an efficient degree of formalization and centralization. The business network view takes this further and argues that environment indeed has a face and that firsthand knowledge is generated primarily in the course of ongoing/daily interactions with other business actors in the network (Forsgren et al., 2005). However, it has been postulated recently that the borderline between the so-called environment and what is perceived as the MNC is ‘both arbitrary and vague and depends on the perspective applied’ in each case (Forsgren et al., 2005, p.93). When these models are expanded through the utilization of contextual (closed systems) variables, environmental factors and socio-cultural variables, it can then lead to a more comprehensive understanding of the factors affecting the structuring and functioning of complex organizations such as the MNC (Negandhi, 1983).

Further, it has been claimed that HQ are reluctant to decentralize formal decision-making to lower levels, but will decide to do so if the distance between the locus of the decision making and the locus of knowledge becomes too great (Galbraith, 1973). Hence, ‘HQ will definitely exert some control through the centralization of decision making, but to evaluate the extent to which the behaviour of the subsidiary is affected by the HQ, requires the influence from other sources of power also accounted for’ (Forsgren et al., 2005, p. 133).

Forsgren et al. (2005) have also argued that each subsidiary strives for the development of its own business network. They assume hence that each subsidiary undertakes a SWOT analysis of its own network, striving either for autonomy in relation to the rest of the company or for the power to influence the development of other parts of the company in a way that supports development of other parts of the company in a way that supports the development of its own business network. While the subsidiary’s business is assumed to be controlled by the parent firm, it can be expected (according to network approach) to be
influenced by partners in its own local business network. Therefore, whereas other approaches presume that differences are explained by institutional, cultural or economic reasons, the network approach view expects that barriers are associated with the possibility of establishing and developing relationships with unique foreign customers and suppliers.

However, this approach also has weaknesses. One problem with this contingency/best fit approach is the substantial difficulty in modeling all of the factors and estimating their interplay (Purcell, 1999). Moreover, the main research problem is whether to search for general patterns among contingent variables or whether to focus on those factors which make successful firms unique (Purcell, 1999). Nonetheless, a crucial point is that patterns of relationships rather than causal linkages should be stressed (Negandhi, 1983). Hence, it emerges that scholars should be more concerned with the hows and whys of the HRM process rather than simply observing what HR practices are employed at the local level and how these compare to host or home country.

Further, Forsgren et al.’s suggestions are based on the fact that the main obstacle to internationalization of functions within the MNC is the lack of knowledge about foreign markets and operations. For instance, a parameter that is absent in this case is the stage in the life cycle of the subsidiary. Milliman, Van Glinow and Nathan (1991) have suggested that there are four stages in the life cycle for HRM in subsidiaries of MNCs: organization initiation, functional growth, controlled growth and strategic integration. Evidently, the degree of flexibility is increased as time progresses due to decreased environmental uncertainty and increased commitment. Moreover, it can be expected that different practices will be implemented at the different stages, in order to achieve such fit between the local needs and global initiative.

Related to this is also the different form of organisation at the local level. A subsidiary typically refers to a unit which is fully owned and controlled by the parent company. However, MNCs also expand their operations via acquisitions, joint ventures and strategic alliances (Hodgetts and Luthans, 2003). This adds another layer to our analysis. First, it suggests that two types of ‘subsidiaries’ might exist: brownfields and greenfields. Second, the MNC might not have 100% ownership of the local unit.
This has significant implications. Obviously, it challenges the notion that all local units are fully owned and controlled by the MNC. Taking this into account means that the type of the sub-units as well as its type of ownership can also contribute to the shaping of HRM. For example, it can be argued that a brownfield subsidiary has inherited certain history, culture, rituals and norms from its previous state. Conversely, greenfields can be described as ‘tabula rasa’ units, which implies that it resembles a blank canvas with no history. Other things being equal, this implies that it is easier to diffuse practices from the top-level to greenfields rather than to brownfields as people in these types of units might resist new practices or successfully implement their own.

Similarly four types of ownership have been identified: fully-owned, limited liability ownership, franchises and affiliated members. MNCs own a significant equity share (typically 50% or more) of fully owned subsidiaries operating in a foreign country (Navaretti and Venables, 2004). Limited liability firms consist of various legally independent entities which have limited responsibility to other members in the network. Franchising consists of an organisation (the franchisor) which enters into a contractual agreement with franchisees, which are typically independently, owner-managed firms, operating under the franchisor’s brand, in order to produce goods/services according to a format specified by the franchisor (Curran and Stanworth, 1983). Affiliated members on the other hand, operate under the MNC’s trade name without having to follow a specific format.

When type of ownership is isolated, it can suggest different approaches to HRM. For instance, it has been suggested that franchisees provide low-quality jobs, do not invest in recruiting because of increased workforce turnover, pay lower wages and benefits are entirely absent (Cappelli and Hamori, 2008). In addition, research on HRM in automotive franchises has shown that HRM ‘is deployed as one of a range of tools used to create, reinforce and sustain the position of the powerful manufacturer, but also, on occasion, to subvert and rebalance this power relationship in favour of the relatively powerless dealer’ (Truss, 2004, p.70). This merely illustrates again the complexity which surrounds the implementation of HRM at the local level.
2.2.5 Summary of theoretical perspectives

Section 2.2 provided a brief review of the four most influential schools of thought previously used by researchers to explain forces which shape HRM. As explained, these various perspectives are based on distinctively different premises and each one makes a significant contribution in gaining a holistic understanding of how employment decisions are made, especially within MNCs. Institutional and cultural perspectives, focus on external pressures on the organisation which can derive from the national context in which a part of the MNC is embedded (either the parent company or the subsidiary). Institutionalist scholars’ tenet is that employment decisions are constrained (and in some cases facilitated) by the institutions found in a country. These scholars argue that the national educational, legal and/or industrial relations system in addition to the overall national business system will mould HRM and not the strategic choice of actors. For example, in Germany training is provided on an industry-wide level and is decided through co-determination between TUs, firms and the government. On the contrary, in the US each firm makes its own decisions on training and development because of the liberal market economy in which they are embedded. Similarly, culturalist scholars claim that national norms, beliefs and expectations shape employment practices and policies. However, these two perspectives are interlinked as they are complimentary and since one informs the other.

Whereas these two perspectives focus on external elements of the environment, universalistic theories tend to ignore external forces which shape HRM. On the contrary they merely provide ‘recipes’ of best practices which, as scholars argue, when adopted by organisations irrespective of their internal strategy or external parameters will help organisations achieve greater organisational performance.

Finally, the contingency approach argues that strategic decisions are influenced by certain strategic contingencies. Various theories embracing the contingency view have focused either on internal or external contingencies. The basic premise, however is that organisations should fit HRM strategies to the organisation’s surrounding context. For example, the ‘best-fit’ school of thought argues that HR strategy should be aligned to the overall organisational strategy while the previous perspectives failed to take such an important organisational element into account.
Moreover, the resource-based view focused mostly on internal resources of a firm. In this case, the assumption is that if human resources are perceived as sources of strategic advantage to the firm these will lead managers to a different set of HR decisions. This is in contrast to cases where people are seen as a resource which can be imitated or does not have any strategic importance for the firm.

Consequently, this thesis uses elements from all four perspectives to construct a multi-dimensional approach which in essence is an extension of the broader contingency view. Put it simply, the multi-dimensional approach argues that both external contingencies, i.e. culture, institutions and global factors, as well as internal organisational characteristics are called for when attempting to explain differences in the behaviour of different subsidiaries – especially in terms of HRM.

More specifically, after carefully reviewing the literature, it was made evident that the key external forces which account for variations at the local level are national culture, values and norms, in addition to national business systems (and these include educational, financial, legal and industrial relations systems) and global factors (global pressures for adopting ‘best practices’ or various international standards). Internal contingencies, on the other hand, can occur either at the corporate and/or at the local level. Various scholars have identified age, size, type of ownership and subsidiary, type of occupation, organisational structure and HR department presence as well as numerous control mechanisms as such internal factors.

Therefore, the core focus of this research is to illustrate how the interplay between these external and internal parameters shapes HRM at the local level and in turn can be used by researchers for studying variations between different parts of an MNC.

2.3 Interplay of factors shaping practices

2.3.1 Dilemma

It has been argued in existing literature that MNCs face a dilemma regarding how to manage their resources at the local level. In particular, since many aspects of the environments may vary across nations, organizational practices can also be expected to vary despite the fact that management principles might be disseminated across national
borders (Poutsma et al., 2006). Key features in this popular debate are the notions of ‘institutional duality’ (Kostova and Roth, 2002) and ‘opposing pressures’ (Rosenzweig and Nohria, 1994). These concepts refer to the MNC’s need to legitimise its actions in both the home and host country environments. Roth and Kostova (2003) have claimed that this paradox occurs because MNCs have to decide how to place themselves within a spectrum which on the one extreme requires worldwide integration of MNC activities and on the other demands local responsiveness in different markets.

It has also been suggested that MNCs have a dual role: the business network role and the corporate role (Forsgren et al., 2005). The prior is shaped by the subsidiary’s interaction with partners of either the external or internal network of the MNC while the latter refers to the role assigned to the subsidiary by the HQ in line with the corporate strategy. In effect, this dual role is expected to create a chasm between the choices available to the organization. Even though these roles are not mutually exclusive, this may generate a dilemma which the MNC needs to address.

At the company level, the question of whether management practices converge globally or remain diverse due to persisting differences in cultural and institutional contexts is closely related to one of the oldest debates in the literature on MNCs: the standardization vs. localization debate or integration vs. responsiveness’ (Pudelko and Harzing, 2007, p.538). Pudelko and Harzing (2007) in fact explain how the former debate refers to general MNC’s strategies while the latter are used for functional areas, such as HRM. The question of whether a business function in a MNC should be vertically integrated was raised by Gatignon and Anderson (1988). In turn, they felt that the right question was ‘to what degree a function should be integrated, whereby integration is a continuum anchored by the options of market and hierarchy’ (p. 305). These authors response ‘to which degree?’ lies somewhere in a continuum between market contracting and unified governance.

This suggestion also relates to the debate between standardization versus differentiation or responsiveness of management process and practices – as some scholars have defined it (Lawrence and Lorsch, 1967; Bartlett and Ghoshal, 1989; Roth and Kostova, 2003; Pudelko and Harzing, 2008). Indeed, ‘one of the central questions in the literature is the extent to which their [MNCs] practices will resemble those of the parent company
(standardization) versus the extent to which their subsidiaries act and behave as local firms (localization)’ (Pudelko and Harzing, 2007, p.538).

This conceptualization of the dilemma with which MNCs are faced, still begs the question as to the degree that employment practices are (or should be) differentiated or standardized. It is reasonable to assume that HR practices, in particular, can lead to a tension due to conflicting company practices and local ideologies which derive from the national culture, local institutions or even global competition pressures to reduce labour costs in the value chain of production. Employment practices in particular are affected to a higher degree by these sources of pressure since the workforce’s behaviours, attitudes, perceptions and work patterns are undeniably interlinked with these parameters. Not only do culture and institutions inform the behaviours and expectations of employees but concurrently managerial decisions at the local level are shaped by globally acceptable rationales which drive attempts to achieve efficiency and effectiveness.

Researchers have also been concerned with the similarity of organizational structures and process throughout various parts of the organization; a phenomenon called ‘isomorphism’ (Zucker, 1977) and which has also been a key concept in the interplay between home and host country effects. It has also been suggested that isomorphism is in reality a tool employed by MNCs in an attempt to “benchmark themselves against each other to improve efficiency and effectiveness” (Farndale and Paauwe, 2007, p.356).

Ferner and Quintanilla (1998) note four effects that isomorphism has on the management of human resources in a multinational setting. First is the cross national effect (or the home country effect). When this effect takes place, the parent company installs and embodies aspects of the country of origin environment across subsidiaries in host countries. In centralised MNCs, such as those from US, this is more evident (Rosenzweig and Nohria, 1994). The expectation in this case is that subsidiaries will behave as though they would operate within their home environment and act like other firms in their country of origin do. The opposite effect is the local effect (or the host country effect) where the organization embodies the institutional framework of the host country and subsidiaries are encouraged to replicate the processes that other organization within the host country use. Corporate effect is third and in this case headquarters press for international conformity from all subsidiaries. The subsidiary is found to function like the firm itself and this is
more likely to occur when there is a strong corporate image or brand name. Last is the global effect where MNCs are subjected to isomorphic pressures from competitors in global markets and as a result the subsidiaries try to imitate the leader in their industry on a global basis.

A different stream of thinkers have suggested that MNCs actually have to make a choice of whether to adopt or adapt their HR practices to global or local HRM standards (Farndale and Paauwe, 2007). However, the mere suggestion of such choice can be subjected to scrutiny as it will be illustrated. Various authors claimed that adaptation depends on the extent of differences between the parent and host country in terms of legislation, institutions, culture or strategic choice.

What is interesting in this case, is the assumption that the MNC, itself will proactively make this strategic choice (for example ethnocentric, polycentric or transnational strategy). First we need to question what the notion of an MNC entails. Is the MNC the same as the MNCs’ HQ? What happens when regional HQ exist and they are in conflict with corporate HQ? Besides, this proposition also fails to acknowledge in the first place that the relationship between the MNC and the subsidiary is not always vertical and a strict parent-daughter relationship might not explain the reality. Moreover, even though both external and internal factors are considered for shaping HR practices, the literature still fails to view that implementation of HR practices is the end of a long process and that perhaps the choice is not one made by the MNC alike but indeed by the subsidiary itself.

Another important element that might drive HRM choices or may affect the adaptation or standardization of practices has still been downplayed in previous studies. As such, the effects that global competition, global demands or even global standards can have on HR practices at the local level are usually absent from proposed theoretical frameworks. At best, these forces fall under the category of market pressures. Yet, the fact that they are global renders them as a distinctive factor.

Other authors however, seem to be departing from the initial debate between home and host country effects and support the thesis that MNCs’ HRM decisions are actually shaped by what is perceived – at the time – to be the ‘best practice’ due to the increasing momentum that globalization has gained in recent times (Pudelko and Harzing, 2007).
These best practices in HRM are perceived as ‘universally valid and applicable, irrespective of national culture or institutional context’ (Pudelko and Harzing, 2007, p.536). Conversely, it has also been argued that “since HRM deals with the management of people, it often is seen as one of those functions least likely to converge across countries and where MNCs are more likely to localize practices than to export country-of-origin practices” (Pudelko and Harzing, 2007, p.536).

Hence, the following questions arise: are national culture, national institutions and organizational characteristics so weak and peripheral that they can be circumvented by the perception of what is supposed to be best practice? Can practices which are people-centred be influenced solely by what is globally best, without culture, institutions or even micro-organizational parameters altering them? And after all, as the best fit school argues, who can determine globally what is best and applicable in all cases?

However, even Pudelko and Harzing, who support this ‘dominance effect’ as part of the factors which interact to shape the HRM practices employed at the subsidiary level, state that ‘we should not expect every subsidiary to be brought into the best practices scheme in the same way’ (2007, p.551). Moreover, ‘whenever there is no necessity to localize management practices and whenever home-country practices are not defining best practices, MNCs should strive for standardization toward global best practices’ (2007, p.553 – emphasis added). Therefore, they acknowledge that outcomes might differ and that there are some subsidiaries which will have localized practices while others will not but without giving an adequate account of how and why these very different outcomes might exist. Hence, we are forced to concede that HRM at the subsidiary is shaped by a number of factors which should be explored themselves in order to grasp how the implementation of HRM works at different sub-parts of the MNCs.

Kostova and Roth (2002) have claimed, when suggesting their widely accepted notion of ‘institutional duality’ that MNCs struggle to derive legitimacy in both the home and the host environment. Similarly, Rosenzweig and Nohria (1994, p. 230) stated that ‘the interplay of opposing pressures for internal consistency and for isomorphism with the local institutional environment’ shape HR practices within MNCs or the choices that are related to them. In other words, within MNCs, actors are pressured to conform to the expectations of their home context whilst also being subjected to the transfer of practices from the home
context of the MNC itself (Morgan and Kristensen, 2006; Poutsma et al., 2006). More specifically, new institutionalists argue that subsidiary managers are subject to institutional pressures from two main sources, the parent company and the local environment (Tempel et al., 2006a). However, other scholars such as Smith and Meiksins (1995) explicitly ‘reject the tendency to reduce global forces to the act of ‘borrowing’ or ‘emulating’ best practice developed elsewhere’ (p.252).

Some argue that in order to survive, organizations are expected to comply with the rationalized and institutionalized expectations of their environment and adopt expected structures and management practices in the host country (Geppert et al., 2006). Moreover, transaction cost analysis suggests that MNCs have to estimate when lower control outcomes become less desirable and the need for control increases, and when the benefits of increased control more than offset the costs of resource commitment and risk (Gatignon and Anderson, 1988). Therefore, the expectation is that ‘MNCs will attempt to leverage practices on a worldwide basis. Hereby lies the tension between the need for global integration, on the one hand and local adaptation on the other (Rosenweig and Singh, 1991; Westney, 1993). Hence, MNCs handle the potential conflicts arising from different institutional logics. These logics are either institutional demands of local environments, the conflicts which arise from global institutional context and/or the respective local institutional contexts (Geppert et al. 2006).

When everything else has failed, a tri-chotomy has been suggested instead of the traditional view of the dichotomy with which MNCs are faced. More recent literature suggested that the so-called Golden Triangle between standardization towards HQ practices, standardization towards global practices and localization is actually key to MNC success (Pudelko and Harzing, 2008). Nonetheless, it is apparent that this triangle is even more demanding than the original predicament of the MNC. If MNCs are struggling to balance two effects and respond to two opposing pressures, how will they manage to find the appropriate equilibrium for this proposed triangle?

Another interesting critique comes from Almond (2007). He claims that the field needs ‘to bring together elements of the institutional country-of-origin literature with an understanding of the segmentation of policy within MNCs, in order better to understand the concept of country-of-origin effects as complexes of causal powers potentially shaping
managerial agency in setting employment policies’ (p.2). Hence, it is evident that in the more recent literature the need for such understanding of the underlying processes has emerged.

2.3.2 ‘Transfer’ of HR practices revisited

As illustrated previously, literature seems to suggest that MNCs are faced with a dilemma and a choice needs to be made as to whether subsidiaries will transfer and apply practices that are prevalent in the country-of-origin or whether they will adapt to the local institutional environment (Gooderman et al., 2006). As it was argued, the main problem of HQ management is to balance local demands and resources with the global strategy of the firm (Kilduff, 1993). Overall the interaction between foreign and local influences is also at the heart of a number of empirical studies (Sharpe, 2006). As Roth and Kostova (2003) mention, one of the theoretical paradoxes regarding MNCs is the standardization versus differentiation in management practices and processes, as well as the worldwide integration of MNC activities versus local responsiveness in different markets. The purpose of this section is to challenge underlying assumptions of ‘transfer’ which is defined as the strategic action of vertical diffusing practices and doctrines from the HQ level to host-countries.

When doing research on MNCs and their foreign subsidiaries, it is important to acknowledge that the latter might not be perceived as independent entities and some would even argue that in essence MNCs want subsidiaries simply to conform and comply (Poutsma et al., 2006) and hence to adopt whichever practices are being proposed by the HQ level. Nevertheless, we need to concede that subsidiaries play a more active and dynamic role than originally expected in decision making processes within MNC (Williams and Geppert, 2006) and are not merely passive agents (Tempel et al, 2006b; Pulignano, 2006). The role of the human agency at the subsidiary level should not be ignored (Farndale and Pauwwe, 2007) since responses from subsidiaries are merely the cumulative outcome of human agents (local employees-local managers) actions, behaviours and perceptions. Morgan and Christensen (2006) have segregated these two opposed attitudes of local managers with respect to their response to HQ pressures. The first one is the ‘Boy Scout’ response where managers simply conform while the second one is the ‘Subversive’ response where managers choose to remain innovative and to use local
strength in order to develop their subsidiaries. Responses can sometimes manifest themselves as organizational resistance, either that is passive conformity (acquiescence) or proactive manipulation (Farndale and Pauwwe, 2007).

In addition, a further distinction can be made between different types of subsidiary (Ghoshal and Bartlett, 1989). First, are subsidiaries which create and implement their own practices while neither adopting nor diffusing any. This is true in cases where the HQ are interested solely in increased performance (and not in the means of which this is achieved) and thus provide the subsidiaries’ managers with sufficient discretion to manage their employment relations under the condition that results and targets are met (Ferner et al., 2005). Second, subsidiaries might both create and adopt practices but not diffuse them. Third, some subsidiaries might be involved in all three activities and hence at the same time create, adopt and diffuse practices. Despite that, the literature or the proposed conceptual models and frameworks do not quite explain why these different types exist and how these outcomes are reached.

This also relates to the level of embeddedness of a practice. Specific dimensions have been suggested for assessing the degree to which a practice is indeed embedded in an organization (or a subsidiary for that matter). These dimensions, according to Kostova and Roth (2002), are the implementation and the internalisation levels of a practice in a subsidiary while Bjorkman and Lervik (2007) have added the integration levels of a practice with other processes and structures as the third dimension.

Moreover, it has been argued that in reality practices are rarely transferred in their original form because subsidiaries filter the practices because they can translate, mediate, refine or even ignore them (Blazejewski, 2006). Germane to this, certain patterns of adoption can be found in the existing literature. These are namely (i) active, (ii) minimal, (iii) assent and (iv) ceremonial patterns (Kostova and Roth, 2002). This is very important since ‘active’ subsidiaries are both high on implementing and believing in or recognizing the value of the practice while in ‘minimal’ cases people (most likely managers at the local level) have both disavowed and disregarded the practice. In between, we can find the ‘assent’ sub-units which believe in the practice but have not implemented it as well as the ‘ceremonial’ subsidiaries where people at the subsidiary implement the practice without believing in it.
or acknowledging its significance. Worse still, in cases like the latter managers might report they implement a practice while they are not.

Simple as it may be, we must also understand that differentiation, i.e. different practices in subsidiaries across the MNC, might either be the result of the choices of the local management team or it may be because it was forced upon the local management (Tempel et al., 2006b). Consequently, the adoption of a practice at the subsidiary level is likely to happen because of three processes which take place in the MNC. These processes are namely: (i) coercive – where practices are in reality imposed on the subsidiaries management, (ii) mimetic – where sub-units respond to uncertainty by adopting already established successful practices and (iii) normative – where local managers adopt practices which are suitable and appropriate for their environment and business system (DiMaggio and Powell, 1991; Kostova and Roth, 2002; Tempel and Walgenbach, 2007).

The contemporary view is that employment practices of the parent company ‘are not mechanically applied to the various subparts within the limits of national legislation and employee rights in the host country, but their application also depends on the influence that company-specific features have on the scope of strategic choice by local management and trade unions at the subsidiary level’ (Pulignano, 2006, p.498). These observations highlight the realistic dynamics which take place at the subsidiary level. Firstly the role of the local management in decision making is acknowledged and hence we depart from the previous conviction that subsidiaries are merely implementing the strategic vision devised at the top level of the MNC. Secondly, internal factors are documented as part of the interplay which shapes HR practices at the local level. Hence, it is evident how the literature in recent years has started moving from the traditional axiom that external factors, such as culture or institutions, mould HRM at the subsidiary level. Even so, the proposition leads to the understanding that ‘transfer’ is an elusive concept. Transfer can take place in certain occasions and can be perceived as the observed outcome of this interplay rather than the source of HR practices. In addition, due to the complexity of this interplay, it is rather difficult to predict which HR practices will be diffused and under which conditions.

A key point is that mere similarity between practices is not sufficient proof to indicate that transfer has indeed taken place (Ackroyd et al., 1988; Edwards, Colling and Ferner, 2007). For example, if subsidiary X uses the same recruitment practices as the ones used or
proposed by the HQ, this observation alone is not enough to confirm transfer. The need to explore this process in depth arises once more, leaving the researcher with little scope but to treat the transfer as an outcome instead of a factor or a process.

Pulignano (2006) maintained that ‘strategic behaviour of the firm co-exists with national institutional frameworks of the host country to shape influences upon the diffusion of employment practices from the corporate level’ (p. 514). In this study diffusion of HR practices is seen to be shaped by both external national aspects as well as company-specific features. The strategic role of the subsidiary within the wider organisation is one of these features.

Another theoretical framework which summarizes the way in which current literature has perceived the phenomenon is that of Sippola and Smale (2007). In their study on the global integration of diversity management, they explained how this integration takes place in a MNC, even though they acknowledge that ‘our knowledge about how MNCs are responding to internalization of their workforces [...] remains weak in comparison to our understanding of similar issues at the domestic level’ (p.1902). As is evident in the Figure 2, Sippola and Smale conceptualized ‘integration’ as being affected only by external institutional factors. Cultural, market or global pressures are absent from this framework although they acknowledge that ‘HRM falls in the category of a context- and culture-specific resource’ (p. 1900). Hence, the emphasis is placed on the differences in the regulatory, normative and cognitive pressures exercised on the whole process. These represent, respectively, the legal framework, the values and norms and the frames of thoughts of the environment (Kostova, 1999). In addition, it can be observed in the model that these might affect the vertical process either at the HQ level or at the subsidiary.
However, yet again a vertical process of transfer is suggested, with the only difference being that outcomes are shaped by the interplay between design and delivery. These two aspects being, in fact ‘key strategic decisions regarding what to integrate and how to facilitate it’ (p.1900). Accordingly, they suggest that a global HRM initiative will inform HR practices, such as Global Diversity Management, and in turn design (what) and delivery (how) will shape the outcome. These include on the one hand strategic HRM activities such as philosophy, policy and practice and integration mechanisms on the other. Nonetheless, once more this model presumes that the decisions of ‘what’ and ‘how’ are taken by the MNC.

Moreover, the integration modes proposed here do not grasp the scope of control mechanisms exercised by the HQ on local management. The assumption is that HQ seek to exercise such control and such integration mechanisms are present in any given subsidiary. What happens then in subsidiaries over which HQ do not have such influence? For instance, if the subsidiary is of critical, strategic importance, its power over resources might be greater than that of the HQ. Also, subsidiaries do not always have a vertical
relationship with the HQ. Some subsidiaries can be affiliated, others perceive themselves as part of a network and others operate under a franchise status. In effect this means that neither the local management is obligated to accept such integration mechanisms nor that HQ want or do enforce such measures.

The comprehensive conceptual model proposed by Bjorkman and Lervik (2007) agrees with Sippola and Smale (2007) in terms of the ‘what’ and the ‘how’ since they concede that ‘the way in which the process is carried out, who is involved, and the efforts, skills and attitudes of change agents is also likely to influence transfer’ (p.330). In this case, the ‘transfer’ is actually perceived as a ‘social process governance mechanism used by the MNC, characteristics of the subsidiary HRM systems, the social relationship between the subsidiary and the MNC headquarters and the transfer approach taken by headquarters management will influence the outcome of the process’ (p. 321). It is evident though that the factors named in this model are mostly of an internal nature. But yet again this model follows a similar line in assuming vertical transfer from HQ to sub-units.

First, these suggestions are broadly based on the assumption that a local HR system in fact exists. However, subsidiaries which are in the start-up stage of their life cycle are very unlikely to have an HRM system in place, thus it would be impossible to test for the satisfaction of existing HR practices. Not only that, but this model suggests that local management might resist new HR practices suggested by HQ. Again, this can be counter-argued when one contemplates the type of the subsidiary or the type of ownership. Theoretically, a greenfield subsidiary – which again like subsidiaries in the early stages of the life cycle – does not have a history of existing HR practices, might, in fact, welcome proposed HR practices since it would help the local management save time and money. Thus, if the subsidiary’s response, as mentioned earlier, is ‘mimetic’ then local management will try to reduce their uncertainty by implementing currently successful practices.

Similarly, Farndale and Paauwe’s (2007, p.361) overview of the theoretical perspectives which influence the HR practices also tries to unveil the factors which affect the adoption or adaptation of HR practices, as shown in Figure 3. Needless to say the notions of adoption and adaptation are again perceived as strategic decisions that the MNC takes and not as outcomes which happen after a complicated and multifaceted process at the
subsidiary level. However, as the following figure illustrates both exogenous and endogenous factors were taken into account, even though these were limited to institutional and competitive drivers. The four major factors expected to have some bearing on HR practices (and their proposed adoption or adaption) are organizational heritage, national level context and its dependent best fit, strategic choices and human agency, and finally global level universal best practice benchmarking. For example, the expectation is that due to the national contexts or global best practice benchmarking, subsidiaries will adopt HR practices used at the MNC level. On the contrary, HR practices will be adapted to the local standards because of the strategic choice of the local management or due to the organizational heritage of the MNC.

However, these estimations do not capture another eventuality: cases where despite increased institutional or cultural distance differentiated practices are still observed. In the same vein, it can also be argued that organizational heritage is a very broad notion which disregards other organizational characteristics such as age and size of subsidiary, type of ownership and subsidiary and even the background of the local management at any given time.

<table>
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<tr>
<th>Institutional drivers</th>
<th>Competitive drivers</th>
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<td><strong>Q1</strong> Organizational heritage → institutional differentiation between firms</td>
<td><strong>Q3</strong> Strategic choice/human agency → competitive differentiation between firms</td>
</tr>
<tr>
<td><strong>Q2</strong> National level context-dependent best fit → institutional isomorphism of firms</td>
<td><strong>Q4</strong> Global level universal best practice benchmarking → competitive isomorphism of firms</td>
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**Figure 3: Overview of theoretical perspectives influencing HR practice adoption and adaption**

A more nuanced perspective has been observed in recent literature whereby a bi-directional relationship between structural influences and internal political processes has been argued to shape ‘the extent and nature of diffusion’ (Edwards et al., 1999, p.287). One such structural influence was global integration of production. Hence, it is expected that in cases
with uniform and interdependent global production, decision making will be highly centralised. In a similar vein, key influences on the HRM within MNCs were highlighted, with these being the country of origin effect, dominant business system and international integration of business openness of host countries’ to other management styles (Edwards and Ferner, 2002). Then, scholars attempted to explain transfer through a combination of global pressures and postulated that tensions between endogenous and exogenous factors shaped the transfer process (Edwards and Kuruvilla, 2005). More recently, the political economy approach was employed to provide explanations on the attractiveness of transferring practices (Edwards et al., 2007). This framework, on which this analysis is also based, incorporates market pressures, distinctive national environment and micro-political dimensions as the key aspects which shape the transfer.

However, scholars have conceded that transfer is not a straightforward concept and have begun to analyse complementary concepts such as choice and pragmatism; the degree of integration is now seen as an outcome rather than as a factor (Rees and Edwards, 2009). The aforementioned political economy approach has been used again but this time emphasis has been placed on contextual and strategy factors. Moreover, integration was seen in this study as an outcome of the interplay of these influences rather than an influence in its own right. This confirms the emerging tendency in the literature for a contingency approach to be taken when exploring a complex process such as management of human resources in an even more complex organization such as the MNC. What in reality emerges from these models is that any attempts to fully conceptualize a model of the ‘transfer’ will most likely lack the ability to describe in depth the multifaceted process which moulds HRM at local level. Thereby, the dimensions or characteristics of the ‘transfer process’ do not provide adequate explanations about how a practice is implemented at the subsidiaries and why it is implemented in that way.

In fact, scholars have suggested that problems of diffusion, or more widely the adoption of different types of HRM, can only be understood if they are related to company strategies in markets, technology and organization and not explained through a unique lens which a single approach might provide (Purcell, 1999). For example, there are specific reasons and explanations behind why subsidiaries prefer to use interviews instead of assessment centers, why local managers prompt employees to join trade unions contrary to instruction
by the HQ, why job descriptions are written in the national language rather than the local. Building on this, it has indeed been argued that ‘there is ample evidence that planned transfers of practices do not always work out in the way intended by headquarters’ (Bjorkman and Lervik, 2007, p.3). Therefore we can argue that the reality of a subsidiary’s employment relationship is the outcome of the interaction of a number of factors which influence the way HRM practices are used in the workplace.

Overall, we must also acknowledge that MNCs (as a whole entity) are not really aiming for standardization after all, since this minimizes flexibility and can jeopardize the potential competitive advantage to be gained from exploiting niches in each market. As Farndale and Pauuwue (2007, p.358) claim, ‘if all organizations within a given field are doing the same activities, this does not result in sustained competitive advantage’.

2.4 An alternative approach: Bottom-up

Tempel et al. (2006a, p.22) have argued that ‘the implementation of HRM practices in host countries cannot simply be read-off from differences between home and host country institutions’ and call for the integration of other aspects and perspectives when investigating the transfer of practices within MNCs. After all, a more integrated perspective, which constructs a framework from various theoretical backgrounds is needed in order “to explain the rich and complex social phenomenon under scrutiny” (Quintanilla and Ferner, 2003, p.364).

The purpose of this framework is twofold. We need not only to understand HRM processes but also to grasp the interplay between factors which affect the implementation of HRM at local level. Hence a more dynamic and integrated approach is needed. Such a perspective reflects more accurately the ‘interrelationships between markets and institutions on the one hand and the material interests of actors on the other’ (Edwards et al., 2007, p.201), which mould the choices for HRM practices (insofar that this is possible given the fact that every individual workplace has its own unique parameters which themselves may alter due to a variety of reasons and causes).

At question, therefore is how this phenomenon/process takes place and which factors shape HRM at the subsidiary level. Therefore, the approach suggested here, can arguably provide better appreciation for the contribution of all perspectives. This line of reasoning should be
also expanded to the factors that affect the implementation of HR practices at the subsidiary level. Evidently, some scholars have even admitted their failure in doing so (Fenton-O’Creevy, Goodeham and Nordhaug, 2008).

More recent developments in the IHRM literature illustrate how imperative this need has become. The ‘political approach’ suggested by Edwards et al. (2007) also indicates the constraints at play by illustrating how the three main drivers of transfer are present and interlinked. This interplay is argued to then shape HR practices. These three drivers are (i) market based, (ii) cross-national comparative (culturalist and institutionalist) and/or (iii) power based. Akin to this is the ‘relational perspective’ which as Almond (2007, p.2) argues ‘allows for consideration of possible impacts on the margins of manoeuvre, and indeed the rationalities of the agents involved, in an integrated fashion’. From the vantage point of using such approach a more holistic view of the process and the factors which underpin it can be gained.

Summing up, there is strong evidence in the literature that factors can be divided into four clusters which represent pressures from both the external and internal environment of the organization: institutions, culture, intra-organisational characteristics and global pressures. These clusters, however, are not mutually exclusive and factors which fit into one cluster can be seen to fit a separate cluster, when examined under a different set of assumptions. Be that as it may, a claim can still be made that the interaction and interplay between the factors (whose intensity varies in different cases) shapes HR decisions and practices and leads to the outcomes observed, such as standardization or adaptation.

While some scholars have argued that factors can be either global context-specific, local context-specific, firm specific or within firm specific (Mohan, 2006), others claim that factors can be divided into societal (either cultural or institutional), organizational and global (Harzing and Sorge, 2003; Pulignano, 2006). However, so far, researchers in the area initiate their quest by studying existing theories in the field and attempting to verify them. As a result, the majority of researchers have used several case studies to reach a conclusion whether home or host country effects shape HRM. They have attempted to illustrate this through either a comparison between head-quarters and subsidiaries or even between subsidiaries in different countries.
However, to this end a different approach arguably needs to be employed, similar to Almond’s (2007). A bottom-up perspective (i) actively shifts the emphasis from the top to the local level and (ii) does not pre-assume that HQ proactively seek to transfer practices. Accordingly, the unit of analysis is perceived to be the subsidiary itself (and not the MNC as a whole or the HQ which are assumed to diffused decisions down to sub-units) and the people who implement or even affect what will come to be conceived as standardizations or adaptation.

The logic behind this is that despite the fact that the majority of authors suggest that MNC strategy is formed at a senior level then diffused to local subsidiaries where policies are decided and finally practices are implemented, it is imperative to highlight the assumptions such models entail. Also, the need emerges to highlight how these may obstruct research from reaching a more meaningful conclusion on how decisions that affect the workplace and workforce in a MNC are made in reality. Thus, we propose to examine this phenomenon from the bottom and then make our way up if we are grasp the whole picture of the process of HRM. This can open up a gap between reality and theory, which has been ignored so far in existing researches. Implementation and perception of specific practices is crucial when examining the HRM process in complex settings such as the MNC and care needs to be taken to avoid the danger of being constrained by existing preconceptions and using a model that implies and assumes transmission, transfer and diffusion.
CHAPTER III: Methodology

3.1 Introduction

This chapter discusses the approach that has been used to address the research aims and questions of this thesis. This study has employed qualitative methods to investigate the outlined research questions because this helps to gain a richer, more context-dependent understanding of the local HRM process and the factors which shape it. The case study design was used, drawing upon semi-structured, qualitative interviews with senior members at the subsidiary level of service MNCs in Cyprus. More specifically, this chapter will illustrate how the case study research design is appropriate for the bottom-up approach, explained above in section 2.4.

This framework was employed after carefully examining the approach to the methodological choices of the majority of authors and researchers on MNCs and HRM. Many researchers have argued that the case study design is the most widely used method (Ghoshal and Bartlett, 1989; Edwards, 1998, Edwards et al., 1999; Yin, 1989; Mohan, 2006; Blazewjewski, 2006; Tempel et al., 2006a; Tempel et al., 2006b; Cooke, 2007; Edwards et al, 2007; Batt, 2007). The argument here is that when one does not set out to establish causal relationships between variables (i.e. variable x will lead to variable y) but rather to study and describe a process and the factors which might facilitate or obstruct this, then this design is highly recommended. Further justification for this can be found in later parts of this chapter.

To begin with, a few general points need to be made which briefly outline the rationale behind the methodological choices suggested in this chapter. At the outset, it is important to note that the complexity of the multinational as an organization ultimately renders the research and its methods extensively complicated. For example, literature makes an explicit and clear-cut distinction between HQ and foreign subsidiaries. The former represents what is perceived as the ‘mother company’ whereas the latter is a unit which operates in a host country. This straightforward distinction however is elusive. For example, there is a distinctive difference between corporate HQ and regional ones but the latter are still foreign subsidiaries. So, should we treat and examine these as the former or as the latter? The case of A. C. MarkResCo examined in this thesis is one such example.

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Another difficulty relates to the type of ownership. In the literature it has been implied – explicitly or implicitly - that subsidiaries are directly owned by the mother company. Hence, they are referred to as ‘daughter companies’. Nonetheless, how do we study a subsidiary that perceives itself (NOTE: the people within that subsidiary perceive themselves) as a member of an extended network, like the ProfServB offices in Cyprus or one which is simply affiliated to the MNCs for mutual business benefits, like AdvertCo?

Previous research on MNCs has attempted to capture some of the detailed nuances of the HRM process since it is usually viewed from a single perspective (e.g. institutionalist) and in doing so authors have tended to assume vertical diffusion. As it will be explained further on, the interplay between home and host effects is not a ‘zero sum game’ (Almond, 2007, p.9). The reality is far more complicated than that and therefore this thesis aims to consider all pressures exercised on the subsidiary such as individual characteristics of the subsidiary or even pressures from global competition.

Therefore, the main argument of the bottom-up approach, suggested here, is that no vertical diffusion is pre-assumed. The question in hand is not concerned merely with depicting a comparison between the practices implemented at the two levels but rather with the reasons that drive the HRM process at the local level and how these result in specific HR practices. On the contrary, the aim is to achieve roundedness of understanding of the HRM process, rather than a broad understanding of surface patterns (Mason, 1996, p. 41).

In a similar vein, the endeavor here is not to infer conclusions on how HRM takes place at a certain organization, in a certain context, in a certain space in time. On the contrary, an attempt is made to construct a conceptual framework which provides a more holistic picture of the process and illustrates the parameters which define it. At a deeper level, the aim in venturing to articulate a fairly encompassing framework is to stimulate further discussions and debates on the implementation of HRM at the local level.

It is worth discussing here why emphasis is placed on the local people (and that includes both people from the home country or third-country nationals who work or manage the local unit). Ideally, data collected from the HQ level would have assisted in achieving the aforementioned roundness. This was not pursued due to practical limitations and theoretical reasons alike. With respect to the latter, it has been found that an influential
body of existing literature has placed more emphasis on the influence that the MNC has on the subsidiary and less on the local contingent factors despite their potential significance. Instead, the main research concern herein is to explore processes at subsidiary level and allow the local agents to provide their own accounts and interpretations of how that takes place without being constrained by pre-existing assumptions about vertical transfer.

Obviously, some may argue that this approach runs the risk of prioritizing the local setting instead of the home-country effect. This is not accurate since equal weight will be given to all factors that might affect the process; external or internal, local or global. Especially when country-of-origin effects are concerned new developments in the literature should be kept in mind. Regarding this, Almond (2007, p.2) argues that in fact country-of-origin effects ‘conflates two types of managerial agency, namely country of ownership and country of management effects’. In turn, the former type refers to the process of labour management and the choices of actors (managers) at the subsidiary. In this case, as Almond claims, choices are or should be made based on the structure or the strategy of the organization and are also shaped by the nationality of the firm. Hence, local agents ‘interpret, accept/reject and begin through their own agency to hybridise policy shaped abroad, though rationalities derived from their location in domestic employment systems’ (ibid).

Almond further explains that ‘if we are to understand the process of ‘hybridisation’ of employment systems frequently referred to as the outcome of home/host relations, it is useful to recognize that this process depends, at least in part, on the effective hybridisation of the rationalities of workers and managers across the international firm’s employment system. Accessing these hybridised understandings would allow a clearer understanding of the margins for manoeuvre available in shaping policy and practice’ (p.9). Thus, understandings and perceptions of local agents, as well as pressures which shape their decisions, are fundamental in appreciating how HR practices are implemented. In doing so more attention can be paid to the ‘possible impacts on the margins for manoeuvre, and indeed the rationalities of the agents involved, in an integrated fashion, rather than the somewhat ad hoc way that sometimes characterises debates on international and comparative human resource management’ (Almond, 2007, p.2).
Accordingly this argument gives good reason for the choice of senior management or local executives as respondents. They are the ones who have an understanding of both the local and global setting, are in a position to explain why certain HR practices come to being and can better appreciate the effects of both the internal and external environment on these.

It might be argued that employees are the final recipients of the practices and are sources of information as well, in order to determine in which way a practice is really implemented. Despite this argument, we should also keep in mind that such a methodological choice would not serve the purposes of this study. The purpose here is not to describe the impact of specific practices at workplace level. Rather the aim is to analyse the process which leads to the practices and to highlight the factors which underpin this. This ultimately allows for the construction of a conceptual framework (based on the findings as well as on the ‘political-economy’ model by Edwards et al., 2007) which will best describe the process. For this reason using data generated from the employees’ perspective would serve neither the ontological nor the epistemological purpose of this study. Conversely, HR managers, HR officers, HR partners, owners/franchisees, General Managers and Line managers were questioned instead.

3.2 Epistemological and ontological assumptions

In debates on the philosophical underpinnings of social and business research, it has been proposed that all social phenomena are explicable only in terms of social structures, social institutions and social culture. Winch (1958), for example, has argued that indeed you cannot take an action out of its conceptual context and that social phenomena are concept-governed.

In philosophical terms, this merely means that the ontological position indicates that people’s knowledge, views, understandings interpretations, experiences and interactions are meaningful properties of the social reality which the research questions are designed to answer (Mason, 1996). In turn, the epistemological position suggests that a legitimate way to generate data on these ontological properties is to interact with people, to talk to them, to listen to them, and to gain access to their accounts and articulations (Mason, 1996).

An interesting example of a study wherein the paradigm is inconsistent with the ontological nature of the phenomenon is Hofstede’s study on culture. Hofstede employed
quantitative methods which are tightly linked to the positivist paradigm. In fact, positivist researchers tend to focus on facts and look for causality and fundamental laws while operationalising concepts which are able to be measured, preferably by taking large samples (Easterby-Smith, Thorpe and Lowe, 1991). Nonetheless, the main criticism against this study (McSweeney, 2002) derives from the mere nature of culture. Is it an entity which can not be measured, explained and described with numbers on a scale or is it a process which is dynamic, constructed by individuals in a specific (geo-social) setting and needs to be addressed while exploring people’s interpretations, experiences and stories?

Overall, this research embraces a constructivist approach; an approach which is part of the phenomenological life-world analysis. The general principle of life-world analysis, oriented to the epistemological problems of the social sciences, is to analyse the understanding of meaning-comprehension by relying on a formal description of meaning in the subjective consciousness of actors (Hitzler and Eberle, 2004). Similarly, phenomenology analyses real world both in respect to how it is constituted meaningfully in the subjective unconsciousness but also treats it as produced by the actions of people (Schütz, 1966). In consequence, the constructivist views reality as the result of social constructive processes which might shape it (Schütz, 1962). Moreover, this approach investigates the social conventionalizations, perceptions and knowledge in everyday life. In other words, social scientific knowledge is developed on the basis of pre-existing everyday knowledge and socially constructed through this developmental process; knowledge and the constructions it contains become the relevant means of access to the objects with which they are concerned (Flick, 2004). This is consistent with both our ontological and epistemological assumptions.

Moreover, such an approach is even more imperative when attempting to unveil the multifaceted HRM process in MNCs since it involves both agency and structuration issues. This organizational micro-level (subsidiary) occurs, like a society, as the result of a process of structuration in which organized sets of rules and roles are embodied in ongoing practices through the interpretive and willful activity of conscious agents. Structuration here is defined as the conditions governing the continuity of transformation of structures and therefore the reproduction of systems and it is ‘not to be conceptualized as a barrier to
action, but as essentially involved in its production’ (Giddens, 1979, p.70). More importantly is that structuration entails active involvement by human agents (Fay, 1996). Therefore structuration, ‘cannot be an independent thing operating over the heads of its members, automatically producing their behaviour in the same way some machines take raw materials and churn out duplicate copies’ (Fay, 1996, p. 66).

Action or agency does not refer, according to Giddens (1979) to a series of discrete acts combined together, but to a continuous flow of conduct. The actor therefore is the entity which is the source of a pattern of action (Luckmann, 1978). When conducting social research actors are thus ‘taken as the focal points of action and must be treated from the point of view both of their being an object and of their being a subject’ (Luckmann, 1978, p.295). This is consistent with the duality that the concept of structurization entails. In other words, this duality implies that the structural properties of social systems are both the medium and the outcome of the practices that constitute these systems. Consecutively, at the subsidiary level actors are both the recipients and the shapers of HRM practices and are affected and affect the structurization of their organization.

However, a distinction needs to be made here. Data sources have been defined as ‘those places or phenomena from or through which you believe data can be generated’ whereas ‘data generation methods are the techniques and strategies which you use to do this’ (Mason, 1996, p. 36). Therefore, data sources in the present study are the individual respondents as well as secondary data which were examined to portray the local setting that Cyprus provides. The data generation method, on the other hand, is the case study design, which we will elaborate on later in this chapter.

In sum, respondents in this case need to be people who have a day-to-day experience of how HRM is implemented at this level. Especially senior members of staff – in some cases even franchisees, partners or owners – are able to define how they perceive the expectations of HQ and explain their actions or responses in these. Moreover, people in senior positions at local level have an understanding of both the local and global dimension of their organizations while at the same time grasp the limitations imposed on the HRM by both the internal and external environment. Indeed, while it is of great importance to know their response, it is also imperative to pinpoint the factors that mould this process. Therefore, the expectation is that individuals at the global level would not be in the
position to appreciate or understand these parameters at the local level whereas individuals at the local level can better understand these at both the local and global level.

A further critical philosophical question is how can other human beings be understood if there is no direct access to their consciousness? Schütz (1966) argued that this can only be grasped through signs and indications; no more than fragmentary excerpts of the other’s subjective context are ever accessible to the interpreter. As argued earlier then, such an approach is the most suitable to bring to the surface a phenomenon in the likes of an HRM process at a foreign subsidiary of a multinational organization. Moreover, by taking a closer look at the real process we can then identify and appreciate the factors which affect this. And the most appropriate tool for doing so is semi-structured, qualitative interviews.

It must also be noted that phenomenological empiricism consists of the researcher beginning with his/her own subjective experiences and this develops in a reflexive form (Hitzler and Eberle, 2004). Undoubtedly, the conduct of the investigation remains influenced by the investigator’s prior knowledge and the accessibility of the case. However, case construction does take ‘place within the limits fixed in this way’ (Merkens, 2004). For example, to gain access to the various organizations extensive use of family connections and networks was needed. This is a characteristic of the Cypriot national culture but also of the local business norms and expectations – information which was available due to previous experience in this environment. Also, the term ‘Cypriot mentality’ was used regularly by respondents in interviews. The researcher was left to decide what this term implied. Had the researcher not been Cypriot, this could have been incomprehensible, but because of her background it was possible to attribute further meaning to this notion. Nonetheless, despite this advantage, it is also recognised that the attribution of meaning is a subjective matter, without any theoretical evidence. However, due to lack of extensive research on Cyprus this was seen as the only possible outlet in analysing the data further.

Hence, personal experience can allow the researcher to evaluate the quality of the interaction in the conversation and control it, in a way to get a more objective overview of how the process works. Hence, the researcher, in fact, must be capable of assessing when it is appropriate in terms of content to depart from the question guidelines, when it is essential to ask more intensive follow-up questions and when it is of particular significance
for the research interests of the project (Hopf, 2004). Obviously, this capability is provided through (a) personal knowledge and experience of the broader context in which the organization operates (b) extensive knowledge of the literature which forms the theoretical expectations for how the process works or which factors might affect it. Other issues to be taken into consideration are the need for linguistic precision and attention to culture and time (Winch, 1958). Moreover, to minimise possible biases the researcher should attempt to standardize the stimulus (questions asked) so that any variations seen in responses will be an accurate measure rather than an artefact of the methods used (Mason, 1996, p.40). These were taken into consideration when the research was carried out and will be discussed in part 3.3.3 Data Collection Process.

3.3 Methods of Data Collection and Data Analysis

3.3.1 Generating Data: Case Study Research Design

Definition and Characteristics of the Case Study Design

A case study has been defined as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident (Yin, 1989, p.13). Moreover, it has been argued that a case study cannot be defined through its research methods but rather defined in terms of its theoretical orientation (Hartley, 2004). The following figure outlines the characteristics of a case study design:

<table>
<thead>
<tr>
<th>View of the world</th>
<th>Social Construction</th>
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<tbody>
<tr>
<td>Types of study</td>
<td>Explanatory</td>
</tr>
<tr>
<td>Nature of Explanation</td>
<td>Pattern</td>
</tr>
<tr>
<td>Nature of generalization</td>
<td>Theoretical</td>
</tr>
<tr>
<td>Role of theory</td>
<td>Understanding</td>
</tr>
</tbody>
</table>

Figure 4: Characteristics of the case study design
All in all, it must also be said that a debate about the use of quantitative surveys has been noted in existing literature. Despite their advantage of answering ‘how much’ questions and indicating causal relationships based on statistic expressions, they lack the aptitude to give accounts for ‘how’ and ‘why’ questions (Yin, 1989). Nonetheless, this demanding need to answer the ‘hows’ and ‘whys’ is at the centre of interest for researchers who embark on exploring the nature of HRM in the context of a multinational organization (Tempel et al., 2006b). Stated differently case studies enable ‘the researcher to go deep in complex matters, which are not wholly understood’ (Steward et al., 1994, p.13) and is consequently the most appropriate tool for the aims and purposes of this study.

Thus, the rationale behind the choice of a case study design (and its tools) lies in its utility. It has been claimed that the utility of case studies lies in their ability to be ‘generalizable to theoretical propositions and not to populations or universe’ (Yin, 1989:10). More specifically, this research design is “adept at addressing why and how linkages between phenomena occur and develop” (Edwards et al, 2007, p.204). Hence, whereas the chief purpose of the case study design may be descriptive, in-depth study of a particular case (or group of cases) can yield explanatory insights (Babbie, 2007, p.309). Case studies can form the basis for the development of more general, nomothetic theories (Babbie, 2007).

The objective here is to illustrate the way in which subsidiaries interact with their environment and to highlight the importance of factors which affect, either positive or negative, the process (Edwards et al., 1999). What is referred to as the ‘environment’ consists of both the external and internal context in which the subsidiary operates. Moreover, the interaction with this environment includes changes, adaptations and responses (Tempel et al, 2006b).

Therefore, when setting out to examine such process within a complex organization such as the MNC qualitative research is required since it enables deeper insight of behaviour (Tempel et al, 2006b) and provides space for further contextual analysis (Pettigrew, 1985; 1995). More specifically, case studies in this research are interpretive, based on the belief that practices and processes are socially constructed. Many theoretical approaches have been found in existing literature to have already adopted this design. For instance, new institutionalist studies of HRM in MNCs have adopted only qualitative methods (Tempel et al., 2006). As Cooke (2007, p.502) claims, the study of the ‘transfer process’ (since the
whole HRM process has not been studied in its entirety yet) has mainly been investigated so far in a ‘rich case study literature’.

Hence, it can be argued these advantages also extend to this multi-dimensional model which cross-fertilizes a number of theories and perspectives (Tempel and Walgenbach, 2007). This can be assumed since at the core of the inquiry a process can be found rather than a relationship between two or more variables. Hence these variables can best be defined and explained through qualitative mechanisms instead of quantitative. Further, qualitative methods and an exploratory research design, in contrast to an explanatory one, make it possible to investigate complex linkages and processes relating to HRM in MNCs (Ferner, 1997). Not only that but they also support theory building and verification in cross-cultural settings (Osland and Osland, 2001).

**Extended Case Method**

This project follows an extended case method as this serves the purpose of discovering gaps or flaws in, and then modifying, existing theories (Babbie, 2007). Whereas grounded theorists seek to enter the field with no preconceptions about what they will find; extended case researchers argue just the opposite. Indeed, they aim ‘to lay out as coherently as possible what we expect to find in our site before entry’ (Burawoy et al, 1991, p.9). In fact, this is a way of improving theory rather than approving or rejecting it. Obviously when supporting this approach, one needs to be extremely familiar with the literature beforehand.

Accordingly, we have examined the current literature and reached the conclusion that not enough attention was paid to the way in which the process is implemented and to the factors which affect this. Indeed, various scholars have studied subsidiaries of MNCS (e.g. Pulignano, Smale etc) but their main objective was to investigate factors which facilitate or hinder the transfer process. Hence, even though their contribution was invaluable and is not to be refuted, we need to acknowledge the current theoretical contributions have gaps which need to be addressed.

Thus, the methodological choices of the current study have followed a deductive approach as the following diagram implies (Gill and Johnson, 1996). Initially theories were studied in depth to provide the basis for the hypotheses/propositions suggested. Consequently, these were used to construct the interview scheme which guided the interaction with the
respondents to be followed by empirical generalizations which derived from the findings and comparisons between different cases. These steps in the research cycle are depicted in Figure 5 (adopted from Wallace, 1971):

![Figure 5: Research cycle](image)

Finally, when it comes down to the analysis of the cases, cross-case analysis will be used. In brief, this method of analysis involves an examination of more than one case; this can be either variable-oriented or case-oriented analysis. Variable oriented describes and/or explains a particular variable (Babbie, 2007, p.395). Hence, the following chapters which revolve around three variables/themes of analysis: product market, labour market and organizational characteristics.

**Sampling of Cases**

The problem with sampling in qualitative studies is actually one of content and interpretation; the goal is to have a sample that provides ample foundation for new theories to be developed – or old ones to be modified (Miles and Huberman, 1994). It has been argued that ‘it is not a question of representing the distribution of features in totalities, but rather of determining what is typical of the object under investigation and thereby ensuring its transferability to other, similar objects’ (Hartley, 2004, p. 225).

Moreover researchers need to decide how to select individual cases: are they unique and do they meet the research’s criteria (Merkens, 2004)? Then, a researcher is faced with the
problem of accessibility, i.e. the willingness of individuals to be reached or their refusal to corporate. In qualitative studies the stimulus for empirical data collection often consists of guaranteeing access to a particular case. Since access is a problem – people might deny being part of the study or firm policies might forbid it – a non-probability sample is often used. As it has been argued, social research is often conducted in situations that do not permit the kinds of probability samples used in large-scale social quantitative surveys (Babbie, 2007). One type of non-probability sample is the reliance on the available subjects. Then it is not particular selection methods that are in the foreground but rather the selection is merely constituted by accessibility (ibid).

Moreover, certain criteria for qualitative sampling have been suggested. First, sampling must guarantee that the case is represented with as many facets as possible (Merkens, 2004). In those terms, a variety people at different managerial positions were interviewed in addition to examination of corporate (or other) documents. In this instance it is also crucial that the investigation should involve not only favourable cases that confirm the existing state of knowledge, but also unfavourable or critical cases. This justifies the inclusion of firms such as AdvertCo and MarkResCo in the sample. The former’s type of ownership (affiliation) has not received much attention in the literature while the latter’s strategic role within the wider context of the MNC (regional HQ) challenges the commonly proposed definition of the subsidiary. Therefore, in this way we can respond to claims for lack of generalizability. Had we studied only one, single case we would have been unable to infer a broader framework. However, this was tackled through the use of ten different cases, from two sub-sectors of the service industry, from different countries-of-origin which were analyzed in a cross-case type of analysis (more details in later parts of the chapter).

Two modes of procedure for sampling have also been recommended in the literature (Merkens, 2004): The first indicates that before the start of the investigation the sample can be set up with reference to particular features (a set of criteria is decided beforehand). Conversely, in the second instance, samples can be extended and supplemented on the basis of particular level of knowledge achieved. For this study, the first mode is followed and we elaborate on this is part 3.3.3 Data Collection Process.
3.3.2 Data Sources: Qualitative, Semi-structured Interviews

Qualitative interviews refer to in-depth, semi-structured forms of interviewing (Mason, 1996) which are characterized by a relatively informal style which revolves around a thematic, topic-centred approach for one to one interactions (ibid). In reality, it is an interaction between an interviewer and an interviewee, in which the former has a general plan of inquiry, including the topics to be covered, but not a set of questions that must be asked (Babbie, 2007, p. 318). Hence, ‘the fundamental assumption in this case is that data are generated via the interaction, because either the interviewee(s), or the interaction itself, are the data sources’ (Mason, 1996, p. 38).

Qualitative interviews are designed to be ‘flexible, iterative and continuous, rather than prepared in advance and locked in stone’ (Rubin and Rubin, 1995, p. 43). In addition, since semi-structured interviews allowed the interviewer to be flexible (Bryman and Bell, 2003) and even though an interview guide existed, there was still space for maneuvering when a relevant point came up which had not taken into consideration before. This was not an advantage that the structured interviews provide.

It has also been suggested that qualitative interviews have one particular benefit: they provide an empirical application of action—theory ideas for three reasons (Hopf, 2004). These are:

- Possibility of enquiring openly about situational meanings or motives for action
- Collecting everyday theories and self-interpretations in a differentiated and open way
- Possibility of discursive understanding through interpretations

More importantly, interviews provided respondents with the chance to provide a deeper insight on their knowledge of the organization and share small details which a quantitative questionnaire would not be able to reveal. The use of words instead of numbers (i.e. interviews instead of questionnaires) provides the discretion to interviewee to compose in a more vivid image of the reality of his/her workplace. Thus a personal interview will allow the researcher themselves to observe the interviewer and then open with the latter and give details of aspects of their work which they would not usual share. Hence, the trust and
intimacy created in interviews is important to gain information that would have otherwise been withheld from the researcher. However, people’s experiences can only be recounted in interviews – the researcher/interviewee, cannot get inside someone’s head when talking to them and the former expects that in the interview their interpretations and understandings will be as accurate, truthful and objective as possible (Mason, 1996).

In more practical terms, Mason (1996, p.52) suggests that certain steps should be taken when planning and preparing the procedure for qualitative interviews. First, the researcher deals with the big research questions before going to the mini research questions which will result to the possible interview topics. Then one moves to the next steps which include the loose interview structure or format. This framework was followed to plan and prepare the interviews. Initially extensive reading of the literature led the broader need to investigate the implementation of HRM at the local level. With respect to this, factors which were identified in previous studies constituted the four clusters which shape the process (see Chapter II). In addition information from previous research was used to draw a list of HR practices on which emphasis would be given in this study. Based on all these, the interview scheme was developed; even though it included mostly open questions so that these factors would be brought up in the conversation according to their importance to respondents and not be assumed in advance by the researcher.

3.3.3 Data Collection Process

For the purposes of this study ten case studies were undertaken (see Appendix I for details of each case study). All of them are Cypriot subsidiaries of well-known MNCs in the service sector. Five of these can be classified as knowledge-intensive service firms whereas the other five are low-skilled service work firms according to Boxall’s classification (2003). The choice of the sample was the result of careful examination of (a) the subsidiary’s suitability as a case study and (b) the possibility of gaining access into the subsidiary. This amount of cases provides a fruitful body of data without resulting in a redundant amount of data. Moreover, ten cases provide an adequate balance between the different types of service work.

Initially, a list of around fifty MNCs was drawn up. More than half were rejected on the basis of a number of parameters. For example, some had only one employee performing
routine tasks or intermediate agents instead of directly employed personnel (Lufthansa, British Airways). Others were owned by Greek franchisees (and not Cypriots) thus rending the subsidiary as having two host countries and making the analysis needlessly complicated (Starbucks, IKEA, Louis Vitton). In addition, professional services firms were rejected after securing two accounting/consulting firms in the sample already. Last, access was denied – after extensive negotiation - in around ten subsidiaries for various reasons (Marks and Spencer’s, Costa Coffee etc).

It must also be noted here that access was gained in two more cases, where interviews were conducted, only to conclude these subsidiaries were inappropriate for the sample. One such firm was Marfin Popular Bank, the second biggest Cypriot bank which was recently acquired by a Greek MNC (with Arab capitals and interests). However, during the interview it was confirmed that the bank was registered in Cyprus and it was actually considered to be the home country rather than the host. The second case was a Haagen Dazs ice-cream store. In the interview that was conducted it was apparent that the store manager had little knowledge of any strategic aspects of HRM and mainly described administrative aspects of HRM.

An attempt was made to include MNCs from multiple countries of origin in order to make the sample more heterogeneous and minimize any patterns that a single country-of-origin might have, as Smale (2007) suggests. The sample hence includes a French bank, two British accounting/consulting firms, an American advertising agency, an American market-research firm, two American restaurants, an American fast-food chain, an American insurance firm and an American hotel. Interestingly enough, these countries, for some firms, do not represent their original country of origin or the location of the HQ. For example, HotelCo was founded in France and then bought by an American firm. InsuranceCo was founded in China. ProfServA, albeit being British, has its corporate HQ in New York. These are cases of ‘‘bi-national’ MNCs with ties in more than one business system’ (Edwards and Ferner, 2002, p. 97). Altogether, a brief outline of the national business system of these countries can be found under section 2.2.1. However, it must be noted that this will not be studied in detail in this thesis.

Negotiation of access was a key part to the research process. As explained in Chapter IV, Cypriot culture relies heavily on family connections and networks. In all ten cases access
was gained through these connections and without this access would have been impossible for a number of reasons. First, the value of the research for the individuals or the firm would be underestimated. If the people contacted do not have an academic background they perceive it as a waste of their time. Second, if an attempt is made to gain access without intermediate connections then the researcher is merely perceived as a young student who is not worth any attention.

Hence, someone needs to speak on behalf of the researcher first and ensure the respondent that you have a certain status and you are worth their time and trouble. It must be noted here that indeed status is very crucial. When attempting to construct cases for my M.Sc. I was immediately declined when requested access in a number of firms; however, when explaining that this is a research conducted for the purposes of a PhD, the reactions changed and respondents saw this with in a more positive light.

Nonetheless, these connections can surpass formal policies on providing access for research. For example, ProfServB has a very strict policy which does not allow researchers (or students) to conduct research because they do not want to disclose corporate policies or practices and they perceive these attempts as waste of time for their employees. However, access was granted only after a phone call to the HR manager who was happy to be interviewed and allow other HR department staff to be interviewed but refused to ask other managers or partners to be interviewed due to the policy restrictions. Nonetheless, an interview with a partner was possible after a connection who works with ProfServB simply asked her immediate Partner if he would be willing to help a friend with her PhD research which he very gladly accepted. It is evident then, that making good use of networks and connections is imperative for conducting research in Cyprus.

Overall, access to all cases was made possible via the same route. A family member, friend or acquaintance got in touch with a ‘gatekeeper’ and the latter was told that a PhD student from Manchester Business School would call them to explain in detail the study and what was required from the respondents. The respondents were mainly interested about the duration of the study, anonymity and most of them stressed that they could not get into too much depth regarding their practices due to firm’s policy. Upon this, they were ensured that all interviews were conducted in strict confidentiality and anonymity and respondents were ensured that information gathered would only be used for the academic purposes of
this thesis. This was extremely important since in some cases, two competitors were concerned, such as ProfServB and ProfServA.

It must be noted here that the use of these networks does not compromise the objectivity necessary for this study. Despite the fact that close networks assisted me in securing the initial interview, their role stopped there. No personal relationship existed with the respondents which would result in them hiding or censoring their answers. Therefore this method is not equivalent to a ‘convenience sample’ and hence bias can be minimised in this instance. The networks were only used as credentials for the researcher to gain access and any further communication with the respondents was done personally without intervention by third parties. Moreover, even a good personal relationship that was developed with the respondents during the interviews did not jeopardize the study’s reliability but sometimes increased it. For example, during an interview with the General Manager of RestaurantA, it was made clear that I could not get access to corporate documents. However, once the meeting was over he himself proposed that since I could not take away any documents I could look at them and brought me three box files with material which included employee handbook, regulations etc. Therefore this personal interaction led the interviewee to provide me with data which he did not intend to give me in the first place.

Also, in some cases a letter was requested which stated the aims of the study and guaranteed the above (see Appendix II). Such letter was drafted beforehand in English, translated into Greek and sent to whoever requested it. After this initial interview, a ‘snowballing’ method was followed. The first interviewee called or got in touch with other managers or executives in the firm and asked them to arrange a meeting with me and provide me with all the information I wanted. Again, it must be stressed how after this initial meeting insecurity or fear about the study was reduced since with the personal interaction the respondents felt less threatened and more willing to assist me further. Moreover, the aim – if possible – was to have a General Manager or HR Manager as the first interviewee since they have influence to ensure further interviews in the future.

In total, forty-two interviews were conducted (including the two which were not used in this sample as explained earlier). Typically interviews lasted for about one hour. Respondents were either owners/franchisees, general managers/senior managers/partners
or HR managers/HR officers (see Appendix III for full list of respondents for each case study). In each case a person responsible for HR-relates issues (if an HR manager was not present) was interviewed. These individuals can better comprehend the complicated procedures behind the final implementation of HR practices and are in a position to understand both the effects of the local environment (or sector demands) as well as the pressures from the MNC. Moreover, it has been argued that these people are actually used by HQ as control mechanisms or media for transferring knowledge so that the MNC can achieve its targets (Edwards et al., 1999; Harzing and Sorge, 2003). Conversely, they have adequate power to resist decrees from the HQ (Meardi, 2006; Morgan and Kristensen, 2006; Bjorkman and Lervik, 2007). In addition, interviews with HR or IR experts in Cyprus have been included. This was felt necessary due to lack of literature of sufficient quality on HRM in Cyprus and also to grasp certain aspects of the culture or the institutions that the literature did not provide.

All but three interviews were conducted in Greek and more specifically in the Cypriot dialect of Greek. Interviews were not tape-recorded as Cypriot respondents feel their privacy is being invaded with the use of a recording device. Nonetheless, this does not have major methodological implication. In fact, these implications were minimised because the vast majority of the interviews were conducted in Greek, efforts for transcription would have been time-consuming and not really adding value to the data analysis. Extensive and detailed field notes were taken during the interviews and after that all the notes were transferred into a Word Document in English by the author. Despite the fact that this translation process could introduce potential bias, in reality it does not conflict with the study’s ontological and epistemological purposes which strive to understand social processes through the individuals’ accounts and do not explore the literate meanings of words spoken during the interview. This will be explained in detail further on in this chapter.

Equally important is the fact that when one transcribes interviews they are likely to be doing so in order to code specific themes or words which can then be quantified. In this study, and despite the fact that patterns for the HRM process are investigated, the target is not to find how many practices are standardized or even which practices. For example, this research did not look for how many times the word ‘standardized’ was used. Rather,
through the different accounts of the respondents and based on the existing literature a picture was constructed on how decisions for specific HR practices were reached. However, emphasis was indeed placed when factors which either the literature had already highlighted or which were unexpected were mentioned in the conversation. It is noted that these factors might not have been mentioned by respondents in the same terminology which is used in the literature. When a respondent said that ‘When we first set up the offices here some people came over and helped us out’, no such word as subsidiary, expatriates, internal control mechanisms, training or life cycle can be identified. However, all these are present in that statement. Therefore the target was not to look for literal terms as these were named in the literature but to understand the process through the respondents’ accounts and perceptions.

The rationale behind the aforementioned choices is that data in the current study will not be used in a literal but in an interpretive sense. Mason (1996) makes a distinction between three different types of data gather from interviews: literal, interpretive and reflexive. In fact in the interpretive route which is followed here the researcher analyzes the interviews for what they think they mean. This is not necessarily biased because this is also relates to the ontological and assumptions of the thesis. Actually it has been suggested that ‘the role of the researcher [in these cases] is to understand everyday or lay interpretations [...] and to move from these towards an explanation’ (Mason, 1996, p.140). Hence, it can be argued in here that interviews provide data which do not constitute the explanations in themselves but rather they provide a way into an explanation of an underlying social process. Towards this end general/open-ended questions were asked as it will be illustrated later.

It is important to note that generally phrased questions were asked on the four types of factors/mechanisms which were identified in the literature, as mentioned in Chapter II, and interviewees were encouraged to elaborate on how these might facilitate or hinder the process and most importantly why would that be the case (see Appendix IV for complete interview scheme). Respondents were asked ‘Can you describe your recruitment policies?’, rather than ‘Do HQ diffuse recruitment policies, and if yes which ones?’. Similarly, when investigating influences from specific factors, respondents were asked ‘whether legislation influences employment-related decisions’. Questions in the form of ‘Does local legislation
affect HR practices in a negative way' were consistently avoided as this would possibly lead the interviewee’s response.

The interview always started with some introductory/ice-breaking questions, on the respondent’s job role and years working for firm etc. Questions that related to the organizational characteristics (history, type, ownership, size etc.) were also asked. If this information had been attained in previous interviews (or was included in the supplementary documents provided) then they were not asked again. Then, respondents were asked to talk about the firm’s HR philosophy or approach to people management.

Following this, respondents were encouraged to talk about the HR process and the various HR practices. Usually the researcher would ask ‘Please tell me about your firm’s HR process, from the moment that a need for an employee arises to the very end’. Overall, the aim was to collect data on eight HR practices: recruitment and selection, training and career development, pay and rewards, appraisal, work-life balance, job security, employee involvement and participation, employee representation. These practices reflect the eleven used in Boaden et al. (2008) but have been regrouped into eight HR practices for practical reasons. This is also consistent with Purcell’s (1999) suggested ‘architecture of HRM’ as his proposed pillars are: (i) recruitment, (ii) communication, (iii) training and learning, (iv) job design and work organisation, (v) involvement and participation and (vi) appraisal and reward. Hence, if a specific practice was not mentioned by the respondent when explaining the HR process, the researcher would ask them to elaborate on it as well.

However, once the respondent elaborated on a practice, if this was perceived as purely descriptive, it was followed up by asking whether the practices was developed locally or not, and requesting respondents to elaborate more on how the practice was developed. In addition, other questions which aimed at highlighting various factors which shape the process were asked. For example, if they had received any international training or whether they attended any international meetings, whether culture affects HR practices etc. If a theme came up in the discussion, for instance on global standards, without the respondent being asked first, then the researcher refrained from asking a question on the same topic since this was covered. Overall, from the respondent’s answer the researcher could then infer whether practices were localized or standardized, as well as pinpoint factors
(previously identified in the literature) which emerged in the discussion as influencing the process. If appropriate this was followed up.

Most questions were the same for all respondents but HR-related individuals were asked some additional questions, of a more practical/functional nature. This occurred in order to fully understand how HR practices are implemented and to fully understand the mechanisms behind the decision-making (for example budgets, formal vs. informal policies etc). Hence, HR managers/officers/partners were asked questions like ‘How labour law has affected the process’ or ‘Do you have written policies’ or even ‘How much autonomy do you have when it comes down to making HR-related decisions’.

Upon collection, data were then analysed via a template, theme-based method. As mentioned, themes also used in the interviews, were identified after an extensive review of the literature. Consecutively, themes were classified into the four clusters used to construct this study’s multi-dimensional model. Hence, after collecting the data, quotes from each interview were highlighted as relating to each of the four clusters. For example, if respondents referred to certain aspects of culture (e.g. family orientation) their statement was classified under the culture cluster. Admittedly, some of the aspects of either cluster were found in the literature, in other instances the researcher had to assume that these fell under a specific cluster (e.g. HR’s life cycle in Cyprus). Moreover, some independent statements which illustrated the complexity of the process or the interplay between factors were isolated. Data from respondents were then used to construct the case studies, with the assistance of secondary data.

Even though organisational characteristics and local unit’s history were discussed in the interviews, further secondary data were collected to enhance the depth of information provided in the case studies. Secondary data were collected from: (i) corporate or local unit’s websites and (ii) corporate documents provided by respondents. In some cases, extensive amounts of documents were provided, which even included policies and strategies, while in other only commercial documents were available.

3.4 Limitations of Chosen Methods

Despite the practical aspect of such accounts, the drawbacks of relying on human experiences, understandings and thoughts cannot be overlooked. We also need to
appreciate that people’s accounts and experiences might differ from what takes place in practice in the organization. Even though people’s perspectives on such issues can never be utterly objective, they can still be used as a sufficient indicator which can help us construct a framework of the process and the factors that influence it. This is reinforced through a wider choice of firms, from different countries-of-origin and in different areas of the service sector (e.g. restaurants, hotels, banking, consulting etc).

In addition, throughout the data analysis of this thesis (see Chapters V-VII), a number of different perspectives from all respondents (within each case) have been used. These perspectives were able to shed light to the various aspects of the decision-making process. Owners, senior managers and HR specialist contributed data on a different aspect of the process and when these were put together a more accurate picture of the process could be developed. This also led to a degree of triangulation since isolated claims or subjective opinions of individuals were not embraced to support any arguments made in the analysis. Indeed, convergence of opinions was invaluable in the analysis of the qualitative data collected as it increased their reliability.

Here, it must also be noted that no employees were interviewed during the data collection process, as explained in section 3.3.1. This arguably would not serve the research objectives of this thesis as the aim was to explain the process of making employment-related decisions at the local level. As such, it can be argued that employees at a lower level than management are not involved in strategy formulation (neither in the home nor the host country). Moreover, considering that this thesis aimed to account for factors which shaped the process of implementing HR practices at the sub-unit level, it can be claimed that employees cannot provide adequate accounts for the forces which shape such a process. They are at the end of the process and they can perceive the implementation of the practices; they are not likely to know neither how these came to be nor what the top management’s intentions were.

Furthermore collecting data at the subsidiary level may raise doubts about the adequacy of the chosen method (Harzing and Sorge, 2003). With respect to this, Harzing and Sorge (2003, p.196) explicitly argue that ‘the practicalities of obtaining detailed data that conform to accepted operationalisations of international strategy and control dictate the gathering at the subsidiary level’. This is also supported by Fisher (2005) as well as
Dorrembacher and Geppert (2006). In addition, they reject criticisms against the choice of the subsidiary as unit of analysis, by asserting that ‘using subsidiaries as a unit of analysis in no way implies that the structures and practices thereby revealed do not characterize the strategic intentions and policies of the more comprehensive multinational entity. The actual picture of interdependence and responsiveness may deliberately vary within the larger concern, and this variance may help to characterize it more accurately than would a concern wide average with very wide variance’ (Harzing and Sorge, 2003, p.198).

However the evaluation of case studies as a research design relies heavily on the use of criteria such as reliability, replicability and validity, which some social researchers accept while others do not (Bryman and Bell, 2003). As such, the major disadvantage of case studies is that they lack the external validity and thus can neither be replicated nor can their results be generalised to the whole population. However, we should neither ignore nor disregard the results of case studies because even though they do not lead to general conclusions, they can still highlight significant areas that might have been neglected otherwise. Hence, as it has been argued in the social research literature, case studies can be perceived as using an inductive approach, whose ultimate purpose is to generate theory out of the findings (Yin, 1989). Therefore, understanding the contingencies (context) in which processes occur is important (Hartley, 2004).

Another downside of this study is the difficulty of actually translating interviews and questionnaires, from the English language to the Greek and back. The main problem is that languages are so tightly related to the culture that some expressions cannot be translated into another country and even if the actual words do get translated, the meaning is sometimes lost (Lewis, 2006). Not only that, but since some HRM terms are not known in Cyprus (i.e. work life balance), there were difficulties in not only translating but also getting across to respondents the actual meaning of the terms in a manner which they would find familiar. Overall, according to Babbie (2007, p.299) “different situations ultimately require different roles for the researcher. Unfortunately, there are no clear guidelines for making this choice – you must rely on your understanding of the situation and your own good judgment”.

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3.5 Summary

As explained, this thesis employs qualitative methods via a case study design. Data were collected via semi-structured, personal interviews with key people at the sub-unit level. The main justification for these methods lies in the fact that this thesis does not attempt to compare practices between the top and local level. Nor does it attempt to measure the practices effectiveness or the degree of standardisation using quantitative scales. In contrast, the aim is to shed light on how the HR process within local sub-units takes places as well as highlighting how factors which shape it interplay together. Hence, research which endeavours in answering ‘how’ and ‘why’ questions requires rich and in-depth data on actor’s actions and perception. This can be generated through the use of qualitative, and not quantitative, methods.

Consecutively, analysis of data generated, either primary or secondary, is divided in three stages. Chapter IV represents the first stage of the analysis process. It uses both primary and secondary data to explore the macro-level context of Cyprus and the service sector. Chapters V and VI focus on organisational aspects of individual case studies based on findings from primary data collected through interviews or secondary data in the form of corporate documents. These empirical chapters elaborate on the history of the MNC and its sub-unit, as well as its HR philosophy and practices. Lastly, Chapter VII synthesises data from these chapters and relates findings back to the literature in order to reach to a deeper understanding of (i) how HR decisions are made within local units (ii) how factors from the four clusters shape these, and (iii) how these factors interplay together.
CHAPTER IV: The specific context of Cyprus and the service sector

4.1 Introduction

This chapter will explore two major contextual factors relating to the case studies in the sample. Hence, it focuses on (i) Cyprus and (ii) the characteristics of the service sector. Cypriot national characteristics constitute macro-level pressures which shape micro-level decisions. Information on cultural and institutional characteristics of Cyprus is provided in the first part of this chapter. This is in line with the multi-dimensional approach suggested in this thesis, which analyses forces shaping HRM via the lens of both culture and institutions. Hence, this analysis elaborates on its cultural and institutional aspects. In addition, data on the Cypriot economy are provided, with emphasis placed on FDI, in addition to a detailed analysis of the labour market, industrial relations and HRM systems.

The attempt, hence, is to provide an outline of the national influences on organisational decisions. Cypriot economy has been characterised as ‘robust’ and has been relatively unaffected by external shocks imposed by the global financial crisis. Post-crisis unemployment rates, for example, in Cyprus are close to 6% compared to EU’s average of 10%\(^3\). Moreover, Cyprus provides a fruitful context for investigating HRM in host-country units of service MNCs as its economy relies significantly on FDI and service sector firms.

However, it should be noted that due to a paucity of studies on Cyprus, some information provided in this chapter potentially lack rigour. For example, the only study on Cypriot culture (and not Greek) was an undergraduate dissertation. Yet, this study was included in the analysis as the Cypriot and Greek cultures do differ and it allows for a more complete depiction of Cypriot culture.

Sectoral attributes on the other are discussed in this chapter. These might be external to the organisations yet in this thesis they are treated as intra-organisational features. As it will be explained later, service sector can be divided in two main sub-sectors based on knowledge intensity required to perform a service. Even within these, distinctive sectors can be found, such as hotel and hospitality, food and beverages, professional services and financial services etc. Hence, the specific sector in which a firm belongs is perceived as an

organisational characteristic; albeit external. The second part of this chapter elaborates on the characteristics of the two broad sub-groups, knowledge-intensive and low-skilled work, suggesting ideas about HRM in these organisations.

4.2 Background Information on Cyprus

4.2.1 History

Cyprus is Mediterranean’s third largest island with a population of 800 000 people\(^4\). Out of the total population eighty-one per cent are Greek Cypriots (including Armenians, Maronites and Latins; the dominant religious minorities of the country) while eleven per cent are Turkish Cypriots and the other eight per cent are foreigners residing in Cyprus. Cypriot territory has been occupied over the centuries by Ancient Greeks, Phoenicians, Assyrians, Egyptians, Francs, Venetians and Persians among others due to its crucial geostrategic location\(^5\). Indeed, Cyprus has been established as a well-known trade centre since the 20th century B.C. because it is located at the crossroad of three continents; Europe, Asia and Africa.

Nonetheless, the Greeks mainly shaped the culture of the island. By 50 B.C. the Hellenisation of Cyprus was complete and the Greek language had spread along with Greek traditions, customs and religious rituals. Between 411 and 374 B.C. the island was established as one of the most dominant cultural and political centers of the ancient Greek world. After the passing of Alexander the Great, King of Macedonia, Cyprus went under the Roman rule and later on became a member of the Byzantium Empire. British crusaders, French and Venetians and Ottomans conquered the island until 1878 A.D. when Cyprus was sold to the British Empire. This illustrates how the passing of different nations has probably shaped local culture.

In 1955 the Cypriot people began a guerrilla war against the British, demanding union with Greece instead. However, in 1959, the fight was replaced by discussions between the British and the representatives of the Cyprus people at the time. This resulted in the

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\(^4\) CIA World fact book – July 2009 estimation

\(^5\) Historical and background information presented in this section are published in the Cypriot government’s Web Portal, [www.cyprus.gov.cy/portal/portal.nsf](http://www.cyprus.gov.cy/portal/portal.nsf), unless otherwise stated.
‘Zurich-London agreement’, when the 1960 constitution of the Republic of Cyprus was agreed and signed. Greece and Turkey co-signed the constitution as guarantor powers.

In 1974 the military junta, then ruling Greece, carried out a coup d’état which attempted to overthrow the democratically elected government. This was then met by military intervention from Turkey, in violation of international codes of conduct established under treaties to which it is a signatory. This resulted in more than one third of the sovereign territory of the Republic of Cyprus being under Turkish control until today. After the Turkish invasion, seventy per cent of the island’s productive potential at the time was lost and thirty per cent of the population became unemployed (Cyprus at a glance, 20086). The ceasefire line runs right across the island and cuts through the heart of the capital, Nicosia, dividing the city and the country.

It must also be noted that the Republic of Cyprus (to which we shall refer to as simply Cyprus from here onwards) legally encompasses both the south and north part. The north part is controlled by the so-called Republic of Northern Cyprus, a pseudo-government not legally recognized by the United Nations or the European Union and only recognized by Turkey. However, due to the political situation all statistics ‘until mid-1974 are referring to the entire country, including Turkish-Cypriots, while for the following years they only refer to the free areas of the Republic of Cyprus’ (Labour Statistics, 2007). In the same vein, all information from European Union organizations or other refers to the free part of the island and its legal citizens.

4.2.2 Culture and Institutions

The variety of conquerors has significantly affected the culture of the Cypriot people as the presence of foreigners over the years is still evident in many aspects of everyday life such as language, architecture, legislation etc. This is important if we are to understand the distinctive Cypriot culture. Even though it is common knowledge that Cyprus has only enjoyed 14 years of absolute liberty (between the declaration of independence and the Turkish invasion), its culture remains very distinctive and unchanged throughout the centuries. The conquerors might have informed the local culture but they have not altered it significantly. And despite the fact that Cypriots have seen many foreign people come and

6 Cyprus at a glance, 2008, Press and Information Office, Republic of Cyprus
go, the island has a much closed culture which accepts foreigners with great difficulty (even though this has slightly changed recently and especially after 2004, when Cyprus joined the EU).

To its majority, culture in Cyprus is very similar to Greece, however significant variations exist which makes the former distinctive to the latter. As aforementioned, the major ethnic group of the island is Greek. Cypriots and Greeks share the same language (Greek and Turkish are both official languages of the Republic), religion, customs and traditions and even national anthem. For example, Greek-Cypriots follow the pattern attributed to Greeks by Lewis (2006, p.280): they are usually “late […] but they always have a good excuse and warm apologies”. Interestingly enough, this is also attributed to the multi-active nature of the Greek people (Lewis, 2006).

Elementary and high school students in Cyprus use the same books as students in Greece and more recently Cyprus and Greece share the same television channels, which helps spread a common pop culture between the two nations. Notwithstanding this, Cyprus still has its own constitution, legal system and economy. For example, English is widely spoken and Cyprus has been called an ‘Anglophone developed market economy’ (Eurofound, 2009, p.104); a characterization which is probably an aftermath of the colonial times. It can also be said that the national business system (NBS) of Cyprus is quite different to the Greek one as it will be shown further on. And obviously, Cyprus’ political situation leads to a great number of differences cultural, institutional or other.

This is illustrated in the Eurofound’s 2009 report on ‘Convergence and divergence of working conditions in Europe: 1990-2005’. Cyprus is not included in the Southern countries cluster alongside Greece, Italy, Portugal and Spain but in the so-called Mediterranean cluster with Malta. The reasoning behind this classification is that even though Cyprus and Malta are generally assimilated with other Mediterranean countries (e.g. Greece) but some historical differences ‘have had a strong influence on the constitution of their welfare and employment regimes, notable the Anglo-Saxon influence as both countries were under British sovereignty for a long period’ (Eurofound, 2009, p. 12). The economic structure of the country differs from the Mediterranean one and is more similar to the Continental model. Another significant difference is in terms of the workers satisfaction; Greece recorded by far the lowest proportion of workers’ satisfaction with
working conditions (56 per cent) while Cyprus’s satisfactory levels were not only significantly higher but more similar to other Continental countries, such as Spain with (84 per cent).

Cyprus was not included in Hofstede’s study on cultural dimensions (Hofstede, 1983; 1991) and the closest comparison is obviously Greece from Hofstede’s IBM research. However, a recent study from the University of Cyprus\(^7\) attempted to gauge the Cypriot culture according to Hofstede’s dimensions while ‘using particular mathematical formulae developed by Hofstede [...]’ (p. 93) and for the first time separate the Greek from the actual Greek-Cypriot culture.

As this study showed, Cyprus scored very high on the Uncertainty Avoidance and Power Distance dimensions. At the same time a relatively low score on the Individualism dimension implies that Cypriot culture is collective. It can also be deduced that Cyprus is on the masculine side of the Masculinity dimension with a moderate score. These results lead to a number of conclusions about the Cypriot culture and its effect on the work ethic.

First of all, the high Power Distance index illustrates how in Cyprus, the less powerful members of institutions and organizations expect and accept that power is distributed unequally. This is also supported by a recent statement by the General Secretary of SEK\(^8\) (one of the biggest Trade Unions of the island) who claims that the lack of meritocracy and transparency in Cyprus is a ‘plague’ for the Cypriot business system. Also, this phenomenon is part of the Cypriot business life and is received as any other aspect of culture; it is accepted and embedded in it.

Also, Cypriots typically feel threatened by unknown or uncertain situations and attempt to minimize the impact of these as the high uncertainty avoidance index shows. This is also reflected on the Cypriots tendency to seek employment in the public or banking sector which offers extremely high employment security; in some cases even employment for life (more details on this are provided in section 7.2.2).

The study also shows a very high uncertainty avoidance score for older members of society compared to the younger ones. This might also imply that younger generations are now

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\(^7\) University of Cyprus, unpublished B.Sc. dissertation, 2004

\(^8\) Phileleftheros, 27/05/09
more receptive to change. However, it must be noted that these people were probably born after 1974 and did not experience the war like their older counterparts and hence feel less need to ensure employment for life.

As expected Cypriot culture was described as collective. This implies that the ties between individuals are tight and the expectation to look after your immediate family is explicit. It is also widely accepted that the institution of family has been important and influential in Cyprus. This index also illustrates how ‘Cypriots are integrated into strong, cohesive in-groups, which promise to protect them in exchange of unquestioning loyalty’ (p. 101). This is evident also in the nature of the Trade Unions which are affiliated to certain political parties and enjoy high levels of membership.

Finally, Cyprus is considered to be a masculine country, which means that the social gender roles are clearly distinct. Men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender and concerned with the quality of life. This will explain why, even though the majority of families in Cyprus are now dual-earners, women are still expected to be the carers. This is reflected on the increased number of women that exit the private sector to get into the public or the banking sector which are described by more flexible working hours and patterns (Director General, Cyprus Employers and Industrialists Federation).

Also, this dimension illustrates how performance and achievement are crucial for Cypriots as this defines their social status. This in turn, can explain the extremely high number of foreign workers employed in hotels and bars, since serving tables or cleaning hotel rooms is considered as a very low status occupation in Cyprus and is avoided, leading employers look for workforce for these jobs abroad.

Moreover, Cypriots tend to pursue employment in either the banking or the public sector. Besides the working hours which accommodate family arrangements in Cyprus, these sectors also seem to offer the highest earnings for individuals, thus making them more attractive than others since higher earnings are related to jobs with perceived higher status. As Figure 6 below illustrates, the banking and the public sector offer the highest earnings in real terms.

9 www.cyprus.gov.cy/portal.portal.nsf
Three major developments were highlighted regarding the Cypriot culture recently by Stavrou-Costea (2005). First, an increase in the numbers of women in employment – especially more mothers – which affects the traditional conception of a family in the Cypriot society and has a number of effects on child care, education, pay, paid leave etc. Second, the increased divorced rates which again have resulted in redefining the concept of a household and its needs, and third the increased emphasis Cypriots place on their life outside their workplace. This illustrates how the needs for work-life balance and child care provision have changed for the Cypriot work-force in recent years. Hence, we need to acknowledge that any WLB practice observed at the workplace of a MNC might not be the outcome of a ‘transfer’, but the outcome of socio-economical changes in the country which beg the responsiveness of the organization at this specific point in time.

\[\text{Figure 6: Index of earning by sector in real terms, 1980-2007}^{10}\]

Adopted from Labour Statistics, 2007, p.20 - In Cyprus pounds as the index was estimated prior to the adoption of the Euro
4.2.3 Economy and FDI

Despite the Turkish invasion and illegal occupation of Cyprus for more than three decades, the entire island entered the European Union on 1 May 2004 ‘although the EU acquis – the body of rights and obligations’ applies only to the areas under the Greek-Cypriot government. Moreover, Cyprus joined the European Exchange Rate Mechanism in 2005 and on 1 January 2008 adopted the euro as its national currency. Latest figures reveal that Cyprus’ GDP per capita was approximately $ 28 600 in 2008. The economy in the Greek-Cypriot controlled area of the island has grown at a rate well above the EU average since 2000 and according to estimations Cyprus will be the only EU member state which will show an economic growth in 2009 despite the world-wide financial crisis due to its robust economy. However, despite the fact that the Cypriot economy is a prosperous one, it has also been argued that it is very susceptible to external shocks (Eurofound, 2004).

According to UNCTAD’s World Investment Report 2008, Cyprus’ inward FDI (see Appendix V) flow in 2007 was 47 per cent of the country’s total investment. This is translated in $2 079 millions. The rapid growth in FDI can also be observed when this figure is compared to ten years ago: a mere 21 per cent (349 millions). This is even more interesting when compared to the UK’s 45 per cent in 2007. Despite the significant difference in the size of these two economies, FDI inflow, as a percentage, is very similar. Indeed, ‘over the past 20 years, the Republic of Cyprus has become a good place for multinationals and offshore companies operating in the region to flourish’ (Papalexandris and Stavrou-Costea, 2004, p.227).

Further, Cyprus is ranked 18th out of 141 countries in the Inward FDI Performance Index for 2007 (UNCTAD’s WIR 2008), a place which illustrates the strong correlation between the Cypriot economy and FDI. Some even go as far as claiming that the main reason for an increase in European FDI into the Mediterranean partner countries (MPC) is the ‘rise in investment in Cyprus’ (Quefelec, 2002, p1 – European FDI in the Mediterranean region in

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11 CIA Factbook, Data in 2008 US dollars
12 Joaquin Almuina –EU Commissioner Responsible for Economic and Monetary Affairs, Phileleftheros 4th May 2009
13 MCPs: Cyprus, Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria, Israel, the Palestinian Authority, Malta and Turkey.
2002). Also, in 2002 Cyprus, Israel and Turkey received more than three quarters of European FDI going to all twelve MPC countries (Quefelec, 2002).

The flow of FDI has been assisted by amendments in the Cypriot legislation which makes the country more attractive to foreign capital\footnote{Cyprus at a glance, 2008, Press and Information Office, Republic of Cyprus}. As from 1 October 2004, foreign investors can register a company directly with the Registrar of Companies and obtain any license, from the appropriate authority according to the nature of investment. Moreover, applications from foreign banking institutions are examined under a new framework which makes no distinction between ‘domestic’, ‘international’ or ‘offshore’ operations (like it used to prior to 2004). Other recent developments include the ‘liberalization of the capital account and privatization in sectors such as telecommunications, energy and air transport’ (Papalexandris and Stavrou-Costea, 2004, p.203).

Mr. Charilaos Stavrakis, the current Minister of Finance attributed the growth to the fact that Cyprus ‘has the lowest taxation among the EU states, has signed a series of agreements for double taxation avoidance with a number of countries and has a robust and flexible banking system’\footnote{www.animaweb.org/en/actu-detail.php?actu=6311}. Overall, it can be argued that ‘the strategic location of Cyprus, its favorable tax environment, educated work force, excellent telecommunications and modern banking and legal infrastructure’\footnote{Cyprus at a glance, 2008, p.12} has attracted a great number of foreign firms to open subsidiaries or sub-parts in Cyprus and continue their overseas operations on the island.

In UNCTAD’s four-fold matrix of inward FDI performance and potential (Figure 7), Cyprus was included in the front-runners category, which includes countries with high FDI potential and performance. This cluster also includes countries such as UK, United Arab Emirates, and New Zealand.
<table>
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<tr>
<th>High FDI Potential</th>
<th>Low FDI Performance</th>
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<td>High FDI Performance</td>
<td>Front-runners</td>
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<td>Low FDI Potential</td>
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<td>Under-performers</td>
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**Figure 7: Matrix of inward FDI performance and potential**

Having demonstrated that MNCs are widespread in Cyprus due to economic or financial reasons, we can now move on to look at HRM in these organisations. Since the rigidity of the Cypriot culture and institutions has been highlighted, it is appropriate to analyse how MNCs deal with these local pressures whilst attempting to preserve their global brand quality or image. At the same time, since FDI is so important for the sustainability of the Cypriot economy, we need to examine how local culture or institutions have reacted to the presence of MNC and to their conditions for maintaining their investment in the island.

Further, it has been argued that Cypriot business system has been affected by the increasing presence of MNCs. This is due to (i) the diffusion of ‘best practices’ from MNCs, (ii) the influence of consultants and (iii) the new generation of better trained managers who have experience from working or studying abroad (Papalexandris and Stavrou-Costea, 2004, p.207).

The Cypriot economy has experienced a transition in the past 40-50 years with the emphasis moving from agriculture – which dominated the economy for many years – to services, as Figure 8 shows (Papalexandris and Stavrou-Costea, 2004; Eurofound, 2009). The service sector at the moment accounts for 80 per cent of the country’s GVA (Gross Value Added) or 74 per cent of GDP and 72 per cent of the gainful employed population for 2008 (Cyprus at a glance, 2008, p.12). Tourism, financial services and real estate are the most important sectors. Services also employed 71 per cent of the total labour force, as the following diagram indicates, compared to the 23 per cent and 4 per cent which the manufacturing and agriculture sectors employ respectively (Figure Labour Force Survey, 2007; Eurofound, 2009).
Evidently, the majority of the FDI in Cyprus for 2005 – estimated at 85 per cent - was directed towards the service sector, especially in the financial services, banking, shipping, trade and real estate business\textsuperscript{18}. However, in 2009 a 3 per cent price increase for services was recorded (Monthly Economic Indicators, 2009, p.10). Overall, due to its small manufacturing base, a structural trade deficit is evident (Papalexandris and Stavrou-Costea, 2004).

Nonetheless, other indices indicate that the sector remains buoyant. The total turnover index for the hotels and restaurants sector within the overall sector measures the monthly changes in turnover. In 2008 it indicated that there was a 22 per cent increase in turnover; 14 per cent for hotels and 38 per cent for restaurants (Monthly Economic Indicators, 2009). For the computer and other business activities sector the total increase was estimated around 110 per cent. Within this sector, advertising turnover increased by 37 per cent while at the same time the legal, accounting, market research and business management exhibited a 185 per cent increase and especially in the fourth quarter of 2008 that percentage went up to a surprising 251 per cent.

\textsuperscript{17} Adopted from Labour Force Statistics, 2007, p. 14

\textsuperscript{18} www.investincyprus.gov.cy, Central Bank of Cyprus
4.3 Labour Market, Industrial Relations and Human Resource Management

4.3.1 Labour Market

For a small and open economy with limited natural resources, human capital is the linchpin of its production and their development is a priority for the government and the society as a whole\(^\text{19}\). The total labour force of Cyprus in 2007 was around 380,000 people (Labour Force Survey, 2007). This number has significantly increased when compared to the 357,281 people employed in 2006 (Labour Force Survey, 2006) due to the government’s strategic plan for the workforce which will be addressed later. Out of the current number 37,000 are employed in hotels and restaurants, 17,100 are employed in financial intermediation business and 24,400 in real estate and business activities (Monthly Economic Indicators, 2009, p.114-116). This only confirms that ‘as the Cypriot economy has increasingly come to rely on tourism and services (financial or other) as the main engine of growth, employment in the tertiary sector has been steadily rising’ (Papalexandris and Stavrou-Costea, 2004, p.203).

Interestingly enough though, in the hotel and restaurants sector, close to 20,000 people are actually foreign workers compared to the one thousand who work for the financial intermediation sector (Monthly Economic Indicators, 2009, p.118). Moreover, it appears that the majority of foreign workers come from Romania, Greece, Bulgaria and the UK (Department of Social Insurance, 2009). From them, the majority of Bulgarians are employed in the hotel and restaurants sector and most of the Romanians are working either in constructions or retail trade. In contrast, the majority of British people work in the real estate sector while Greeks work in construction, retailing or even public administration – the highest percentage of foreign workers in this sector. Figure 9 illustrates the distribution of foreign workers among various economic activities in Cyprus.

\(^{19}\) Ministry of Labour and Social Insurance: www.mlsi.gov.cy
The side effect of this however, is that unemployment in this sector is the highest at 10 per cent (Labour Force Survey, 2007). This data derives from the number of people who are registered with the Insurance Fund as working in that sector but are currently unemployed. A simple explanation for this might be the cost of the foreign labour force on the one hand and the quality of work for the Cypriot workers on the other hand. Alternatively, Cypriots might avoid pursuing employment in this sector due to low quality of work. This is as the average working weekly hours for the hotels and restaurants sector reaches 56 hours per week, the highest among all economic activities (Labour Force Statistics, 2007). Seasonality is also important; as this is synonymous with job uncertainty, Cypriot workers prefer to avoid this sector.

Even though the EU-27 seasonally adjusted unemployment rate increased to 8 per cent in 2009 compared to 2008, Cyprus had the second lowest unemployment rate (5 per cent)\(^\text{21}\); the same rate as Austria and only second to the Netherlands (Monthly Economic Indicators, 2009, p.13). It must be noted here that the EU-27’s average was 7.7 per cent.

\(^{20}\) Adopted from Labour Statistics, 2007, p.15
\(^{21}\) NOTE: These are data before the crisis. Post-crisis data are provided in section 7.2.2
The normal and basic terms of employment which govern all employment, at all national or sectoral levels, in Cyprus are:\(^{22}\):

i. Minimum monthly wage of €743 and after six-months increased to €799 (in 2008)

ii. Wages are subject to increase twice a year by means of the review of the automatic cost-of-living adjustment. Wages are reviewed at intervals according to the provisions of collective agreement

iii. Five-day working week with 38.5 working hours per week. Cyprus has rejected the common position of the European Commission for an individual opt-out clause

iv. 13 month salary

v. Pay for overtime (1.5 times the wage)

vi. 13-16 public holidays

vii. Annual leave of at least 15 working days. These terms are governed by relevant legislation.

viii. The terms of provision of medical/pharmaceutical care are laid down in collective agreements

ix. Shift allowance (rate not specified)

x. Any improvement in the above terms of employment is usually the outcome of collective bargaining

xi. Social insurance contribution. The rate of contribution for the employed persons – as from 1st April 2009 – is 17.9 per cent and for self-employed persons 16.6 per cent on their insurable earnings.

The labour market in Cyprus undisputedly relies heavily on the existence of the Social Insurance Law. The social insurance scheme is compulsory for ‘every person gainfully occupied in Cyprus either as an employed person or as a self-employed person’\(^ {23}\). This scheme also provides cash benefits for marriage, maternity, sickness, unemployment,

\(^{22}\) www.cyprus.gov.cy/portal/portal.nsf

\(^{23}\) Ministry of Labour and Social Insurance: www.mlsi.gov.cy/sid/sid.nsf
widowhood, invalidity, old age, death and employment injury. The Social Insurance Fund registers both Cypriot workers any other EU nationals and foreign workers, as long they have a legitimate work permit.

The current Minister of Labour and Social Insurance has stated that ‘the sustainability of the Social Insurance Fund is guaranteed until 2048’ and announced that the contribution levels will gradually increase by 1.3 per cent (0.5 per cent for the employee, 0.5 per cent for the employer and 0.3 per cent for the state) every five years for the next thirty-year-period according to the amendment Social Insurance Law. Another amendment to the law is that in order for someone to start receiving pension from the Fund, fifteen years of insurance are required, ten of which need to be paid. At the moment ten years are required, three of which paid. This development shows how that the requirements for receiving such benefits will become stricter in order to preserve the existence of the fund.

Cyprus ranks high in terms of third-level education with about 80 per cent of those completing secondary school in 2007-2008 continuing their studies. More than half the students study abroad, mainly in Greece (59 per cent), the UK (31 per cent) and the USA (2 per cent). Interestingly, 59 per cent of the people enrolled on third-level education courses in Cyprus were women (Cyprus at a glance, 2008, p.14). Further data show that on average, close to 4 000 people out of the total workforce get into Apprenticeship programmes, around 137 000 attend tertiary of university routes while 2 000 Cypriots go on to receive a Doctorate degree (Labour Force Survey, 2007).

Cypriot national policies for employment attempts to comply and respond to the demands of the EU. Whereas the EU’s target for employment is 70 per cent, for employment of women 60 per cent and employment of ageing labour force 50 per cent, the Cypriot targets are slightly higher that the European ones with 71 per cent, 63 per cent and 53 per cent respectively. It must also be noted that Cyprus was the only new EU member state that met the 60 per cent employment target rate for women and is close to the overall employment rate target of 70 per cent (Fagan et al., 2005).

Cypriot workers are also characterised by lack of life-long learning. As the ex-minister of Finance explained: ‘Cypriots do not have a desire to continue their learning as they grow older. The numbers of people in tertiary and postgraduate education are significantly high
compared to the country’s total population or workforce. However, despite their academic qualifications, Cypriots are reluctant to prolong their learning (Eurofound, 2009). As mentioned before, Cypriots place increased importance on status and qualifications and hence after they receive their university undergraduate or postgraduate degrees and secure, what can be perceived as a ‘good job’, they no longer feel the need to continue their development as individuals.

Eurofound’s study (2009) also reveals other interesting facts on Cyprus. For example, in Cyprus only one out of ten workers has non-standard employment contracts. Moreover, since 2001 the number of very well informed workers has increased in Cyprus, reaching almost fifty per cent (49 per cent), and so did the number of workers declaring to work more than once a week per month on Saturdays, Sundays or at night. This latter part illustrates the level of work-life balance experienced by Cypriot workers and this is a very interesting fact since according to the cultural characteristics of Cypriots implies that they value work-life balance since increased emphasis is placed on family and personal time. This is perhaps also related to an observed job quality decline which further implies an increased high pace of work, inability to choose or change tasks or discrimination (in some cases even gender discrimination).

In a similar vein, in the Mediterranean new member-state cluster, the proportion of women in managerial positions in Cyprus has tripled since 2001 and Cyprus’ proportion was close to 40 per cent. However, as noted in the report ‘although the situation has now improved overall and more women are now in supervisory occupations, considerable progress is nevertheless needed in achieving gender equality’ (Eurofound, 2009). Moreover, women have the majority of part-time employment. Seventy-five per cent of the part time workers are women, while the majority of them are between 25 and 44 years old; the average age when a woman cares for her family (Labour Force Statistics, 2007). To this respect, statutory parental leave entitlements were introduced for the first time in 2004. At the same time the majority of women who work on a part-time basis between 25 and 34, have completed their tertiary education while most women between 35 and 44 have completed their upper secondary education (Labour Force Statistics, 2007). This information highlights the role of women in society as they are still perceived as family carers. This ultimately affects their employment choices or organisational practices targeted at them.
A final note is to suggest that all these aspects of employment must be studied under the light of the real size and nature of the labour market in Cyprus. In Cyprus an overwhelming proportion of organizations, around 97 per cent, employ less than 10 people, while the number of organizations with more than 250 employed does not exceed eighty-five out of the total sixty-seven thousand (Labour Statistics, 2007). Further, the majority of organizations are family owned and controlled (Papalexandris and Stavrou-Costea, 2004) and these firms employ close to 7000 workers (Labour Force Survey, 2007). This parameter is expected to have a direct effect on the way the labour is managed and provides an interesting comparison between the way in which people in these firms are managed compared to foreign MNCs.

When taking a closer look at the issues and dynamics that unfold in the Cypriot labour market, the fundamental question emerges again. If Cyprus differs so significantly from other European countries then how do MNCs operate in a context which differs not only from the country-of-origin but possibly from other countries in which they operate? And in turn, which methods do they employ to achieve their organizational targets without confronting obstacles from the host environment?

4.3.2 Industrial Relations

Industrial relations is particularly important in Cyprus. The right to collective bargaining is guaranteed and safeguarded mainly by the 1960 Constitution. Freedom of association is based on Article 21, which declares that every person has the right of peaceful assembly, including the right to form or to join trade unions. Moreover, in 1965 a new Trade Unions Law was put in place, providing extensive protection and total freedom for the registration of trade unions. All of the above are included in the Industrial Relations Code (1977), a gentleman’s agreement signed by the social partners, which oversees all aspects of the industrial relations in Cyprus and is perceived as a landmark for the development of an efficient IR system in Cyprus. Industrial relations operate on a voluntary basis and a substantial lack of statutory regulation characterizes them (Eurofound, 2004).

As the Department of Labour Relations of the Ministry claims ‘The Industrial Relations system in Cyprus is based on the democratic principles of free speech and tripartite

24 www.mlsi.gov.cy/mlsi/dlr/dlr.nsf
cooperation.\textsuperscript{25} Hence, social dialogue in Cyprus is governed by constructive cooperation between the social partners, i.e. the employees’ and employers’ organizations as well as the government. Social dialogue is perceived in positive light by the social actors. As a result, more than seventy per cent of the workers in Cyprus are members of trade unions (Eurofound, 2004). Not only that but ‘seventy per cent of highly paid individuals in the business sector are organized also in unions [...] which would illustrate that collective organization and bargaining is an imperative parameter of protection and increase in wages’ (P. Kyritsis, General Secretary, PEO, 2009\textsuperscript{26}).

At the time, there are 36 employers’ organizations, 2 federations of associations of employers, 120 Greek-Cypriot employees’ unions with 40 sub-parts, 7 federations of employees’ unions and 4 Greek-Cypriot confederations of employees’ unions with 10 subparts. Almost 3 000 employers belong to employer’s organizations while employee Trade Unions’ have almost 386 000 members (Annual Report, 2008 – MSLI). The two largest unions are affiliated to left-wing (PEO) and right-wing (SEK) political parties and they share almost equal density. However, works councils are rarely used in the Cypriot workplaces (Director, SEK). Overall, ‘union representation remains high, in the traditional sense, from both sides of the employment relationship, supposedly protecting the rights and responsibilities of both groups in the organization’ (Papalexandris and Stavrou-Costea, 2004, p. 216).

Thus, despite the fact that collective labour agreements are not legally binding, collective bargaining has ‘traditionally played a leading role in regulating minimum standards, whereas legislation has constituted a secondary tool for their regulation’ (Eurofound, 2004, p.3). This is also supported by the various members of the workers’ unions in Cyprus which describe collective agreements as ‘gentlemen’s agreements which both parties abide to irrespective of the fact that they are not legally binding’ (Executive Secretary, PEO). However, the need for harmonizing the Cypriot legal framework with the EU acquis led to a number of aspects of employment ultimately being legally enforced\textsuperscript{27}.

\textsuperscript{25} www.mlsi.gov.cy/mlsi/dlr/dlr.nsf
\textsuperscript{26} Phileleftheros, 07/05/2009
\textsuperscript{27} www.mlsi.gov.cy/mlsi/dlr/dlr.nsf
The success of the system is attributed to the trade unions’ and employer organizations’ cooperative attitudes and to the respect shown by both parties for adhering to the provisions of the Code. In addition, the government’s relevant public policies have assisted the development of the system and have cemented its role in employment relations (Papalexandris and Stavrou-Costea, 2004). The current policy encourages the close cooperation between public sector and social partner and has benefited the economy overall. Briefly, the policy states that the government is:

a. seeking the active participation of workers and employers in the formulation and implementation of social and economic policy, through tripartite bodies;

b. staying removed from disputes and promoting the idea that labour-management relations are first and foremost business of the parties themselves;

c. producing procedural agreements for the settlement of disputes

(Papalexandris and Stavrou-Costea, 2004, p.204)

Nonetheless, the extensive use of industrial action affected the Cypriot economy on several occasions. Despite the fact that all parties honour the Code and existing collective agreements, trade unions or employers’ organizations use their right to enter into industrial action. This right to strike is constitutional and relevant legislation exists to protect employees while right to lock-out has been dealt in collective agreements (Welz and Kauppinen, 2005). More specifically, in 2004, 95 015 workers were involved in 279 labour disputes which resulted in 9 053 lost workdays compared to the 65 625 workers who took part in 253 labour disputes and lost 26 898 in 2006 (Labour Force Statistics, 2007). In addition, the number of work stoppages has declined since 2005, with twenty-five, ten and eight strikes in 2005, 2006 and 2007 respectively (Labour Force Statistics, 2007).

Another interesting comparison is between the average EU numbers and Cyprus. Whereas the average of lost workdays was 0.5, in Cyprus only for 2007 the same number was 0.85 and in 2006 it was 2.53. Overall, it is evident that industrial relations dominate the Cypriot economy since Cyprus has the third highest proportion of unionization (54 per cent) after Denmark (80 per cent) and Malta (63 per cent) and is well above the European average (34). However, the percentage of unionization has declined in recent years and since 2001
it has dropped by about 10 per cent\textsuperscript{28}. This can be explained either by the shift of the economy to the service sector, a sector which experiences low numbers of unionization.

For example, the financial sector experienced no strikes or lost work days in 2008 and in addition the service sector recorded the one of the lowest numbers of strikes and lost workdays. Excluded from this sector are hotels and restaurants which have still quite increased numbers due to strong employees’ and employers’ organizations in the sector\textsuperscript{29}.

It must also be noted that the predominant procedures for conflict resolution in Cyprus are mainly mediation (by the Ministry of Labour and Social Insurance and its Department of Industrial Relations) or arbitration. Conciliation in Cyprus is weak to non-existent (Welz and Kauppinnen, 2005).

### 4.3.3 Human Resource Management

Human Resource Management is a newly developed area in Cyprus and its importance has only recently been acknowledged; this explains the lack of literature on HRM in Cyprus. Still, there is a general acceptance that the field of HRM is becoming more important and scope exists for it to develop. Moreover, it has been argued that HR practices have not evolved interactively ‘within and with their external environment’ but have remained static overall despite simultaneous developments in the cultural, institutional and market context of Cyprus (Stavrou-Costea, 2005, p.265).

To this extent, the Cyprus Human Resource Management Association (CyHRMA) has contributed with its foundation in 1991. The CyHRMA’s vision is ‘to advance and successfully represent the HRM profession in Cyprus’ while its mission is to promote (i) the strategic role of HRM as an essential business and social partner, (ii) HRM best practices, (iii) continuous learning and development and (iv) collaboration, scientific research and networking\textsuperscript{30}. In fact, CyHRMA is one of a few organizations in Cyprus who organizes conferences regarding HRM in Cyprus and publishes information on the profession in the country. CyHRMA also provides services to students (access to HR

\textsuperscript{28} Ministry of Labour and Social Insurance - Annual Report, 2008
\textsuperscript{29} Ministry of Labour and Social Insurance - Annual Report, 2008
\textsuperscript{30} www.cyhrma.org/aboutus/visionmission.aspx
publications etc) or to business (job vacancy advertising on its website, distribution of information to members, listing and corporate members directory).

With regard to training, the Cyprus Human Resource Development Authority (CyHRDA), a semi-governmental organization, operates in Cyprus which subsidies training and development projects for workers or unemployed labour force in Cyprus (Senior HR Officer, ANAD). According to its mission statement, its purpose is to create the appropriate infrastructure for pre-planned and consistent development and training of the Cypriot human capital, at all levels and industries, in order to satisfy the needs of the economy according to the state’s social and economic policy. CyHRDA aims to upgrade the level of management and adjusting organizations to the new conditions that the new European orientation of Cyprus indicates. Their activities, according to current legislation, do not extend to public sector workers or self-employed people. It must also be noted that when preparing their strategic planning, CyHRDA collaborates with the Ministries of Labour and Social Insurance, Education and Culture, Trade Industry and Tourism as well with the Planning Bureau.

Despite that, HRM in Cyprus is still ‘at the stage where it needs to prove its utility in improving organizational effectiveness and profitability’ (Stavrou-Costea, 2002, p.265). Therefore, HRM is Cyprus seems to be similar to countries such as Greece, Bulgaria, Estonia and Turkey, the so-called Eastern countries cluster, according to Ignjatovic and Svetlik (2003). The characteristics of this cluster are that HRM’s position is very weak while the staffing of the HR department is very rich, utilization of external HR policies and strategies are rare, formalization of HR policies and strategies is average as is manager’s involvement in HRM. Employee involvement in HRM is however low and this can also be attributed to high centralization levels of HR policy decision-making.

Finally richness of selection and HR development methods, accent on training and HR evaluation and analysis are average while focus on marginal groups is very low (Ignjatovic and Svetlik, 2003). This cluster, the authors argue, ‘can serve as an example of a management focused HRM model’ (p.11). This is obviously different and the emphasis is to the managerial focus of it when compared to the Nordic cluster’s employees focused

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31 www.hrdayth.org.cy
model, the Western cluster’s professional model and Central Southern’s management supportive model.

As mentioned, very little has been published on HRM in Cyprus. One study by Papalexandris and Stavrou-Costea (2004) aims to provide a better understanding of the way HRM takes place. Their findings illustrate the lack of strategic importance for HRM in Cypriot organizations. Regarding this aspect, Cyprus’ average appears to be much lower than the EU average and even lower than the Greek one. In Cyprus, the head of HR is represented on the board for only one in every three firms. Further, only four out of ten smaller firms (which employ between 100 and 199 workers, as is the trend for Cypriot organizations) have an HRM presence on the board of directors (Papalexandris and Stavrou-Costea, 2004).

Some degree of involvement of HR in strategic decisions was also reported in Cyprus, where 62 per cent of the smaller and 56 per cent of the larger organizations (which employ more than 200 workers) show such involvement from the outset. However, only 24 per cent of the smaller and 44 per cent of the larger Cypriot organizations had a written HRM strategy; a relatively low percentage when compared to the respective EU average of 40 and 52 per cent (Stavrou-Costea, 2005). Further, data show that the use of flexible work arrangements as an HRM tool is fairly limited in both types of organizations even though half of them use part time work, fixed term contract and flexible times arrangements. Additionally, it was argued that career management in Cyprus is poor with a limited number of organizations having in place a written policy on the matter (Stavrou-Costea, 2005).

Responsibility for recruitment is mainly devolved to line managers in Cyprus, an expected result since ‘a symbiotic relationship may be imbedded in the south-eastern Mediterranean culture where people like to be involved, exchange ideas and interact highly’ (Papalexandris and Stavrou-Costea, 2004, p.211). Consequently, the most popular method for filling managerial vacancies is internal recruiting, through the use of panels, (Papalexandris and Stavrou-Costea, 2004) since it reduces the risk of introducing in the organization a person who does not understand organizational culture, norms, practices etc. Other recruitment tools such as psychometric tests or assessment centers are scarcely used.
and the Cypriot numbers are well below the EU average (Papalexandris and Stavrou-Costea, 2004).

Also, the authors argue that the vast majority of organizations in Cyprus spend consistently more than 1 per cent of annual salaries and wages on training, whereas out of these a further proportion of 17 per cent spend more than 2 per cent. Management or professional categories seem to be the main recipients of these funds however (Papalexandris and Stavrou-Costea, 2004). Despite the emphasis placed on training and development in Cypriot firms, doubts have been raised as to the effectiveness of such efforts (Papalexandris and Stavrou-Costea, 2004). Evidently, ‘few organizations have linked their training and development practices to management or career advancement’ (Papalexandris and Stavrou-Costea, 2004, p.214). Hence, the 360 degree feedback tool is rarely used and performance related pay is not a popular reward technique. In fact, performance related pay is restricted to manual jobs (Papalexandris and Stavrou-Costea, 2004), which indeed are mostly related to quantifiable outputs rather than quality targets. As Papalexandris and Stavrou-Costea (2004) argue, Cypriot organizations will be forced to alter their methods and employ merit or performance related pay to motivate their workers, if they are aiming to compete effectively within the EU and on a world-wide basis altogether. Hence, how do foreign firms deal with these training issues when attempting to standardize quality of their services?

4.4 Product Market

Theories in this field have been driven primarily by manufacturing and more theoretical development is needed regarding service organizations. In turn, HR frameworks developed “are insufficient for conceptualizing the management of service activities because of the important role that the consumers play in the production process” (Batt, 2007, p.431). However, more scholars are now paying attention to the relation between competitive edge and HR practices in services since the “broad argument […] is that the match, or fit, between competitive advantage and HR strategy is greater in services than it is in manufacturing” (Boxall, 2003, p.15).

What is also essential is to comprehend the key service attributes; attributes that distinguish services from manufacturing or other sectors (Goerzen and Makino, 2007).
First of all services are intangible and proprietary assets are non-transferable to third parties. Second, services are inseparable and the proposition behind this is that production and consumption take place simultaneously, thus demanding closer consumer interaction. Moreover, heterogeneity characterizes services since tailored production is created through the participation of the customer, hence making quality control more difficult to exercise. Services are also perishable; they cannot be placed in inventory to meet future demand since supply and demand are asymmetrical. Last, governments tend to exercise high control of regulation over services. Not only that, but arguably, knowledge is a ‘distinctive asset’ for services firms since the strength of their brand is often based on ‘perceived accumulated know-how’ (Segal-Horn and Dean, 2007, p.208).

These attributes are important when attempting to examine not only the operation of service sector multinationals but also the management of their human capital in such a distinctive sector. To start with, it has been acknowledged that service work is people-centred (Frenkel, 2000). As Batt (2007), points out, in services employees in fact “are ‘part of the product’; they ‘enact the brand’. Every service encounter may be a ‘moment of truth’ that particularly satisfies or dissatisfies customers and, in turn, shapes their future buying behaviour.” (p. 433). In effect, since managers’ actions are driven by customer orientation on the one hand and efficiency on the other, they will prefer to employ ‘workers who identify with a collective, disembodied concept of the customer’ (Korczynski et al, 2000, p.671). Thus, if employees are indeed regarded as part of the ‘product’ in the service sector then there is an assumption that if MNCs are to protect their brand across different borders, they will need to standardize HR practices which will lead to a uniformity of their ‘product’ as well. That would be rhetorically feasible if the multinational was not operating in different nationals contexts which are enforcing constrains on the multinationals choices or strategies.

4.5 Summary

This dichotomy took place prevailed over other possible ones which were considered (type of subsidiary, type of occupation etc) since more common patterns could be found among firms in each chapter. As the analysis is Chapter VII illustrates not one organisational aspect is deterministic of the sub-unit’s HRM process, therefore this distinction was used merely for organisation reasons.
All cases studies, in both chapters, are structured as follows: a brief background of the MNC is provided before elaborating on the history of the local sub-unit. Following that, details on the size and market position of the unit are presented. Consequently, a detailed examination of the sub-units HR Department, HR philosophy and HR practices is offered. In this section, an attempt has been made to highlight how the HR process is implemented locally and pinpoint various factors which shape it. Consistency in the structure of the case studies is deemed as very important in order to further analyse these findings in Chapter VII.
CHAPTER V: Empirical Chapter I – Networks and Fully Owned Subsidiaries

Introduction

This chapter constitutes the first of two chapters presenting data from the case studies. The five case studies in this chapter are either fully owned subsidiaries or networks (limited liability firms). FinancServCo, MarkResCo and InsuranceCo are fully owned subsidiaries while the other (ProfServA and ProfServB) are part of global networks and local actors (partners) share liability with the parent company. Also, it must be noted that four of these cases, with the exception of InsuranceCo, were classified as knowledge-intensive.

Each case study consists of five parts. First, the MNCs’ background is briefly outlined. Second, a history of the local unit is provided. Then details are offered on the local unit’s size and market position. Thereafter, HR department’s role and structure, in addition to the firm’s overarching HR philosophy is summarised. This structure is also applied in Chapter VI.

These units are anticipated to differ significantly from those covered in Chapter VI (franchises and affiliated members) in one respect. The expectation, hence, is that these units are subjected to greater central influence from the top level. This might occur because risk and liability lies at or is shared with the HQ level.

Moreover, these firms have certain distinctive characteristics not found in MNCs discussed in Chapter VI. First, the global structure of these firms is of particular importance. Not only was the matrix structure employed in two cases but these firms tend to have Corporate or Regional HQ and extensive mechanisms which aim at knowledge transfer amongst sub-units. In addition, all units in this chapter have an internal HR department and formal, written policies in place. Also, sometimes local HR people report directly to the top/regional level. These also reflect organisational structures, not found in cases discussed in the next chapter. In sub-units presented in this chapter, standardisation of certain practices (e.g. appraisals) was more likely to occur than in franchises and affiliated members.  

NOTE: All the respondents have been given a code which represents their job title and these are reproduced at the beginning of each case study as a footnote. Moreover, all secondary data deriving from either corporate documents or websites are not referenced in order to preserve the organisations’ anonymity.
5.1 ProfServA

5.1.1 Background

ProfServA\textsuperscript{33} is an organisation of member firms around the world devoted to excellence in providing professional services and advice, focused on ‘client service through a global strategy executed locally in nearly 150 countries’. With access to 120 000 people worldwide ProfServA delivers services in four professional areas: audit, tax, consulting and financial advisory services\textsuperscript{34}. ProfServA also serves one-half of the world’s largest companies, as well as large national enterprises, public institutions, locally important clients and successful, fast-growing global growth companies. ProfServA’s international target for 2010, as reported in corporate documents, is to become a worldwide standard of excellence and by this they suggest that they aim to provide the best services to clients and their employees. It can be assumed that ‘dilemmas’ for internal and external consistency within ProfServA is tackled by having one common \textit{vision} which is diffused to the various member firms which in turn have the discretion to \textit{execute} it locally as they see fit.

5.1.2 History

ProfServA’s origin in Cyprus dates back to the late 1950s and was established, as we know it today, in 2002, after its Cypriot predecessor integrated with the representative of ProfServA in Cyprus. This created the second largest professional services firm on the island in terms of revenues. ProfServA was awarded the 2009 Excellence Award in the professional services sector by the Cyprus Employers and Industrialists Federation.

However, it must be noted that the Cypriot offices are not in fact subsidiaries but member firms of a wider global network. It has been stated explicitly in various ProfServA documents that neither ProfServA nor any of its member firms has any liabilities for each other’s acts or omissions. Each of the member firms is a separate and independent legal entity operating. With the status of ‘independent legal entities, member firms also bear the

\begin{flushright}
\textsuperscript{33} Guide to respondents: Partner Audit (Partner), Head of Human Capital Services (HHC), Senior HR Advisor (SHRA), HR Advisor (HRA)
\end{flushright}
risk their actions have. Hence, they assume responsibility for their actions by making decisions locally. Corporate offices ‘do not get involved; only when it comes down to technical insides where there is increased risk. There they get involved, but not in our HR practices’ (Partner).

This implies that corporate offices are neither control hubs nor disseminators of specific sets of practices. Common corporate strategies are in fact devised at international meetings in which all member firms’ CEOs and decide the future direction of the organisation. From this a bidirectional relationship between corporate level and local level can be inferred. Local top management takes part in the global decision making, a common vision is then diffused to the local level and hence decision are made by local actors to serve both the common strategy and the demands of the local market. It is important to note that because local actors have significant discretion over their decision-making process does not necessarily lead to increased adaptation of practices. Decision making at the local level and standardisation are not mutually exclusive.

5.1.3 Size and Market Position

ProfServA Cyprus is part of the EMEA (Europe, Middle East and Africa) region. Currently ProfServA has 3 offices (in all major cities) in Cyprus and they employ 450 employees with 14 partners. The vast majority of the employees are Cypriots except 12 Russians who speak English but not Greek. This is due to a large number of Russian clients in Cyprus. Also three of the partners are of British, Australian and Irish nationality. The latter is actually a Cypriot who was repatriated. In addition the Audit manager is Austrian. No claim has been made however about their use as ‘expatriate’ managers or any particular impact that these non-Cypriots have on the local decision-making process.

In Cyprus, ProfServA’s major competitors include ProfServB among other large MNCs. Many small local accounting firms operate in Cyprus, but few posses the international expertise or variety of professional services provided. Of so-called group of ‘big 4’ ProfServA is second in terms of size.

In the financial/professional services sector employee turnover is one of the major challenges for HRM. This might be explained by the fact that employees tend to work there as trainees on a three-year long contract and then switch firms for better terms of
employment. Another reason is that (as mentioned in Chapter IV) Cypriots prefer job security hence seek employment in the public or banking sector instead.

Despite this, ProfServA enjoys the lowest employee turnover of the big four at 4.5% in the first half of 2008. In fact, ProfServA, as respondents and corporate documents alike have claimed, is an employer of choice for innovative human resources programmes.

5.1.4 HR Department and HR Philosophy

ProfServA’s vision is to be a Standard of Excellence. To achieve this, the company’s documents claim that it attempts to ‘employ outstanding professionals and instill in all [our] people the sense that we must act with integrity and ethos and always do the right thing’. Moreover, ProfServA aims to be the first choice of the world’s most coveted talent which will be drawn by its ‘eminence, culture and diversity’.

ProfServA has been described as a ‘people-oriented’ firm since “employees are our greatest assets” (HRA). Their HR philosophy dictates that the HR department is close to the employees (HRA). According to the HR Officers interviewed, ProfServA aims to keep employees ‘happy because the more satisfied they are with their job the more their performance will increase’ (sic). As a result, ProfServA is the first organisation in Cyprus to be accredited with the ‘Investors in People’ standard and has received an Award of Social Excellence for implementing best practices for Work Life balance. It is worth mentioning though that ProfServA employees are not members of Trade Unions. This is interesting when compared to the high TU membership numbers in Cyprus but can be explained through the fact that a Trade Union representing professional services workers does not exist.

The HR department started operating five years ago and is split in two domains: internal and external. As SHRA explained “Whereas in the external domain we are dealing with HR issues of customers, in the internal our customers are our employees”. However, line managers are significantly involved in the HR process in terms of being present at the candidates’ interviews (since they have a depth of knowledge on their area that the HR people do not possess), they are responsible for appraisals and set targets (training, staffing etc) for the strategic plan in management meetings. This is in line with what has been
discussed in section 4.3.3 regarding managers’ involvement in HRM. The structure of the HR department illustrated in Diagram 1:

![Diagram 1: Structure of HR Department - ProfServA](image)

### 5.1.5 HRM practices

As mentioned earlier the Cypriot offices have the same image, targets and aims as ProfServA but their relationship to the regional HQ is not very strong, i.e. local actors enjoy greater autonomy and discretion over decision making. Regional HQ (EMEA) diffuse targets or benchmarks to the Cypriot offices such as days of training, levels of turnover and absenteeism, number of applications, success rate in ACCA exams for trainees etc. Thereafter decisions are made locally on how these targets will be met. Corporate offices are more interested in the outcome, if targets are indeed made, and not in how these were met (Partner and HHC). Hence, member firms have to prepare monthly reports for regional HQ However, it must be noted as mentioned earlier that these local actors have international experience and understanding of the corporate vision which provides the basis for greater internal consistency.

Overall, it has been claimed that HR practices in Cyprus in particular are more similar to the UK model (HHC). This is because 85% of the staff are graduates from UK higher educational institutions. A further comment was that ‘this is different to the model used in
Belgium, for example, because different types of candidates are employed and legislation is different’ there.

Employee Commitment Survey results have also shaped HR practices locally recently. This is an annual survey, conducted locally to gauge employees’ commitment. A commitment index was prepared locally (in collaboration with a consulting firm) to measure the opinions and perceptions of employees on practices implemented in Cyprus. The survey’s results are seen as an indication of possible areas for improvement and lead to the presentation of a two-year-long action plan. The use of such a survey can possibly indicate that HR decisions have a more ‘polycentric’ perspective: whereas employees have to provide the same quality of services in all member firms (and they represent the quality of what is perceived by customers as the ProfServA quality) they are also perceived as internal customers (HRA). With this in mind, HR departments strive to accommodate the needs of people at the local level while providing them with the appropriate support to enable them to provide the desirable quality of service to external customers. Regional HQ go as far as recommending certain ‘best practices’ which local HR people decide whether they will adopt or not. As SHRA claimed: “We are not accountable”. We operate independently even though they do provide the guidelines. This is because in Cyprus the market is different and the local culture does not allow for everyone to be under the same umbrella”.

Overall, customisation and adaptation of HR practices is welcomed if this is justified and approved by partners. Regional HQ are more interested in ensuring conformity and uniformity of services provided rather than uniformity of procedures used in each country (HHC). However, some internal procedures exist which protect the local offices from damaging the firm’s brand image. For example, every two years the HR practices are reviewed. However, this is a quality review in which the outcome of the practices is evaluated rather than the actual practices implemented. In their latest annual report by the Regional HQ, Cyprus received an excellent score and the results were based on their strategic plan, their annual performance etc.

A key device for sharing ideas and developing common vision is the World Partners’ Meetings which take place on an annual base. The Partner responsible for the Human Resources Department (a position which also entails responsibility for the training of the
Trainee Chartered Accountants) attends these meetings and engages in discussion with peers from other countries on HR issues. Another platform for international meetings is the Regional HR summit. For this, Heads of HRM across the region take place and upon giving presentations regarding each HR policies/practices, they exchange ideas and then brainstorm. Moreover, quarterly international meetings take place where each department presents its basic projects and where other people can draw ideas from and there is a sharing of knowledge.

Training courses at a regional/international level are also available. Usually, the Head or the Partner in charge of HRM attends this course (a frequent phenomenon) and then passes the ‘knowledge acquired’ on to his subordinates in Cyprus. From this, it can be seen that ProfServA diffuses knowledge/culture in a top-down approach, since top management takes part in these international platforms. Hence, it can be inferred that in order to achieve internal consistency, ProfServA ‘uses’ top management as the channels through which the common goals and strategies are diffused. At same time though, ProfServA appreciates that local actors have a better understanding of the local setting and are hence more capable of achieving external legitimacy and better serve the needs of the local market. Thus, they enjoy greater discretion over their decision-making. Further to these face-to-face international meetings, HR Departments can access the online ProfServA resources and track down material related to HR issues. This method was characterised as ‘an attempt for the international engagement of the member firms’ (HHC).

The recruitment process at the local level usually starts when a head of a department raises a need for employees in his/her department. This is followed by a number of recruitment and selection methods like placement of ads in newspaper, organised career events in Cyprus and abroad (usually where there is a large number of Cypriot students), and repatriate schemes. At the same time, HR department looks in databases for CVs of previous applicants. However, these methods depend on the position and department for which they are looking to recruit.

For example, it has been observed that practices such as recruitment and selection tend to be somewhat localised. As explained by the HRA, “To get a job as a trainee with us you need to go through two tests; a maths one and a numerical reasoning one. In the UK they do that online but we can’t do that here. We don’t need to follow the trend as this neither
something Cypriots feel comfortable with nor something our size requires”. Hence, needs of local staff and size of member firms are also pinpointed as significant factors which affect HRM practices. Other practices such as induction have both an element of localisation and standardisation. An induction week takes place for all trainees when a new trainee year begins or in cases when an individual is hired the induction takes 2-3 days. At the same time trainees or new employees access e-learning material to learn about ProfServA’s ethics and independence policies. What can be gathered is that this practice, in comparison to recruitment and selection, bears more significance in terms of cultivating a common organisation culture and understanding of shared values among new recruits.

ProfServA invests a significant amount of resources (money and time) in their employees’ training. The training ranges from technical to soft skills and the HR department pays lots of attention to this. “Our employees have started complaining that they get too much training but this is what needs to be done” (HRMA).

The appraisal of employees, as mentioned earlier, takes place annually by the employees’ immediate supervisor. Hence, senior accountants appraise assistant accountants, supervisors appraise senior and assistant accountants, managers appraise supervisors and partners on managers. After the appraisal takes place, a personal meeting takes place between supervisor and subordinate. However, this sets a benchmark for people of the same position because even though they are at the same level in the firm they do not work in the same department. Currently, ProfServA Cyprus is attempting to introduce a new appraisal scheme and in fact adapt the one used in the UK to Cypriot standards (and translate it in to Greek).

Another practice employed in ProfServA is work-life balance, which is a recent development for the firm and the Cypriot standards for that matter. They promote flexible working hours and working mothers can either work 38.5 hours per week which they can shuffle at their own choice or chose the ‘reduce hours, reduce pay scheme’ which allows them to reduce the working hours to 30 per week without any implications on promotions or pay increases. In general, these schemes have resulted in a reduction of 50% in employees’ overtime.
The incentives for the employees include a salary that meets the market standards but is slightly higher than competitors, social security benefits, providence fund and medical care. Other incentives which aim to increase the employees’ satisfaction are the provision of free parking for employees and free drinks (coffee, tea, milk etc) at the workplace. Moreover, they name the ‘champion’ in each area, i.e. the best employee of each department.

5.1.6 Conclusion

Even though decisions are made locally, these incorporate the corporate vision and global strategy. Hence, HR practices such as recruitment/selection or training and career development are adapted to local conditions while adhering to the corporate guidelines provided by the regional HQ. Other practices such as appraisals are adopted but are amended to suit local circumstances. For example, corporate appraisal forms and procedures are implemented after they are translated or slightly altered to suit local demands. It must be noted that Cypriot offices enjoy greater flexibility because there is a sufficient supply of educated staff, lack of rigid legislation and no trade unions in this sector. The most crucial unavoidable requirement which shapes decision making is the provision of high quality services.

Diagram 2 illustrates how decision making is shaped in member firms. Whereas they have substantial discretion over their decision making, this is informed by the regional strategy and reinforced by international training or meetings. Moreover, since the member firms’ top management shapes strategy at the regional level, it can be expected that they have a better understanding of it (the strategy) and perhaps increased loyalty towards achieving the common goals while at the same time salient comprehension of local abilities/resources to achieve these.
5.2 ProfServB

5.2.1 Background

ProfServB is a global network of member firms which, as a corporate recruitment document argues, provide industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. ‘Connected Thinking’ is ProfServB’s overall approach to work which is meant to be shared by 163,000 people in 151 countries and this has been claimed to be a key factor of its success. As stated in corporate documents ProfServB expects each member of the network to share a single, overriding aim: to help engagement teams connect with clients, win work, and mentor the next generation of leaders.

According to its official website, this approach is based on a culture of partnership and strong commercial focus. This has been argued to reflect ProfServB’s vision of being ‘One firm - a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities’. People working for ProfServB are expected to adopt shared values such as Excellence, Leadership and Teamwork and follow the Code of Conduct. With increased emphasis placed on commercial orientation, it is evident that ProfServB

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Guide to Respondents: Partner Tax Services (Partner), Director Human Capital Department (DHC), Senior Associate HC Department (SAHC), Assistant Manager HC Department (AMHC)
strives to accommodate customer needs by providing services of outstanding quality (throughout all member firms) and the latter is preserved through the diffusion of these shared values at the local level.

In ProfServB’s global website an interesting statement depicts the duality the firm faces (or rather the firm’s attempts to resolve this). In the same vein as ProfServA, it has been stated that whilst ‘member firms operate locally in countries around the world’, they [member firms] ‘also comprise a vigorous global network’. An explanation given in the same website for this structure is that it provides the firm with increased flexibility to operate simultaneously as the most local and the most global of businesses. Another important point highlighted in the corporate website is the mode of entry to each host country. As explained, ‘in most parts of the world, the right to practice accountancy is granted only to national firms in which locally qualified professionals have majority or full ownership. Consequently, ProfServB member firms are locally owned and managed. But local ownership also confers two additional strengths: a deep understanding of local markets; and the sense of individual responsibility and initiative that comes from having a stake in the practice’. Therefore, dilemma is not a problem, as presented in the literature but rather a desired outcome by such firms in order to serve their clientele which even though is shaped by local law is still perceived as adding value to the firm.

ProfServB’s governance network illustrates how decisions at the global top level are driven by top management executives of various member firms. First, a Network Executive Team is responsible for key service line and functional areas across the ProfServB network. This team reports directly to the Strategy Council, which is made up of the senior partners of some of the largest ProfServB member firms. Regional top management is also involved in this Council. The Strategy Council agrees on strategic direction and attempts to ensure alignment in the execution of strategy. Then, the Network Leadership Team sets the strategy and standards that the ProfServB network will follow. Finally, the Global Board’s role is to ensure accountability, protect the ProfServB International Limited network, and ensure effective governance.

The following diagram illustrates how lower levels inform higher levels in order for the latter to form the corporate strategy.
5.2.2 History

ProfServB was first established in Cyprus in the early 1950s with a British national as partner in charge; this can be related to the increased importance for control by home country nationals at the early stages of a subsidiary as the life-cycle model theory suggests. The current CEO, a Cypriot national, started his professional career with the parent firm’s predecessor in London and was then transferred to Cyprus in the late 1970s. He eventually became a partner in 1983; this is evident of MNCs preferring to appoint inpatriates (Scullion and Collings, 2006) in key positions who are imbued with the ProfServB culture rather than attempting to transfer practices as such. Ten years ago, the parent company merged with another professional services firm to eventually create ProfServB as we know it today. Documents published by the firm state that ‘a timetable of 100 days was given to complete the [merger] process. In Cyprus it only took 17 days’ – a fact which might be due to its size but it can be explained through increased local expertise and extensive use of social networks.
5.2.3 Size and Market Position

ProfServB in Cyprus has 45 partners and currently employs close to 1000 employees in all major cities. ProfServB clients are provided with a variety of services such as assurance services, advisory services, tax services, global compliance services and corporate support services. It is also member of ProfServB European Network (EN), ProfServB’s continental Europe organisation (NOTE: UK is not a member of EN), which was founded in 2003. ProfServB Cyprus won the European National Tax Firm of the Year Award in 2008 – an award which possibly demonstrates Cyprus’ strategic role within the region.

As mentioned previously, the professional service sector in Cyprus consists of the ‘Big-Four’ companies and ProfServB is the leader in this sector. It is also the biggest in terms of size but also has a considerable high employee turnover which reaches 12-13%.

Secondments are a strong corporate feature of ProfServB worldwide. Mobility is encouraged within the firm as it is perceived to be beneficial for both the individual and its respective member firm (SAHC). Ten Cypriot employees are currently on secondments abroad. However it has been claimed that ‘the number of secondees has decreased due to the credit crunch because each territory is now closing its doors to other member firms’ (SAHC). Nonetheless, twelve Maltese employees are working in Cyprus. At the same time, members of the Human Capital department travelled to Russia and Ukraine and recruited ten and three top graduates from each country respectively to join the local training scheme (in close cooperation with ProfServB Moscow and Kiev). Again, this is due to an extensive client-base of Russians in Cyprus or clients with interests in East-Europe.

In addition, Cypriot senior-managers, who are perceived as ‘high-flyers’, are also sent to Moscow to learn the systems and upon their return to Cyprus build their own departments. Hence, workforce mobility is used as a mechanism by ProfServB to transfer knowledge, ideas and systems. What is important is that this transfer is not vertical; from HQ to member firms, but rather from stronger or more experienced members to less experienced ones.

Further, Partners and Directors take part in training courses provided by ProfServB’s ‘EN School of Business’ for the members of the EN network. The spectrum of the training provided varies from nutrition and psychology to customer service, managing workload...
and new methodologies courses. Thus, ProfServB assists, develops and provides the Partners with the tools required to ensure uniformity of outcomes (services provided) and to build a strong organisational culture.

Further evidence that undermines the notion of vertical, top down transfer can be found in a statement from the 2009 Annual Review which claims that ProfServB Cyprus ‘is not only a recipient of the global network’s benefits [but has] also contributed with some of our own talented people holding positions in the network’. However, ProfServB acknowledges that it has both ‘global’ and ‘local’ challenges, hence rendering quality as a high organisational priority. For this reason, a quality control system is in place and its pillars have both a global (i.e. Code of Conduct, global audit methodologies etc.) and a local (i.e. designated member on the Executive Board) element.

5.2.4 HR Department and HR Philosophy

The Human Capital department was created five years ago (when the firm was employing 500 people) and consisted of two officers. Currently, ten people are working for the Department and the Director reports to the Human Capital Leader who is member of the Executive Board. The department is divided in subsections, namely recruitment and learning, training, talent management and appraisals. The following diagram illustrates the department’s structure:
Throughout firm’s official publications it is stated that ‘Our strength is our people’; a statement which emphasises the value HR add to the firm. ProfServB understands that its employees ‘create the experience of ProfServB for our clients and ultimately makes us distinctive’ and that is why success for ProfServB is measured ‘by the quality of our people’ (Partner). As explained further ‘we sell knowledge and services so our people are important. A firm’s name is only constituted by the people who work in that firm’ (Partner). In the 2009 Annual Report it has been claimed that despite adverse constraints imposed by the global financial crisis, ProfServB continues to invest heavily on its people and aim to be a ‘truly distinctive employer in Cyprus’.

In fact ProfServB’s HC Department was awarded the CyHRMA Excellence Award in HRM and only recently won the Business Award for Female Employment in Cyprus. In the same year it was awarded the HC Best Practice Award by EN. A year ago, the department was accredited with the ‘Investors in People’ accreditation.

ProfServB employees are not members of Trade Unions, a fact which has been characterised as ‘positive because neither management nor employees want them [TUs] present’ (DHC). As the AMHC added ‘we are a people-oriented organisation, our employees haven’t felt the need for TU presence’.

5.2.5 HRM practices

It is clear that the majority of HR practices implemented in ProfServB Cyprus are adopted from the global practices or slightly adjusted to fit local conditions even though respondents claim that they enjoy extensive flexibility and discretion over their decision making. The first and foremost policy, which acts as framework directing all local procedures, is the Code of Conduct which is the same for all member-firms in the network. In Cyprus the global Code is given to employees without any translation or adjustments. Also, global ProfServB booklets dictate desirable competencies which are also given to Cypriot employees. For example, there are Responsibility Frameworks for different areas (i.e. Performance Coaching and Development) and these booklets provide ‘detailed behavioural indicators on what is expected per level of staff for each of the 10 core competencies’. Again, this is not translated but given selfsame.
As explained by the Associate Director ‘global competencies were set by the global HC department and confirmed by the Global CEO and then diffused to all member-firms. Then, specialists came to Cyprus and helped us design new systems. These specialists mostly came from the US because they have the know-how on best practices and our region decided to adopt this. It’s not something they enforced on us’.

HRM at the local level is also shaped, interestingly enough, by the results of the Global People Survey. This is a standardised, electronic survey which can be accessed by all ProfServB employees worldwide. In this survey employees are given the opportunity to give anonymous and confidential feedback about the way ProfServB is managed and how they personally feel about the(ir) firm. ProfServB Cyprus had a response rate of 75% in their latest survey. Results stated that 77% of the workforce claimed that they would recommend ProfServB as a great place to work. Using this survey’s results, ProfServB pinpoints areas for future development in terms of HRM schemes and practices. However, at its core this is a benchmarking mechanism which is used to maintain discipline and encourage internal competition.

Another international tool which can be use by Cypriot HR people is the ‘Plus HR Services’. This is the electronic gateway to two of ProfServB’s specialist communities. The first is a site designed to work closely with clients to provide measurement and benchmarking solutions that address organisational challenges and inform business/HR strategy. The second one is the reward/benchmarking arm of ProfServB – specializing in the preparation and consulting services of data reports designed to provide information and advice to companies of all types and size on Board and management pay. Hence, it is evident, that sophisticated tools and mechanisms are in place to diffuse information/advice to all member-firms to secure the quality of service provided by employees (a) specialising in HRM consulting and by (b) providing other type of services.

However, some HR systems which cannot be found in other member firms do exist in Cyprus. These serve demands of the local workforce/market. For example, as mentioned in Chapter IV, Cypriots tend to leave private firms, like ProfServB, to seek employment with the public or bank sector. For that reason, ProfServB developed extensive systems to tackle work-life balance issues or even equality issues. Mothers working for ProfServB get two afternoons off work and can reduce their working hours from 40 to 27.5 hours per week.
The benefit from doing so is that even though they get a pay cut, their career path and progression opportunities remain unaffected as promotion is now based on appraisal and performance and not on years of working in the firm. As it was explained, ‘because of the family-orientation of Cypriots, women are still perceived as the carers of the family. That’s why they prefer to work for the banks or the government. So we had a local need and decided to act upon that. Once we did that our employee turnover was reduced by 50%’ (AMHC). However, it was explained that this system was designed locally but was then externally reviewed by members of EN.

Also, Cypriot employees are given opportunities for free training courses in Russian language as an increased number of clients are Russian. Legislation also shapes HR practices. Adjustments took place after the Data Protection Law was enforced and training is tailored to suit the legislation which covers Tax and Audit in Cyprus.

It must be noted that this shift to more ‘standardised’ practices has happened in recent years because the sub-unit has reached maturity stage as an organisation. For example, it has been stated that ‘it wasn’t feasible to implement 360 degree feedback for Senior Manager. People were not ready for it but now we are using it as a developmental tool and we are taking small steps towards change’ (AMHC). Also, ‘managers were very lenient in appraisals before and there was no real differentiation between employees which was leading to complaints. Now our appraisal systems are more transparent and are more performance-related’ (AMHC). A possible conclusion is that this turning point in time came after the merger as extensive friction with international counterparts, in addition to more rigid control mechanisms, has led to a shift in organisational culture and mentality. Moreover, it must be noted that performance-related pay systems are not frequently used in Cyprus, hence this is an ethnocentric effect as this system is adopted from other member-firms, and not necessarily from the country-of-origin, when local people are receptive to this new concept.

5.2.6 Conclusion

ProfServB’s decision making process is more formalised than ProfServA. ProfServB appears to have more control mechanisms in place, stronger relations between member firms (which are enhanced through workforce mobility, global electronic platforms and
quality control mechanisms) and more standardised HR practices. CEO’s seem to have previous international experience (the current CEO used to work for the HQ in the UK), thus making it easier to transfer the ProfServB culture and work ethic, but a number of control mechanisms are also in place to ensure greater uniformity of services provided through uniformity of HR practices across member firms. Flexibility often takes the form of adjusting existing ProfServB policies to local standards. The following diagram depicts how employment-related decisions are made in ProfServB Cyprus.
5.3 FinancServCo

5.3.1 Background

FinancServCo\textsuperscript{36} was founded in the 1860s and its three key businesses are retail banking and financial services, global investment management and services, corporate and investment banking. It became a private firm in 1987 and in 1998 the Banque de Detail hors France Metropolitaine (BHFM) was created to focus on retail banking outside mainland France. FinancServCo currently employs close to 103 000 employees worldwide, from over 122 nationalities in 82 countries. A set of corporate values is disseminated to all employees in all subsidiaries and these drive all operations at the local level. These values are professionalism, team spirit and innovation (HHR).

As noted in its corporate website, FinancServCo chose to expand in Eastern Europe (and Africa) through acquisition of local banks. This choice of entry mode indicates that FinancServCo prefers to acquire local knowledge and expertise since banking sector is sensitive to local and global market pressures and frequently control by nations’ central banks. Overall, FinancServCo’s mission, as stated on its corporate website, is to have a profitable and balanced growth strategy, based on a robust universal banking model. This model is then diffused to foreign subsidiaries.

5.3.2 History

FinancServCo started operating in Cyprus in the early 1980s as a partnership between FinancServCo, a Lebanese and a Belgian Bank. In 1991, FinancServCo purchased the Belgian Bank’s shares, increasing its participation to 51%. In 1993 the name of the French parent company was adopted. This was done because, according to the bank’s publicity statement at the time, the firm was getting ‘prepared to adapt the international retail banking model to the Cypriot market’. Under the legal status of an ‘offshore company’, FinancServCo only served foreigner clients and ETYK (the banking sector’s only Trade Union) had no legal rights in the workplace.

FinancServCo - Cyprus Limited started operating in the early 2000s as a fully licensed local bank, catering to residents in addition to non-resident clientele. FinancServCo

\textsuperscript{36}Guide to Respondents: Head of Administration and Finance Domain (HAF), Head of Human Resources (HHR), HR Officer I (HRI), HR Officer II (HRII)
provides financial services, such as corporate banking, retail banking, private banking. As explained in its website, FinancServCo Cyprus ‘commits to using its resources to provide creative banking solutions, tailored to the needs of the local market’. Like ProfServB, customer needs seem to drive local strategy. However, the opposite drive is the mere existence of the BHFM, an organisation which controls subsidiaries (through explicit guidelines and set targets) and ensures that the brand-image is not jeopardised.

5.3.3 Size and Market Position

The Cypriot subsidiaries are also part of BHFM which, as mentioned earlier, includes all subsidiaries outside France. Currently, FinancServCo employs 172 people in seven branches around Cyprus. The General Manager is French and to be appointed to that post requires at least five years of international work experience. Moreover, ten non-Cypriots, who are now Cypriot nationals because they are married to Cypriots, work at FinancServCo. This simply means that the vast majority of employees and top management are Cypriots and even non-Cypriots have personal reasons for living in the island and are not part of expatriate missions or international assignments, bar the General Manager and his deputy.

FinancServCo’s actual position is uncertain; however it competes in a sector which is dominated by two big Cypriot banks (Bank of Cyprus and Marfin Popular Bank) and in which a significant number of foreign, and especially Greek, banks (considering the Cypriot market’s size) have entered in recent years.

Moreover, competition among banks for staff has changed because until recently there was a "gentlemen’s agreement" among the banks that ‘you don’t touch my employees, I don’t touch yours’ (HHR). As competition became fiercer, this agreement collapsed and employees are allowed to move from one bank to the other which affects workforce, employee turnover and labour costs. FinancServCo’s employee turnover reached 10% in 2008 which is considered to be quite high due to this mobility of staff. As explained by HHR, one third of their staff leaves to go and work for other Cypriot banks.
5.3.4 HR Department and HR Philosophy

FinancServCo’s HRM philosophy, as stated in corporate documents, is to be staffed with high caliber individuals who will lead the firm to more successful paths. Training is extremely important for FinancServCo and the aim of the HR Department is to develop its staff since their expertise will affect the services provided to clients (HRI). Interestingly enough, employees own 7% of the firm’s capital, thus rendering them a significant stakeholder group.

HR is no longer seen merely as a low-level management tool and has acquired a more strategic role in recent years. This is reflected in the sub-unit’s new structure and hence indicates that HRM is currently perceived as strategic. “Last year I was reporting to administration and support director. The HR was perceived as something administrative, something bureaucratic. This year I am reporting straight to the GM - because he believes in the strategic role the HR has to play in the sub – and am also part of the management committee”. Still, “We are more of an HR function at the moment rather than HRM but things are changing” (HHR).

The limitation in developing more sophisticated HR practices lies in the fact that the HR department is comparatively small. This comprises the Head of HR, a staff facilitator (who is in fact responsible for staff loans), one training officer and two recruitment and performance officers. This are summed up in the following diagram:

![Diagram 6: Structure of HR Department – FinancServCo](image)
ETYK has a major presence which shapes HRM in Cypriot banks. 95% of employees are members of ETYK and as HHR claims ‘ETYK is so strong so there is not really much point in managers trying to resist them. It’s a matter of ‘if you can’t beat them, join them’. The biggest contradiction was regarding the working hours. The French said you’ll be working 8-5 like everyone else in Europe and their answer was simple: NO. Collective agreement says bank’s employees have to work 7.30-2.30 and it was very hard for the French to accept that. They would ask us but when do you actually work then? This is actually one of the things that make the bank sector attractive for employees and there was nothing that FinancServCo could do to change it’ (sic).

5.3.5 HRM practices

Overall the relationship between the subsidiary and HQ is very formal and the GM of Cyprus reports directly to the board of directors and the retail banking manager of FinancServCo (BHFM).

The following comment by HAF best depicts how home and host country effects interplay and shape local HRM: ‘rules are imposed by HQ but the application of the practices follows local rules’. He further explained that in France HR department is preoccupied with recruiting, promoting and retaining staff; in Cyprus this logic does not exist either because of the collective agreements or because of the local culture. For example, whereas recruitment in France is very rigid, in Cyprus ‘you still get calls from people who put (social) pressure on you to hire their daughter or their nephew etc’ (HAF).

The difference between adaptation and standardisation of practices is not so straightforward. Despite the above comments, it was also claimed that ‘The main framework is the same. Minor adaptations depend on differences in culture. [...] HQ in Paris gives us an overview of their expectations’ (HRI). These, rather, conflicting statements lead to one conclusion: that there is extensive scope for adaptation of internal procedures as long as the final outcome, which is indicated in the main framework, is the same. This occurs is Cyprus due to local educational levels and understanding of global targets. In Greece for example, where culture is quite similar but the business system quite different, ‘every Head of Domain is an expatriate. They plant them there to achieve their targets’ (HAF – sic).
Overall, HQ controls all subsidiaries through ‘audit missions’, where people from France or BHFM come in regular intervals and once a year there is a general audit when each department prepares reports which are sent to Paris. Managers have to send reports to HQ to be compared with other entities. In sum, ‘France mainly expects us to stick to budget [and] reports are being sent to France to compare Cyprus to other entities’ (HAF)

The (French) General Managers have functional roles in all subsidiaries and are expected to do the same job in all locations. In fact, HAF claims ‘If the GM changes, this will not affect how the bank will work at all. Their approach might be different but practices will remain the same. They actually try to have the least possible impact on you as possible’. From this statement it can be gathered that GMs are used mainly as a control mechanism. They allow local actors to shape their practices according to the demands of the local market/workforce and only validate procedures (at the end of the process) so as to ensure that service standards and strategic objectives are met.

Nonetheless, local HR practices are shaped by the ‘bank normative’, which is the framework that includes all the guidelines of FinancServCo under which all subs should operate. This is especially important since “the firm is growing through mergers and acquisitions and when you when you buy a brownfield that has its own culture, practices and way of doing thing you need a common framework to ensure there is consistency” (HHR).

The Normative Bank directive has three main uses. First, it can be used ‘by subsidiaries as a tool for communication between BHFM Business Departments and entities’ in order to exchange support on main FinancServCo Group and BHFM topics and projects, definition of shared concepts and vocabulary. In addition it is used as a tool of organization; to help in setting up organization projects, drafting job descriptions, work basis in writing instructions and procedures. Third, it is presented as a tool to assist in change management, used as a training support when putting in place new principles of organizational implementation of information systems etc.

FinancServCo also uses training as a mechanism to increase consistency throughout subsidiaries. Training courses, for the local ‘trainers’, are frequently organised either in Paris or in other countries (like Slovenia or Czech Republic). Their purpose is to support
local subsidiaries and their respective levels of expertise, to diffuse best practices to
subsidiaries and to keep people up-to-date (HRII). To sum up, BHFM provides strong
frameworks/tools which local actors use to accommodate the needs of their own
subsidiaries, while at the same time conforming to the BHFM objectives, thus leading to
increased consistency of internal processes within the MNC.

Examples of HR practices which are adjusted to suit local standards include recruitment
and training. For instance, the staff training Guide (which is inspired by the Guide to the
training plan by BHFM) explicitly states that ‘whatever the company’s size or structure,
and over and above the local regulations, the efficient implementation of a training plan
requires the involvement of several key players’. Still, ‘players’ refers to local actors.
General management, along with HR, set the priority objectives of the company and
domains, while the HR itself is responsible for delivering the trainings issued in the
evaluation (HHR).

Thereafter, HR works with the Heads of the Domains and Functions in order to identify the
collective needs of the functions and the individual needs of staff, prioritise the needs and
establish a training plan. General management, the management team and HR then validate
the training plan which is then implemented and evaluated by HR. It is evident that local
actors (i.e. Head of Domains) make decisions based on the department’s needs.
Nonetheless, these needs derive from the strategic planning set by and validated by
General Management (in Cyprus) who are on international assignment (by HQ in Paris).
Keeping in mind that the general manager is always an expatriate, the attempt by HQ to
exercise control on how these needs are shaped and to control the plans before being
implemented is obvious.

Likewise, for staff recruitment, the policy states that ‘all matters relating to the recruitment
of new staff are under the responsibility of the Human Resources function of the bank, who
acts in consultation with the relevant Head(s) of Domain(s) of the Bank and the approval
of the General Manager.’ Again, the role of the GM as a ‘gatekeeper’ is evident.

5.3.6 Conclusion

FinancServCo has to deal with two strong and conflicting pressures. One derives from the
local context, in the form of the sector’s trade union, while the other is the corporate
directive which dictates all desirable behaviours and outcomes of subsidiaries. Nonetheless, due to the emphasis that the firm places on customer needs and expectations, local actors have increased discretion over their internal procedures, such as HR practices, as long as these do not bear any financial risk for the firm. And the main control mechanism which ensures that this does not happen is the General Manager, an expatriate, who oversees local practices prepared by local actors and validates that these meet the criteria set in the Bank Normative Directive. The following diagram illustrates the tensions which shape FinancServCo’s HRM.

![Diagram 7: Influences on HRM- FinancServCo](image)

5.4 MarkResCo

5.4.1 Background

MarkResCo\(^\text{37}\) is a global information and media leader in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and business publications. It was founded in the early 1920s in New York, USA and its founder, according to the corporate website, aimed at introducing many innovative research methods and techniques. According to the same website, these techniques even now are perceived as the industry’s standard practices and include the first

\(^{37}\) Guide to Respondents: Chief Human Resources Officer (CHRO), Human Resources Director (HRD), Regional Product Manager (RPM)
objective and reliable methodology for measuring retail sales and competitive market shares. This same methodology is used by all employees of MarkResCo worldwide.

Another important element of MarkResCo’s global work ethic is the MarkResCo code. Written by the founder in the early 1930s, it defines the principles that, as corporate documents explain, guide the firm’s global leadership in the industry. On its corporate website, it has been claimed that the Code still guides the firm’s global business. The principles included in the Code are impartiality, thoroughness, accuracy, integrity, economy, price, delivery and service.

MarkResCo employs 34 000 people in more than 100 countries to provide services to its 9000 worldwide clients. Overall its services measure the client’s market and media performance, analyze market dynamics, diagnose and solve marketing and sales problems, and identify and capture growth opportunities. Moreover, its brand name bears significant importance considering that the NY stock exchange relies on its market results. It has been claimed that the ‘MarkResCo patent is a commitment’ to clients and consistency of high quality results is ensure through its people (HRD).

Four years ago a restructuring took place and the GBS organization was announced. The underlying aim of this move was to centralise all MarkResCo operations and technology functions in order to achieve convergence (of data, processes, tools, and people), cost leadership and service excellence. This restructuring to an integrated, horizontal operating model attempted to bring together resources from different market segments and geographies in order to increase focus placed on client’s needs. Nonetheless, this decision also targeted greater uniformity across subsidiaries, which is expected to lead to greater standardisation of practices. It must also be noted that in 2007 MarkResCo in the US turned into a private company and hence a great degree of transformation took place. The top management team also changed and consequently its philosophy altered. The new CEO and his management team were previously working for General Electric and, as the CHRO explained, an explicit attempt has been made to transfer previous know-how from GE to MarkResCo.
5.4.2 History

MarkResCo started operating in Cyprus in the early 1980s. At the time it was owned by a Cypriot business-man and had operations in Cyprus, Middle East and Greece. The Cypriot firm also expanded to Eastern European countries in the early 90s after the fall of the Soviet Union. In 1994 it began a joint venture with MarkResCo because at the time the latter was trying to get into the middle east/east Europe market and was looking for offices to collaborate with.

However, in 2000 the Cypriot offices were fully acquired by MarkResCo and the parent company’s name has been used since. In this case, the MNC’s chosen mode of entry is interesting since the parent company gradually acquired the firm. At first the MNC begun to collaborate with a local firm and utilised the latter’s resources and knowledge of the local market and then, as the local actors’ know-how of internal processes increased, the local unit was fully acquired.

Currently, the Cypriot offices of MarkResCo are actually the Regional HQ for the Eastern Europe, Middle East and Africa (EEMEA) area. The region consists of 42 countries from Pakistan, Middle East, East Europe and Russia.

5.4.3 Size and Market Position

MarkResCo has one office in Cyprus, in Nicosia. Out of the 5 600 people employed in the region, 225 are employed in Cyprus. 40 people constitute the Regional HR Offices but only one is responsible for the local HR. This is because their market share is Cyprus is very small, despite MarkResCo’s global leadership status. The RPM explained that this is because of the Cypriot firms’ average size. Since they are usually small or medium they do not require large scale market research. In addition, research of this scale is also expensive. However, the Cypriot offices still serve big firms like Pepsi Cola which are MarkResCo’s global clients. Actually the Cyprus market results are so insignificant that they do not make much difference to the overall results of the region. “MarkResCo has a good brand name. A good brand name means higher quality and in turn higher prices. In Cyprus, however, companies are small and have small offices. Since MarkResCo is not willing to reduce its prices or its standards we rarely win any offers we give to take any projects”. Hence, out of the 225 people working in the Cypriot offices only 13 deal with the Cypriot market.
5.4.4 HR Department and HR Philosophy

The basic HR philosophy of MarkResCo has changed in recent years, along with the corporate vision but their three most important HR values are: be open, simple, integrated (CHRO). Overall, it was noted by the HRD that “MarkResCo places great emphasis on meritocracy when it comes down to HRM”. The Cypriot regional HQ work closely with the corporate HQ (either via calls or meetings) and have a very good relationship with New York.

Regional HR Offices are located in Cyprus because the existing HR department was strong enough to facilitate and accommodate the regional needs. “Everything the corporate HQ wanted to achieve in the region, they achieved through Cyprus” (CHRO). Lately, due to the transformation process offices in Cyprus claim to be even closer to NY and have an open line of communication because “if you are dealing with change you need a strong HRM culture to achieve it” (CHRO). This is also enabled through the company’s structure/hierarchy since CHRO reports directly to the Global Chief HR Officer as well as to her president in Cyprus. The use of a matrix structure illustrates the firm’s desire to allow greater discretion to local (or, in this case, regional actors) on the one hand, while at the same time exercising control over them through the chain of command. Moreover, this matrix structure, besides its use as a control mechanism, can also been seen as a knowledge transfer mechanism through which ideas, values, methodologies and policies are exchanged.

Workforce in the EEMEA region is not unionised but in some other countries TUs are present. Corporate HQ has an un-written rule ‘do not let TUs to be formed unless it’s required by law’. Interestingly enough, as the CHRO put it “We would have failed as HRM if we allowed TUs to be formed in our workplace. We offer our employees something better and much better terms than the TUs. So there is no need to either form a union or join one”.

The structure of the Regional HR Department is as follows (NOTE: The variation between the job titles of HR Director, HR Managers and HR Consultants are due to the different titles used in different areas/countries. This also relates to the relative size or importance
that the HR department has in these countries. For example, Egypt has an HR Manager while Turkey an HR Director):

![Diagram 8: Structure of HR Department - MarkResCo]

### 5.4.5 HRM practices

In 2008, MarkResCo laid out its key Global HR Initiatives, which all subsidiaries were expected to embrace. These were meritocracy, feeding growth and productivity, improving leadership performance and simplifying HR processes. All these concepts, along with specific actions to be taken, were presented at the Global HR Meeting. Interestingly enough, these initiatives were prepared and presented by the EEMEA HR group. Hence, the dissemination of initiatives does not always follow a top-down direction, but can sometimes be disseminated by stronger parts of the firm to less experienced units.
In other cases, where practices are prepared by Global HQ, Regional HOs get trained on them and in turn train local HR Managers. The HRD further elaborated on this point: “The basic idea is that we want people to grow within the company and get to know our culture very well. The corporate HQ makes sure everyone speaks the same ‘language’. If a new global initiative is in the making we communicate via phone/tele-calls, we go through various courses, read documents and materials sent or various presentations and then it’s our turn we diffuse this knowledge to the region”.

At the local level, HR responsibility seems to be affected by the weight and importance that HR bears in the different countries in the region. ‘Responsibility for HR varies from country to country. In Morocco it’s an administrator’s responsibility whereas in Libya the responsibility lies with the General Manager. More advanced HR practices are adapted in more advanced economies’ (RPM). Accordingly, where HR is seen as less important Regional Offices are more involved to make certain that, even if adaptations take place, end outcomes meet the desirable criteria: “We are very realistic. Even though we favour meritocracy there are cases where, in Pakistan for example, the HR manager might hire one of his relatives. It happens. It’s the mentality of people. And if that person does a good job then so be it.” (CHRO)

Respondents suggested that HR practices are characterised as a mixture of the core policies sent by the HO (evaluation, review of wages) and some region specific practices are implemented which were developed in Cyprus (educational support policy, referral programme). “These [latter] practices were not imposed on us by the HQ. They are developed based on the region’s needs and problems and are adapted to every country’s idiosyncrasy. At the regional meetings initiatives start and then they get launch at the local level” (HRD). The way this launch takes place is based on Regional HOs previous experience and feedback received from various countries. Approval from Global HQ is not required for these initiatives.

For example, the EEMEA Headcount Approval Process should be followed in all subsidiaries when a manager identifies a staffing need. This process/policy explicitly states all the steps which local managers need to follow but also highlights that approval in provided by local HR managers (except for GBS positions). Similarly, when Regional HOs wanted to implement the new evaluation system in a given country, they train the local
managers. In summary, it appears that Regional HO’s devise the policies, consequently disseminate these to local HR actors and who are in turn trained on how to implement these. Eventually the final responsibility for the implementation of the practice lies with the local actors while at the same time these people are accountable to the Regional HR Offices.

There is, however, scope for subsidiaries to deviate from suggested practices, when the adaptation is feasible and does not entail any financial risk. “The [Global] HQ are not stupid not to allow variations. If the locals say that this policy is not accepted they are fine with it. They [HQ] are easy-going and relaxed and our organizational culture is based on mutual commitment to ensure success. Plus, we value employee engagement which helps with most of these problems”.

As the CHRO explained: “The corporate offices are not all over us. If it’s not quite like what they want or what they are doing, they don’t really bother us. They are not strict with things and they do not change major schemes like health care. If something doesn’t have financial liability they are happy about it. We are very empowered here in the regional offices by the HOs”.

The HRD confirmed this and further explained that “Basically, the core policies are the same. If there are variations these are due to culture or legal factors. What we are actually doing is finding solutions when problems regarding our policies emerge. Here in Cyprus, we are the voice of the region at the corporate HQ when it comes down to variation. Because we need to satisfy the needs in different countries there is collaboration and the HQ listen to what we have to say in the same way we listen what the locals have to say. Also, we make sure we involve the locals in any HR-related projects”. For example job evaluation or banding is the same in all countries and departments but if they need to fit the local realities they are open to adaptation. However, adaptations are noted to be minor and they eventually need to be approved by the CHRO.

Adaptations, as mentioned earlier, can be shaped by local culture or specific subsidiary characteristics. For example, even though increased attention is now paid by Regional HOs to talent management, this cannot be implemented in subsidiaries with a small number of employees. Moreover, during Ramadan in Muslim countries, working hours change.
Another interesting example concerns the sexual harassment policy. As HRD explained: “Take for example the sexual harassment policy that we get from US. In countries like Saudi Arabia you can’t really use this even though it’s a global practice because it’s insulting for them. Men and women are not the same and this is embedded in their way of thinking”. Also, policies are affected by legislation. For example, pay increases are given in March in all the countries because this is another ACN global policy; however, in Morocco pay increases are given in August because by law that is when firms give their employees increases in their wage.

The nature of work also seems to shape HR practices. MarkResCo results depend on masses of people and this in turn results in higher employee turnover – especially since they cannot pay higher wages. Based on this organisational feature Regional HOs have devised and implemented a referral programme. Through this scheme existing employees introduce friends or relatives at a financial gain. This was seen as an appropriate measure to tackle this problem as it fits the culture of the people working in the region.

Overall, MarkResCo tends to employ host-country nationals as HR managers. The rationale behind this choice is that “they [local HR managers] need to speak the language of the people they manage” (CHRO). However, there are exceptional cases like Saudi Arabia where expatriate (Cypriots) managers are sent because they cannot find locals with the knowledge or expertise to fill in the positions.

The local management team in Cyprus is required to devote five days per annum to training. Also, it was claimed that local actors work very closely with the HR department. Manuals which include written policies on every aspect of the work are provided to line managers and their respective HR Manager/Director is responsible for working through them. Also, there are courses on an ongoing basis and if practices are amended Regional HOs train local HR people so that the latter can then train the local managers.

This reliance on local actors though is not uncontrolled. Every member of the senior management team was carefully and thoroughly chosen and there is a relationship that is characterised by trust on the one hand and empowerment on the other (HRD). Most importantly, the CEO himself gets involved in the appointments of senior staff members. In fact, the CHRO stated that she ‘grew within the firm and knew the organisational culture
first hand’. Hence, senior managers are chosen based on their experience within the firm and also their extensive understanding of global markets.

Further, there is an HR Global Council within MarkResCo, with all regions represented, as well as the training board where HR people from different regions meet and discuss a variety of issues, problems and challenges. Additionally, the MarkResCo HR databank includes all sorts of HR-related information, from pay to working hours and HQ have access to this database. So Global HQ has full visibility of who is working for them, where and under which conditions.

5.4.6 Conclusion

In conclusion, HR practices can be formed at two levels. First, if they are formed at the global level they are then diffused to the Regional HQ (provided that Regional HQ were not involved in the decision-making process) and HR people there get trained so that they can further diffuse the practices to all subsidiaries in the region. Second, if HR practices are devised at the regional level, this occurs with the input of local HR managers. Once the practices/policies are prepared, local HR managers or General Managers are informed and receive relative training. Moreover, if local HR managers need to make any adaptations based on their local culture or institutions, Regional HQ are informed and approve alteration. No incidents were reported where Regional HQ refused to do so. Hence, local actors are seen as the intermediaries, the liaisons that ‘translate’ the corporate targets and utilise local strengths to achieve them. For this reason, Regional HQ are involved in the appointment of key people in subsidiaries, in the same vein that Global HQ are involved in the appointment of key people in the Regional HQ.

The following diagram illustrates the forces with ultimately shape HR practices at the local level.
5.5 InsuranceCo

5.5.1 Background

InsuranceCo38 is one of the largest American insurance organisations doing business overseas. It was founded 80 years ago and has operations in more than 130 countries. InsuranceCo was not founded in US, contrary to general belief, but in China since its main objective was to sell insurance to US citizens living outside the US. In the late 1930s, its HQ moved to New York.

InsuranceCo has been described in corporate documents as ‘a network of offices spanning the entire globe. The network means both unparalleled service for both brokers and clients’. InsuranceCo expands its global network following the international expansion of its major clients. For example if Coca Cola or Exxon Mobil start operating in a new country, InsuranceCo will follow them there (AGM). The InsuranceCo Major Accounts Practice, one of the most important guidelines, provides large, non-US based companies

38 Guide to Respondents: Assistant General Manager (AGM), Human Resources Manager (HHR), Manager Agency and Distribution (ADM)
access to the full spectrum of products and services of member companies of InsuranceCo. This practice indicates that all member firms of InsuranceCo should provide performance, single point of contact, deal architecture, product innovation and added value to its major accounts.

Interestingly enough, it has been explicitly stated in corporate documents that InsuranceCo offices are staffed with trained insurance professionals who know the local language, laws and customs [and] of course know and meet InsuranceCo’s high standard of service. This indicates InsuranceCo’s attempt to even out duality conflicts. InsuranceCo understands and appreciates the importance of local legislation and customs in their field and attempt to recruit professionals who can see the corporate strategy through while utilizing local strengths at the same time.

5.5.2 History

InsuranceCo has been operating in Cyprus for almost 50 years. At first they were represented by a Cypriot private firm. This was due to legal requirements which stated that foreign insurance firms had to be registered with a representative in order to operate subsidiaries in Cyprus. In 1996 InsuranceCo, bought 60% of the Cypriot firm and after Cyprus joined the EU, and the legislation changed, in 2006 the owner of the Cypriot firm sold all his stocks to the parent firm and the subsidiary was 100% acquired. Consecutively, the new subsidiary company was named InsuranceCo Cyprus and even though the name changed, its legal entity remained the same.

In 2009, after the world economic crisis, InsuranceCo went through significant organizational restructuring, and formed a special purpose vehicle into which InsuranceCo intends to contribute the equity of the firm, and the creation of a new brand named ‘C’. These actions, according to the official press release, accelerate the unification of its worldwide businesses and further advanced the organization towards its goal of operating independence. After the creation of ‘C’ by the parent company, InsuranceCo Cyprus became a member of this new brand in 2009.

Some background information on ‘C’ shows it is characterised by the same organisational principles as InsuranceCo ‘C’, headquartered in New York, includes Commercial Insurance, Foreign General Insurance, and Private Client Group operations. ‘C’ employees
34,000 people and serves more than 40 million clients in over 160 countries and jurisdictions. A further point worth mentioning is that ‘C’ s employees are perceived by the firm, as illustrated in corporate documents, as ‘problem solvers and innovators who possess a global perspective combined with intimate knowledge of the regions and cultures that shape their clients’ needs. For clients, this translates into industry-leading insurance products and tailor-made solutions, allowing them to manage risk’. This is a similar approach to InsuranceCo’s where it has been argued that global perspectives are implemented locally to serve local market needs.

5.5.3 Size and Market Position

The Cypriot offices are part of the MEMSA region (M. East, Mediterranean, and South Asia) which includes 17 countries, from Sri Lanka to Malta. Regional HQ are located in Dubai and Cyprus reports there. InsuranceCo has three offices in Cyprus as well as other Points of Sale.

InsuranceCo kept growing between 1997 and 2008 and the number of employees tripled during this period. Further, it was expected that based on the 2009 budget this number would reach 65 due to restructuring. According to ADM its market share is currently 6%, while five years ago was only 3%.

All employees are Cypriots or Greeks, including the General Manager. However, it must be noted that senior local managers are appointed based on their international experience. The reason behind this choice will be explained in detail in the ‘HRM practices’ part of the case.

5.5.4 HR Department and HR Philosophy

Overall, the current global HR philosophy is reflected in the corporate motto ‘You are our world’. Again, herein lays the strategic importance of HR to the business and how employees can be seem to constitute the firm itself. The European target is to become ‘the first choice employer for employees and candidates who drive change and produce results
in an employee centric, leading insurance company’. This HR strategy is based on five pillars: talent, total reward, employee engagement, diversity and mobility\(^{39}\).

In Cyprus, the HR philosophy and aim, according to the HHR, is to become “a strategic partner and a leader”. According to the AGM, InsuranceCo provides services therefore ‘we provide non-tangible goods. We only sell a piece of paper and a promise. Our people are our strength. That’s why you need local people who can still see beyond the borders’ [sic]. This means that InsuranceCo indeed relies on local people who have an extensive understanding of local markets and customer expectations, but who are still capable to comprehend the global targets of the firm and its multicultural character.

An interesting event which took place during the interviews was when the AGM called the HHR and asked her one simple question: ‘What is your job?’ To which the HHR replied, ‘I sell insurances’. This was treated as an example of the common philosophy shared amongst all employees within the firm.

The HR department was first formed in 2007 ‘from scratch’ (HHR). It must be noted that HR department is actually constituted by only the HHR herself; no HR officers are employed, yet. At the time the first priority was to set up basic functions/tools like employee files, structure, charts, job descriptions and handbooks. At that time, an HR plan was devised locally and approved by the General Manager and Regional HQ.

InsuranceCo in Cyprus follows a matrix structure, similar to MarkResCo’s. The local HR Manager reports to the Managing Director in Cyprus as well as the Regional HR manager (NOTE: this applies to all departments within InsuranceCo Cyprus). This facilitates exchange of information, and ultimately serves the purpose of diminish duality issues as the local GM ensures that policies meet local market standards and Regional HR Manager maintains internal consistency throughout various subsidiaries.

Currently, the firm’s perspective on the purpose of the Human Resource Department, as expressed on its corporate website, is that it partners with the various business units ‘to support the recruitment, development, and recognition and reward of top talent, [to] help ensure employees have a diverse and ethical working environment, encourage and reward superior performance, and foster opportunities for advancement’. Most importantly HR

\(^{39}\) http://www.chartisinsurance.com/_608_203656.html
people are also expected to contribute to the design and implementation of programs that challenge its employees. This indicates that HR people can either adapt or create practices, but as it will be shown later in the case study, different factors interplay to shape the decision regarding which course of action the subsidiary will follow.

Trade Unions were active in InsuranceCo’s workplace prior to the acquisition and formal negotiations continue to take place between management and trade unions every three years. Even though the collective agreement has been characterised as “defining” (HHR), it does not affect HR strategy to a great degree. The HR department abides to it but the agreement does not apply to managerial levels. HHR’s personal opinion is that “we [the HR department] make sure we are a step ahead of the TUs so we try to minimise their effect. People now don’t feel the need to be members of the TU since the HR department exists and some people even made a choice to leave the TU and that for us is a big success”.

The simple structure of the HR Department is shown in the Diagram 9:
5.5.5 HRM practices

InsuranceCo’s regional training and development mission is to create a learning organisation with a focus on people development through customer focused initiatives leading to enhance individual and organisational performance. This common mission is expected to be shared by all subsidiaries.

However, it was noted that the strategy and values in each subsidiary differ and that the HQ general philosophy did not penetrate all subsidiaries in the same way. Local subsidiaries seemed to enjoy extensive discretion over their decision-making, in terms of HRM – at least prior to the creation of ‘C’. According to HHR ‘HQ tell the subsidiaries to take their own needs and create their own [HR] strategy’. For example in Cyprus, another considerable challenge was change management, since the firm transformed from a family business into a MNC after the acquisition. Hence, local needs at the time meant that staff required continuous development and support.

Further, and again according to HHR, subsidiaries share some common principles; however these can be interpreted differently at national level: ‘Turkey’s philosophy, for instance, is to contribute to the results and they are not so concerned with being strategic partners. However, HR in Cyprus is at an infancy stage and requires different treatment’. In addition, due to the fact that the subsidiary was a brownfield, this meant that HR practices had to be adjusted to the existing organisational culture, or change should be implemented gradually. “You shouldn’t forget that people were working for InsuranceCo for more than 20 years. So we need to have our practices tailor-made to them” (HHR).

Subsequently, Regional HQ provided help (after this was requested by Cyprus) but, interestingly enough, most help came from other countries in the region with similar experiences. As explained by HHR “The regional offices just have tablets on how things should be done but people from other countries have similar, concrete experiences which I could use”. Hence, local actors had the discretion to adopt or adapt practices diffused by the region or other member firms and make the appropriate adaptations based on their knowledge of the local market. But what is even more important is that the initiative for ‘diffusion’ came from local actors and was not imposed by Regional HQ.
Overall, HHR explained further the relationship between subsidiary and HQ: “the HQ make sure they have really good relations with the national level. That’s why we don’t have any foreign managers. They don’t get in our way [in Cyprus]. They just send people over frequently to make sure everything is going as planned”. The AGM confirms this by expressing the opinion that ‘the secret to a successful MNC is that they do not expect the environment to adjust to them, they adjust to it’.

Moreover, and despite HHR’s comment above, it can be presumed that it is not necessarily a strategic choice InsuranceCo makes in advance to staff subsidiaries with local managers. As explained by the AGM, in Malta the GM is Maltese, in Greece he is Greek and in Cyprus he is Cypriot; however in Turkey and in Egypt the GMs are Americans. This again has to do with labour force characteristics of the local market and whether it can supply the firm with professionals of the right caliber who can manage the subsidiary and tackle conflicting pressures between home and host country effects. Once more this can be explained via the life-cycle model since the Turkey subsidiary was acquired only three months (prior to the interview). Therefore at this early stage expatriates are dispatched to the new subsidiary.

Previous international experience that local people possess might also affect appointments of senior managers. The AGM, for example, was chosen because he is Greek-American which meant that he could appreciate both cultures, and was already working in the industry for 10 years. Also, he was promoted internally after working for many years as a more junior manager, thus acquiring extensive know-how of internal processes. On the other hand, InsuranceCo Cyprus tends to dispatch employees to other member firms (usually in neighbour countries) which have less know-how and Cypriots assist them in developing practices or setting up departments. However, as the AGM noted ‘HQ do not plan everything in advance’. If they can get someone with this background great, if not they will bring someone else’. This highlights how decisions about staffing subsidiaries are not always taken in a pro-active manner by the HQ and how, realistically, MNCs cannot take decisions about staffing all subsidiaries with expatriates or with locals beforehand. These decisions are made based on the specific characteristics of the local market, culture and the individual subsidiary.
Nonetheless, Regional HQ assume the role of ‘gatekeepers’ and are actively involved in the appointment of key staff. For example, the HR Manager was interviewed by both the GM and the Regional HR Manager even though all other appointments are 100% local responsibility (ADM).

A rigid control mechanism used by HQ can be found in the form of reports (through the use of the matrix structure) which are sent frequently to the HQ (Global and Regional) which in turn use them to compare performance between different subsidiaries. HQ also attempt to increase consistency across subsidiaries through training. There are three main training themes – talent acceleration programmes, international leadership programmes and sales and domain programmes. Moreover, InsuranceCo provides training on ‘behavioural interviews – the InsuranceCo way’ in order for the local people to ‘conduct behavioural interviews as per the InsuranceCo way thus identifying the right candidate for the right job at the right time’. All these training courses are provided at a regional level, in various locations (for example for 2008-2009 they took place in Dubai and Turkey in July and August respectively)

Another interesting comment made by the AGM illustrates how the concept of ‘transfer’ of practices can be rather complicated when examined at the local level. He stated that ‘Everything we do has to get the approval of the Regional HQ. However, even if you don’t get the approval you can still do what you want. They aren’t holding a guillotine [sic], they like it when you take initiative’. This is an example of a subversive manager (Morgan and Christensen, 2006), even though the actual attitude of the HQ to it is unknown.

5.5.6 Conclusion

InsuranceCo is an interesting case as it is fully owned yet the local firm was gradually acquired by the parent company. Hence, existing HR practices were already in place in this brownfield subsidiary. However, the HR Department started operating only a year prior to data collection and respondents unanimously agreed that it was a significant driver of change. Whereas previously things were done in an informal way, the HR Department focused on developing formal, written policies. Unsurprisingly though, some practices already existed in the subsidiary. Hence, the new HR Department had to develop a
strategic plan and retain some practices while also adopting some others from Regional HQ.

However, when new practices were introduced, for instance a new appraisal system, this was met with resistance by local employees. This led local management to devise a new strategy on how these practices would be implemented and emphasis was placed on training and then introducing this new practice in various stages. Moreover, some mandatory global policies existed, such as the training budget, but were not followed by local actors. As explained this was due to the subsidiary’s size and consecutive financial constraints imposed on the unit by this policy.

Three main conclusions can be drawn from this example. First, local actors make choices on whether to adopt practices from the (Regional) HQ level. Second, local actors make choices on whether to ignore HQ doctrines if the local unit is perceived as not having the capabilities to meet the HQ’ demands. Third, even when practices are adopted this might be resisted by the local workforce, especially in brownfield units, which implies that local actors need to make variations in the policy.

Diagram 11: Influences on HRM - InsuranceCo
CHAPTER VI: Empirical Chapter II – Affiliated Members and Franchises Firms

Introduction

This chapter expands on the remaining five cases in the sample: AdvertCo, FastFoodCo, RestaurantA, RestaurantB and HotelCo Hotel and Spa Resort. AdvertCo is the only affiliate member in the sample while the rest are franchised units. Hence, risk and liability in all these cases lies mostly with local franchisees or managers. These actors pay loyalty fees to the franchisor to use its brand name and procedures but are the owners of local facilities and resources. Except AdvertCo, firms in this chapter are categorised as providing low-skilled services. It must also be noted that, workforce in low-skilled firms is usually temporary and increased turnover rates have been observed. Case studies in this chapter as structured in the same way as the ones in Chapter V.

These characteristics of units under these types of ownership are expected to lead to a different approach to HRM. First, since responsibility is decentralised it can be expected that decision-making is also decentralised. Hence, central influence is expected to be limited, if any. Second, HR departments are not common in these types of units, with the notable exception of FastFoodCo. Again this might imply less formal practices and limited standardisation. Further, due to labour market characteristics in the low-skilled sector in Cyprus, and consecutive lack of workforce, it can be anticipated that this will be a key force which shapes organisational aspects.

6.1 AdvertCo

6.1.1 Background

AdvertCo\textsuperscript{40} is, according to its corporate website, one of the world’s leading full-service advertising agencies ‘distinguished by our proprietary knowledge, analytic rigour and creative solutions’. The firm was founded in the early 1920s in USA. The founders’ aim was, as stated in its website, to challenge the communications industry, offering solutions which were later to be known as marketing plans. During the 1970s and 1980s the firm transformed from an advertising firm to a global network of complete communication services. The company then begun to strengthen its capabilities establishing alliances with

\textsuperscript{40} Guide To Respondents: Creative Managing Director (CMD), Managing Director (MD), Client Services Director (CSD)
numerous companies. In 1990 its global network grew further when the firm partnered with of some other leading firms in branding, marketing and communications while in 2000 it became a member of WPP, the world’s most comprehensive communications service group.

BrandAsset Valuator (BAV) is a strategic tool developed by the parent company, to measure Brand Value by applying four broad factors: differentiation, relevance, esteem and knowledge. Differentiation and relevance taken together represent its growth potential, of the ‘Brand Vitality’, and esteem and knowledge gauge the current power of a brand, it ‘Brand Stature’. BAV is used for a survey conducted annually on 20 000 brands based on the opinion of customers in 44 countries.

The parent company is now one of the largest networks in the world and, as claimed in corporate documents, its ‘main source of power lies in its ideas’. In other words, its main competitive advantage derives from its people. Today its global network consists of 540 offices in 81 countries and a client list exceeding 1 900 clients worldwide. As stated in corporate documents, ‘today’s success lies in its persistence to overcome barriers and continuously adding value to the final result, structuring and developing market leaders’.

6.1.2 History

The Cypriot firm which is currently affiliated to AdvertCo was founded in the mid 1990s by two Cypriot partners. Their aim at the time, as stated in the website of the Cypriot sub-unit, was to ‘break new ground in the Cyprus advertising scene’. The firm’s growth rate is summarised nicely in the firm’s documents: ‘two [people] became four, four became eight, eight became sixteen and now we’re tipping over thirty’.

After a careful evaluation of the market trends, the two managing directors of the local firm decided that the firm could ‘exploit greater strategic advantages if they were part of a large MNC’ and that the network’s ‘aims serve [local] strategic insights completely’ (CMD). This was a result of a seven-year long ‘progressive working association with AdvertCo’, through which the latter was utilising the local agency to serve large, global accounts. Consecutively in 2004 the Cypriot firm became an affiliate member of AdvertCo’s global network. As stated in corporate documents: ‘We have aimed for an international alliance for years [...] to reinforce the necessary dynamism needed in the
future, and to add value to our creative team and clients’. As the CMD further explained: ‘For a small firm in the Cypriot market this provided security since in Cyprus the brand name plays a big role in the clients’ decision’. This action brought about certain changes at the local level, mostly in terms of professionalism. This was acknowledged both by respondents as well as in documents published by the local unit.

Affiliated-members of the AdvertCo network pay a fee based on their annual profits and have loyalty rights to use the parent company’s brand, to take part in seminars organised by AdvertCo either at a regional or international level) and to have access to (limited) information from them. Affiliated members, however, do not have full access to the AdvertCo databases. It was stated in corporate publications that from this partnership, local offices can enjoy two major benefits: sharing an international databank of experience and acquiring sufficient tools (such as the BAV). Also, the contract between the two firms is quite rigid, yet simply in terms of outcomes and industry ethics – it does not include any details about the day-to-day process which take place locally (MD).

In sum, AdvertCo engages in international affiliations with local actors after a certain period of close collaboration with them. Thereby, it can ensure that quality of outcomes is of a certain standard and during this period it can infuse local actors with certain qualities or know-how AdvertCo people should possess. Moreover, by having affiliate members AdvertCo reduces investment costs while exploiting local strengths with minimum liability risks. In so doing, it can accommodate its large, global accounts and provide them with services which are more tailored to the local market.

6.1.3 Size and Market Position

The AdvertCo network is split into four regions and AdvertCo is part of the Middle East/Africa/East Europe (EMEA) region. Regional HQ is located in the UK. Some of the major accounts of AdvertCo include Adidas, Clinique, Estee Lauder, Seat, Audi, Volkswagen, Debenhams, Heineken and Amstel as well as other large Cypriot firms and/or organisations (i.e. Central Bank of Cyprus).

AdvertCo provides the following services in Cyprus: brand building and development, strategic, marketing consulting, media management, creative services (advertising and graphic design), digital communication, market monitoring, sales promotion and direct
marketing (below the line). In Cyprus there is a substantial number of advertising agencies despite the small size of the market. Some of its competitors include other global agencies such as BBDO and Ogilvy & Mather.

Currently 36 people are employed and the employee turnover is around 10-12%. A director is responsible for each department and every director reports to both Managing directors. It must be noted though that there is not an HR department; a reason given for this was the actual size of the office. Overall, there is adequate supply of people labour market with degrees in Marketing, Advertising and/or Graphic Design so it is fairly easy for AdvertCo to staff its offices with individuals who fit with its organizational culture. Nonetheless, the excessive supply of employees in turn means that (starting) wages are relatively low (CSD).

AdvertCo’s employees are not organized in trade unions and this is due to ‘the nature of the industry [...] perceived benefits would be minimal and employees are hostile towards trade unions in any case. Our opinion is that they [TUs] do more harm than good’ (MD).

6.1.4 HR Department and HR Philosophy

AdvertCo’s overall philosophy, as stated on the firm’s website, amounts to ‘enthusiasm, perseverance, hard work, persistence, patience, passion’. Again, this emphasis on human behaviour characteristics highlights the important role that human resources play within the firm. Moreover, another important element of the local organisational culture, as it features in local publications, is that ‘at a time where the word ‘I’ is predominant, we continue to create the true meaning of ‘us’. A true genuine team spirit’. Teamwork is another significant characteristic which dominates the local workplace and it has an immediate effect on HRM practices as the next part will illustrate.

Their HR philosophy in Cyprus is strongly related to the company’s philosophy before the affiliation: “We don’t have a boss-employee relationship, we have an open door policy and there is no fear from our employees to come in and discuss any issues with us. We started as employees as well and we know what it’s like being in their shows so mutual respect and mutual appreciation is our philosophy” (CMD). From this it can be deduced that the fact that the firm carries its history and traditions with it, in the post-affiliation period, and
the fact that the local offices can be classified as brownfields might indicate even less involved by HQ.

The Client Service Director (CSD) added that they have a very ‘distinctive philosophy because [they] believe so much in their people’. She confirmed the CMD comments that decisions are not made unilaterally by the managing directors and further commented that all directors devote significant time to employee’ training and guidance.

HRM was also described as ‘strategic’ by the CSD. Each department is structured and for any changes directors decide with the managing directors. At the same time she commented how the HR presence (or better, lack of it) is not enough: ‘When new employees come on board roles change within departments and new decisions are made about HR needs’.

In Cyprus, no written policies by AdvertCo are adopted but written internal procedures are used which were prepared by local actors. For example, the Employee Handbook includes information on the company and on the employee’s respective department. These handbooks were prepared by the Cypriot offices and whereas the first part is the same for everyone, the second part is prepared by each department’s director.

CSD’s personal view on the existence of an HR Department is that “it’s essential for us to have some sort of HRM here. It obviously needs to be someone from within the firm who knows the culture and everything but we need someone who will take us a step further and can build our organisational skills based on our philosophy”. However, the MD further explained that ‘an HR department could help with the organisation but our field is very specific and it’s very difficult for an HR generalist to understand the nature of our work’.

Instead, according to the MD, directors are trained to assume the responsibility for managing their people. The Financial Director though is more involved with legal aspects of managing employees whereas the firm’s Accountant is responsible for pay-rolls, leaves, social securities payments etc.

6.1.5 HRM practices

As it will became apparent in the following part, AdvertCo is the quintessential example of a polycentric firm, which implements practices based mostly on local standards.
Nonetheless, this is mainly due to ownership status of the firm and its status as an affiliated member of the network instead of a sub-unit. In this case, AdvertCo exercises control over final outcomes (i.e. specific advertising campaigns) and has no involvement whatsoever with internal procedures. Any international training or assistance provided to local actors is a medium for them to enhance their expertise and it comes after the latter’s’ initiative.

Regarding the relationship between the Cypriot offices and the HOs the CMD said that “you see things, you learn things but you need to adapt everything to the Cypriot reality. We [Cypriots] have a significant distance from the EU mentality and we need to acknowledge that our culture is very different”. However, because the Cypriot office is not wholly owned by AdvertCo, the HQ do not exercise extensive control. The basic tool for control is the annual evaluation report, which includes financial indicators mostly, and which is send to the HQ at the end of the year. “We have common guidelines and targets with are diffused to us through the seminars but they don’t interfere with our office because Cyprus is a really small market that does not affect the aggregated results of AdvertCo” (CDM).

Another practice which can be seen as a control mechanism can be found in the form of annual international seminars that HQ organise at which each country is required to present a sample (portfolio) of their work. During these seminars, views are exchanged, problems or issues are discussed and the best projects are voted. Also, these seminars seem to be enhancing a common organisational culture through the exchange of ideas or through sharing problems: “I found at these seminars that we have the same problems more or less but in a different degree” (CMD). Moreover, there are a number of training aids/booklets that AdvertCo sends to Cyprus. AdvertCo publishes books/manuals on strategic issues and some of them are, for example, on acquiring soft skills etc.

There are also some HR seminars for worldwide members of AdvertCo, which are especially designed for top, middle and line managers and local actors can attend with a reduced fee. However, they [local offices] are not obligated to send people if they cannot see a business value in doing so. The basic idea behind these mechanisms though, is that people who attend these seminars or have access to this resources then transfer their knowledge to the local level and train local employees.
Examples of localised HR practices include recruitment, training, and appraisal. Most of the practices are unstructured and quite informal. Recruitment and selection process, for example, is usually done very informally (due to lack of HR department presence as the CSD claims). Candidates are found through the word-of-mouth method, i.e. existing employees suggest people. Otherwise, vacancy advertisements are placed in the newspaper. Head-hunting techniques are used for hiring specialists or senior managers. This is very easily done considering the small size of the Cypriot market. After CVs are gathered, a team of directors interview the candidates first and then the people who get short-listed are interviewed by the partners (alongside the department’s director). The structure for the interviews was prepared by the CSD based on her previous experience and because she more involved/interested in HR-related issues. However, she claims that if they had an HR officer or department this would be part of their job. Overall, no interference from HQ of any kind was reported.

Employees get continuous on-the-job training except in cases when a specific training need emerges, for example a new design programme. Again, training is usually informal even though there are a number of formal types of training taking place. “As a company we are quite informal but when we need to attend a seminar and gain new knowledge we are always serious about it. We don’t joke about our job” (CMD). Each department submits a training budget at the start of the year and training needs are covered accordingly. Hence, training is focused on each department’s needs, like for example at the customer service department they organise more presentation skills courses which are delivered from the director to the executive.

Thereafter, evaluation is monthly and is mainly a form that directors fill in. This form is made up from 10-15 factors which are designed to measure an employee’s performance. This evaluation scheme was once more prepared and developed 100% by local actors. “We didn’t look to see what AdvertCo had to offer because it’s very expensive to get this sort of things from them and since we don’t even have an HR manager – even though we need one – makes this a bit pointless. How do we know if what they have to offer is worth it after all? The other thing is that we don’t really have someone to push this issue.” (CSD). This indicates that the MNC charges local units for specific tools like HR policies. This is interlinked to the type of ownership as all responsibility and liability lays with the local
actors. Hence, it appears that the local unit, under the affiliation status, can make the strategic choice not to adopt any practices used by the parent company – even if these are perceived as more sophisticated – when it does not add value to the local offices.

Incentives given to employees include trips abroad (last one was a trip to Romania with their families), weekends in hotels, parties, additional days of work around Christmas and Easter time, surprise activities (paintball), dancing lessons, Asian cuisine cooking lessons. Another interesting event they have organised was at their Christmas party where they had an instrumental training (they had to behave like an orchestra which is in fact a team-working and team-bonding exercise). What is interesting about these incentives is that they reflect the local philosophy and team spirit and are in no way related to any incentive schemes used by AdvertCo. Instead, this was characterised as an ‘internal PR’ practice (MD).

6.1.6 Conclusion

Overall, practices are devised and implemented by local actors and with minimum input by HQ. This case behaves more like a local, Cypriot firm, hence host-country effects seem to be dominating. This is not however a strategic decision the MNC has made, but is rather the aftermath of the interplay between different factors such as the labour market characteristics, ownership status of firm, the type of the subsidiary, its size and other, mostly, inter-organisational reasons. These are summed up in the following diagram:

Diagram 12: Influences on HRM - AdvertCo
6.2 FastFoodCo

6.2.1 Background

FastFoodCo\textsuperscript{41} is a leading global foodservice retailer with more than 32,000 local restaurants serving more than 60 million people in 118 countries each day. Currently it employs 1.6 million individuals worldwide. More than 75% of FastFoodCo restaurants worldwide are owned and operated by independent local people and 40% of them began their FastFoodCo’ career as crew members. FastFoodCo was founded in the US and according to corporate publications, approximately 2,800 employees provide a wide variety of support functions to more than 32,000 FastFoodCo restaurants in 100 countries around the globe through a network of divisional, regional and local-country offices.

In the early 1960s, FastFoodCo founded a training centre, located in the US, in which emphasis in paid on consistent restaurant operations procedures such as service, quality and cleanliness. It has become the company’s global center of excellence for FastFoodCo operations training and leadership development and more than 5,000 students attend this training centre each year. Since its establishment, more than 80,000 restaurant managers, mid-managers and owner/operators have graduated from this facility. FastFoodCo training mission, as stated on its corporate website, is to be the best talent developer of people with the most committed individuals to Quality, Service, Cleanliness and Value in the world. In the same website, it has been stated that the aforementioned training centre continues to promote this philosophy.

6.2.2 History

In Cyprus, the first FastFoodCo store opened in the late 1990s by the current Managing Director. In 1974 he immigrated to Germany and started working at FastFoodCo and from 1981-1997 he was a Franchisee in Germany. As explained on the Cypriot franchisee’s website, his wish was to introduce FastFoodCo Restaurants to Cyprus and so in the late 1990s he became the FastFoodCo Licensee for Cyprus. Interestingly enough, the introduction of the employees’ handbook states that FastFoodCo Cyprus is ‘a 100% Cypriot company’.

\textsuperscript{41} Guide to Respondents: Managing Director/Franchisee (MD), Human Resources and Training Consultant (HRC), Operations Consultant (OC), Store Manager (SM)
As the MD explained, the franchise agreement indicates that the franchisee pays loyalty fees to FastFoodCo International (MI) to use its brand name and processes. There are two types of loyalty fees: service fee (paid monthly based on restaurant’s sales performance – currently 4%) and rent (a monthly based rent based on monthly sales).

Facilities, machinery and equipment are all owned by the local franchisee yet Regional HQ are informed about everything that happens at the local level. In fact, the franchising agreement includes strict sanctions in case the franchisee jeopardises the brand-image of FastFoodCo in any way and MI even holds the right to withdraw the agreement if the standards of MI are not met. Nonetheless, the MD elaborated on the relationship between franchisees and MI: ‘MI is very fair with its franchisees. They are not out there to get you but to help you. When there was the war in Lebanon they did not take any loyalty fees from the local franchisee and when our costs went up in Cyprus they reduced our loyalty fees’.

6.2.3 Size and Market Position

Today thirteen FastFoodCo restaurants operate in island with over six hundred employees. The vast majority of the workforce is female or school boys working on a part time basis (SM). No expatriate managers are sent by HQ, even though it was noted when FastFoodCo first started operating in Cyprus, people from the Regional HQ came quite frequently, even on a weekly basis, to supervise the restaurants (MD). The Cypriot franchisee reports to the Regional Offices in Dubai.

Nonetheless, FastFoodCo Cyprus faces a problem with recruiting local people to work as crew in the restaurants (further explanations for this in the ‘HRM Practices’ part). In fact, in Nicosia non-Cypriot employees account for 85% of the workforce, in Larnaca that percentage is 50% and increasing and in Paphos none of the people working there are locals. The only exception is Limassol where 80% are locals. If employees do not speak Greek then they are not involved in customer service (HRC). Interestingly enough, everyone in the management team are Cypriots.

FastFoodCo faces significant competition from other international fast food retailers as well as from a Greek fast-food chain. Yet, FastFoodCo currently holds the largest market share in the Cypriot market (HRC). As the MD explained, 120 to 130 thousand customers
per week visit FastFoodCo in Cyprus and its performance was recognised and awarded with a corporate Award in 2006 for the achievement of the highest level of excellence in various disciplines including people practices and training.

An interesting feature of the Cypriot restaurants is that, despite FastFoodCo world famous products, they offer certain products which are ‘localised’. For example, Lenten period products offered to customers during the fasting period before Easter and Christmas. What is of interest hence, is that adjustments, even in terms of products, are acceptable if they serve the needs of the local markets. The following parts examine whether adaptations of HR practices are also acceptable and how decisions regarding HRM are made at the local level.

6.2.4 HR Department and HR Philosophy

The HR Department consists of the Human Resources and Training Consultant (HRC) and her assistant. The HRC explained the firm’s philosophy by saying that employees ‘need to have ketchup in their blood’! This merely indicates FastFoodCo need for a dedicated and committed workforce, especially considering the increased attention paid to the use of internal labour markets. The corporate view on careers within FastFoodCo, as expressed in corporate documents, is that ‘[they] value employees, their growth and contribution, based on non-discriminative and equal standards, for everybody on every level. [They] provide extensive, paid training that allows all individuals to reach their potential growth internally, at any possible level’. However, crew turnover rate has reached 110% recently (HRC).

Trade Unions are not present in the FastFoodCo workplace. As the HR Manager explained, TUs approached FastFoodCo’ employees in the early stages of the company and the franchisee gave the option to staff to decide if they wished to be organised or not. Upon that employees decided against having a TU to represent them. The SM further comment on the absence of TUs saying that ‘they [TUs] wouldn’t make a difference to us, FastFoodCo provides us with all the benefits we want’. The HRC argued that: ‘a good HR department is the TU of the employees’. Thus, despite a similarity between the practices implemented in both home and host countries, it is apparent that this is not an outcome of stronger home country effects (or ethnocentric isomorphic effect). Yet, this simply serves local interests and decisions regarding TUs were made solely by local actors.
6.2.5 HRM practices

According to the MD, ‘FastFoodCo International (RI) doesn’t like to get involved in inter-family [sic] issues’, in other words FastFoodCo does not have direct involvement in local practices. Nonetheless, RI does diffuse directives which should be followed and besides sending bi-annual reports to Regional HQ and also local restaurants get frequent on-the-premise ‘visits’ from the Regional HQ who evaluate the conditions of the restaurants.

RI is said to appreciate how idiosyncratic each economy is and allows discretion for HRM to be developed in the most appropriate way for each individual country. As mentioned earlier, in Cyprus there is a serious problem with finding people to work in unqualified, low skilled jobs. This, in addition to aspects of the local culture, seems to shape HRM. As it was explained: “We have a very funny culture, we like being served by Cypriots who speak Greek but Cypriots do not like serving people or working as waitress. In addition, these jobs are not paid high enough or are not well-esteemed. Therefore, we are forced to hire foreign people who would be more than happy to have such a decent job at FastFoodCo. But then these people might not speak Greek and this annoys Cypriots and they complain all the time” (HRC).

This problem cannot be easily overcome with importing a labour force as other countries do, due to legal constrains: “When we are at the international conventions and we share these issues with colleagues from other countries they ask why we don’t hire people from other countries like they do. They don’t realize the obstacles in the Cypriot legislation. Now, after we joined the EU, we are allowed to hire people from European countries and a new development in the law allows firms to hire foreign people, provided they are students in a higher educational institution in Cyprus” (HRC). The MD confirmed that: ‘Arabs have the same problem but they import cheap labour force from Philippines. Cypriot law isn’t as flexible’.

This issue, in turn, affects recruitment and pay. For example wages are affected by the market rate and FastFoodCo aim to pay more than competitors in order to attract employees (MD). In terms of recruiting more college/university students who could then progress to managerial roles, the Regional HR Director suggested the implementation of a fast track management course. The practice was in fact a scholarship which paid students’
tuition fees, accommodation, traveling expenses and included an extra amount for pocket money while they would have to work on a part-time basis at the restaurants, were they would receive 500 euros as well (MD). This initiative was not successful though and again this was due to the national culture: ‘Do you know how many Cypriot applications we had? None! The Cypriot parent does not like to know that FastFoodCo is paying for their kids education and Cypriot students are embarrassed to tell people that they are working for ‘FastFoodCo’ while studying” (HRC). Hence, despite the success of a practice in a different context, local culture and institutions will ultimately shape HRM at the local level.

However, other practices or policies seem to follow the RI’s guidelines and are, again, implemented with minor adjustment to suit the local circumstances. For instance, internal labour markets seem to be embedded in the corporate culture of FastFoodCo no doubt related to the fact that in order to acquire the license for a franchise one has to have extensive work experience with FastFoodCo. This is also reflected in the Cypriot company. Most of the managers or store managers have worked for FastFoodCo for a number of years as crew and then progressed on to more senior positions. Other worldwide practices include certain jewelry awards given by RI. For example, people who have been working with FastFoodCo for more than ten years receive a FastFoodCo ring, plus a 50% salary increase.

Employee Surveys is another tool used world-wide. It takes place bi-annually, to help management ‘locate which areas of your Restaurant and the Company need improvement’. Questions included in the survey are standardised for all countries, yet translated in Greek. Results are sent to Regional HOs in a sealed envelope and HQ compared results between different countries. In addition to these surveys, reports on HR indicators are sent to HOs.

Training and international meetings are once more used as control mechanisms. In international conventions the corporate philosophy and targets are diffused while regional training courses focus on specific job aspects (i.e. shift management). More essentially, as the OC explained, RI diffuses the Operations and Training Manual, as well as Quality Standards, to the franchisees and expects full compliance with them. Note that these tend to focus on outcomes (rather than on internal HR procedure) and operational aspects.
Furthermore, officers from the Regional HOs have meetings with the MD and the HR Manager. In these meetings, goals for the next three years are projected and decisions are made on how many new restaurants will opened, the cost and profit margin of each individual restaurant as well as decisions on marketing or HR aspects (MD). Also, targets for the forthcoming year are set and feedback is given on last year’s results.

More specifically, when the HRC was first appointed she took a basic HR course in Denmark with US professionals and thereafter took part in seminars at the international training centre. International HR meetings also take place on an annual basis. According to her ‘it’s good to know other markets. You get to exchange ideas and then adjust them to your culture, economy and size’.

Moreover, it became clear that HR practices evolved as the company matured perhaps indicating a shift from standardised to more localised practices. For example, the corporate employee handbooks were used at first and only translated in Greek. Now the HRC has developed new ones, in Greek, that reflect the reality of FastFoodCo in Cyprus at the moment. “If you compared the handbooks in 1997, 1998, 1999 with the ones in 2008 you will find very few things in common”. This was due to changes in employee expectations as well as certain changes in the economy. Even more interesting is the point that in 1998 when the first FastFoodCo restaurant opened in Lebanon, Lebanese managers came to Cyprus to be trained as Cypriots were perceived as having acquired significant know-how and had a similar culture which would be more beneficial (and less costly) to them than going to Dubai or US for training (MD).

A final relevant comment, which compared the workplace in the UK and in Cyprus, was made by the OC (who has worked in both countries). According to her, the tasks are very similar (‘we do the same job here and there’) however in the UK the management style differs significantly (‘in the UK they follow the ‘it’s my way or the highway’ style’) whereas in Cyprus, due to the size of the company and the local culture, the management style is less autocratic (‘here we know everyone by their first name’).

6.2.6 Conclusion

A strong interplay between home and host country effects has been observed in FastFoodCo. On the one hand RI puts pressure on local franchisees to meet the corporate
standards and preserve the global brand image. The main focus here though is on operations rather than HR practices. To reinforce this pressure, HQ employ a number of control mechanisms such as international conventions and the international training centre. Meanwhile franchisees make decisions regarding employment based on their knowledge of the local labour market and the latter’s characteristics. Even when HQ practices are diffused to local restaurants, these are not implemented because the local restaurant merely conforms. Rather, it is a case of HQ making suggestions and local management decision on the best option. For example, due to the difficulty of attracting local workforce in Cyprus, a number of local HR practices are implemented (as explained earlier) which are not HQ directives. This interplay is depicted in the following diagram:

Diagram 13: Influences on HRM - FastFoodCo

6.3 RestaurantA

6.3.1 Background

RestaurantA\textsuperscript{42}, as claimed in its corporate website, was one of the first American casual dining chains and has been offering its unique dining experience since the first RestaurantA restaurant opened in New York in the mid 1970s. Currently there are more than 917 in 49 states and 60 countries. Corporate documents argue that the founder’s ideas fashioned the legacy that still exists in all RestaurantA restaurants to this day; the décor, music, lights and staff continue to provide a lively, eclectic and engaging atmosphere.

6.3.2 History

The first RestaurantA restaurant to open in Cyprus was in the mid-1990s, in Nicosia and, as claimed in local franchisee’s website, enjoyed immediate success. More restaurant

\textsuperscript{42} Guide to Respondents: Franchisee, General Manager (GM), Restaurant Manager (RM)
openings followed in Limassol and Larnaca. Today there are five restaurants operating in total and the franchise is owned by BE Ltd.

Its mission in Cyprus, as stated in local publications, is to be the market leader in casual dining, providing great tasting food and beverage, excellent service and guest satisfaction by employing talented people. Again, the importance of people in this sector (which is somewhat different than the fast-food retail market) is evident. As stated in the local website, RestaurantA operates globally as ‘one Brand with uncompromising Standards of Excellence around our Credo, our Guiding Principles and our Culture of Fun’. This would in turn imply that RestaurantA strives to achieve a homogenized environment on a worldwide level.

6.3.3 Size and Market Position

In Cyprus, and due to the complex nature of this specific market, its basic competitors are other ‘casual dining’ restaurants such as Beniggans, Finnbars, Brewery and Viale. However, none of these are quite in the same category, except Beniggans according to the GM. These competitors are mostly Cypriot (or Greek) firms. It was stated that RestaurantA in Cyprus serve up to 1000 people per day.

Today 180 employees are working for RestaurantA in Cyprus, however employee turnover is quite high and in 2008 it reached 28%. Everyone in the management team is Cypriot, even though the majority of the employees are non-Cypriots who should at least speak English to be in the front of the restaurant (NOTE: specific number unknown).

The structure in every restaurant consists of a five-person team: the GM, four line managers (bar, front of house, kitchen and kitchen assistant). However, the GM seems to have all major responsibility within RestaurantA restaurants and managers have to report directly to him. He needs to be present and supervise the opening of every new restaurant. For the first year and a half of a new restaurant he personally trains restaurant managers. Also, he tends to represent Cyprus in any international meetings or training courses (alongside the franchisee owner) and who in turn diffuses all knowledge acquire to local actors. Its emphasis on internal labour markets and ‘inpatriates’, must be noted once more. The GM had 13 years of experience of working at a RestaurantA in the US before becoming an assistant bar manager, floor manager and then GM in Cyprus.
6.3.4 HR Department and HR Philosophy

RestaurantA franchisees partner with the local franchisees of another large MNC, PH. Restaurant A relies on the latter’s HR Administrator for support, mainly on legal issues, advertising vacancies and payroll issues. Yet, the Franchisee recognised that there is a need for an HR Manager and a Training Manager, considering the firm’s size and there is a future plan for the creation of these positions. However, the GM argued that because even specific local restaurants have different needs, this will then shape the specific restaurant’s HR needs, thus making it difficult to have a set of practices applied in all restaurants.

Its basic HR philosophy in Cyprus is that people need to grow with the company and that is reflected on the extensive use of internal labour markets ‘because loyalty plays a big part in the company’s success’ (GM). Retaining employees is equally important since ‘it is the A and Z of our business because when you keep your turnover low you have low labour cost, lower overall cost which in return affects the way you run your restaurant’ (GM). The GM’s personal attitude towards the staff is that management has to be very flexible and understanding. In his words “HR is crucial and that’s why there is a future plan to pay more attention to it”.

RestaurantA’s management expect their employees (who have personal interactions with customers) to ‘do whatever they want as long as the customer is pleased and as long as they meet their targets. If an employee wants to be a clown to make the customer happy he can do that, if they see that the customer needs someone serious and that leaves the customer satisfied then fine by me’ (GM – sic). Even though this statement can be seen as an exaggeration, it still illustrates the pressures that customers’ needs and expectations create in this sector.

Like FastFoodCo, the major factor which affects HRM decisions is the labour market. As the GM explained ‘things would have been different if you didn’t have to hire foreigners’. This factor affects HRM in a negative way. It’s very difficult when you have to manage such a multicultural staff but most of them are young and single which makes things easier”. This can be due to the nature of the job, the increased employee turnover rates as well as the nationality of the employees (Franchisee). Trade Unions are not present in this workplace either.
6.3.5 HRM practices

It was stressed from the outset that local management ultimately shapes the HR practices and policies. As the Franchisee explained “RestaurantA International (RI) doesn’t care what happens in each country. They give us the guidelines and leave the rest to us. They appreciate and acknowledge the differences and distinctiveness in each market”. RI controls the franchisees through reports which include indicators on sales, employee numbers and turnover. It also validates the appointment of local managers. The General Manager’s previous experience working for RestaurantA in the US is possibly another reason why the local unit has more leeway.

In fact, local managers get trained for 14 weeks by the GM (with the help of the director of operations). After this training period, managers travel in Europe for seminars until they become validated. Thereafter, store managers are allowed great autonomy and discretion as long as they are within the percentage of the labour cost given to them by the company’s budget (SM).

As the GM further explained ‘we obey the RI’s ‘laws’ but these are general nature’s standards. We are mostly autonomous to make the choices we think are best for the Cypriot market’. RI provides handbooks and written policies which are all in English. For example the employee handbook includes the smallest details like the cloths an employee has to wear, their posture etc. Nevertheless, these are all ‘relative’ instructions according to the GM. “Before the 9/11 happened RestaurantA had a strict policy and wanted all its employees clean shaved with short hair. However, after the 9/11 because there were fears of racial discrimination these policies were withdrawn. But here in Cyprus, I want my waiters clean shaved, without tattoos or a bunch of earrings. This is the person the Cypriot customer is expecting to be served by so this is what we do here. There isn’t anything in our legislation which forbids us from doing that so we do what we can to keep our customers satisfied. Outside the restaurant they can do whatever they like, on the job they need to be perfect” [sic].

Therefore, these guidelines refer more to quality standards rather than particular HR policies. Indeed quality has been characterised as RestaurantA “first and foremost target”. Moreover, local actors are allowed to differentiate the products they offer but these have to
come from a booklet of a 1000 recipes that RI provides. Local chefs cannot create their own recipes but they can choose the appropriate ones for their market’s season, trends, customs, ingredients etc. Hence, RI provides a form of limited discretion to local actors, over the local menus, in order to protect the brand image. However, this control was not exercised over HR practices where extensive discretion is allowed.

For example, RI gives recruitment guidelines which local actors chose not to follow to the letter. This happens because guidelines indicate a total number of three interviews with pre-determined questionnaires by RI. However, as it was explained by the GM, for a foreigner who cannot even speak proper English it is very difficult to fill in these questionnaires. In addition when the restaurants require someone for immediate employment (due to lack of workforce supply) they will not waste their time on official procedures. In sum, guidelines can be adjusted according to the restaurant’s and market’s needs.

This is evident in the comparison of two restaurants in Nicosia, within a 15 minutes drive from each other. Yet, these two restaurants have different markets since the former works mostly at nights since it is located in the city centre while the other is located in a shopping mall and is busiest at lunchtime. The GM claimed that seasonality also shapes HR practices since staffing needs are different. Yet, except possibly recruitment, other practices such as training and pay are the same for both restaurants.

Another example is the ‘man power plan’ which is a way (an excel spreadsheet) for the managers to calculate how many people they need, how many shifts they will work etc. A formula provides these numbers based on detailed information for each restaurant. However, this has been adapted from the RI standards to something more convenient and easy to use in Cyprus and into ‘something that makes business sense for us to use’ (GM).

Also, adjustments were found in front service employee’s evaluation practices. This occurs through the GEM (Guest Experience Monitor) which includes parts on the employee’s performance, behaviour and service. This is given randomly to customers by the owner company. Again, this GEM, even though prepared and diffused by RI, is adjusted to the Cypriot customer’s reality, standards and understandings.
Legislation and culture also shape HR choices. If employees are not Cypriot, which is the norm, they need to go through a long immigration process. Even if an employee comes from an EU country (even Greece) they still have to go through a similar process which is time consuming and complicated. When asked how they handle these issues without an HR specialist (who knows Cypriot labour law) the GM replied that ‘my wife is actually the director of the immigration office which makes everything easier but I have to admit that without her things would have been rather complicated’. This is a further illustration of the Cypriot culture and the interactions that take place within society. It is not considered wrong, unlawful or even corrupt to use this kind of connections to achieve your goals. On the contrary, because of the small size of the population people tend to have this kind of social networks that help them in business or other social issues.

Nonetheless, some aspects of the HRM process seem to be more standardised in order to ensure greater uniformity of provided quality. Currently, there is an initiative by the RI for all the restaurants outside the US which aims at prompting them to ‘go back to the basics and it’s a huge project that is helping us lots’ (GM). This is a 120-day-long seminar which takes place daily where everyone, from chefs to waitresses, begins specializing and then they perform a full demo for the GM. They learn how things should be done and if they get it wrong what will the outcome be. This training scheme aims to preserve the high quality standards. RI sends the guidelines for this project and these include 12 books and 8 CDs, starting from day one with specific and detail explanation of how things are done. Along the way forms are completed that are send to the RI for control. However, an interesting comment which illustrates the complex interplay between home and host effect was given by the GM: ‘it’s in our best interest to follow them. We are not doing it because we are forced to. If you improve our quality then our customers are more happy with our consistency and they business goes well which is the ultimate purpose’.

Other aspects of training and induction in particular are also less localised. Training is delivered by designated ‘trainers’ who are more experienced employees with the authority to teach newer members of staff how things are done. The trainers are provided with a framework which includes in detail all the key points that they should teach, transfer and transmit to the new employee. An interesting point is that these guidelines have been
prepared and diffused to Cyprus by the RI and it illustrated how important consistency is at the initial stage of an employee’s induction in the RestaurantA restaurants.

Moreover, there is an International Trainer (from RI) and this person comes to Cyprus to conduct coaching seminars; 25 people attended the last one. Nonetheless, these seminars take place when the Cypriot management team sees fit and requests them from the RI. On average these seminars take place once per year. In addition there are frequent conferences by the RI which franchisee and managers attend. This provides an opportunity to learn more about how RestaurantA operates in the US or in other countries. For example 3 months prior to the interview there was a seminar in the US for world-wide directors and managers where they met for brainstorming and one of the main issues in the agenda was ‘why service ends up being different from country to country’ (GM).

It is also interesting, due to dominance effects and possibly life-cycle stages, that Cyprus sends local trainers to Greece to train their workers. This is either due to small cultural distance between Cyprus and Greece or because Cyprus is more experienced than Greece, as it has been operating for longer. In fact, when the first Cypriot restaurant opened RI dispatched expatriate managers for the first two months. This indicates that HQ are more involved in the early stages of the sub-unit’s life so that local actors can that the firm’s broad philosophy can be inculcated from the outset.

Cyprus also dispatches coaches to Egypt, but for political reasons. In this case, Cypriots travel to Egypt because it is difficult for people with American passports. But this, as stated by the GM, is great for the Cypriot restaurants as well because the people who travel to other countries come back with new experiences and transfer back what they have learned or observed in other restaurants which could be applied successfully in Cyprus as well.

6.3.6 Conclusion

Therefore, RI pressures are mostly focused on quality and operational issues and less concerned with HR practices. Yet, in this sector quality is linked to practices like extensive training which is more standardised. However, standardisation was not a doctrine diffused by RI, but rather a suggestion which local actors followed because it suited their
organisational needs at the time. Overall, the relationships which shape HR practices at the local level are as follows:

Diagram 14: Influences on HRM - RestaurantA

6.4 RestaurantB

6.4.1 Background

RestaurantB\(^4\) was founded in the mid-1960s by in the UK. RestaurantB entered the London Stock Exchange in 1993 ‘as one of the UK’s most successful private restaurant businesses’ (quote from the corporate website). Currently there are over 300 restaurants in the UK and Ireland which serve 16 million customers a year.

At RestaurantB restaurants, extensive emphasis is placed on both quality of food and service. That is why the corporate website RestaurantB claims that ‘We only recruit 'people people' for our front-of-house teams and work hard to give our customers the warm welcome and attentive service they deserve’. Hence, this is yet one more case where the importance of HR is evident but the customer satisfaction through this experience is also underlined as crucial.

6.4.2 History

In the late 1990s, the only RestaurantB restaurant in Cyprus was acquired by the current franchisee (FLT). Like FastFoodCo, FLT pays 4% loyalty fees to RestaurantB UK.

\(^4\) Guide to Respondents: Financial Manager (FM), Branch Manager I (BMI), Branch Manager II (BMII)
It must be noted though that RestaurantB in Cyprus did not enjoy instant success and local owners, as stated in the firm’s history on its website, realised soon that ‘the newly acquired venture was not going to be ‘all smooth sailing’. Although RestaurantB was a well established restaurant chain in England and one of the pioneers in introducing authentic Italian recipes in Europe, in Cyprus it was still an unknown brand name and it its name was related to fast-food chains by Cypriot customers rather than Italian food restaurants which could offer more than pizzas.

In fact, the RestaurantB restaurant in Nicosia was a ‘failure’, even though it was the fourth restaurant of the chain in Cyprus. This then led the management to rename the restaurant in 2001. The new concept RestaurantCo was jointly developed by RestaurantB International Team and the local management team in Cyprus. It was the first franchised RestaurantCo opened worldwide. With a selection of the very best Italian recipes and with the addition of grilled dishes, fish, pure beef burgers, Argentinean beef steaks, pastas, fresh salads and an extensive wine list, RestaurantCo soon became popular among Nicosians.

Another significant event for the local unit was the development of the Centralised Kitchen and the Warehouse facilities in six years ago. This project, as respondents explained, set the standards in the catering industry and is considered by many as the benchmark in its segment. It was designed especially to support the restaurants operations and to ensure the highest quality, freshness and consistency to taste at all times. Evidently, the existence of such facilities makes the customisation of practices more likely.

6.4.3 Size and Market Position

Currently five RestaurantB (and RestaurantCo) restaurants operate in Cyprus. In low season periods around 80 are employed compared to 120 in high seasons. 60% of the workforce is Cypriots and the other 40% is non-Cypriots. This is a significantly higher percentage than found in FastFoodCo which can be attributed to the fact that it is perceived as a higher class firm and product, especially the RestaurantCo restaurant. Similar to FastFoodCo, the majority of Cypriots work in Nicosia rather than in other cities. Employee turnover is high, similar to other cases in the hotel and hospitality/food and beverages sectors. However, especially in RestaurantCo restaurants the team is quite stable and employee turnover rate never exceeds 10% (FM).
Again, no expatriate presence was detected. Even though top management consists of Cypriots only, this team is in fact part of FLT. For example, the Financial Manager is not the Financial Manager of RestaurantB as such but rather the Financial Manager of FLT. Some restaurant managers are non-Cypriots but these are not part of expatriate assignments.

RestaurantB in Cyprus is not part of a region, but works closely with RestaurantB in the UK and Spain. Also, Cypriot restaurants pay excessive attention to the latest EU regulations and the production operates according to an effective HACCP system which guarantees the optimal hygiene and management system to food safety. In 2008, RestaurantB Cyprus integrated the new management system for food safety “ISO 22000” with its existing system of HACCP “ELLOT 1416”. These international standards sets out specific standards on production and operations in restaurant and those restaurants which are qualified must meet these standards.

6.4.4 HR Department and HR Philosophy

The FM stated that ‘the quality of our people will determine the quality of our services’ and this represents the HR philosophy within RestaurantB. Moreover, he claimed that ‘we believe that you shall get what you have given. That is why we went the best out of our employees and we make sure we give them in exchange the best possible package of rewards’.

However, RestaurantB is another case where the local unit does not have an HR Department (and neither does FLT, similar to most local Cypriot firms). The FM attributed this to the firm’s size and claimed that when the company expands further the need for an HR department will emerge. There are written manuals on all operations of the restaurant though as this is a requirement of the HACCP and ISO standards. Hence, all aspects of a person’s job in the restaurant are explicitly stated in these manuals.

Every restaurant manager assumes responsibility for recruiting employees (BMI). Restaurant managers and assistant managers though are selected by the Financial Manager and approved by FLT’s GM and report directly to him. Also, FLT’s Accounting Department is responsible for RestaurantB’ employees’ payrolls and payments of provision funds etc.
RestaurantB employees are not organised in Trade Unions but the FM explained this was not because management did not allow it: ‘other parts of FLT or Columbia have very good relations with TUs. We don’t have them in RestaurantB because employees do not feel the need for that. Our door is open and anyone who has a problem can come in, discuss it and they know that we are here to help them. Communication for small firms like ours is more important than TUs’.

6.4.5 HRM practices

Unsurprisingly, RestaurantB’ HR practices follow a Cypriot pattern due to the firm’s size, labour market characteristics, customers’ expectations and structure of the owner firm. This localisation of practices is also related to the lack of appropriate guidelines on HR issues by RestaurantB UK. However, involvement from RestaurantB UK or Spain was noticed in terms of training or employee handbooks. Overall, RestaurantB Cyprus works more closely with Spain because both countries are Mediterranean and hence their cultures are similar (FM). RestaurantB UK though, is not concerned with changes local management does if these do not have a direct effect on operations or brand image (FM).

Currently, localised practices include recruitment and selection, pay/benefits, training and appraisals. Recruitment is done through advertisements in local newspapers and sometimes selection can be done on the spot, when the restaurant manager decides that the person fits in (BMI and BMI). Training on the other hand is also provided in-house and covers areas like customer service or how to answer telephone calls. In the FM’s opinion this is more beneficial for local employees as the trainer studies the company and its needs and then adjusts training to these. Moreover, appraisals are the responsibility of the immediate supervisor of each employee and these take place frequently and then lead to a promotion or pay increase at the end of the year. FLT’s management provides Restaurant managers with a certain budget and the latter make pay increase decisions. Overall, it was quite evident that all these procedures/practices are implemented in an informal way and are significantly affected by the individual restaurant manager since they have extensive discretion over employment decisions.

Like the other firms, RestaurantB faces problems due to an insufficient supply of Cypriot workforce in this sector. As the FM explained ‘Cypriots do not want to work as waitress in
RestaurantB – they don’t like to start working from low levels and then work their way up. They all want to be managers immediately’. That is why exit interviews showed that people who leave the firm do not move on to work to other competitors but to the public sector.

However, similar to other cases, life cycle stages have affected practices at the local level since the first management team travelled to the UK to be trained and diffuse knowledge back to Cyprus. Also, a person from the UK restaurants was dispatched to Cyprus when the first restaurant was about to open to interview and select the first restaurant managers and assistant managers. This was part of the franchisee agreement. However, after ten years involvement by RestaurantB UK has decreased as local know-how has increased (FM).

Another example is the employee handbooks which were initially adopted from the UK. Since then and as time went by local management ‘has built on them’ (FM). However, it was stated that even in the first place, local management was not forced to adopt these handbooks but is something they chose to do since it was perceived as more beneficial for them. Also, like other franchise agreements, RestaurantB sets out rigid criteria that franchisees must meet and hold the right to withhold the agreement if local actors fail to meet these and put at risk the brand image.

Control mechanisms on the other hand include international annual meetings for management. The most recent meeting in Hong Kong was a seminar for all franchisees across the world. In these meetings scores that mystery customers gave to each restaurant are compared. It must be noted though, that mystery customers evaluate each restaurant based on a checklist which was prepared by RestaurantB UK and which is used, albeit with minor adaptations, in all countries. Also, international chef meetings take place frequently. During these chefs from various countries get together and create new recipes which are then included in the international cookbook which includes a variety of recipes from which local management can chose to use in their respective restaurants. Hence, it can be concluded that intern consistency for RestaurantB comes in the form of operations rather than HR practices, despite the acknowledged importance of HR in the firm’s success.
6.4.6 Conclusion

Hence, this is another case where internal consistency for operations is pursued relentlessly and the parent company is not preoccupied with HR practices. On the contrary, local factors such as the firm’s size and structure, local labour force characteristics, customer expectations are again seen as key factors which shape the implementation of HR practices locally. The following diagram illustrates this:

![Diagram 15: Influences on HRM - RestaurantB]

6.5 HotelCo

6.5.1 Background

The HotelCo\textsuperscript{44} brand was established in the early 1970s by Air France. This was done, as explained on the corporate website, in order to provide a home away from home for its customers. The first HotelCo property was a thousand-room-hotel in Paris and within two years of operation the group had 10 hotels in Europe and Africa. The group continued to grow and, by 1991, the total number of HotelCo properties had risen to 58.

HotelCo went through a number of mergers and acquisitions between 1994 and 2005. In 2005 though, the HotelCo brand and management fee business was acquired by SWCo, its current owner. Currently, HotelCo is a global hotel group with a portfolio of more than 120 luxury and upscale hotels in over 50 countries worldwide. The majority of its properties

\textsuperscript{44} Guide to Respondents: Hotel General Manager (GM), Personnel Manager (PM), Personnel Officer (PO)
are located in the world’s top cities and resorts throughout Europe, Africa, the Middle East, Asia Pacific and the Americas.

HotelCo aims, as stated in corporate documents, to offer guests ‘a new way to view their world, to navigate using their senses and to develop a sense of who they are’. According to the same website this means that employees have to be ‘Curious, inspired, and creative’ and ‘to be part of our guests’ experiences as opposed to remaining in the background’. This again highlights the strategic importance of human resources.

6.5.2 History

HotelCo in Cyprus is situated in 100,000 square meters of landscaped gardens and is Cyprus' only five-star international hotel. It has 329 guest rooms, suites and garden suites.

The actual hotel was built and owned in 1989 by Arab investors and was bought by its current Cypriot owners in 1991. The latter pays a loyalty fee to SWCo to use its brand name. In the franchise agreement certain standards are stated which every hotel in the SWCo Group must meet. Like FastFoodCo, SWCo retains the right to withdraw the franchisee’s license if the hotel’s standards drop beyond an acceptable level.

The Cypriot hotel was awarded a 10/12 by Cranley (NOTE: leading provider of independent hotel information and rankings) which is awarded to ‘the world's deluxe properties that are characterised by features of luxury and extensive and/or quality contemporary facilities for leisure, business or family’⁴⁵. HotelCo Cyprus was recently also awarded the World’s Leading Spa Resort Award (by the World Travel Awards).

6.5.3 Size and Market Position

The Cypriot hotel is part of the EMEA (Europe/Middle East/Asia) Region. In winter time, the hotel’s low season around 350 people are employed at the hotel while this number increases to 480-500 in the summer, high-season.

No expatriate managers work at HotelCo in Cyprus. Similar to RestaurantB, 60% of the hotel’s employees are Cypriots and the rest are non-Cypriots. However, Cypriots occupy mostly permanent and/or managerial and administrative positions though while non-

⁴⁵ http://www.cranley.com/cranley_ratings.htm
Cypriots work as waitresses, kitchen staff etc. In cases of temporary staff, who work in the high-season, local management attempts to retain the same non-Cypriot employees. This is perceived as more effective and efficient since they do not need further training, they know the culture etc (GM). Non-Cyprus employees need to speak at least English, but it is not necessary that they speak Greek. Knowledge of the Russian language is also welcomed due to the increasing number of Russian (or Eastern European). As the GM explained, “In Cyprus the situation is rather tragic. We have a huge problem with the supply of Cypriot staff for our hotel.”

### 6.5.4 HR Department and HR Philosophy

On its corporate website, HotelCo states that ‘Human Resources partners closely with General Managers to create and support the hotel’s strategy. Human Resources is responsible for managing all recruitment, hiring, benefits, training and employee relations. It is imperative for Human Resources to ensure the hotel is hiring the best talent through strategic staffing, ensuring this talent is receiving comprehensive training, creating a safe and productive work environment and acting as an operational business partner, process facilitator and change agent’. Also, a new training programme, called “HR Academy” was initiated recently, for all HotelCo’s HR professionals.

Despite this strategic approach by the parent company, HotelCo Cyprus does not have an HR department, nor was the HR Academy mentioned throughout the interviews. Moreover, due to the franchise agreement, local management has limited access to SWCo’s resources. Especially in terms of HR, they receive minimum consultation and cannot access SWCo’s online HRM database. Hence, it can be expected that very few, if any, practices are adapted from HQ and this was indeed confirmed throughout the interviews.

The PM is responsible for day-to-day activities, i.e. payroll and immigration forms, and line managers assume responsibility of managing their employees or implementing certain HR policies which are in place.). At the time, there are written policies for the staff and these were prepared to meet the ISO and HASAAP standards. For example, job descriptions were developed, with the assistance of an external management consultant, due to ISO standards.
However, HotelCo plans to create a position for an HR Manager in the future (GM). Even when the HR department is formed though, line managers will be mainly responsible for implementing HRM (GM). The HR department will be responsible for recruitment, induction, training, feedback procedures and will be involved in issues like the employees’ morale and culture.

HotelCo Cyprus’s HR philosophy is that as an organization they pay lots of attention to their staff, invest in them, develop training programmes for them, are concerned about feedback and have various incentive schemes in plays for recognizing the best performers (GM).

However, as the GM insisted “HRM is very important for us since it is reflected on our clients and their satisfaction. At the moment there is the functional part of HR where the ‘personnel officer’ is dealing with payroll, paperwork and administrative issues. In the future, a well structure HR department should also be involved in strategic issues in order to increase the performance of our employees and the satisfaction of our clients”.

The vast majority of the (permanent) workforce are members of the two trade unions for the sector: OYXEB (Federation of Hotel Industry Workers) and SYKSA (Cyprus Hotel and Hospitality Worker’s Union). These two unions are part of SEK and PEO, the right-wing and left-wing confederation of unions, respectively. Collective agreement covers a number of employment issues for people working in the hotel and hospitality sector, such as working hours, wages (and wage increases), promotions, layoffs etc. hence, the employer has to comply with the agreement which is often seen by management as a barrier to implementing more sophisticated HR practices (GM).

Despite the disagreements between management and TUs, the GM explained that most of the employees belong to the TU because it provides an increased feeling of job security to them: “In the private sector there is no job security so as an employee you need to make sure you are protected in a way. We would have a very unhealthy environment if the TUs weren’t present because the employees would feel insecurity and this would in turn be reflected on their employer, the employees’ performance and morale and later in the service the clients get”.

46 http://www.sek.org.cy/sek/?q=node/1
It must be noted though, that hotel owners in Cyprus, have formed their own employers’ organisation (PASUKSE) to counterbalance the power of TUs. Negotiations take place between PASUKSE (not individual employers) and employees’ TUs which then result to the collective agreement which is applied throughout the sector47.

6.5.5 HRM practices

As the PM explained, the local unit does not have any obligation ‘to follow SWCo’s HR strategy – we simply apply the SWCo orientation policy which explains the rules and benefits of working for a SWCo hotel’. However, this is tailored to include each individual hotel’s specifics (GM). Especially because HotelCo has to abide to the collective agreement, many HR practices are shaped and adjusted to local standards by local actors. Examples of localised practices include pay and rewards, promotions, recruitment and selection, job descriptions etc.

When setting staffing levels the GM discusses occupancy with the financial controller and they set targets based on the data from previous years. If there are going to be any changes, these are then discussed with the line managers (restaurant manager, chef etc) (PO). A budget is decided per month and then approved. In terms of recruiting, local management first turns to the people who have worked in the hotel in the past. In addition, local management collaborates with schools, universities and colleges (locally and abroad) to find candidates, use employment agencies (especially for foreign employees) or place advertisements for vacancies in the newspaper. These decisions are made solely by local actors, without any interference, guidelines or predetermined criteria by SWCo.

Thereafter, the CVs which were collected are sent to line managers who then conduct the interviews. After the line manager selects the future employee the GM meets with them and approves his/her hiring. At the same time all the relevant paperwork are been signed and a mentor is assigned to the new employee for six months. The mentor is close to the employee to give them the initial training and he is the point of contact if the employee needs any help. After the six months are over the employee goes through an evaluation to determine whether he or she is staying or not (is seasonality cases this period is one month). Once more, this process has been formed by local actors based on the individual’s

47 http://www.cyprushotelassociation.org/chaprofile.pdf
hotels needs, structure and size. Had they chosen to follow a different route, SWCo would have no involvement in this decision-making.

However, SWCo does provide the hotels with a manual about induction (which includes the procedures of the hotel). Yet, this is customised to the individual hotel’s specifications. The induction (which includes a tour of the hotel) is currently provided to the employees by the personnel officer while the line manager provides basic training to them for the first couple of days or when a specific need for training emerges.

Overall, it was explained that the type of services provided by the (five-star) hotel in Cyprus in particular, shape HR practices: “As Cypriots we provide a different kind of hospitality. In other countries you can find a formal team serving you but here things are done differently. Besides the service we provide we have a very personal touch which is representative of the Cypriot culture” (GM).

But the Cypriot culture is also a factor which shapes HR practices. As the GM argued: “Cypriot people are lazy, especially compared to the foreigners we have here. Yes, we are more hospitable, more genuine and more human but we don’t have any discipline. They [Cypriots] are less hard-working and are looking for excuses to have a chat with colleagues, have a cigarette or take a break”. He further argued that this is probably based on the way Cypriot people are brought up and their family environment. In contrast, foreigners come to Cyprus for a very specific purpose; to work, save money or even send money to their families back home. Therefore, they cannot afford not to be efficient in their work. Another reason is probably the supply and demand of labour force: supply of Cypriot employees is scarce whereas supply of foreign workforce is excessive. Yet, Cypriots are preferred by customers. Hence their negotiating power increases, compared to foreign workers, who feel more pressured to increase their performance.

Even though it is a common practice in Cyprus to hire relatives or friends, it has been argued that this does not happen at the HotelCo. GM stated that “We hire people according to their qualifications and not they people they know. This sends out a message to our employees that we are fair employers and to our clients that we provide the maximum service possible. Even if you know the owner or the general manager there, we have standards which we keep”. Despite that, the GM himself explained how he was actually
appointed to his position because of personal connections to the hotel’s owner. This indicates again, how reality and practice differ and how local management might feel they are implementing certain practices yet ultimately succumbs to cultural norms.

Interestingly enough, despite extensive literature showing how HQ diffuse practices to subsidiaries, in reality there are cases where the former is unwilling to do so: ‘We had asked for job descriptions from SWCo but they didn’t give us anything’ (PM). Still, even if local actors cannot get substantial reinforcement from SWCo, they still communicate with managers in other HotelCos (for example in Athens) and they exchange information (PO). This is mostly done in an informal way.

Despite SWCo’s lack of direct influence over local practices certain control mechanisms are in place, which ensure that standards are met and brand image is not endangered. These include annual reports as well as unscheduled inspections by members of SWCo Group or mystery guests. Also reports are sent by platinum guests to SWCo. These are guests who are part of SWCo’s loyalty scheme and who visit HotelCo hotels in various locations. This is an interesting practice, since these guests can compare hotels and have certain expectations which should be met. Moreover, the PM sends bi-annual reports to the Regional HOs which include the training records of employees but, surprisingly, no other data. As explained by the Personnel Manager: ‘they [HOs] don’t care about our processes. They are mostly concerned with training and employees providing quality services to guests’.

The appraisal procedure is based on the HQ guidelines and it is basically a form with scores which the line managers complete for all employees annually. There is then a follow-up meeting between the manager and the employee to discuss issues that have come up in the evaluation. Also the manager provides the employees with feedback, comments and suggestions and welcomes the employees’ feedback as well. Moreover, in some instances SWCo invites franchising companies to participate in meetings or conference calls and sometimes the issues on the agenda concern HRM. But no training on HR-related issues is provided by the HQ.
6.5.6 Conclusion

Especially because of the nature of the services provided in this sector and the presence of Trade Unions, HotelCo Cyprus behaves like most Cypriot hotels. Hence, a polycentric effect is traced in this case. Local pressures, along with the absence of an HR department, shape the decision-making on employment practices and standards by the parent company only to ensure that the brand image and the quality of service is homogeneous across all HotelCo hotels. This is summarised in Diagram 15:

- Employers’ Organisation
- General Manager
- Line Managers
- HR Officer
- Trade Unions
- Local Culture/Institutions

Diagram 16: Influences on HRM – HotelCo

6.6 Summary of Empirical Chapters

From the case studies presented in both Chapters V and VI certain preliminary conclusions can be drawn. First, forces from all four clusters were found to influence HRM within sub-units; albeit at varying degrees. Second, the way in which the MNC has developed also moulds HRM. As illustrated in these two chapters, fully owned/network units are more likely to have an HR department and be susceptible to central influence over HR practices. Hence, transfer of practices occurred mostly in these types of units rather than in franchises/affiliated members. Also, evidence from these case studies has highlighted that
in franchises/affiliated members there is extensive control and centralization over operational procedures rather than HR policies.

Further, sectoral characteristics such as collective agreements or supply of labour force also play a significant role in shaping HRM. Especially in low-service firms this emerged as a key issue which led to the localisation of practices. Similarly, collective agreements surfaced as a hindering parameter to the transfer process, where this was desired, thus creating tensions between local and top level actors. Culture was also found to be a contributing factor. This is despite the fact that it does not always have a direct impact on HRM but sometimes seems to constitute an underlying explanation for other macro-level parameters, such as workforce supply.

These initial conclusions are discussed in detail in Chapter VII. Therefore, the next chapter elaborates on how specific factors in each cluster shape HR practices at the local level. Moreover, the interplay between various factors is highlighted. Ultimately this will demonstrate the complexity which surrounds the HRM process.
Chapter VII: Discussion

7.1 Introduction

The findings produced in this thesis not only confirm existing frameworks on HRM in MNCs, but also show how four specific clusters of factors interplay to shape HR practices at the local level of service sector MNCs. This chapter will elaborate on the methodological and theoretical contributions of this study and link the findings back to the literature.

The current study’s thesis initially relied on existing literature which acknowledged indeed how both exogenous (external) and endogenous (internal) pressures affect the decision-making process at sub-units (Edwards and Kuruvilla, 2005). Yet, the findings will assist in the development of an integrated model on the study of HRM. More specifically, our model aims to assist with the study of the nature of the HRM at the local level. To do so, a multi-dimensional approach was embraced. Contrary to the contingency approach which usually focuses on one external factor, this approach focused on multiple factors, either internal or external to the sub-unit. In previous studies, perspectives such as institutional, culturalist, contingency etc. served as lenses through which employment decisions, to use a broad concept, were examined. These approaches though, when studied individually, merely illustrated that the HRM process within MNCs is a complex phenomenon and therefore tensions are expected to arise. For example, institutionalist scholars suggested that tensions derive from differences between the institutional context of the home and host country. Similarly, culturalists believe is that tensions are due to variations between the cultural context of the home and host country.

However, no single perspective can ‘explain the ways in which MNCs handle the potential conflicts arising from different institutional logics, that is, the institutional demands of local environments as well as the conflicts which arise from the global institutional context and the respective local institutional contexts’ (Geppert et al., 2006, p. 1456). That is precisely why a multi-dimensional approach was employed in this study, which brings together the four major perspectives: institutional, cultural, intra-organisational and global. These, in turn, are manifested in the four clusters of factors which arguably shape practices at the sub-unit level.
More specifically, our findings support the political-economy approach suggested by Edwards et al. (2007) and indicate that institutional, cultural and organisational factors do in fact mould HR practices. Global pressures, deriving from the universalistic approach, have also been found to contribute to the shaping of practices and are added to the suggested model presented in this chapter. In addition, evidence from the case studies provides a more detailed explanation of how these factors impact employment-related decisions. Overall, this qualitative, integrated approach is expected to give a somewhat more realistic feel on whether HR practices are transferred or developed locally, and why that might be the case. It must be noted from the outset though, that clusters are not mutually exclusive and that there are abounding contributing factors. Due to space limitations only a handful can be explored here. The factors under examination are the most critical ones already identified by authors such as Edwards, Ferner, Bjorkman etc.

Having presented evidence from the case studies in Chapters V and VI, this chapter serves to discuss these results and their theoretical implications for the analysis of HRM at the local level of MNCs. The discussion will commence by arguing there is a need to adopt a bottom-up approach to this issue and that such an approach can deepen our understanding of how employment-related decisions are made and put into effect locally.

The discussion will then proceed to examine how each specific cluster of factors affects the HRM process in sub-units. It is important to note from the outset of this discussion that the clusters suggested here are not mutually exclusive concepts but they are inextricably linked. Throughout our discussion the attempt is to highlight this interplay, while at the same time recognizing the complexity surrounding this task.

7.2 An alternative multi-dimensional approach to the study of HRM within MNCs

The alternative methodological approach suggested here and the rationale for this is explained in detail in this section. It must be noted from the outset though that the suggested bottom-up approach should not be seen solely as an alternative to the top-down approach which is widely used in existing literature. The bottom-up approach merely shifts the emphasis and allows for more complexities to unfold. Whereas the top-down approach assumes that strategy is determined at the top level and then diffused down the hierarchy,
the bottom-up approach uses the sub-unit as the unit of analysis in order to reveal how practices can also be shaped there as well as at other layers of the organisational hierarchy.

The suggestion for this approach is rooted in the classical schools of strategic thought: the ‘design’ and ‘power’ school (Purcell, 2001). The design school embraces the typical top-down view of strategic choice while the latter acknowledges that strategy is a result of negotiation between various actors in an environment. As we have witnessed a shift in recent years from the design to the power school, we should also contemplate how HR decisions are made in complex organisations such as MNCs and how practices are implemented at the local level. This is extremely important since we are studying HRM practices, and not operational aspects of the MNC and these in turn are strongly influenced by the context in which they operate (Edwards and Tempel, 2010). Context however does not comprise solely of cultural and institutional dimensions (external) but of internal elements which actively shape practices.

However, scholars studying the transfer of HRM within MNCs typically assume that HQ are typically much more powerful than sub-units and that strategy is filtered down the hierarchy (e.g. Ferner and Quintanilla, 1998). Even in studies where intra-firm issues come to the fore in decision making (Bjorkman and Lervink, 2007; Smale, 2008), frameworks do not seem to embrace the notion that decisions can often be made at the local level based on local contingencies, and in some cases without the knowledge or explicit approval of the HQ. Overall, the underlying principle is that HR managers operate ‘acontextually’ and ‘wholly within the organisation’ (Truss, 2004, p. 57). Yet, this assumption can be challenged when one considers examples of reverse diffusion (Edwards, 1998) or cases with sub-units of increased strategic importance and with increased negotiating power (Mohan, 2006; Tempel et al, 2006b). Hence, existing top-down theorisations are not attuned sufficiently to the realities of HRM at the local level.

Examples can be found in the work of key scholars in the Strategic HRM area. Boxall and Purcell (2000), for instance, claim that firms such as ProfservB and Anderson (the predecessor of ProfservA) are members of an ‘elite cluster of firms that are transnational’ (p. 184). Therefore, these authors, using Bartell and Ghoshal’s (1989) typologies, assume that such firms have a proactive strategy which is then devolved in all parts of the organisation. Yet, transnational strategy can be ‘to have no set strategy but to let each
strategic decision depend on specific developments’ (Harzing, 2004, p.48). And, in terms of HRM, this is consistent with our findings regarding these two firms. This then questions the concept of pro-active strategy thinking on behalf of the MNC. As Rubery and Grimshaw (2003, p. 203) argue ‘it may be inappropriate to attempt to classify a particular organisation as a whole into any one category’. As such, we need a framework which explores the different parts of the organisation (and more specifically the level at which developments regarding employment take place, the sub-unit level).

In fact, in the popular debate between home and host country effects, the two extremes represent global MNC (centralised hub) and the multi-domestic MNC (decentralized federation). The political-economy approach, suggested by Edwards et al. (2007), is a rare example which appreciates the ‘complex process of coordination and cooperation in an environment of shared decision making’ (Harzing, 2004, p. 49, emphasis added), and that is why the development of our theoretical framework is based on this approach.

The following example can better demonstrate the incomplete understanding that top-down perspectives provide. McDonnell et al (2009), for instance, claim that large MNCs tend to have a formal policy on organisational learning and matrix structures facilitate knowledge transfer. In the sample InsuranceCo has a matrix structure so the HR Manager is accountable not only to the local GM but to her Regional HR Manager. Moreover, InsuranceCo’s global, formal policy on training and development is that each sub-unit (fully owned) devotes 60% of its budget on T&D activities. However, this is not feasible and does not happen in the Cypriot sub-unit. This is because despite InsuranceCo being a large MNC world-wide, the Cypriot sub-unit is small. In addition, when the Cypriot sub-unit was acquired, most of the workforce had been working in the firm for more than 20 years and were already qualified. In addition, at that particular moment dedicating a large sum of its budget was not in the HR department’s priorities. On the contrary, introducing new (and previously informal) policies such as appraisals was first on the agenda compared to T&D issues. All these complexities, which arise from both top-level pressures and local parameters, could not have been accounted for in a top-down approach.

This insight derives not from challenging the contribution of the former approach but rather from challenging its fundamental assumptions: that the MNC is always seen as the ‘parent’ company and the sub-unit (the common term used in this approach) the ‘daughter’
company. That the former creates the latter and that the parent controls the daughter and the parent knows best. In reality, MNCs are not always omnipotent and omnipresent entities and sub-units are not always faceless, powerless subjects susceptible to the doctrines of the HQ’s top management or to their external environments characteristics. Sub-units are constituted by local actors. This is not to say, however, that these are in turn all-powerful nor that the high degree of inter-organisational dependency should be downplayed. Instead, we argue that because of all the complexities at different levels in the hierarchy, a number of eventualities are not accounted for by the top-down approach. Hence, the need for a more detailed approach arises which can account for a wider spectrum of contingencies and outcomes.

The bottom-up approach also allows scope for different directions of the transfer to emerge. Typically, studies assume a top-down vertical diffusion, although cases of reverse transfer (Edwards, 1998; Thory, 2008) and transfer between sub-units have also been identified. Also another possibility is that no transfer of HR practices takes place and the sub-unit is completely autonomous. Examples of all of the above are found in cases in our sample, for specific practices. For example, appraisal in ProfServB is standardised, MarkResCo introduced the referral recruiting system and then diffused it back to Corporate HQ, people from the Cypriot RestaurantA went to Egypt to train staff there and FinancServCo’s promotion system is localised completely due to the collective agreement.

So, in the case of ProfServB for example, we might describe the direction as vertical and top-down but the relationship is nonetheless bi-directional (Edwards et al., 1999, Almond, 2007). What is of interest is not whether practices are diffused by HQ or not but rather how, when and why this takes place. After all, Edwards et al. (2007) recognised that the process, and the decision-making which surrounds it, are multidimensional and complicated concepts. The existence of transfer can be presumed without deeper investigation of the local realities. According to the authors ‘where [transfer] occurs, it is an inherently complicated and fraught process, with actors in the operating units able to draw on their knowledge of local institutions to mould the process of transfer to protect or further their interests’ (p. 214, emphasis added).

Maybe all four directions can occur for different practices in the same firm. Also, sub-units are not expected to either fully standardize or localize practices. In accordance with this,
more authors are rejecting ‘the rationalistic, unitary view of the firm which sees strategy as driven solely by top management policy’ and rather focusing on the ‘often competing interests and objectives guiding the behaviour of actors at various locales within the organisation’ (Rees and Edwards, 2009, p.28). Therefore, the bottom-up approach makes no assumptions a priori about either the direction or the nature of the process. It requires researchers to study how employment-related decisions are made at the local units; the use of a bottom-up approach indicates a more detailed analysis which uncovers the most influential roots of these decisions.

Similarly, Regional HQ constitute an interesting part of the MNC. They are accountable to the Corporate HQ yet for a different set of units they are perceived as the top-management. In the first instance they ‘generate energy’ from corporate HQ. Under the latter property they are still autonomous and have accumulated know-how which allows them to make decisions appropriate for the particular region. MarkResCo Cyprus is such an example. And top-down lenses tends to overlook issues emerging from such examples. For example, if we attempt to apply the home vs. host country debate in this case we ought to assign these values to specific entities that we are comparing. Therefore, if we are comparing Regional to Corporate HQ then the latter’s context is perceived as the home country. But if we compare Regional HQ to other units in the region then the former’s context is now the home country. This highlights the contribution of the bottom-up approach. It does not make any pre-assumptions and therefore allows more options to exist and allows for deeper understanding.

In fact what emerged in this case was not a proactive intention by Corporate HQ to transfer practices but instead a close cooperation between people at the Corporate and Regional HQ which ultimately shaped both regional and local policies. Rather, Regional HQ’ acted as ‘interpreters’ (Tempel et al., 2006a) and their main responsibility was to feel the pulse of the region and implement practices which, according to their understanding of local needs and corporate strategy, were the most appropriate. The Regional HQ’ role can be summarised in the following phrase by MarkResCo’s HR Assistant Manager:

\[\text{[For the Corporate HQ] ‘we are the Region’s voice’}\]
Therefore, considering that top-down perspectives do not take into account this dual nature of certain sub-units, we can expect that any analysis which derives from them will only provide us with a partial understanding of the process.

However, some may argue that focusing on the bottom-up approach is not a shift, merely a reverse: top-down focused on a single level at the top while bottom-up focuses on a single level at the bottom. This is not the case. The bottom-up approach does take into account that HQ pressures constitute a major shaping factor but the emphasis is shifted to the bottom where practices are ultimately enacted. Therefore we are not eliminating top-down pressures, but rather arguing for a focus at site level in order to grasp a richer understanding of how practices are shaped, not just at the local level but also in implementing or adopting HQ directives.

Another important note is that this addition does not represent a comparative endeavour; the aim is not to compare practices at the top with those at the bottom. After all, as Edwards et al (2007) point out ‘the mere existence of similar practices in different parts of the company is not convincing proof of transfer, because they could have emerged independently’ (p.205, emphasis added). Rather, our goal is to study the actual level at which practices are implemented and to attempt to unfold the decision-making process which precedes this. By doing so, one can study the vertical top-down pressures as well as other parameters which shape practices. Hence, we can move one step closer to map the ‘path of a practice from its inception to implementation’ (ibid).

Indeed, this study’s findings suggest that it is extremely difficult to put ‘tags’ on sub-unit behaviours without in-depth investigation which allows us to understand why certain practices are implemented and how decisions regarding these were made. Going back to the FastFoodCo example, its workforce is not organised in TUs. This is not surprising for an American firm, if the country-of-origin effect is accepted. However, despite the rigid rules that apply to the operational aspects which aim to preserve the world-wide image of the firm, the franchisee holds the right to decide whether they would allow TUs or not. Therefore, the fact that FastFoodCo’ employees were not organised in TUs, given their prominence in Cyprus, does not signal a home-country effect. On the contrary, employees in Cyprus were given a choice when the first store opened in Cyprus and they opted-out. The HR Manager explained that this was a result of various factors: employees worked on
a part-time basis, most of them were students, and the firm paid more than the market average and provided better benefits. Hence, embracing this approach allows for a better understanding of the complex decision-making process at the local level which is shaped by multiple elements.

Overall, the mere notion of country-of-origin effects has been claimed to be problematic (Almond, 2007). Does country of origin refer to the original country of origin, to the country is which the MNC is registered or to the location of the HQ? For example, HotelCo was founded by AirFrance but later bought by SWCo, an American firm. ProfServA, on the other hand, was founded in London but has its Global HQ in New York. A.I.G, was founded by American owners in China to serve the American expatriates there. Therefore, even if one attempts to compared the home country effects to the host country ones, one might be faced with certain difficulties as in some cases the former is not easily defined.

Top-down approaches are indeed critical to the study of MNC strategy. However, our analysis of employment-related decisions should not be constrained because of this. This is because strategic choices occur at more than one level: ‘they either play a vital role in underpinning the firm’s viability (make-or-break choices) or they account for major, ongoing differences in business performance’ (Boxall and Purcell, 2000). In terms of HRM then, one ought to ask whether employment practices underpin the firm’s viability or are seen merely as operational functions. As explained in section 4.4 the service sector itself can be broken down into two sub-sectors in terms of the workforce each requires: knowledge-intensive or low-skilled. In the latter sub-group however, employees might not ‘enact the brand’ as Batt (2007) claims as there is still a tangible good attached to the service and therefore might not underpin the firm’s viability. This sub-sector is characterised by reliance on a young workforce, high turnover rates, over-representation of minorities, low pay at minimum wage or slightly more (Ritzer, 1998). In cases such as RestaurantA and FastFoodCo these issues are critical for their operation and ultimately shape HR practices. RestaurantA tends to by-pass the lengthy recruitment process suggested by HQ because of the urgency to staff its restaurants, FastFoodCo’ has scholarship initiatives aiming at recruiting staff while RestaurantB relies on the local franchisee’s company’s HR Department to deal with employment-related issues.
Another strategic choice of significant importance to our analysis is the preferred internationalisation process. This process describes the firm’s involvement in international operations and the firm’s attempt to leverage domestic competencies in foreign markets (Welch and Luostarinen, 1988; Hendry, 1996). In fact, many MNCs attempt to leverage competencies and involvement via the use of mergers and/or acquisitions of local firms, or franchising/licensing agreements with local contractors, as their preferred mode of entry in a host country. This implies that the MNC, or HQ to be more specific, does not have full ownership, or control, over the local unit. Ergo, people working at this level are not directly employed by HQ but by local owners who have an obligation to apply the same operational principles in order to create the same products/services throughout the MNCs domain. However, this obligation is not always extended to employment practices and policies, which are much more likely to be shaped by local factors.

For example, let us revisit the FastFoodCo case study. The key question put forward for a world-wide chain of this magnitude is thus: if FastFoodCo ‘adapts too much, ‘goes native’, and loses its identity and uniformity, will it undermine the very source of its worldwide success?’. A straightforward answer would be yes. However, we need to elaborate more on what this ‘yes’ means and which organisational aspects it entails. Yes, identity and uniformity are preserved through the standardised operations. French fries are cooked in the same way all around the world. Optimum waiting time at the ‘drive thru’ service is standardised across all local restaurants. Uniforms are the same whether you are in New York or in Dubai. But not all employment aspects are uniform. And they neither have to nor can be. It is clear that legislation can hinder possible standardization, but management style might differ significantly since the local restaurant is owned by the franchisees. This in turn affects the management of people. Moreover, other external aspects, for example supply of low-skilled workforce in the hotel industry can be an additional complexity specific to that context and not applicable elsewhere. None of the above however, can affect the experience customers receive if there is not an explicit link between operational aspects and HR practices. This then indicates that top-down arguments, which claim that firms such as FastFoodCo tend to adopt more ‘formally rational systems’ or generate

\[\text{Names of authors are omitted. Using these references could risk the anonymity provided to organisations and respondents by the researcher.}\]

\[\text{ibid}\]
standardised ‘best practices’ and transfer them across organisations (Capelli and Hamori, 2008), might not be accurate for HRM.

Even if we attempt to ‘tag’ the MNC according to Bartlett and Ghosal’s typologies we are likely to be confronted by certain obstacles. For example, we have already accepted that firms such as ProfServB and ProfServA are transnational firms, using an integrated network. Therefore, the expectations deriving from such a perspective would be that (i) large flow of people, resources and information among units takes place, (ii) specialized resources and capabilities are distributed and (iii) as aforementioned, coordination and coordination are outcomes of a complex process. Which, in turn, would imply that within both these firms we would expect to find expatriate presence, perhaps third-country nationals as well, extensive flows of components such as HR practices, and complexities due to shared decision-making.

This, however, is not an accurate depiction of these firms. First of all, expatriate presence was not reported. Second, secondments were reported but the direction was mostly inward since Cypriot people were reported to oppose the idea of going abroad for secondments. Until recently in both organisations HR practices were mostly localised because this served the needs of the local units at the time. When the sub-units grew and matured, different needs were recognised by local management and in collaboration with HQ a shift towards more standardised practices took place. This collaboration, further, was initiated by local actors and it entailed in most cases them using an existing HR practice and then adapting it to meet local standards. Similarly, FinancServCo could fall under the global typology, as extensive ‘attempts’ for centralization and expatriate presence were reported. Nonetheless, a significant proportion of the local HRM practices were shaped by local components due to the idiosyncratic nature of the Cypriot banking sector, in terms of employment. Hence, top-level initiatives and strategies are only one of many factors which possibly shape HR practices locally.

Overall, the argument made here is not that the top-down approach is flawed, but rather that it focuses on a single level and hence does not provide adequate coverage of the forces shaping HRM. In a similar vein, researches which have studied the subsidiary level in particular (Pulignano, 2006; Smale, 2007; Bjorkman and Lervik, 2007), tend to emphasise organisational characteristics of that level and do not allow for the interplay of various
parameters, either external or internal, to emerge. On the contrary a bottom-up approach in the *study of HRM process in particular*, prevents the researcher from jumping to conclusions before the workplace reality has been examined.

Also, employing a bottom-up approach allows the researcher to move away from the conventional notions that (a) MNCs actively seek to transfer practices and (b) MNCs and sub-units/sub-units, and thereafter top and local management, are in constant struggle because they are embedded in different national contexts. Indeed MNCs are very likely to be proactive when it comes down to preferred modes of entry, operational policies and performance indicators, or even control mechanisms such as reports. Yet, we cannot claim with certainty that HR policies in particular are routinely shaped in the same manner.

Overall, our findings support the political economy approach suggested by Edwards et al. (2007). All three elements of this approach were outline in this study: market based influences, cross-national comparative forces (either cultural or institutional) and power based influences. Yet, our model furthers our understanding of the process in two main ways. First, it is not only restricted to the role of local actors in the decision-making process but also augments this approach by adding other organisational characteristics of the sub-unit, such as its size, age, type of ownership and type of sub-unit, type of occupation etc. Second, it adds the global dimension to the equation and does not underplay the impact that global competition can have on the HRM process. Certain international standards, such as HASAAP, ISO and IIP, force local management to alter their approach to the management of HR (or the role of the HR function). We shall elaborate on all these in the following sections.

**7.2.1 Influence by Cultural factors**

Our findings support various suggestions in literature which claim that culture, values and norms are key factors which shapes employment practices (Tregaskis, 1998; Tayeb, 1998; Whitley, 1999; Carr and Pudelko, 2005; Meardi, 2006; Morgan and Kristensen, 2006; Gooderham et al, 2006; Tempel et al., 2006b; Blazejewski, 2006; Som, 2007; Smale, 2007).

In fact, culture has been seen as either hindering or facilitating the adoption of certain practices. Its influence, literature suggests, depends on the distance between home and host
countries. Using the bottom-up approach however, we will now discuss how particular aspects of culture seem to affect HRM processes in sub-units. In our analysis, the proposed conflict arising from difference between home and host country’s national culture will not be used as a point of departure. As mentioned earlier, we do acknowledge that home culture is likely to shape practices at the top level. However, our aim here is to shed light on the role that culture plays and how it affects policy making at the local level. This is done without pre-assumptions that it either facilitates or hinders transfer. It must also be noted here that even though an overlap between culture and institutions has been observed, they will still be treated as two different concepts in the following sections of the thesis. Their interconnection, however, will be made evident throughout our discussion.

What is also important is the acknowledgement that the concept of culture is quite vague and respondents did not refer to its academically defined properties when mentioning it. Even academics debate the actual conceptualization of the term. As a result, Edwards and Kuruvilla (2005, p.2) noted the ‘inadequate conceptualization of national effects, which results in culture being used as an unsatisfactory “catch-all” for national differences’. In the interviews, the phrase ‘Cypriot mentality’ was frequently used by respondents and the underlying expectation was that the researcher was able to relate to this and comprehend the concept without further explanations. (Note: when further explanations were asked, interviewees replied ‘but you know how we Cypriots are’). It is worth re-iterating here that the Cypriot culture was characterised as high on uncertainty avoidance, power distance, collectivist and masculine indices (see section 4.2).

Also, increased educational levels are observed amongst the Cypriot workforce, which can then explain lack of expatriates in local sub-units (this is also discussed further in section 7.5). Indeed, in our sample only one MNC encouraged the appointment of expatriates while the other nine had local nationals at top management levels within the sub-unit. As explained in the literature, expatriates are conceptualized as knowledge carriers who assist in improving the local unit’s performance when knowledge in lacking in foreign sub-units (Fang et al., 2009). When there is no lack of knowledge, perhaps one can assume that there is no need for expatriate managers, who are actually a significant cost for the MNC (Boyacigiller, 1990). Further, depending on the ownership status of the sub-unit, it might be suggested that the MNC does not involve in appointment of senior managers of sub-
units. This illustrates how the blend of factors from different clusters shape practices. It can hence be argued that employment practices, in particular, are ultimately implemented, if not governed, by these ‘end-users’.

Since our approach is not diverted by a quest for similarities or differences between practices nor does it take a deterministic view, we now examine how these cultural effects shape employment practices locally. To start with, in the vast majority of interviews, culture was mentioned as a contributing factor which shapes HR practices. Nonetheless, four main themes which can be seen as sub-categories of culture were identified, which tend to characterise what respondents meant when referring to the so-called ‘Cypriot mentality’. These are namely: attitude towards work (perception of work), tendency to seek employment with job security, the use of family relations and networks, and customer expectations.

Attitudes towards work has been noted as a key factor which shapes HRM and its practices in Cypriot sub-units. Due to the high power distance characteristic of the local culture, locals tend to avoid pursuing careers in low-skilled service work and opt to work for knowledge-intensive service jobs. When they do enter the former sector they do so at managerial levels. In HotelCo’s GM’s own words: ‘All Cypriots want to be managers – not employees’.

This, subsequently, creates a lack of sufficient supply of local workforce for jobs like waitresses, cleaning staff etc. This was a key issue especially in the hotel and hospitality sector (including restaurants and fast food chains). As a result, mainly Eastern Europeans were employed in these jobs who are not always required to speak Greek; the minimum requirement is to speak English (which in a number of cases is poor). Moreover, Cypriots who do work in the sector are more expensive than non-Cypriots. In the hotel industry this is occurs probably because Cypriot employees are required to hold a diploma from the Higher Hotel Institute of Cyprus. Moreover, collective agreements which regulate pay at a sector-wide level apply to members of the TU and members of the TU are Cypriot nationals or residents. Not only that, but non-Cypriot, temporary workforce is not entitled to certain benefits dictated in the employment legislation. This has led local management to take a different approach to HRM than if the majority of their staff were Cypriots.
This raises two further issues. On the one hand when more non-Cypriots than locals are employed labour costs are expected to be lower, although it is evident that employing non-Cypriots entails certain ‘hidden’ costs. For example, besides legal immigration requirements, RestaurantA tends to assist non-Cypriots with finding apartments. The second implication is in terms of customer expectations and perceived quality of service provided which if not met might endanger the brand’s global image. The most vivid example derives from RestaurantA were formal HQ policies which aimed at tackling discrimination at the workplace, were ignored since they are incompatible with the customer tastes. This also occurred in firms like ProfServB where it was acknowledged that in Cyprus specifically a suit is necessary in all contact with customers – whether formal or informal – as Cypriot clients tend to relate suit and appearance with increased professionalism and probably with better service quality. Therefore, as Styhre et al (2006) argue cultural differences in terms of professional, national or ethical expectations can also shape local practices.

It has also been claimed that Cypriot customers in particular, again due to status differences deriving from the power distance index, prefer to be served by Cypriot workers and when they are unable to communicate in their own language they are often dissatisfied. Indeed, this paradox has been acknowledged in many interviews. Not only that, but foreign customers have certain expectations in terms of the ‘Greek and Cypriot hospitality’ (GM, HotelCo) which are not often met.

Another issue is the non-Cypriot workers’ length of stay or the type of worker (temporary/permanent). Especially in cases where seasonality is key (see section 7.5 of the current Chapter), local management makes use of work agencies and recruits people from abroad for the summer period. This phenomenon might have a number of implications for HRM. First, recruitment and selection is done by the agency and the selected workers are then sent to Cyprus. Therefore, this quasi-outsourcing is employed for these specific workers when it would not have been used for local workers. Second, induction is brief compared to that given to permanent staff. Third, training given to these workers is basic, and usually rushed. This, unsurprisingly, has a significant effect on the quality of service provided. Failing quality is also especially crucial in cases where different sub-units share the same clients. Examples include loyalty club members of HotelCo who expect the same
standard of service from all HotelCo hotels across the globe or global clients of AdvertCo. Even more crucially, these ‘global’ customers evaluate the local units and their respective scores are compared at an international level. Scores below a certain level might even lead to the parent company revoking the franchise/licensing agreement.

Local management then has to take certain measures to tackle these issues. RestaurantA, for instance, uses workers who either do not speak (at least) English in the kitchen while HotelCo seeks to employ the same temporary staff every summer as ‘when they return they are already acquainted with our organisational culture and know what we have to do to meet our guests’ needs’ (HR Manager).

On the other hand, FastFoodCo initiated a scholarship programme in order to tackle the supply issue. This was a result of a collaboration of local sub-unit owners and Regional HQ’s management and it was especially designed for the Cypriot market, yet resulted in zero applications. This is again explained by the characteristics of the national culture. In this case, the targeted workforce was young people; high-school graduates. Yet, as the Franchisee explained ‘they did not apply because they are embarrassed to be seen working in FastFoodCo’. This can be explained with the elusive term used by interviewees, ‘Cypriot mentality’, which is nothing less than the emphasis Cypriots place on status differences. Undoubtedly, this is nurtured even in the young members of society who opt not to be employed and sponsored by FastFoodCo and prefer to live at their parents’ expense and view parental allowance as a ‘lawfully’ acquired right.

Cypriot uncertainty (and risk) avoidance, as well as their long-term orientation, also affects labour supply. Supply/demand of workforce has been named by Meardi (2006) as a shaping factor; albeit done under an institutional light. Interviewees from, interestingly, both the lower-end and higher-end of the service sector explained how their major labour competitors are the banking and public sector. This is not only due to the ‘Cypriot mentality’ or the higher educational levels characterizing the local workforce. This occurs because these sectors offer greater job security. Banking employees are ‘protected’ by the collective agreement while until only recently a ‘gentlemen’s agreement’ restrained any workforce mobility between banks. This has now been revoked, mainly due to increased competition pressures which the common European market has created by limiting monopoly (to be discussed further in section 7.6).
At the same time, civil servants can only lose their jobs in extreme cases. In fact the terminology used is ‘reprimand’, ‘strong reprimand’ and ‘discontinuation of pay increase benefits for up to six months’. Indeed, in 2009 only one employee was fired (details were not provided) while one who was sentenced for a criminal offence was demoted to a lower pay scale. Moreover, civil servants enjoy more benefits than private sector employees. The ‘Civil Service Act 1990 to 2006’ ensures the civil servants pay scale, promotions, retirement benefits, medical provisions and right to be organized in unions. Therefore, professional service firms like ProfServB and ProfServA tend to lose a significant number of their workforce to banks or the state and even banks like FinancServCo lose employees to the public sector.

One could hence explain this phenomenon through an institutional perspective. Yet, there is an underlying cultural explanation for this occurrence. In fact, most of the ‘leavers’ are women. Female workers are attracted to these sectors mainly due to the working hour patterns, as exit interviews have shown. This is interlinked with their traditional role in society as family carers. For example, employees in the private sector are expected to work between 8 and 5.30pm. With the maximum allowed working hours in a week being 48, latest figures showed that average usual weekly hours of work in the main job for employees with a full-time job amounted to 40.9. In contrast, civil servants and banking employees work between 7.30am and 2.30pm, plus Wednesday afternoons until 5.30pm, thus having a 38-hour week. Why is this seen as advantageous? Because women can spend afternoons with their family and devote more time to the household than the family’s father. Also, there is an implicit assumption, especially the public sector, no overtime is expected which ensures more family time.

All these phenomena have led private sector firms to place greater emphasis on their work-life balance practices and target particular practices at female employees. ProfServB and ProfServA have introduced flexible working hours schemes which, as respondents claimed, do not hinder their promotion opportunities. It is also worth mentioning here as well, that even though these phenomena have characterised the Cypriot workplace for a long time, these practices were introduced only recently because of certain organisational

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50 Civil Service Committee, Merged Annual Report, 2009
51 Labour Force Survey - Main Results, 1st quarter 2010
aspects (age, size, HR department presence and employee surveys’ results). This again shows the interplay between institutional, cultural, intra-organisational and global pressures and it will be discussed in detail in section 7.5.

Overall, family orientation and extensive use of networks, which most probably derives from the collectivistic nature of the national culture, also tends to affect recruitment and selection to a significant degree. For instance, sub-units like T.G.I. Fridays, RestaurantB, HotelCo and FastFoodCo implement informal ‘referral’ systems, which is again linked to the immediate need for staffing that these firms are faced with. Also, in terms of appraisals and training a shift to more formalised or sophisticated systems to tackle meritocracy issues has been made in recent years, in various firms such as InsuranceCo, ProfServB and MarkResCo. This, as respondents mentioned, would not have been possible in previous years because the local culture and the levels of professionalism of Cypriots were quite low (Partner, ProfServB). However, this realisation, in most cases, came after the creation of an HR Department and after the specific organisational need for such practices emerged and thereafter local actors initiated the ‘transfer’ of practices. In contrast to Mohan’s (2006) findings, which suggest that due to national differences local actors might reject HQ practices because of the NIH (Not Invented Here) Syndrome, local actors tend to recognise the value of introducing certain ‘best practices’ when their workplace becomes mature enough (e.g. ProfServA, FinancServCo, A.I.G). This, once more, illustrates the interconnection between the various clusters.

Moreover, demand conditions and sectoral rivalry (Harzing and Sorge, 2003) are also seen as possible factors. This study’s findings suggest that demand conditions and rivalry are not also in terms of external competitors but are also manifested in the supply/demand of workforce. Indeed, it has been recognised that the impact of sourcing on domestic employment for MNCs has received less academic attention compared to other issues (Lane and Probert, 2004). As was repeatedly mentioned, Cypriot low-skilled service sub-units suffer from lack of supply of workforce. This has a significant impact on practices. For example, in cases like RestaurantA and FastFoodCo it was claimed that the recruitment process was often by-passed because of the urgency to staff the restaurants. Indeed, in all five low-skilled cases recruitment was localised and no corporate global framework was used.
Supply of workforce can also relate to seasonality. Seasonality tended to affect mostly hotels and restaurants while it had minimum impact on financial and professional service firms etc. Seasonality meant that the number of staff increased during certain periods. Even more interestingly, within the same firm (RestaurantA) two restaurants in the same city experienced different seasonality demands due to their location. This phenomenon did not have significant impact on practices like training or pay and rewards, which was standardised in both restaurants, but once more affected recruitment and selection. Similarly, during the summer high-season HotelCo had to resort to recruitment agencies.

A final observation is that Cypriot workplaces are not only characterised by lack of expatriate presence but Cypriots are also unwilling to undertake international assignments themselves. Again, this can be attributed to risk and uncertainty avoidance tendencies. ProfServB, for instance, has a strong global system which encourages secondments and mobility across parts of the network, yet only a number of Cypriot people take advantage of this practice (while ProfServB regularly welcomes foreign employees for secondments). Moreover, in various cases, inpatriates worked abroad after finishing their studies and were employed by the MNC when they returned to Cyprus to settle down. This might indicate that despite international expertise gained while working abroad, practices are not ‘circulated’ from other parts of the organisation to Cypriot units and are therefore more susceptible to local influences.

7.2.2 Influence by Institutional factors

Given that institutions and culture are closely tied together, some issues which fall under this perspective have already been discussed in the previous section. Nonetheless, an interesting distinction between culture and institutions can be seen in specific studies such as Evans et al. (2002). Whereas they attribute working hours, motivating power of money and social significance of titles to culture, at the same time they identify local labour market patterns and structures, legislative constraints, difficulty and cost of laying off people, government pressures, wage norms, working conditions and labour practices as institutional aspects. The complexity which surrounds our analysis is evident if one considers, for example, labour market patterns which can be viewed by both a cultural and an institutional lens.
Various studies have in fact employed the single lens of institutionalism to study HRM and they have defined more clearly aspects of institutions which seem to affect HR practices. Some examples include national legal framework (Tregaskis, 1998), national systems of education and training (Whitley, 1999), financial system, IR system, stage of national economic development of host country, new technologies (Dorrenbacher and Geppert, 2006) as well as the institutional profile of host country, its corporate governance regulatory environment and influence of unions and representative bodies (Poutsma et al., 2006). These are supported by this study’s findings and their interconnection with the other three clusters will be deciphered in the following paragraphs. Institutional characteristics of Cyprus have been discussed in depth in section 4.2.2.

A general remark about the Cypriot financial system should be made at the outset of this section. First, it must be noted, that data collection for this research was carried out before the global financial crisis took place in September 2008. Its impact has been limited on the Cypriot economy which has not suffered to the same degree as other European countries or like Greece has. Unemployment rate, for example, has increased from 4.6% in 2009 to 5.8% in 2010\(^{52}\), but these numbers are still significantly lower than many other European counterparts. Global audit firms like Fitch and Moody’s have evaluated the Cypriot economy very recently and classified it as ‘AA- stable’\(^{53}\).

The sustainability of the Cypriot economy is still an attractive destination for MNCs. On the whole, the Cypriot government has implemented a number of financial mechanisms to attract FDI and has succeeded in doing so (see section 4.2.3 for specific data). This institutional aspect though does not directly affect processes at the actual sub-unit level, which in most cases are anyway highly regulated. Strategically, MNCs perceive Cyprus as a prosperous location for future operations and the high degree of regulation might even affect their selected mode of entry. In some cases, legislation in fact dictates that they can only enter the market via representatives or joint ventures with local firms (this is elaborated later in this section based on the example of the insurance firm law). The Cypriot national business system as a whole is distinctively different from the American, British and French systems found in our sample.

\(^{52}\) Labour Force Survey, First Quarter 2010
\(^{53}\) Official Announcement by the Ministry of Finance, 29 June 2010
This is when viewed at a macro-level. In fact, it can be argued that when examining the micro-level of specific workplaces, broad distinctions (or distance) between systems cannot determine in a unilateral manner the analysis of employment practices. Rather, here we attempt to examine how particular aspects of the system mould HR practices, without assuming institutions as a hindering or facilitating factor.

To begin with, high levels of educational qualifications found among Cypriots are very likely to affect employment-related decisions at the sub-unit level. This was also noted by Meardi (2006) and Smale (2007) who suggested that skilled workforce and competition in labour market shape HR practices. Data by the Ministry of Education and Culture^54 reveal that the number of people who attend higher education institutions has doubled in the past two decades: 18 000 Cypriots studied at university in 1997 compared to 40 thousand students in 2008, of which more than half chose to study abroad. This, in turn affects positively the labour supply side of knowledge-intensive firms and negatively the lower-skill firms. In addition, these young people return to Cyprus with a degree of international experience. This can be seen as possible location advantage (Cooke, 2007) which attracts more knowledge-intensive FDI in the country but also as a parameter which will affect employment-related decisions in both types of firms.

In cases where there is excess supply of skilled workers, this usually ties in with a lack of expatriate presence. Moreover, even in sectors which suffer from lack of skilled workforce, like hotels and restaurants, senior managerial positions are almost always held by Cypriots since managerial skills or knowledge can be found in the local labour market, as in the case of HotelCo and T.G.I. Fridays. In cases where the opposite phenomenon takes places, firms usually resolve to ‘import’ low-skilled workforce.

Legislation has also been found to contribute significantly to the local decision making process; either sector regulations or labour law (Kostova and Roth, 2002; Meardi, 2006; Carr and Pudelko, 2006). For example, the immigration procedure is highly complex (Partner, ProfServB) which makes expatriate managers assignments costly and troublesome, especially since managers of the desired caliber can be found in the local labour market. This is in contrast to low-skilled work, which is urgent due to scarcity of

^54 Ministry of Education and Culture, Annual Report, 2009
local workforce. However, the GM of RestaurantA explained how he made use of family networks in order to simplify the immigration process for some of his workers.

Sector legislation can also affect certain organisational aspects. A primary example is InsuranceCo. The rigid legal framework not only shapes the operational aspects of the firm (as it governs all activities in the sector) but also shapes HR practices. First, the ‘Exercising Insurance Services Act’ 200255 clearly states that for a foreign insurance firm to operate in Cyprus it has to appoint a local representative (‘who is a resident of the Republic of Cyprus’) and a three-year-long plan of activities has to be submitted to the Commissioner before license is granted. Second, the local representative signs the auditing and financial reports at the end of the fiscal year based on the legislation. Third, employees are required to hold professional qualifications awarded by the Insurance Institute of Cyprus if they are to exercise their profession.

These requirements obviously mean that MNCs can enter this sector only through joint ventures and mergers, which often indicates that sub-units are brownfields. As a consequence employment practices are significantly affected and a need for change management often follows. In InsuranceCo when the newly appointed HR manager attempted to introduce more formalised appraisal policies (adopted by the Regional HQ), she met resistance because her actions challenged the status quo. Therefore, some maneuvering was required, in the form of training staff on the new policy and having a pilot phase first.

Also, the requirement for a local professional qualification significantly hinders any prospects for expatriate assignments and affects training needs. Naturally, expatriates cannot obtain this qualification if they do not speak Greek. This is why locals hold senior positions while there is a preference to staff neuralgic posts with either inpatriates or people with former international experience. Yet again, the interplay between institutions and organisational aspects is apparent and as our analysis develops it will become evident that we cannot fully understand how decisions are made without utilizing all four clusters.

Another critical aspect of the institutional context relates to Trade Unions and their relative strength (Chen, Lawler and Bae, 2005), their de-facto veto right (Meardi, 2006) as well as

55 Exercising Insurance Services Act, Chapter 4, Section 25-1
collective agreements which govern employment issues (Carr and Pudelko, 2006). Cypriot workplaces have traditionally been unionised, especially in the public, banking, hotel and hospitality sectors. Works councils are rarely used and none of the MNCs in our sample uses them. Collective agreements are sector-wide and usually regulate pay and benefits, promotions, layoffs, right to strike etc. Trade Unions and Collective Agreements are usually seen in the literature as hindering the transfer of practices. Collective agreements were found at three sub-units in our sample: FinancServCo, HotelCo and InsuranceCo. As mentioned previously TUs in the banking and hotel sectors are not only large but also hold significant bargaining power and often pose strike threats to employers. Indeed, in FinancServCo, HQ specifically requested that Cypriot employees had the same working hours as their European colleagues. This request was of course not met because working hours are included in the collective agreement. In the remaining seven firms, reasons which explained the absence of TUS from the workplace varied from employees’ choice (FastFoodCo), nature of occupation (ProfServB, ProfServA), size (AdvertCo) to type of workforce, i.e. temporary staff, (RestaurantB). One firm however, MarkResCo, had strong anti-union policies, clearly diffused by HQ and embedded in all sub-units in the region, provided it did not clash with legislation in the host-country. This variation of explanations questions the traditional institutional approach to the study of HRM. The country-of-origin vs. host-country effects debate is not applicable here as other organisational aspects also interplay to shape HRM.

Last, even though not a straightforward subcategory of institutions, HR’s stage in the life-cycle is seen as a critical factor which can shape practices. Respondents were unanimous in arguing that the concept of HRM (in contrast to personnel management) is at its infancy stage in Cyprus. This is confirmed by the fact that most organisations, even large ones, in Cyprus created an HR Department mostly after 2004, when Cyprus joined the EU and competition became fiercer. Moreover, even though the Cyprus HRM Association was founded in 1991, membership rates have multiplied in an exponential fashion since joining the EU. It must be noted here though, that the life cycle of individual sub-units, in comparison to the parent company, will be discussed in depth in section 7.5.

Since then, HRM became more important for organisations and a shift in more sophisticated/formalised practices and policies was evident. For instance, the HR
department was perceived until recently as an administrative function but its strategic importance was recognised and the Head of HRM now reports directly to the General Manager and not to the Administration and Support Director. Furthermore, during the same period a significant increase in the number of qualified and specialized HR practitioners has been witnessed. This is once more related to culture and how increased competition and demand for more strategic HR practices has also been supported by an overall culture which now attempts to nurture meritocracy and professionalism (Som, 2007) over nepotism and informal processes. This consecutively implies that local sub-units were embedded in a national context which was not ready to accept any sophisticated practices diffused by HQ, if we assume that this was indeed intended. What is key here though is not that the practices were diffused by HQ. It is that the practices were too advanced and did not satisfy the needs of the local market until the market was mature enough.

And undoubtedly the term ‘maturity’ begs discussion. A market, or a workplace for that matter, is constituted by individuals. Subsequently, when these individuals, their skills, education levels and know-how increases, when they acquire experiences which are not restricted to their own environment and when they perceive a competitive advantage from adopting practices from elsewhere, as Edwards et al. (2007) claim, they will seek to implement a different set of HR practices. In sum, this clarifies that transfer of practices is not a single top-down strategic move because of factors at the local level which create the need for certain HR practices and processes to be developed.

Our findings suggest that management at HQ appreciate that local managers or HR practitioners have a better understanding of these micro-level parameters and hence do not set out to diffuse HR practices which would not fit the local context; as some respondents explained, this would be a naïve action from the HQ/parent company. The primary, and common, goal of both HQ and sub-unit is profitability and efficiency. MNCs are, unsurprisingly, mostly concerned with the financial success of sub-units (Tempel et al., 2006b; Smale, 2007) rather than being preoccupied with the detailed aspects of employment processes. Therefore, we can expect MNCs to operate strategically about chosen mode of entry to the market, to transfer operational aspects to the sub-unit or proactively attempt to nurture a common organisational culture. But in terms of
employment, local actors are in the driving seat. And the main explanation lays at the micro-level characteristics of the ‘varieties of capitalism’ and these are better comprehended by local actors rather than by top management. Yes, broad suggestions can indicate institutional distance. But they cannot bring to the surface the interconnections between the variables of the system.

7.2.3 Influence by Intra-Organisational factors

Our analysis departs from the classical view in the literature that the linchpin to understanding local practices is the international strategy of the MNC (Edwards, 1998). Nor does it support the notion that the parent company provides local actors with autonomy in decision-making (Ghoshal and Bartlett, 1988), as this assumes proactive strategic behaviour. On the contrary, this section will illustrate how even the internal context of the sub-unit can vary from that of the MNC and the subsequent effects this view might have on employment issues and policies. The term ‘intra-organisational’ is used hereafter, in contrast to the term ‘organisational’. This is because the former denotes characteristics which are not applicable to all parts of the MNC as one single organisation but refers to specific aspects of the local workplace. Admittedly, some characteristics can refer to both levels (for example sectoral patterns or brand image) but the emphasis is primarily at the local sub-unit. Hence, the attempt here is to exhibit that even some of these characteristics can differ when we examine the bottom level more closely.

Six major themes of organisational aspects have been identified as shaping employment decisions in sub-units. These are namely:

- Size
- Age
- Type of occupation
- Type of ownership and of sub-unit
- Organisational structure and HR department presence
- Control mechanisms

It must be noted that in some studies these characteristics (for example, size and age) have been treated as ceteris paribus clauses and were used as control variables in further analysis. This study has a distinctive advantage in that it allows these themes to emerge as
equally critical factors and illustrates how these, when combined with the other three clusters of pressures, mould employment policies and practices. Also, these aspects are not only associated to each other (e.g. size increases as age increases), but they are also interrelated with other factors such as culture or institutions. This possibly means that by the time the discussion of one aspect is reached, this has already been developed in previous sections.

**Size**

First, MNC’s size and age have been found by authors to act as contributing factors (i.e. Edwards, 1998; Harzing and Sorge, 2003; Mohan, 2006; Williams and Geppert, 2006; Som, 2007; Smale, 2007). In comparison to the relative size in the market (i.e. size in comparison to other firms in the local market), it has been observed that sub-units of large MNCs tend to be large as well (or vice versa in the case of smaller MNCs). For example, FastFoodCo’, of all firms in our sample, is the largest – so is its local sub-unit. At the same time, AdvertCo employs the smallest staff number world-wide and it also has the smallest sub-unit in the sample. In many cases the sub-unit’s size bears no correlation to that of the MNC as a whole. However, literature tends to refer to the general concept of ‘MNC size’, from which certain expectations arise (more formal policies, greater need for integration, formal control mechanisms etc). Nonetheless, the sub-unit’s own size is a key parameter which shapes HRM needs and this is often unconnected with the MNC’s overall size. As a result, it should be studied more closely.

The following table illustrates the difference in numbers between sub-units and MNCs. It must be noted here that the Cypriot economy is dominated by small and medium size firms, employing between 250 and 500 people because of the population size and the economy’s size. This illustrates how a sub-unit which employees one thousand people is relatively large by Cypriot standards, yet it can be a relatively small sub-unit when compared to other counter-parts. ProfServB UK, for example, recruits a thousand new trainees per year alone[^56].

Unfortunately, some data were not available because they could not be found on the corporate website of these firms or on any other corporate documents. Of particular interest

[^56]: http://www.ProfServB.co.uk/annualreport09/people.html
is that missing data are for franchising and affiliating firms, bar FastFoodCo, which do not report their staff size. This might be related back to the complex employment status of franchising/affiliation employees as parent company does not actually employ employees. Consequently, this might be an indication of the power distribution in these sub-units and the subsequent discretion local actors have over employment decisions in particular. It should also be mentioned here as well, that overall whereas franchising firms tend to have common patterns of behaviour, FastFoodCo does not seem to follow these. But we shall revisit the type of ownership further on in our discussion.

<table>
<thead>
<tr>
<th>Name of case</th>
<th>Size of MNC</th>
<th>Size of sub-unit</th>
<th>Type of sub-unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>ProfServA</td>
<td>120 000+</td>
<td>450</td>
<td>Brownfield</td>
</tr>
<tr>
<td>ProfServB</td>
<td>160 000+</td>
<td>1000</td>
<td>Brownfield</td>
</tr>
<tr>
<td>FinancServCo</td>
<td>100 000+</td>
<td>170</td>
<td>Greenfield</td>
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<td>Brownfield</td>
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<td>Not available</td>
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<td>Brownfield</td>
</tr>
<tr>
<td>FastFoodCo</td>
<td>1.6 mil</td>
<td>6 000</td>
<td>Greenfield</td>
</tr>
<tr>
<td>RestaurantAs</td>
<td>Not available</td>
<td>180</td>
<td>Greenfield</td>
</tr>
<tr>
<td>RestaurantB</td>
<td>Not available</td>
<td>80/120</td>
<td>Greenfield</td>
</tr>
<tr>
<td>HotelCo</td>
<td>Not available</td>
<td>350/500</td>
<td>Brownfield</td>
</tr>
</tbody>
</table>

Table 1: Size of MNC and sub-unit

As table 1 shows, average Cypriot sub-unit’s (staff) size is between 30 and 500, with the notable exceptions of FastFoodCo and ProfServB which employee 6 000 and 1 000 people respectively. In comparative terms, it was expected that larger sub-units would have in place more formal and sophisticated practices. This was a valid prediction for ProfServB but this was not the case for FastFoodCo, one of the world’s largest MNCs. Both firms had advanced practices (diffused by HQ) in relation to the operational side; for example
ProfServB had specific methodologies in place and FastFoodCo had specific quotas for customer service for the driving-thru area. Yet, ProfServB reported more formal and sophisticated HRM practices in comparison to FastFoodCo. Now, when examining the actual sub-unit workplace, it can be argued that its own size moulds employment-related decisions. For example, AdvertCo, the smallest sub-unit in the sample, was the case with the least formal or sophisticated practices.

Possible explanations can be inferred from the type of occupation (knowledge-intensive vs. low-skilled – as well as subsequent issues with supply of workforce), the type of workforce (permanent vs. temporary) or even to the type of ownership (franchise vs. network of partners). These themes will be discussed further on in this section. However, no one single factor can be definite and this has to be argued early on. This finding merely points to the direction of a multifaceted process and supports our argument that the interplay of factor is rooted in the shaping of HRM.

**Age and Life-Cycle Model**

It is also interesting that in both cases mentioned earlier (ProfServB and FastFoodCo) more formal sets of practices were implemented, as the sub-units grew (both in terms of size and age). Also, when a relatively small sub-unit’s size (InsuranceCo) tripled within ten years this lead to the need for an HR department and HR professionals, as well as more structured and advanced practices. This is the typical example of a firm passing from the start-up to growth stage in its life cycle. And the sub-unit’s own age (or life cycle stage), in addition to its size, is another parameter which can arguably shape HR practices. Table 2 provides data on the age of all MNCs and their sub-units.

The oldest MNC in the sample was founded well over 100 years ago while the youngest is less than 40 years old. Despite their age these firms generate revenue of billions of dollars and employ thousands of people world-wide. Considering the increased demand for supply of services in the current worldwide market it is evident that these firms are positioned somewhere between the growth and maturity stages. Also, in terms of HRM, these firms are leaders in their field and have developed sophisticated systems, practices and tools throughout their long experience. Still, when these practices need to be internationalised (in a young sub-unit) the MNC is faced with certain challenges such as: (i) networking and
learning in international alliances, (ii) managing complexity and (iii) developing inter-
cultural competencies (Hendry, 1996). Hence, despite the fact that the MNC as a whole
can be regarded as a mature firm with advanced systems, when the sub-unit is young it is
likely to face different pressures which demand adjustment to the systems, and indeed in
some cases a totally different cycle of HRM.

<table>
<thead>
<tr>
<th>Name of case</th>
<th>Age of MNC</th>
<th>Age of sub-unit</th>
<th>Type of sub-unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>ProfServA</td>
<td>100+</td>
<td>7</td>
<td>Brownfield</td>
</tr>
<tr>
<td>ProfServB</td>
<td>100+</td>
<td>12</td>
<td>Brownfield</td>
</tr>
<tr>
<td>FinancServCo</td>
<td>100+</td>
<td>7</td>
<td>Greenfield</td>
</tr>
<tr>
<td>ACN</td>
<td>80</td>
<td>15</td>
<td>Brownfield</td>
</tr>
<tr>
<td>InsuranceCo</td>
<td>90</td>
<td>3</td>
<td>Brownfield</td>
</tr>
<tr>
<td>AdvertCo</td>
<td>80</td>
<td>5</td>
<td>Brownfield</td>
</tr>
<tr>
<td>FastFoodCo</td>
<td>70</td>
<td>12</td>
<td>Greenfield</td>
</tr>
<tr>
<td>RestaurantAs</td>
<td>40</td>
<td>12</td>
<td>Greenfield</td>
</tr>
<tr>
<td>RestaurantB</td>
<td>40</td>
<td>11</td>
<td>Greenfield</td>
</tr>
<tr>
<td>HotelCo</td>
<td>40</td>
<td>18</td>
<td>Brownfield</td>
</tr>
</tbody>
</table>

Table 2: Age of MNC and sub-unit

Thus, our findings indicate that sub-units can possibly go through a different life-cycle
stage compared with their parent companies. This realisation would not have been possible
without the utilization of a bottom-up approach, which allows MNC’s characteristics to
overshadow the sub-units specific circumstances. This, naturally, is a significant parameter
in our analysis and it enables researches to gain a deeper understanding of the decision-
making process locally. Overall, our findings show that in various cases HR practices
became more advanced as time went by and this is evident when one compares the policies
in the start-up stage of the sub-unit to its current policies.
Especially in this study where all MNCs were mature and had developed comprehensive HR systems it was evident that these were not adopted locally, especially, in the start-up stage of the sub-unit’s life cycle. This was either due to the fact that the HR department itself was still quite young within the sub-unit or because external market pressures (legislation, customer expectations, supply of labour force etc) did not encourage integration of practices. Other explanations might include the type of ownership, which in the case of franchising firms indicates less standard organisational forms, or due to the fact that some of these firms were takeovers of existing firms. In terms of the HR department’s age, it was found that despite the MNC or the sub-unit’s age, the oldest HR department in the sample was only five years old. And this was in a 160-year-old MNC which has been operating in Cyprus, including its previous ownership, for over 50 years. On the other hand, external factors can render these practices unnecessary, expensive or even incomprehensible in the host context. For example assessment centres are unnecessary due to the small population and the possible small number of candidates.

Hence, it is evident that life-cycle models (LCMs) might indicate different expectations, in terms of HR, for the MNC as a whole compared to the sub-unit as a micro-part of the organisation. Nonetheless, when the sub-unit (and the economy) matures, then it can be expected that the sub-unit will reach a similar stage in the LCM as the parent company. This was evident in Cypriot sub-units which are now established in the Cypriot market, which itself is now more stable, are dealing with big and acclaimed accounts and are running a fully-developed HR department. In the case of these mature sub-units it was found that the number of home-country adapted practices (for example, ProfServA, InsuranceCo) is on the increase.

The main finding regarding the sub-unit’s age is that especially in the early stages of its life – that is when the MNC first starts operating in the foreign market – HQ are more involved in the HRM process and aim to exercise increased control. This was reported in various firms, for instance in FastFoodCo, RestaurantA, RestaurantB, FinancServCo and even in AdvertCo when the affiliation agreement took place. This is in accordance with suggestions by Harzing (2001) and Fang et al. (2009). However, these authors suggested that expatriate managers are used to resolve this issue and this is not confirmed by our findings. In Cypriot units of RestaurantA and FastFoodCo, for instance, people not only
from Regional HQ but from other sub-units visited Cyprus and assisted them with setting up the restaurants and training them in the firm’s procedures. In the case of AdvertCo when the affiliation was agreed, AdvertCo representatives visited the Cypriot unit to commemorate the newly-named firm. Apparently, when this is examined more closely it can be characterised as a ceremonial ‘presence’ as it had limited impact on practices. Nonetheless, this event, whether ceremonial or not, did take place in the start-up stage of the new firm.

It appears that HQ were especially vigilant in the early stages of the sub-unit rather than the following stages. For example, ProfServA’s Head of HR statement illustrates this variation between different stages and notably this also relates to the national culture of local employees and their attitude towards work and the concept of ‘professionalism’.

*Eight years ago, things were so different here. Everything was much more rigid and even if someone was late it was noted. This was done in an effort to install the right mindset in our staff*

This fluctuation of corporate involvement is illustrated in Diagram 16:

![Diagram 16: Corporate Influence Variation in LCMs phases](image)

Moreover, it can be expected that at this early point, HQ will be more involved in all firm-specific procedures and not just HRM. As respondents, from firms such as FinancServCo, ProfServA and RestaurantA, claimed at these early stages local choices must be explained
to and approved by HQ before they can be finally implemented. Also, at the early stage of a sub-unit’s life, HQ are more interested in diffusing certain philosophy outlines and operational procedures, based on which local actors can later develop their own policies. Creating a common mindset in sub-units is perhaps perceived as more vital by HQ than transferring day-to-day procedures. One can assume that when the former is in place this can prepare the ground for more sophisticated practices and policies to be constructed or transferred.

Second, at this stage local knowledge levels might not meet the required standards, either in terms of the business know-how possessed by the local actors (‘parent-level data’) or in terms of the knowledge, networks and connections that HQ have with the local market (‘sub-unit level data’) (Fang et al., 2009, p.38). Therefore, in order to bridge this gap the MNC can engage in two actions: they can either train local actors or assign expatriate managers to key positions at the local level. It was found that in the case of Cypriot sub-units the former route was generally preferred over the latter. Only FinancServCo had a home-country national appointed as General Manager of the sub-unit from the beginning. InsuranceCo had one manager from Greece who had worked for twenty years in the US while the second is married to a Cypriot and considers himself a Cypriot after living there for twenty years. He not only has extensive international experience but also the advantage of understanding the local market, culture and language. The use of ‘inpatriate’ managers will be discussed later.

Training was either provided at the local or the international level for two main reasons. First because of the workforce’s high educational levels and also, possibly because of their international experience. Second even though an expatriate presence was reported in the sub-unit of the French MNC this was also characterised as problematic. This was due to the conflict between the French and the Greek-Cypriot ‘way of doing things’. Thus, the conflict between these two models and the supply of an educated and specialist workforce does not make the presence of expatriates a pressing requirement.

Thereafter, as the sub-unit matures, its philosophy and operational procedures are embedded in the sub-unit and HQ’s expectations are clearly understood by local actors (Delios and Bjorkman, 2000). Hence, MNC places more emphasis on the sub-unit’s
performance rather than on the specific internal policies. This is summed up by the Head of HR of MarkResCo:

> Corporate offices are not all over us. If it’s not quite like what they want or what they are doing they really don’t bother us. They are not strict and do not change major local schemes like health care. If something is not of financial liability they are happy about it.’

**Type of occupation**

In the analysis thus far, type of occupation often emerged as a contributing factor, aligned with other organisational aspects. Indeed, our findings confirm suggestions in the literature that sector (Edwards and Ferner, 2002; Brewster et al., 2006), sectoral patterns of competition (Morgan and Kristensen, 2006), status of employees (Pulignano, 2006), task and general environment (Harzing and Sorge, 2003) as well as the overall type of worker (Edwards and Kuruvilla, 2005) affect the HRM process.

The findings suggest that it is difficult to draw definite conclusions as to whether the nature of the service sector leads to more standardisation or localisation of practices. This is not surprising if one considers the sub-categories of the broader service sector (Boxall, 2003). As explained in section 4.4 our sample is divided in knowledge intensive MNCs it was expected that high-knowledge intensity service firms were more likely to locally adapt their HR practices compared to mass service firms (with low skilled workforce) which were expected to standardised practices. From our sample five companies fell in each of these sub-categories. Financial services, professional services and the advertising agency fell in the former sub-category, while fast food chains, restaurants and hotels fell in the latter. The classification of the last two cases might seem ambiguous by one: market research is seen as knowledge intensive work while insurance employees as low skilled. The explanation is rather simple. In the case of insurance employees, these are seen as salespeople compared to market research staff who are involved in conducting research and advanced analysis of data. It is accepted though, that within the same organisation both low-skilled employees (people who collect data) and knowledge-intensive ones (people analysing and presenting data). If we assume that this is similar to the distinction between managerial and non-managerial staff then we can expect that the balance between
standardised and localised practices will differ ‘across type of worker’ (Edwards and Kuruvilla, 2005, p.8). Even though this issue is recognised, for simplicity reasons (as this analysis is already extensively complicated) this will not be studied further.

Returning to our main issue in hand, firms within each sub-category do have some common patterns. First, knowledge-intensive cases are more likely to have an HR department, formalised and sophisticated HR practices and transfer some practices from HQ. It must be noted here that the transfer process is dependent on the local actors’ initiative and not corporate doctrines. In contrast, low-skilled firms tend not to have an HR department, hence have less formal practices in place and rarely do they engage in any transfer from HQ. Second, low-skilled sub-units tend to be franchises while knowledge-intensive are either fully owned or members of networks. In each category there is one notable exception. AdvertCo is an affiliated member while InsuranceCo is fully owned. The impact of the type of ownership and type of sub-unit will be revisited in the following part of this section.

However, these conclusions are not as straightforward as they seem and each sub-category has some ‘outliers’ which then illustrate the complexity posed by the interplay of these factors. For example, AdvertCo tends to operate like a low-skilled organisation: no HR department, informal processes, HR practices are primarily localised. This is not surprising though, when one contemplates the type of ownership and type of sub-unit. In fact, AdvertCo is perceived by respondents as a local firm (often referring to the local firm’s name instead of ‘AdvertCo’) which bears the global brand of AdvertCo and serves some of its global clients. Yet, local managers have full control and autonomy over the decision making, especially in terms of HR practices.

On the other hand, InsuranceCo and FastFoodCo have an HR department, more formalised practices and have transferred some practices from the Regional HQ at least. This behaviour is in contrast to others in this sub-category. This time the type of ownership/sub-unit cannot be considered as the main explanation, as the former is a fully owned brownfield while the latter is a franchised greenfield. The mere existence of the HR department can possibly shape the HR process and any tendencies towards adoption of corporate practices. And let us not forget that this is was found to be related to the sub-unit’s age and size.
All of the above can be contrasted against knowledge-intensive sub-units’ behaviour. In these cases, recruitment was more likely to follow global corporate standards; albeit leading to slight local adaptations to suit the legal framework etc. Such examples were FinancServCo and MarkResCo. Further, other sub-units, like ProfServA and ProfServB, opted to transfer corporate practices (for example appraisal systems, work-life balance or employee surveys). This was done when the sub-unit was mature and large enough and had the capabilities and resources to implement them. Notwithstanding, it was also observed that practices, like employee surveys, were sometimes used as a benchmarking technique by HQ to gauge a sub-unit’s performance in comparison to others. Hence, local actors implemented these and had to make minor adaptations, in terms of the language or the content. This, as well as other control mechanisms employed by HQ, will be discussed in detail further on.

**Type of ownership and type of sub-unit**

It can be argued that the MNC frequently overcomes problems generated by lack of either internal or external knowledge, through its chosen mode of entry (Edwards, 1998; Edwards et al, 1999; Tempel et al., 2006a). The most popular mode of entry was that of a gradual acquisition of local firms, like the insurance firm, market research firm and professional services firms in the sample. But this analysis is faced with one major difficulty in the case of brownfield sub-units, only to make things more complicated.

The key question posed here is whether sub-units start a new life-cycle when taken over by an MNC? The most likely answer is no. The mere fact that they have a history and a certain age before the acquisition/merger constitutes a brownfield characteristic. Yet, there is a point in time when the sub-unit moves under the MNC umbrella and its organisational culture, in addition to corporate practices and policies, and is likely to change. However, local units do not only have a history but there are possibly already established in the market. Hence, a brownfield site is treated, for the purpose of this analysis, like a mature sub-unit which is more likely to adopt HQ practices compared to its greenfield equivalent.

In our sample six brownfield sub-units were included, five of which were fully owned or were under limited liability partnership. Whereas this latter category of sub-units is not in the same vein as fully owned sub-units, the fact that they belong to a global network of
member firms makes them sufficiently different to franchises or affiliated members. Details on each case can be found in Table 3:

<table>
<thead>
<tr>
<th>Name of case</th>
<th>Type of Service Sector</th>
<th>Type of sub-unit</th>
<th>Type of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>ProfServA</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Limited Liability Partnership</td>
</tr>
<tr>
<td>ProfServB</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Limited Liability Partnership</td>
</tr>
<tr>
<td>FinancServCo</td>
<td>Knowledge intensive</td>
<td>Greenfield</td>
<td>Fully owned</td>
</tr>
<tr>
<td>ACN</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Fully owned</td>
</tr>
<tr>
<td>InsuranceCo</td>
<td>Low skilled</td>
<td>Brownfield</td>
<td>Fully owned</td>
</tr>
<tr>
<td>AdvertCo</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Affiliate member</td>
</tr>
<tr>
<td>FastFoodCo</td>
<td>Low skilled</td>
<td>Greenfield</td>
<td>Franchise</td>
</tr>
<tr>
<td>RestaurantAs</td>
<td>Low skilled</td>
<td>Greenfield</td>
<td>Franchise</td>
</tr>
<tr>
<td>RestaurantB</td>
<td>Low skilled</td>
<td>Greenfield</td>
<td>Franchise</td>
</tr>
<tr>
<td>HotelCo</td>
<td>Low skilled</td>
<td>Brownfield</td>
<td>Franchise</td>
</tr>
</tbody>
</table>

Table 3: Type of service sector, type of sub-unit and type of ownership

What is interesting with brownfields is the knowledge already possessed by local actors when the local firm is taken over by or merged with the MNC. Putting aside the supply of educated workforce for managerial positions, this again might explain the lack of expatriate presence. As claimed in recent studies, in units which have been operating for
more than ten years (like all brownfields in our sample) ‘the influence of expatriates on knowledge transfer eventually disappeared’ (Fang et al., 2004, p. 46). Therefore, the need for such assignments is possibly also reduced. Yet, this might still be contingent on the balance between parent-level and sub-unit level data which local actors have. After all, expatriate presence is contingent on other variables except age and knowledge levels. For instance, at FinancServCo Greece every Head of Domain is a home-country national. This shows that the national context also affect the process as a possible explanation for the Greek sub-unit might be lack of high caliber individuals, lack of professionalism etc.

Moreover, despite minimal expatriate presence, inpatriates are still used in host-country units. In the literature inpatriate managers are defined as ‘host or third country managers who are transferred into the home country organization on a semi-permanent to permanent basis’ (Harvey et al., 2000, p.153, emphasis added). However, in this study it was found that, again, these types of managers were not proactively transferred by HQ. These were managers who were employed by the MNC in other countries (not necessarily at HQ level) and when they repatriated they continued their career within the firm. However, that is not to say that their appointment to key positions in the unit is not an act of strategic planning.

If we use a broader term for inpatriates, which includes local managers with previous experience of the MNC, then these type of managers were found in five cases: ProfServB, ProfServA, InsuranceCo, RestaurantA and FastFoodCo. In the case of FastFoodCo, as explained in section 6.2.2 previous experience possessed by the franchisee was required before he could acquire brand name loyalties. In units such as ProfServB, RestaurantA and A.I.G, the CEO, General Manager and Assistant GM respectively are inpatriates. InsuranceCo’s Assistant GM is probably the only case which fits the definition for inpatriates as he was transferred to the local unit.

Thus, even though expatriate managers are not present in these units, the MNC makes extensive use of inpatriates to ensure internal consistency. This might then explain two things. First, these local actors, because of their extensive previous experience with the organisation, have more leeway to make decisions locally or to adjust their practices according to the local market’s needs. Second, these firms showed a comparatively higher degree of standardisation compared to firms without any expatriate or inpatriate presence (e.g. AdvertCo, RestaurantB etc.). This can imply that inpatriates, as well as expatriates,
act as bearers of knowledge which are utilised strategically by HQ to facilitate transfer of practices. This confirms the suggestion that ‘inpatrinate managers can provide unique cultural/social/political insights into developing coherent strategies for creating competitive advantage across host country markets’ (Harvey et al., 2000, p.165).

Nonetheless, other issues arise from the MNC’s chosen method of entry when one considers the complicated nature of the franchising system which involves ‘contractual relations between legally separate firms’ (Truss, 2004, p. 59). Interestingly enough, franchises are associated with ‘low-quality’ jobs; all four franchises in our sample are low-skilled service work.

In four out of the five low-skilled service MNCs involved in franchising agreements, the risk was bestowed solely on franchisees. Again, this balances the lack of knowledge which HQ possess for the new market. Still, brand protection is crucial so the franchise agreements come with rigid terms, conditions and targets in terms of practices and procedures. Other examples include AdvertCo and HotelCo. In these cases local units have some rights and access to information, but limited access to the corporate database. This is in contrast to fully owned or network members who have reported that they use the corporate intranet extensively to gain or exchange information and ideas. Still, let us not forget that in some cases the MNC a-priori does not have any space for strategic maneuver, like in the case of InsuranceCo if it operates in a highly regulated institutional environment.

Further, it has been suggested that franchised units ‘function with some autonomy as independent establishments but are also part of a much larger franchise organisation’ (Capelli and Hamori, 2008, p.147). Yet, from this specific nature of a franchised unit arises the quintessential dichotomy between localisation and standardisation. And even though operating procedures seem to be designed and controlled by the franchisor’s HQ (Cappelli and Hamori, 2008), it is still unclear how HR-related decisions are made in these types of sub-units.

In terms of employment, a key issue is the aforementioned notion of ‘ownership of employees’. As with temporary agency workers (Purcell et al., 2004), franchising employees can be seen, in theory, as working for the MNC as well as for the local owners.
Legally, and in practice, only the latter happens. In turn, this indicates that the local owner bears any staff-related costs, risks or liabilities himself (Subramony, 2006). But are local firms more actively involved in employment-related decisions? As Truss claims, little empirical research has been carried out which ‘explores how this relationship [between franchisee and franchisor] is enacted in practice in the operation of franchising systems’ (2004, p.60). Literature has suggested that two forms of power relations in franchise firms exist: coercive and non-coercive power (Truss, 2004). The former represents monitoring systems and financial control while the latter suggests indirect support provided by HQ. These were indeed found to be present in all four franchised sub-units. Monitoring systems, especially in terms of operational aspects as stressed earlier, in addition to performance-related sanctions included in the contractual agreement, were prominent. On the other hand, non-coercive power relations depended on the type of agreement. For example, HotelCo Cyprus, despite being a franchise, had limited support from the HQ, even when this was requested.

Overall, these findings seem to suggest that franchised firms (as well as affiliated members) have some common patterns of behaviour in terms of employment-related decision-making. Since these are mostly low-skilled service firms, with the exception of AdvertCo, findings from the type of occupation also apply for them. However, a further exception, from the low-skilled units, is FastFoodCo and this is contrary to suggestions in the literature. In comparison to other franchises, FastFoodCo has formal practices in place some of which are global (e.g. Employee Surveys). This can be explained via three different parameters. First, FastFoodCo is probably hit the hardest by lack of workforce supply due to the perception of the job compared to RestaurantB and RestaurantA which are regarded as restaurants and not fast food chains. Second, sub-unit’s size as it is the largest in the sample. And, third, the presence of an HR Department.

In terms of fully owned and network member units, common patterns are also evident. As they are mostly knowledge-intensive firms, bar A.I.G, the argument put forward earlier can be expanded here as well. The broader organisational structure and reporting lines which exist within the organisation create a platform for greater adaptation of global HR practices, as literature seems to indicate. What is more, this is true for all five cases, irrespectively of size, age and type of occupation.
In addition, the unit’s strategic importance has been highlighted as a critical factor which shapes HR practices locally (Edwards, 1998; Tempel et al., 2006b; Mohan, 2006; Pulignano, 2006); albeit having certain theoretical difficulties when attempting to define the notion. Indeed, ‘strategic importance’ is the service sector specifically is rather difficult to define.

Going back to value chain exemplar, in the car manufacturing industry for example, the subsidiary which manufactures car engines is perhaps seen as having greater strategic importance that the one producing the car seats. Similarly, research on the clothing industry (Lane and Probert, 2004) illustrates how the strategic importance of different parts in the value chain has different weight. In this example, the corporate organisational strategy was cost-leadership, which had a significant impact on the decision-making not only in terms of HR but also in terms of broader organisation of the value chain (i.e. location, logistics etc). In the service sector however, the value chain model cannot be applied straightforwardly by scholars and such clear distinctions cannot easily be drawn. Indeed it could be argued that all steps in the chain take place where the ‘end-product’ is ultimately delivered. Hence, vertical integration in services is less likely to occur.

However, strategic importance can also be related to HQ’s investment in the local unit (Tregaskis, 1998). This, in addition, to inter-organisational resource dependencies (Bjorkman and Lervik, 2007) and inter-unit linkages (Roth and Kostova, 2003) are seen in the literature as factors which also are likely to shape practices. However, the FastFoodCo’ franchisor explained that he fully owns the machinery, facilities and people in Cyprus. Hence, despite no investment in the local unit, HQ still receives loyalty fees. These estimations derived from the misconception that every sub-unit is fully owned and controlled by the MNC. Therefore under this new light, we can expect that in franchising units, local actors will be highly involved in decisions about HRM. Inter-dependency between local management and HQ is also important and this is in terms knowledge transfer (Tempel et al., 2006a). As already mentioned, knowledge of either local conditions or internal processes will influence the relative dependence on HQ by local managers or vice versa. Inter-dependency, either in terms of tangible resources or knowledge, can be seen as a proxy for the sub-unit’s strategic importance. Other proxies might include unit’s
role within the greater context of the MNC (like in the case of Regional HQ as discussed in section 7.2) or its performance in comparison to other units in the same region.

Organisational structure and HR department presence

Organisational structure and strategy, as well as the existence of an HR department, tends to contribute to the shaping of the HR process (Harzing and Sorge, 2003). Global structures as well as matrix structures were found in certain cases like InsuranceCo, MarkResCo, FinancServCo etc. Further, firms such as ProfServB and ProfServA had global HR committees which devise global HR guidelines and then diffuse them down the line. The existence of such committees has been suggested as facilitating the transfer of employment practices (Edwards et al. 1999). In the same vein, other structural devices such as international project teams, steering committees and international boards have also been highlighted as assist the knowledge transfer process (McDonnell et al., 2009). However, whereas these suggestions are undoubtedly relevant, it should also be stressed that whilst they might ‘facilitate’ transfer, this does not imply they are adopted locally.

Indeed, structure is a facilitating factor in our analysis but local actors’ strategic choice, as well as power relations, should not be underplayed. For instance, literature suggests that managers’ competitive strategy determines core and non-core capabilities (Lane and Probert, 2004). However, which group of managers – local or global – still remains ambiguous. But this is core to our analysis as the recognition that local managers have their own strategy can have a significant impact on the HRM process.

When sub-units mature, in terms of both age and size, local actors – who possibly possess a greater understanding of how the Cypriot employment system works – might be faced with two choices: adapt HR practices to the local context or adopt international corporate practices. The process, nonetheless, of deciding which practices will ultimately be implemented is complicated and is affected by a mass of internal and external factors such as labour law, labour market, sub-unit size, customer expectations, cultural expectations and norms, importance of HR, sub-unit’s size, seasonal demand of services etc.

It can hence be suggested that local actors make certain ‘adapt or adopt’ decisions depending on the unit’s capabilities at a given point in time, as they are better positioned to evaluate them than HQ. This does not necessarily indicate a conflict between HQ and local
actors. On the contrary, this could be seen as beneficial. However, it has to be re-iterated here that these perceptions only illustrate one side of a multi-faceted decision-making process and are not the sole determining factor. For example, local actors have the discretion to make ‘adapt or adopt’ decisions but these might be hindered by other factors, organisational or not. For instance, affiliate members might wish to adapt HQ practices but because they do not have access to corporate policies they are unable to do so (HotelCo, AdvertCo). Or local actors might seek to transfer practices but this is in conflict with the institutional and legal framework of the host country (working hours in FinancServCo). Overall, this complexity supports the suggested thesis of this study, i.e. that the interplay of factor will shape HR-related decisions.

In addition to global structures and structural devices, the existence of an internal HR Department, as well as the strategic importance attributed to the function, are expected to impact on the employment-related decision making within the sub-unit. Low-skilled units lack an internal HR department compared to knowledge-intensive ones. An HR Department can be indicative of three things. First, the sub-unit has matured. Second, more formal and written policies are in place. And third, there is more scope for ‘transferring’ HQ practices. However, in addition to this one should also consider the HR function’s strategic importance (Bjorkman and Lervik, 2007; Som, 2007). When this is related back to the type of occupation, one can expect that strategic importance of human resources will be higher in knowledge-intensive than in low-skilled cases. Thus, this additional layer to the analysis can further improve our understanding of the local HRM process.

Indeed, the four cases (HotelCo, RestaurantB, RestaurantA and AdvertCo) which did not have an HR department had comparatively less formal and sophisticated practices than cases which did have an HR department. It must be noted here that three of them do low-skilled work. Moreover, another significant observation is that three out these cases are relatively small; their size is between 30 and 120 employees. HotelCo, however, is relatively large; employing between 350 and 500 people. What is interesting is at the time of the data collection HotelCo was in the process of creating an HR department; albeit having a personnel manager who was dealing mostly with administrative aspects rather than strategic. In addition, firms which did not have an HR department set up still sought
the assistance of the HR department of the franchise’s company, like for example RestaurantB and RestaurantA.

On the contrary, the strategic importance of HRM is evident in firms such as ProfServB, FinancServCo and MarkResCo. These not only have large (in Cypriot terms) HR departments, and formal and written HR policies, but also have a person responsible for HR sitting on the Board of Directors and the HR Manager usually reports directly to the General Manager of the unit or to the Regional HR Manager.

Lastly, use of HRM information systems (HRIS) or corporate intranets (Smale, 2007) can also affect HR practices. In fact, cases which had limited access to corporate intranets, like AdvertCo and HotelCo as it was explained earlier, had significantly more localised and less formal practices. Quite the opposite occurred in firms like ProfServA, ProfServB, FinancServCo and InsuranceCo where HRIS and intranets were actually seen as facilitators to transferring practices. These represented platforms in which they could exchange ideas or from previous projects posted on the intranet or even discuss HR issues with colleagues in other countries. Moreover, these were used to establish a common mindset and enhance the organisational culture as local managers were exposed to projects and practices from other countries upon which they can chose to adopt them if they seem them as appropriate for their market. Organisational culture itself on the one hand affects practices and their subsequent localisation or standardisation (Van Maanen and Laurent, 1993; Edwards et al, 1999). On the other hand though corporate culture is enhanced and nurtured via elaborated corporate-wide rituals or through the establishment of common MNC language (Blazejewski, 2006). One such ritual is the gold ring awarded to FastFoodCo’ employees who have been working there for more than ten years. Hence, from an alternative point of view, all of the above can be seen as control mechanisms.

**HQ’ Control mechanisms**

Less overt control mechanisms used by HQ include expatriate assignments, international project groups, international formal committees, international formal networks, secondments (McDonnell, Gunnigle and Lavelle, 2009). An important distinction needs to be made here. Control mechanisms are seen in this study as prime examples of internal processes devised at the top level in a MNC which are specifically aimed at creating a
cohesive framework which govern the basic operations in all parts of the organisation. These are probably the most accurate proxy for pro-active and intended corporate strategy. For example, financial audits and reports have been reported in every single case in the sample and all franchises/affiliated members have reported that there are sanction clauses in their agreement with the MNC. Minimum control mechanisms are, unsurprisingly, always in place. The extent of these mechanisms though, still depends on the interplay between all four clusters, as already discussed. And, a further result of this interplay is that control mechanisms can either be (i) people-based, (ii) formalization based, (iii) information based and (iv) centralisation based (Smale, 2007). Also, they can be of formal, informal, subtle or social nature (Mohan, 2006).

Other popular control mechanisms used by MNCs include: linking the promotion and remuneration of managers to the identification of practices (Edwards, 1998), global succession planning system (McDonnell, Gunnigle and Lavelle, 2009), rapid transfer and rotation of managers across units as well as strict reporting and evaluation of procedures tied to common rewards systems (Van Maanen and Laurent, 1993). Examples of relating managers’ compensation and promotion to the evaluation of local practices were not found in our sample. In terms of transferring workforce across units, employee willingness to be transferred is also important (Blazejewski, 2006; Bjorkman and Lervik, 2007). It was found that even in ProfServB, where mobility of workforce is strongly encouraged ‘outgoing’ Cypriot employees were outnumbered by ‘incoming’ foreign employees (as explained in section 7.2). Even so, the latter usually came from Eastern European or Mediterranean countries to get trained in Cyprus and transfer knowledge back home instead of carrying knowledge in Cyprus (HR assistant ProfServB). Moreover, the interplay becomes even more interesting when other organisational aspects, for example the type of ownership or the type of occupation, are brought into the equation. As such, franchises/affiliated members or low-skilled service firms are less likely to engage in any transfer of people compared to fully owned subsidiaries or networks.

Moreover, HQ often attempt to control units via the standardisation of quality requirements (Blazejewski, 2006). RestaurantA was one such firm which attempted to standardize quality outcomes (rather than requirements) through their global 120-day-long training programme. This is equally important though for affiliated members such as AdvertCo or
HotelCo where, as mentioned earlier, there are a number of international clients (either corporate in the case of the former or individual in the case of the latter). This can be further related to the so-called third-party intervention on sub-unit’s performance (Tempel et al., 2006a). For instance, in HotelCo and RestaurantA mystery guests evaluate the sub-unit’s performance. The evaluation is usually standardised by HQ and consequently used to compare performance between various sub-units. This benchmarking technique (Blajewski, 2006) can also be viewed as a method to generate internal competition (even though not for resources or investment as claimed by Edwards et al., 1999) which might then lead to coercive adoption of HQ practices. Internal competition can also be generated via reports and audits, results from which are posted on the intranet or presented at international meetings where awards are given to best performers (i.e. ProfServB).

Nonetheless, standardisation of global HRM policy frameworks (Smale, 2008) represents a foundation for more homogenized practices across units. Such frameworks have been found in most firms, except in HotelCo and AdvertCo. However, in both cases specific quality standard frameworks, as mentioned earlier, were diffused by HQ. But what is important is that these are seen by local actors as guidelines based on which practices can be developed and not as constraining policies leading to standardised practices, as one might expect. Moreover, standardised HRM policies can be related to formal personnel management structures (Edwards, 1998). For example, in FinancServCo, the General Manager, and his/her Deputy, are always French, regardless of whether there are suitable local managers to fill in the post. Similarly, MarkResCo prefers to employ locals as HR Managers unless there is lack of qualified/educated people in the country.

Lastly, another interesting control mechanism is in terms of acquiring the franchising loyalties from the parent company. In the sample, the owner of FastFoodCo (greenfield) was only offered an opportunity by HQ to buy the franchise because he had been working in a sub-unit of the same firm in Germany for sixteen-years. Through this mechanism the MNC established that at least the organisational culture and general know-how could have been diffused from the host country.
7.2.4 Influence by Global factors

Global factors are the last cluster of factors which will be discussed in this chapter. Already some of the issues which fall under this category have emerged in previous sections. In general, this study’s findings suggest that global factors can be divided into two sub-categories. First sub-category refers to global pressures (i.e. isomorphic effects and transfer of ‘best practices’) while the second includes pressures by international standards. In fact, this section deals with the actual notion of ‘transferring’ practices, as this is expected to be a direct outcome of global pressures; provided the previous four clusters allow for it to occur. As with previous sections, discussion here illustrates how global pressures are not mono-dimensional but rather interweaved with the other factors.

In section 2.2.3 reasons for the diffusion of ‘best practices’ were outlined (power of markets, transaction cost economics, like-minded international cadres, cost, quality and productivity pressures). Quality especially is one of the main drivers in most firms in the sample; either for knowledge-intensive or low-skilled sectors. Quality is directly linked to brand perception and this puts pressure on local actors to improve and develop their practices. However, it has to be acknowledged, that this might be hindered by institutional, cultural or intra-organizational parameters. Therefore, when institutions and culture do not restrain attempts to transfer practices, like-minded managers are critical aspects of the transfer process. Like it was discussed in section 7.5, by understanding the capabilities of their unit they can initiate the transfer of HR practices and implement them accordingly.

‘Best practices’ are not only distributed across various parts of the global organisation (regardless of its structure) via these routes, but also occur when knowledge is transferred from one country to another. T.G.I. Fridays and FastFoodCo had people from HQ train local actors in the initial stages of the unit’s life whereas later Cypriot people were send to countries like Greece and Egypt to train the locals there. Through this process, practices are diffused. Again, practices can be operational or HR. In the case of the latter, this is dependent on the interaction between the aforementioned factors. As explained in the previous sections, diffusion of best practices is provisional on a number of internal and external parameters. For example, it is contingent on the sub-unit’s size, its maturity level, the type of service work, constrains by legal frameworks, supply of skilled workforce, TU presence and collective agreements etc.
In cases where these conditions are met, our analysis indicates that transfer is more likely to occur. Indeed some sub-units reach a point when they have higher capability to introduce ‘best practices’ suggested by HQ. Examples include all fully owned or partnership owned sub-units, as well as FastFoodCo and T.G.I. Friday’. When units reach this particular stage, HQ policies or practices are adopted by local management. This, as mentioned earlier, is done if practices are perceived as appropriate for the local context and if the unit is perceived as mature enough to need and implement these (as discussed in section 7.5). This finding, can also be supported by Edwards et al’s (2007) power based view and Bjorkman and Lervik’s (2007) suggestion that local managers’ perceptions, trust and level of resistance to change affect implementation of HR practices.

In fact, HR professionals in MNCs such as ProfServA, FinancServCo and InsuranceCo agreed that they ‘did not want to re-invent the wheel’ (sic). This was seen a rational, if not practical, approach to the concept of transfer. If the practices were appropriate and if local actors agreed that they could be successfully implemented in Cyprus, why should they devise their own practices? Therefore, local managers’ willingness to engage in the sharing of best practices across sites (Edwards et al, 1999) is detrimental to the transfer process.

All of the above occur at the micro-level. When one studies the macro-level, evidence of global pressures exists as well. Certain global institutional pressures also shape organisational HR practices. FinancServCo, even though it has the Normative Bank Directive, which is an internal operations directive which should be applied globally by all subsidiaries, still has to abide by the Basel II Framework. This framework, ‘seeks to harness into the regulatory process best practices in risk management’ 57 (p.4). In other words, the Basel II Framework sets standards about acceptable behaviour in banking institutions, which then affects internal policies. Even though this framework mainly refers to capital and risk management within banking institutions, these should still have ‘adequate systems and procedures for identifying, measuring, monitoring and managing the risks arising from its activities on a continuous basis’ (p.7). As people’s actions within these types of organisations are related to a degree to risk, this requirement for measuring, monitoring etc. is expected to also influence HRM.

Within the same sector, membership of the EU has also put pressure on local markets which has altered employment systems. In Cyprus, the post-EU period and the subsequent liberalization (Som, 2007) it has brought upon the financial system have led to growing labour competition. Thus, gentlemen’s agreements which governed this sector and which prevented workforce mobility between banks were annulled. This, in addition to other European directives shape and alter the local institutional context, thus impacting on internal HR processes within firms.

Moreover, consumer tastes and trends exercise pressure on organisational practices, especially in the service sector (Van Maanen and Laurent, 1993). But a convergence of consumer tastes on a world-wide level has been suggested that is more likely to lead to standardised practices (Edwards et al., 1999). Likewise, when tastes still vary from country to country, more customisation is expected. RestaurantA (as explained in section 6.3.5) by-passes corporate policies regarding the employees’ appearance, which aim at tackling discrimination at the workplace, because by doing so they would not satisfy customer needs and expectations.

In terms of international standards, such as HACCP, ISO and IIP these were found to influence HR practices. Geppert et al. (2006) name in their article studies which ‘stress that mimetic and normative isomorphism supports the adoption of certain quality standards, as for example ISO9000’ (p.1455). HotelCo and RestaurantB embraced more formal and written policies, not because of a corporate global policy, but because of HACCP and ISO standards. To acquire this accreditation, a firm must have written manuals on all operations. Now this fact is admittedly tricky since it refers solely to operational aspects.

**7.3 Conclusions**

This chapter has provided an in-depth discussion of the merits of using a bottom-up approach to the study of HRM as well as illustrating how the four suggested factors of the model interplay continuously to shape local HR practices. This analysis demonstrates how complex interconnections between various factors make it difficult to develop a comprehensive and integrated model which explains how decisions are made.

Evidence from this study suggests that not one of the case studies in the sample implements an identical set of HR practices to those developed by the MNC. In fact, top-
down diffused strategy is only one of the shaping factors and sub-units are more actively involved in decisions about HRM. This is in agreement with evidence from the existing literature, which illustrate how variations in employment practices are a result of cumulative forces which take place either at the corporate or local level. As explained in section 2.2.5, scholars who have previously attempted to examine and account for variations in HR practices in different subsidiaries have identified various forces which shape HRM, either external or internal to the local sub-unit. Specific HR practices under examination are shaped by the mixture of all four clusters of factors in varying degree.

Also, findings from this research suggest that MNCs are more likely to actively seek to transfer operational practices rather than HR practices. French fries are cooked in the same way in all sub-units. Similarly, the auditing methodology is the same throughout the various parts of an organisation. In sum, this analysis indicates that usually HQ set the infrastructure for the development of practices (via the use of guidelines and/or tools), local actors develop practices based on these and according to the blend of the four factors mentioned earlier and finally HQ monitor and audit the practices and/or the outcomes of the process. However, this process can also describe cases where there is no initial involvement on the part of HQ. This is a finding in itself as it is part of the interplay of factors that this study sought to study in the first place.
Chapter VIII: Conclusions, Limitations and Contributions

8.1 Key outcomes – Conclusions

This thesis has examined the HRM process in host-country sub-units of service sector MNCs located in Cyprus. To explore in-depth how employment-related decisions are made in these sub-units an alternative methodological approach was used, compared to traditional streams of thought in the literature. This bottom-up approach shifted emphasis from the top to the local level and adopted a multi-dimensional model for exploring this issue. The proposed integrated model of this thesis suggests that practices in the host-country are shaped by the interplay of four clusters of factors: institutions, culture, intra-organisational characteristics and global pressures. Findings from this analysis support this model and illustrate how complicated and multifaceted HRM is within these firms.

A number of scenarios and responses from local actors have already been documented in existing literature. Hence the essence of this study is not to number these once more. Instead it attempts to view the process under a more pragmatic prism (Rees and Edwards, 2009) and to delve beneath the surface so that one can understand how the process is shaped and what the determining powers behind these are. What this multi-dimensional approach, and the integrated model it has produced, does best is to increase our appreciation that foreign units themselves are also faced with tensions which have the same roots: internal consistency and external legitimacy. These tensions are not concerns of the management at the parent company level alone, who then decide what how they should act on them – as the majority of the literature seems to imply. Local actors have interests and agendas as well. Moreover, they are the ones who experience these tensions on a daily basis and their own actions also aim to achieve a balance between the two.

Edwards et al. (2007) first suggested a model which illustrated the interplay of certain factors affecting decision-making processes. This is confirmed by our findings as well. Moreover, our findings point to the direction that a fourth element should be added: i.e. global parameters. This thesis elaborates in depth on how the four different clusters of factors shape HRM, thus allowing a more pragmatic (Rees and Edwards, 2009) understanding of the implementation of practices at the local level.
The political-economy approach also highlights the influence of local managers and power relations. Local actors take an active part in the decision-making process; they are not merely pawns under the direction of the parent company. On the contrary, they filter either the doctrines of the parent company or the local conditions and make decisions which they believe will lead them to gain competitive advantage. Moreover, this approach suggests that the process of ‘transferring’ HR practices is not the result of a vertical, top-down, proactive strategy of the firm but is much more complicated than that.

To answer this question we need two sets of information. First, what factors affect the process and second how these are woven together. However, it would be idealistic and ultimately counter-productive to expect that every single factor can be identified and every interconnection can be explained in detail. Hence the effort in this case is to give a broad model of how four major clusters of factors interplay together to ultimately shape the implementation of HR practices and while doing so also narrate how these are interrelated.

However, we also need to acknowledge, that local actors’ interests might match the interests of top management. When this is the case local actors make HR-related decisions, even if this means deciding that they want to adopt HQ practices. Probably though, local actors do not have such discretion over operational aspects, as it was repeatedly pointed out. And what is more, local actors’ actions and decisions are always monitored and audited by HQ. Yet, the main argument of this thesis is that this phenomenon is not always a result of a proactive, well-thought strategy of HQ but rather a result of the interplay between a variety of factors – both internal and external.

Moreover, the model developed here allows for better understanding of the various directions that ‘transfer’ can take, when it does take place. As indicated in the analysis, practices are not always vertically transferred from HQ to sub-units. Sometimes they are exchanged between various units or are transferred back to HQ.

Indeed, the interplay of these factors merely serves to confirm expectations on the complicated nature of the HR-related decision-making process. Moreover, this level of complexity renders any attempts for straightforward conclusions on broader patterns within the service sector extremely difficult. Each case was different because of different internal and external parameters. Yet, the main argument in this thesis is that an integrated model
which encompasses all four clusters is better positioned to analyse this mixture of factors than analysing their individual influence on HRM. This is in agreement with Edwards and Ferner (2002) who have recognised that ‘the specific impact of each element in this framework is dependent on how it interacts with the others’ (p.100)

In the case of Cypriot sub-units of US, UK and French MNCs, if a top-down approach was used, we should have expected that the country-of-origin effects would dominate. Accordingly, we might have expected to see HR practices such as non-unionised workplaces, performance related pay and expatriate presence – which was not the case. But on an analytical level, this was not due to strong host-country effects either - which would then mean that then the local unit behaved like other local firms in Cyprus. Our findings point to the direction that in each case an amalgam of internal and external factors shape local HR practices and does not mean that either home or host country effects will prevail. In sum, this approach can get past the descriptive level and explore further the behaviour and actions taken in foreign sub-units.

Even though some patterns emerged (e.g. fully owned/partner owned firms had HR departments and more sophisticated practices compared to franchised firms) it is still challenging to prioritize the influence of the various clusters. Is age the central linchpin around which HRM processes are built and developed or is size? Or perhaps the type of occupation is more important in shaping HR practices than these? The answer is unclear and by no means is this surprising neither does it devalue this analysis. These factors are not mutually exclusive notions. Quite the opposite; they are interlinked and inter-depended. Attempts to isolate them and prioritize them would merely break the link between these and possibly lead to incomplete conclusions.

These pressures are undoubtedly always present and in some cases quite formidable. The ‘properties’ of the concept of a sub-unit indeed indicate that it operates in a host-country environment with is governed by its own rules and norms. This in turn creates certain expectations and shapes which practices are acceptable or not. At the same time the parent company strives to create consistency among its various sub-units via the top-down diffusion of practices. This is particularly true, as explained in section 4.4 in the service sector. Hence, MNCs, by definition, will always be faced with these tensions.
If the suggested integrated model is used as a lens through which each case is examined, it is possible to construct a more complete understanding of how the HRM process takes place at the host country unit. Let us revisit two fundamentally different sub-units: FinancServCo and HotelCo. These cases are of different countries of origin and differ in terms of size, type of ownership, type of sub-unit and type of occupation and therefore essentially implement a different HR system.

Had the institutionalist perspective, for example, been used solely, our conclusions would revolve mainly around difference between the French, American and Cypriot business system. With emphasis being placed on the relative power of TUs within both sectors, supply of workforce and possibly legal provisions, this perspective would suggest that FinancServCo has more standardised practices merely because the parent company is embedded in the French national business system.

Needless to say that this is not enough. Synthesizing information from previous sections, one can reach a more coherent conclusion about the underlying themes which shape HRM in that specific sub-unit.

Let us revisit the FinancServCo case. French, medium size, mature, fully owned, knowledge-intensive work, sector-wide collective agreements and TUs, adequate supply of workforce, internal HR department, expatriate managers presence, extensive use of monitoring and auditing mechanisms as well as a global ‘quality’ guideline (i.e. Normative Bank Directive). All these aspects are essential in order to understand how HRM takes place in FinancServCo. First, sophisticated practices or transferred practices are in place because of the unit’s stage in the life-cycle, the type of services it provides, its structure, expatriate managers’ presence and global pressures which govern the European banking institutions. At the same time, HR practices are moulded to a high degree by the highly institutionalized context of the sector in Cyprus. In sum, the HR process is as such. First, guidelines and tools are provided to local actors. Where these do not clash with the collective agreement or legislation, these are used by local actors to develop local practices. The details of these practices are left to the local actors’ discretion as long as the practice generally abides to the guidelines or achieves the desired outcomes. Upon developing a practice, this is then audited and validated by the General Manager.
In contrast, there is the HotelCo example. Originally French, currently of American origin, size depends on seasonality, mature, franchised, low-skilled work, sector-wide collective agreements and TUs, lack of supply of workforce, no internal HR department, no expatriate presence, minimum monitoring and auditing control, limited access to corporate information. In this case study, not one HR practice is actually transferred or adopted by HQ. The closest to a transfer that was found in this case was the employees’ manual, which can be seen as an operational aspect aiming at uniform standards of quality across units. In this case it is interesting that even when local actors asked for assistance, HQ were not willing to help mainly due to the type of ownership. When a need arises for improving or altering the practices, local actors transfer knowledge from counterparts in other (mostly from neighbour countries) sub-units via the use of informal networks. However, the hotel is extremely successful and implements a localised set of practices for reasons such collective agreements and supply of workforce. But in addition to this the fact that the hotel is a brownfield and has a long history in the hospitality sector justifies the existence of these localised (and not adapted) practices.

The value of the integrated model can also be seen when comparing two apparently similar cases. ProfServA and ProfServB operate in the professional services sector, are under limited liability partnership and were founded in London, even though ProfServA has its Global HQ in New York. Both are mature and became members of the global network after a local Cypriot firm was taken over. Both internal HR Departments were founded five years prior to the data collection period. Both Heads of HRM report to a Partner responsible for HR who sits on the Board of Directors. Yet, in comparative terms, ProfServB implements far more standardised practices than ProfServA. For example, ProfServB uses the global Employee Survey while ProfServA has developed its own index locally. Why does this occur even they are so similar? Their first main difference is size. ProfServB is twice as large as ProfServA. Further, even from the point that the local firm was acquired, ProfServB has been operating in the Cypriot market for almost the time ProfServA has. Also, one can notice differences in the structure of the actual HR department. In ProfServB, the HR Department is divided in sub-sections whereas in ProfServA in divided between internal HR and external consulting. Hence, even if it means
using deductive logic and excluding factors as the analysis progresses, the use of an integrated model still takes into consideration all these aspects.\(^{58}\)

Moreover, one view suggests that ‘MNCs do not possess a fixed and rigid national identity which imposes a straightjacket on organisational actors; rather, national origin shapes and constrains the actions on these actors but leaves scope for them to draw on practices operating in other countries’ (Edwards and Ferner, 2002, p.97). But what do we mean by the concept scope? How much scope? Which form does this take?

By not pre-assuming a transfer of practices, or any proactive involvement from HQ in terms of HRM, we can get a better understanding of how decisions are made in sub-units. It can be concluded that MNCs are proactive in terms of the mode of entry in a new market, which has significant implications for HRM. Also, and depending on the type of ownership, MNCs proactively implement a combination of control mechanisms to minimise risk and liabilities created by local actors’ actions and decisions. In all cases, key local actors are indeed chosen or approved by HQ in the first place.

Another key point which emerges from this analysis is that HQ are clearly more actively involved in operational rather than in HR aspects of the workplace. Operational practices, either in knowledge-intensive or low-skilled firms, were more likely to be standardised. Nonetheless, in the service sector it can be argued that these two overlap in some respect. In terms of HRM, it was repeatedly mentioned in the case studies, that HQ provided local sub-units with ‘tools’ based on which local actors could develop their own HR strategy to fit the unit’s needs, capabilities and market. Upon developing specific HR practices, HQ audited and validated these. However, in cases where the MNC does not fully own the unit, HR practices are not audited. Monitoring is restricted to financial indicators (e.g. HotelCo and AdvertCo). Rarely do they interfere and impose certain practices on local actors, unless there was financial liability entailed in them. This, as it was explained by respondents, would be counter-productive for the MNC.

Even though this may seem like a naive perception of the decision-making process, it by no means refutes the existence of standardised practices. However, whereas in previous

\(^{58}\) The term ‘deductive’ should not be confusing. It does not refer to the methodological stand taken in this thesis. It is merely used metaphorically to highlight the benefits that an integrated model provides to the researcher.
studies this was seen as top-down imperative by HQ, this thesis suggests that standardised practices are more likely the outcome of the interplay between the four clusters of factors. Even in cases like MarkResCo where TUs are not allowed, this is said to be provisional on the legal or institutional limitations. However, this does not mean that the sub-unit is completely detached from the overall organisation. In reality, local actors work closely with HQ. That is not to say that the relationship is always harmonious and internal politics should not be ignored. Yet, when all these are put together we can sum up the HR process in sub-units to this: HQ provide local actors with guidelines and tools and local actors use them to build the local HR strategy which is then monitored and audited by HQ to ensure internal consistency. Also, it should be noted that this procedure can also be applied in cases where the HQ do not provide the sub-unit with guidelines or tools, but even so some form of monitoring will always be in place.

Diagram 17 attempts to summarise how HR practices are shaped at the local sub-unit. As explained, HQ provide local actors with guidelines and tools and then contingent on the interplay between culture, institutions, intra-organisational characteristics and global pressures, HR practices are developed and eventually audited by HQ.\(^{59}\)

\(^{59}\) NOTE: Arrows do not indicate top-down diffusion. They merely indicate the order in which these pressures occur.
8.2 Limitations and Areas for Future Research

While this study provides reliable and valid data about the HRM process within MNCs, it is also necessary to acknowledge its limitations, either of theoretical or methodological nature.

In terms of the former our analysis was limited due literature shortcomings in three areas: (1) the relationship between franchised units, specifically, and HRM; (2) the role of HRM in the service sector; and (3) quality of material on the Cypriot national context. First, the fact that only a small number of studies exist, which has focused on either franchises or services (in terms of HRM), somewhat narrows the depth of the analysis. Indeed, as these issues are core to the analysis, more information on how HRM takes place in service sector MNCs or even in franchised sub-units could have led to more elaborated conclusions.
Nonetheless, future studies can benefit from this thesis’ findings, upon which they can build more detailed frameworks.

From this shortcoming arises a difficulty in indicating a clear dichotomy between operational and HR aspects. And despite this emerging as a crucial conclusion in the analysis, it was still not made clear whether some HR practices are also perceived as operational in service firms in particular. Second, due to paucity of studies centered on Cypriot firms and HRM, secondary data provided by either the government or other sources (of questionable quality it has to be admitted) were used instead. Challenging as this may have been, a comprehensive depiction of the Cypriot economy was provided which can be used by other studies in the future. This is especially important as Cyprus is an unusual economy within the EU, and since it has been relatively unaffected by the global financial crisis, researchers might be inclined to explore why this has occurred and what impact it had on HRM. In turn, findings from such studies can be beneficial not only for practitioners but for policy-makers as well.

In addition, it must be recognised that this analysis did not elaborate in depth on the characteristics of the various home countries. Since the attempt herein was not to elaborate further on the home-country vs. host country effects debate, only a brief mention takes place in section 2.2.1.

Moreover, as explained in the Chapter VII, our analysis was faced with issues regarding brownfields and their characteristics. This was especially challenging when attempting to analyse our case through the use of life-cycle models. The question of whether sub-units begin a new life cycle when they are taken over or merged with the MNC remained unanswered; even though it was assumed that they did not and they were treated as mature units. Hence, future research might attempt to shed more light on the idiosyncratic nature of brownfields, while highlighting at the same time differences between brownfields and greenfields. In particular, through the use of the suggested integrated model, future studies can focus only on these types of sub-units and provide literature with a more elaborated analysis of the interplay which shapes HRM.

Another limitation of this thesis is that it did not provide detailed conclusions on the degree of standardisation of specific HR practices within each firm or on which specific
forces shape each individual practice. This was mainly due to the focus of the study, i.e. highlighting the interplay between the factors and how this ultimately shapes HRM. For example, if a general conclusion can be drawn on specific practices it is this. A higher degree of standardisation is more likely to occur in training and appraisals, especially if there is a drive for worldwide quality which is achieved through standardised training. In contrast, recruitment, as well as pay and rewards, tend to be localised, either due to supply of workforce or collective agreements. However, these are broad conclusions and by no means concrete, hence not applicable to all firms. Eventually, a deeper examination of the interplay which shapes each practice is needed.

This task, in the limits of this study, would have been extremely challenging considering the number of case studies in the sample. Also, as the notion of the interplay between factors suggests, a different blend of factors affects specific practices in different units. Understandably, this could be a separate study in its own right. By isolating the forces which shape particular practices, perhaps by using similar firms in the sample, future researchers can make an important contribution which can further our understanding. This addition to knowledge can also have practical implications as managers, at both levels, would be better positioned to make informed decisions on which practices they should implement, how and even when. Similarly case-study research which focuses on a single firm can possibly apply the integrated model to examine how the HRM process at the local level begins and ends, that is from the inception of a practice or policy, at either the top or local level, and then investigate how this is ultimately implemented by local actors and monitored by HQ. Also, such studies can possibly elaborate further on the impact of the interplay in various parts of the process or on specific practices.

Also, the different types and levels of workers within firms were not taken into consideration. As Edwards and Kuruvilla (2005) claim, practices vary for different types of workers. This then implies that when one focuses on the particular practices only used, for instance, for managerial staff one might reach different conclusions. Even though this is acknowledged it still has to be argued that this inquiry was not at the core of this study.

Regarding methodological limitations, the first major concern refers to data being collected only at the local level and not at the top-level as well. Indeed, attempts were made to establish access at the top level but to no avail. Moreover, as some HQ are located in the
US or France, collecting data from this level was extremely difficult and costly. However, this might be limiting yet not detrimental. The starting premise of this thesis was to investigate how HRM takes place at the local level, without assuming any transfer or strategic interference by the top level. Therefore, the major concern here was to unveil the sub-unit’s role in the decision making process. Had the top-level only been explored this would not have generated sufficient data to answer the study’s main research questions. However, data collected at the local level can still provide some evaluation because local actors’ perceptions have three main advantages. First, they know and understand the host country context. Second, they are relatively aware of corporate strategy and aims. Third, they are the ones who ultimately implement practices and are better positioned to provide data on the forces which shape HRM at the local level.

The second methodological limitation is in terms of the sample size and number of interviews. As explained in section 3.3.1 several unsuccessful attempts were made to gain access in other service sector MNCs. In addition, some firms did not match the sample’s requirements and were therefore rejected, even though some interviews had already taken place. Nonetheless, it can be argued that the number of case studies should be adequate given the overall number of MNCs in the Cypriot economy, particularly in the service sector.

There is also an argument that more interviews could have been conducted. Yet, this should not be viewed in quantitative terms but in qualitative ones. Respondents, as explained in section 3.3.3 were local actors who were directly involved with the HRM process and who acted as liaisons between the unit and HQ. Where it was feasible the franchisee and/or the General Manager were interviewed. Where there was an HR department, HR managers’ and HR officers’ respondent to the authors’ questions. And in addition to this, line managers and professionals external to the organisations also took part in this study. In fact, saturation became an issue at some point. For example, during the interviews at FastFoodCo, one of the first units’ which provided the researcher with access, interviews began to feel repetitive and no further contribution to the quality of data was made.

It should also be noted here that some might view the fact that respondents were at the managerial level and that employees’ opinions were not voiced herein, as a drawback.
However, it has to be argued that this does not constitute a limitation as this would not have served the study’s purposes. As such, the aim was not to describe particular practices within each firm; the aim was to unveil the decision-making process behind them. Employees would not have been able to provide the researcher with any information on the matter. A detailed description of HR practices was already acquired through interviewing managers hence interviewing employees would have been redundant.

Finally, this thesis is faced with issues faced by all researches of qualitative nature. First, a significant drawback is that findings cannot be generalized to the whole population. After all, as this analysis has illustrated each case, despite how similar is with another, behaves in a distinctively different manner in terms of HRM. However, this is not to say that quantitative methods are called for. The HRM process is multifaceted and qualitative research could not possibly tackle this issue and explore in-depth the complexities which surround it.

Second, it has to be acknowledged that the researcher, being a Cypriot herself, had a set of existing assumptions regarding local actors’ behaviours and actions. Yet, this is not necessarily limiting as this enabled the researcher to have a deeper understanding of issues raised in the interviews, regarding the local context, and to inquiry for further information which about HRM.

### 8.3 Contribution to Knowledge

This thesis has produced several contributions to existing knowledge. It was pointed out in existing literature that a need still exists for scholars to gain a deeper, richer (Edwards et al., 2007) and more holistic (Bjorkman and Lervik, 2007) understanding of how the transfer process takes place in the MNC context. Also, according to Cooke (2007) an assessment regarding the important factors which influence the prospects for success of the transfer process is critical for the MNC. This thesis’ findings have indeed developed our broader understanding of how the HRM, and not only the transfer, process takes place.

Contrary to expectations, sub-units within the same service sector, of the same ownership or of the same age did not have similar behaviours towards HRM. This merely illustrated how multifaceted the process potentially is. In relation to this, this thesis has provided further insights by arguing that what in fact shaped HR practices within each unit was the
blend of the four clusters, discussed earlier: local institutions, host-country culture, intra-organisational aspects (in which HQ imperatives and strategies are included) and global pressures.

In fact, the first major contribution is that researchers need to move away from a focus solely or primarily on the deterministic notion of top-down, strategic transfer of practices from HQ to sub-units but instead also focus on implementation at the local level. Our findings indeed suggest that local sub-units are not power-less entities at the receiving end of this process. They are active agents in the decision-making process and they are the ones who ultimately implement practices. This shift in emphasis can assist scholars to view HRM systems through a more comprehensive lens by including, not ignoring, the independent role of the sub-unit.

Even when transfer does take place, it has been suggested here that the mixture of these factors might result in different directions of transfer. Therefore, the integrated model allows for broader appreciation of the multiple forces which shape HRM at the sub-unit level. This analytical framework illustrates the degree of complexity which surrounds the HRM process while at the same time pulls together a variety of internal and external factors which mould HR practices. Whereas previous studies mainly focused on one dimension of the issue, this thesis raises awareness of the complexity and multiplicity of factors, levels and outcomes of the process.

This study further benefits the literature by suggesting that employment-related decisions are not always made at the top level, diffused to the host-country and then implemented according to hindering or facilitating factors. Instead, it argues that the HRM process should be conceptualized as the outcome of the interplay between all these contributing forces. This conceptualization endows the literature with an enhanced comprehension of how employment-related decisions are made. It does not assume absolute power of either the top-level or the sub-unit. It merely elucidates that there are multiple factors, both internal and external, that should be taken into consideration.

From this, a number of other contributions emerge as well. In general, this thesis has illustrated how the analysis of HRM within MNCs might suffer if clearly defined concepts are not employed. First, in this study the sub-unit is treated as a separate entity (NOTE: this
does not imply it is always an independent legal entity). Towards this end, the primary benefit is that it is no longer assumed that MNC properties apply to all its sub-units as well in much the same way. Evidence from this analysis illustrated how certain organisational features might differ between MNC and local unit (e.g. size, age etc). This is important as assumptions made in previous studies can be limiting.

Second, whereas in most studies the term ‘subsidiaries’ was used, this thesis moves away from this and instead suggests that the term sub-unit should be used instead. The former term is underpinned by the assumption that the host-country unit is fully-owned by the MNC. As our analysis has shown this is merely one out of various types of ownership which may exist in an MNC. By not taking this into consideration, evidence from some existing studies has provided us with insufficient insights. In particular, lack of empirical research on the operation of franchises or the implementation of strategy within these types of firms (Truss, 2004). This, in turn increases the exploratory power of future studies.

Third, it has been reiterated herein that an attempt for the study of HR systems in local sub-units, an approach which merely attempts to compare home and host-country effects is rather simplistic. This is not only because other factors are ignored. In addition, another problem related to this is the difficulty with which researchers are sometimes faced when attempting to pinpoint the MNC’s actual country-of-origin. MNCs are live organisations, continuously growing and developing and it has been observed that they go through mergers and acquisitions in various stages in their life-cycle. Hence, this renders any attempt to compare the home with the host level difficulty and this thesis raises awareness on this matter.

In addition to these, this study contributes to the literature by reinforcing arguments supporting the crucial role that the perception of HR as strategic players within firms and the importance of an internal HR department. Our findings seem to imply that firms which had an HR department viewed HR as more strategic and where thus better positioned or more willing to engage in the transfer of practices.

Existing literature is also improved by these findings as it introduces the notion that within a certain context HRM, as a concept or as an organisational function, goes through its own life-cycle. This has not really been examined in existing literature. Therefore, our analysis
highlights it as an important aspect of the institutional context which then molds organisational HR practices. This is especially important because despite the fact that it can also shape internal practices, this has been ignored in the literature thus far.

Moreover, a significant question posed in the literature, which still did not receive adequate attention, was how the process occurs in a people-oriented setting and context, such as the service sector (Frenkel, 2000; Batt, 2000; 2007). Hence, since our analysis focused on two sub-sectors within services, it has assisted existing literature by shedding light on how service sector MNCs behave, how important is HRM for these firms and how sectoral characteristics affect internal HR practices. From this comparison between different types of service firms knowledge was also advance regarding their overall approach to HRM.

Finally, the findings of this thesis contribute to the literature on HRM in Cyprus, which has not been studied much before. It therefore raises awareness of the various national aspects which shape organisational HR practices, which is significant as evidence from Cyprus can be extended to other similar economies. It can also assist managers of MNCs to appreciate local factors which might influence the operation of their sub-units in such context.

In sum, this thesis has assisted existing literature with advancing knowledge via a multi-dimensional framework which allows scholars to escape from the potential straightjacket which has traditionally hindered some research on HRM in MNCs so far. Hence, a combination of the bottom-up method and the integrated model could be extended to the study of HRM in other MNCs, in a range of different countries and sectors. This deeper understanding of the HRM process in host-countries can help improve planning of HR systems since such a model is better positioned to identify potential conflict triggers efficient conflict-handling structures (Blazejewski, 2006).
References


multinational companies: Evidence from German and British subsidiaries”, in Geppert, M and Mayer, M. (eds), Global, National and Local practices in multinational companies, London: Palgrave Macmillan.


Appendix I: Case studies’ characteristics

<table>
<thead>
<tr>
<th>Name of case</th>
<th>Home-country</th>
<th>Size of MNC</th>
<th>Size of sub-unit</th>
<th>Age of MNC</th>
<th>Age of sub-unit</th>
<th>Type of Service sector</th>
<th>Type of sub-unit</th>
<th>Type of ownership</th>
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<tr>
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<td>UK</td>
<td>120 000+</td>
<td>450</td>
<td>100+</td>
<td>7</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Limited Liability Partnership</td>
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<tr>
<td>ProfServB</td>
<td>UK</td>
<td>160 000+</td>
<td>1000</td>
<td>100+</td>
<td>12</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Limited Liability Partnership</td>
</tr>
<tr>
<td>FinancServCo</td>
<td>France</td>
<td>100 000+</td>
<td>170</td>
<td>100+</td>
<td>7</td>
<td>Knowledge intensive</td>
<td>Greenfield</td>
<td>Fully owned</td>
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<td>225</td>
<td>80</td>
<td>15</td>
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<td>Brownfield</td>
<td>Fully owned</td>
</tr>
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<td>55</td>
<td>90</td>
<td>3</td>
<td>Low skilled</td>
<td>Brownfield</td>
<td>Fully owned</td>
</tr>
<tr>
<td>AdvertCo</td>
<td>US</td>
<td>Not available</td>
<td>36</td>
<td>80</td>
<td>5</td>
<td>Knowledge intensive</td>
<td>Brownfield</td>
<td>Affiliate member</td>
</tr>
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<td>FastFoodCo</td>
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<td>1.6 mil</td>
<td>6 000</td>
<td>70</td>
<td>12</td>
<td>Low skilled</td>
<td>Greenfield</td>
<td>Franchise</td>
</tr>
<tr>
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<td>40</td>
<td>12</td>
<td>Low skilled</td>
<td>Greenfield</td>
<td>Franchise</td>
</tr>
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<td>Greenfield</td>
<td>Franchise</td>
</tr>
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<td>HotelCo</td>
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<td>40</td>
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<td>Low skilled</td>
<td>Brownfield</td>
<td>Franchise</td>
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</table>
Appendix II: Access Letter

Dear .... ,

I am a second year doctoral student at Manchester Business School at the University of Manchester, one of the leading universities in the world and my PhD project is supervised by Professor Mick Marchington. The project relates to the implementation of Human Resource Management practices at the Cypriot subsidiaries of key foreign multinational corporations in the service sector. More specifically, my topic examines the choice and implementation of HRM, and how this adds value, in the context of the Cypriot economy and labour market.

In order to generate more information about this topic, I would be very grateful if you could spare me 30-45 minutes for a personal interview with 2-3 key HRM officers and 2-3 managers of your organization. All data collected or provided will be treated in strict confidence and used only for the purpose of this project, and all individual responses will remain anonymous and seen only by me and my supervisor. Further, I can assure anonymity and confidentiality of your firm if you wish.

I would like to stress how crucial the benefits of this research will be in the future as there is limited knowledge about the Cypriot way of managing human resources, in particular when foreign-owned MNCs open up operations here. Cyprus now welcomes an even more increasing number of Foreign Direct Investment and multinationals in its economy. Accordingly, a much better understanding of effective HRM in Cypriot subsidiaries will be beneficial not just to the companies which operate in the island or wish to start a new subsidiary in the future but also for improving teaching so that it has a greater awareness of how operations work here. It would also be extremely helpful to me personally in order that I can complete my PhD and therefore offer my skills to the future development of the Cypriot economy.

Best Regards

Anastasia Kynighou
Appendix III: List of Respondents in each case study

<table>
<thead>
<tr>
<th>Name of Case</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>ProfServA</td>
<td>• Partner Audit&lt;br&gt;• Head of Human Capital Services&lt;br&gt;• Senior HR Advisor&lt;br&gt;• HR Advisor</td>
</tr>
<tr>
<td>ProfServB (ProfServB)</td>
<td>• Partner Tax Services&lt;br&gt;• Director Human Capital Department&lt;br&gt;• Senior Associate HC Department&lt;br&gt;• Assistant Manager HC Department</td>
</tr>
<tr>
<td>FinancServCo (FinancServCo)</td>
<td>• Head of Administration and Finance Domain&lt;br&gt;• Head of Human Resources&lt;br&gt;• HR Officer I&lt;br&gt;• HR Officer II</td>
</tr>
<tr>
<td>A. C. MarkResCo</td>
<td>• Chief Human Resources Officer EEMEA&lt;br&gt;• Human Resources Director&lt;br&gt;• Regional Product Manager</td>
</tr>
<tr>
<td>InsuranceCo</td>
<td>• Assistant General Manager&lt;br&gt;• Human Resources Manager&lt;br&gt;• Manager Agency and Distribution</td>
</tr>
<tr>
<td>AdvertCo</td>
<td>• Creative Managing Director&lt;br&gt;• Managing Director&lt;br&gt;• Client Services Director</td>
</tr>
<tr>
<td>Company</td>
<td>Positions</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>FastFoodCo</td>
<td>• Managing Director (Franchisee)</td>
</tr>
<tr>
<td></td>
<td>• Human Resources and Training Consultant</td>
</tr>
<tr>
<td></td>
<td>• Operations Consultant</td>
</tr>
<tr>
<td></td>
<td>• Store Manager</td>
</tr>
<tr>
<td>T. G. I. Fridays</td>
<td>• Franchisee</td>
</tr>
<tr>
<td></td>
<td>• General Manager</td>
</tr>
<tr>
<td></td>
<td>• Restaurant Manager</td>
</tr>
<tr>
<td>RestaurantB</td>
<td>• Financial Manager</td>
</tr>
<tr>
<td></td>
<td>• Branch Manager I</td>
</tr>
<tr>
<td></td>
<td>• Branch Manager II</td>
</tr>
<tr>
<td>HotelCo Hotel</td>
<td>• Hotel General Manager</td>
</tr>
<tr>
<td></td>
<td>• Personnel Manager</td>
</tr>
<tr>
<td></td>
<td>• Personnel Officer</td>
</tr>
<tr>
<td>Additional Interviews</td>
<td>• Ex-Minister of Finance of the Republic of Cyprus</td>
</tr>
<tr>
<td></td>
<td>• Director General OEB (Cyprus Employers and Industrialists Federation)</td>
</tr>
<tr>
<td></td>
<td>• Director SEK Trade Union School (Cyprus Workers’ Confederation)</td>
</tr>
<tr>
<td></td>
<td>• Executive Secretary PEO (Pancyprian Federation of Labour)</td>
</tr>
<tr>
<td></td>
<td>• Secretary DEOK (Democratic Labour Federation of Cyprus)</td>
</tr>
<tr>
<td></td>
<td>• Senior HR Officer ANAD (Human Resource Development Authority of Cyprus)</td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>40 interviews</strong></td>
</tr>
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</table>
Appendix IV: Interview Scheme

General information needed:

- age of subsidiary and size
- ownership type (fully owned, franchise etc)
- subsidiary type (greenfield, brownfield)
- expatriate presence
- sectoral patterns of competition
- financial position/ market share
- structure/ hierarchy
- structure of HR Department
- percentage of Cypriot and foreign employees

Interview Questions:

1. Job role, how many years in this role (and what was your previous role)
2. HR philosophy – is it common between MNC and sub-unit? Is HRM perceived as strategic within the firm?
3. What expectations does HQ have from the sub-unit? How would you characterize the relationship between HQ and sub-unit?
4. Can you describe the HRM process, from the time a staffing need emerges onwards?

   - HR Practices for discussion
     i. career development, training
     ii. EIP (in decisions), communication, teamwork
     iii. job security
     iv. pay, rewards (non-monetary)
     v. recruitment
     vi. appraisal
     vii. work-life balance
     viii. employee representation

- Who is responsible for the implementation of HR practices?
- Written policies on HR practices?
- Who develops policies and procedures (where/why/how)?
- Are there any specific practices diffused from HQ (are these adopted? Why/why not?)?

5. Were you involved in international training courses/meetings (more information on content, frequency, who attends, why etc.)

6. How does HQ evaluate the performance of the sub-unit? Performance of HR Department?

7. Which factors do you believe influence HRM and specific HR practices?
   - Culture
   - Institutions
   - Intra-Organisational aspects
   - Global pressures
   - Others?

8. Any final comments you would like to add regarding HRM in your organisation?
| Country fact sheet: | Cyprus |

### Foreign direct investment (FDI) overview, selected years

<table>
<thead>
<tr>
<th>FDI Flows</th>
<th>1995-2000</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>as a percentage of gross fixed capital formation</th>
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<tr>
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<td>1,186</td>
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<td>Outward</td>
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<td>558</td>
<td>855</td>
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### Matra

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<th>2006</th>
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### United Kingdom

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<th>2007</th>
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<td>73,378</td>
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<td>80,059</td>
<td>86,764</td>
<td>265,791</td>
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### European Union

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<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>Inward</td>
<td>209,482</td>
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<td>404,301</td>
<td>562,444</td>
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<td>280,388</td>
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<td>640,542</td>
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### Europe

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<th>2007</th>
<th>as a percentage of gross fixed capital formation</th>
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<td>300,479</td>
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### Developing economies

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<td>21,950</td>
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</tbody>
</table>

### World

<table>
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<th>FDI Flows</th>
<th>1995-2000</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>as a percentage of gross fixed capital formation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward</td>
<td>492,025</td>
<td>717,625</td>
<td>958,567</td>
<td>1,411,018</td>
<td>1,639,324</td>
<td>7.7</td>
</tr>
<tr>
<td>Outward</td>
<td>492,025</td>
<td>717,625</td>
<td>958,567</td>
<td>1,411,018</td>
<td>1,639,324</td>
<td>7.7</td>
</tr>
<tr>
<td>Memorandum</td>
<td>492,025</td>
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</table>

For details, see "Definitions and sources" in annex B and annex tables B.145.3 in WIR08.