Local Isomorphism Versus Internal Consistency: The Coordination of Employment Relations Practices (ER) in Deutche Telekom’s European Transition Economy (ETE) Subsidiaries

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Published
2007

Conference Title
Conference Proceedings: 14th International Employment Relations Association Conference

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INTRODUCTION

This paper examines Deutsche Telekom’s (DT) attempts to coordinate its human resource management (HRM) practices across its Greenfield and brownfield investments in mobile and fixed line subsidiaries in European Transition Economies (ETEs). It compares and contrasts areas where some degree of internal consistency was achieved with those functions and/or practices that were linked to local HRM conditions (see Harzing 2004:59): It further considers the degree to which exogenous and endogenous factors associated with the post-communist environment of these countries impacted on DT’s strategic international human resource management (SIHRM) decisions.

The paper begins by outlining the research methods used to obtain data for this project. It then discusses path dependency and SIHRM theories and concepts (see Hausner et al 1995; De Cieri & Dowling 1999; Bartlett & Goshal 2000; Scullion & Paauwe 2004) that were used to assist in analysing the data before considering contemporary issues in the global telecommunications sector. It outlines and discusses DT’s subsidiaries in the Czech Republic, Slovakia and Hungary and examines DT’s SIHRM strategies across the group. The paper concludes by analysing the extent to which DT has been successful in implementing these practices.

RESEARCH METHODS

A number of reasons underpinned the decision to choose DT and its subsidiaries in the Czech Republic, Slovakia and Hungary for this research project. First, DT provided an excellent example of a former western based public monopoly that evolved into a privatised MNC following the deregulation of the German telecommunications sector. Second, its Central and Eastern European subsidiaries were able to provide rich detailed data on how DT’s SIHRM strategies were influenced by contextual factors associated with these telecommunications companies (TelCos) operating in post-communist emerging economies. Third, the Czech Republic, Slovakia and Hungary followed relatively similar political and economic transformations that allowed for some comparative analysis (see also Hausner et al 1995:5). The research adopted an inductive approach with SIHRM theories providing a useful starting point for an analysis of the data.

A case study approach was adopted and during 2004 and 2005 semi-structured interviews were conducted with a range of stakeholders at T-Mobile Czech Republic, Slovak Telecom, T-Mobile Slovensko (formerly Eurotel Bratislava) and Magyar Telecom. These included TelCo management representatives and local trade union officials. The interview data was supported, cross-checked and compared with data from a range of secondary sources including company annual reports; internal company reports supplied by TelCo managers; government reports; Supranational organisations — e.g. Union Network International (UNI)
and International Labour Organisation (ILO) — union documents; journal articles, theses, book chapters; newspaper and magazine articles; internet and other electronic data sources.

Strategic International Human Resource Management (SIHRM)

One of the central questions in MNC literature is the extent to which subsidiaries adapt their practices to local circumstances and behave as local firms (local isomorphism) versus the extent to which their practices resemble those of their parent company (local consistency) (Harzing 2004:59).

MNCs typically face the conundrum of ‘the dual imperatives of local responsiveness and global integration’ (Taylor et al 1996:962). While the former strategy allows firms to customise goods and services to better suit local laws, customs and consumer tastes the latter achieves cost reductions through economies of scale and scope (Hill 2006:395-400). Such policies are tempered by the characteristics of the industrial sector within which the MNC operates and/or the type of product or service that it produces. Similarly, the implementation of new technologies and production practices within international subsidiaries often requires the export of new management and work practices from the parent firm to the host country subsidiary. Research suggests that expatriates are often used as the facilitators of such international knowledge transfers (Dowling & Welch 2004; Riusala & Suutari 2004). This in turn may foster the coordination and standardisation of some HRM practices across the MNC. Knowledge flows need not be a one way process, as knowledge and information that the expatriate picks up whilst on an international assignment may equally flow from the subsidiary back to the parent firm (Harzing 2004).

But differing local institutions — including laws, regulations and customs — may limit the coordination of HRM practices, leading to different HR strategies being implemented amongst the various subsidiaries (Harzing 2004:61). Taylor et al consider this idea from the perspective of context specific and context generalizable HRM competencies, with the former being confined to local contexts while the latter may be usefully exported across the entire MNC group (Taylor 1996:964). Path dependency theories suggest that historical factors in Eastern Europe may further limit the ability for MNCs to introduce western style practices into their Eastern European subsidiaries (Hausner et al 1995:136-38; Bandelj 2003). For example, Hausner et al argue that the free market ‘triumph of capitalism’ approach to the fall of communism, whereby the collapse of the former regime led to an institutional vacuum that could then simply be filled with western management concepts and practices, presents an overly simplistic view of events (Hausner 1995:6). Rather, they suggest that historical institutional practices, that were built into the system over time, tend to re-assert themselves even if they lead to suboptimal performances at both the macro economic and micro (firm) levels (Hausner 1995:5-6). This viewpoint is supported by Bandelj who states, ‘Institutions can persist even when the initial conditions that created them change substantially’ (2003:137). Put simply, the old order tends to reassert itself. Lamberg and Parvinen link this concept of path dependency to strategic management theories by considering how historical decisions and contexts impact on current strategies (2003:551-52). This then has implications for MNCs trying to develop coordinated strategic international human resource management (SIHRM) policies, as they may be operating in countries that possess quite different historical contexts to those of the home country.

Taylor et al define SIHRM as ‘Human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises’ (1996:961). SIHRM practices therefore link IHRM practices to the overall strategies of an MNC. In this regard, IHRM practices include national diversity and cross cultural issues, expatriate management, the coordination of HRM policies across international borders, and the associated transfer of management practices (Wolfram Cox et al 1998:3). For example, in the late 1990s IBM sought to better coordinate management practices and organisational culture amongst its 330,000 employees worldwide by improving its global intranet infrastructure (Yaun 2006).
De Cieri and Dowling’s integrative framework of SIHRM (1999) includes exogenous factors such as country and industry characteristic along with endogenous factors such as the MNC structure and strategy. It further considers the difficulties that MNCs face in balancing global integration with local responsiveness.

TELECOMMUNICATIONS

Until the 1980s, TelCos in most industrialised market economies (IMEs) were fixed line public-sector utilities enjoying ‘monopolies’ in their home market. However, many IMEs subsequently deregulated their telecommunications industries, exposing them to competition (Katz 1997; Ross 2003). This process gained further impetus in the late 1990s when most World Trade Organisation (WTO) member countries committed to an agreement — the fourth General Agreement on Trade in Services (GATS) protocol — that ensured competition within their telecommunications sectors (WTO 1998). Induced to compete in the market place, former monopolies, such as DT, had to change their corporate culture towards a more commercial outlook. To reduce costs, incumbent fixed line TelCos engaged in downsizing strategies supported by new technologies and work practices, outsourcing agreements and strategic alliances (Ross 2003). Many TelCos also embarked on international acquisitions and/or entered into global alliances in order to better meet the challenges of this new environment — for example, to gain access to new markets and/or share R&D costs.

The speed of technological change within the telecommunications sector and associated plethora of new products and services entering the market further required TelCos to act quickly in order to stay ahead of — or at least match — their competitors. For example, researchers suggest that voice over the internet protocol (VoIP) may be the next ‘killer application’, as Internet Protocol (IP) based networks increasingly replace existing circuit switched networks (Louis 2004). Such changes meant that fixed line TelCos faced declining revenues from traditional sources. The introduction of mobile telephone technologies created a substitution effect as voice traffic increasingly shifted from fixed to mobile service providers. This substitution effect was particularly pronounced in Eastern European countries, which had relatively low fixed line penetration rates under former socialist regimes. A spokesperson for a DT owned subsidiary in Eastern Europe stated that ‘voice on fixed lines is dead’ (Interview Eurotel Slovakia 2005). Such trends promoted rapid growth and high profits for mobile TelCos during the 1990s, which in turn enticed new entrants into the sector. A dichotomy then developed between fixed line TelCos that were downsizing and cutting costs, while mobile operators were expanding and increasing revenues. This led to differences in the psyche of workers in the two sectors. Fixed line workers were generally unionised but faced uncertain futures associated with decreased job security and changes to traditional ER practices. In contrast mobile TelCos employees tended to be younger, non-unionised, workers operating in greenfield sites in an expanding market.

By 2006, however, the market for mobile telephones had reached saturation point in many countries, including much of Eastern Europe. This was accompanied by increased global and local competition. New competitors included mobile virtual network operators (MVNOs) that operated with low overheads via wholesale agreements with established mobile operators to buy minutes of use (MOU) for sale to their own customers (Kozakova 2006). Mobile TelCos were then forced to cut costs and streamline their operations to better respond to this new operating environment. Interview responses from mobile TelCo managers suggested that much depends on the success of the roll out of 3rd generation (UMTS) mobile networks that allow for greater services via the internet. But the provision of UMTS requires large-scale investments, including purchasing government licences and building new networks. Given that the difference in voice quality is marginal, customer take up of mobile data services is critical to its success.
DEUTSCHE TELEKOM (DT)

Following its shift from a state owned public monopoly (SOE) to a privatised firm, DT evolved into a multinational corporation (MNC) with subsidiaries operating in 29 countries; by 2004 more than a third of its revenues were being generated outside of Germany (Katz 1997; DT 2005). DT’s international subsidiaries included greenfield and brownfield investments in both mobile and fixed line TelCos in the ETEs. Table 1 outlines DT’s subsidiaries in the Czech Republic, Slovakia and Hungary, which include fixed line and mobile TelCos. Some of these firms were directly owned by DT and others were owned by DT’s wholly owned subsidiary T-Mobile International. HR policy for the group is set by DT’s HRM department, which also plays an active role in overseeing T-Mobile International’s HRM coordination practices. Therefore, this paper uses the parent company name to cover both DT and T-Mobile International subsidiaries, as their IHRM processes are to a large degree integrated.

Table 1: Deutsche Telekom (DT) subsidiaries: Czech Republic, Slovakia & Hungary

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Country</th>
<th>Owner</th>
<th>Telecommunications Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-Mobile Czech Republic (formerly Paegas5)</td>
<td>Czech Republic</td>
<td>T-Mobile International1</td>
<td>Mobile TelCo</td>
</tr>
<tr>
<td>Slovak Telecom</td>
<td>Slovakia</td>
<td>Deutsche Telekom (DT) - 51%</td>
<td>Fixed line TelCo</td>
</tr>
<tr>
<td>T-Mobile Slovensko (formerly Eurotel Bratislava2)</td>
<td>Slovakia</td>
<td>Deutsche Telekom3</td>
<td>Mobile TelCo</td>
</tr>
<tr>
<td>Magyar Telecom (formerly Matáv)</td>
<td>Hungary</td>
<td>Deutsche Telekom</td>
<td>Fixed line &amp; Mobile TelCo4</td>
</tr>
<tr>
<td>T-Mobile Hungary (formerly Westel6, merged with Magyar Telecom in 20065)</td>
<td>Hungary</td>
<td>Deutsche Telekom</td>
<td>Mobile TelCo</td>
</tr>
</tbody>
</table>

Notes: 1) T-Mobile International is a wholly owned subsidiary of DT; 2) Eurotel Bratislava was renamed T-Mobile Slovensko in 2005; 3) T-Mobile Slovensko is 100% owned by Slovak Telecom, which in turn is 51% owned by DT; 4) In March 2006 Magyar Telecom merged with T-Mobile Hungary. Since then the former firm T-Mobile Hungary has operated as an independent business unit and brand name within Magyar Telecom; 5) Paegas was renamed T-Mobile Czech Republic in 2002; 6) Westel was renamed T-Mobile Hungary in 2004.

Sources: Interviews 2004-2005; Annual reports; Internal company reports, Magyar Telecom (2006); T-Mobile Slovensko (2006)

De Cieri and Dowling’s SIHRM model considers the balance between global integration and local responsiveness to be a primary MNC concern. In this regard DT initially took a multidomestic style approach to its internationalisation strategies in Eastern Europe, whereby each subsidiary operated relatively autonomously. DT’s preferred market entry mode was via a joint venture, often as a minority shareholder, but by 2005 it was the majority shareholder in all the above firms. This shift to majority share ownership was linked to a more global strategy that included attempts to better coordinate and standardise its policies across the group. A cornerstone of DT’s IHRM coordination strategies was its ‘One Company’ change program, which sets out the business direction, organisational design and organisational culture of the DT group of subsidiaries (T-Mobile 2004). It further states that ‘the highest levels of performance can be achieved when strategy, structure and culture of the organisation are aligned’ (T-Mobile 2004). This fits with the SIHRM concept of linking IHRM practices to the overall strategies of the MNC. The ‘One Company’ program included extensive training programs that were conducted across the group, such as, leadership alignment and employee engagement workshop sessions. These sessions were supported.
by intranet training programs (T-Mobile 2004; Interviews with DT 2005). DT’s Eastern European subsidiaries were also able to introduce their own requirements into the ‘One Company’ concept via a group-wide learning infrastructure model (DT internal document 2005). Such practices were reinforced by DT’s T-Spirit program and Code of Conduct that sought to create an MNC wide organisational culture (Internal Company Documents; Interviews with DT 2005).

HR sections within the Eastern European subsidiaries were seen as playing a leading role in developing these programs through personnel development, recruitment and training programs. One subsidiary HR manager advised that their role was to ‘to build up the core HR with an international flavour and with international tasks’ (Interview T-Mobile Czech Republic 2005). This was despite the previous bad reputation that Eastern European personnel departments had acquired under the former socialist system, when they kept extensive records on employees’ work and personal lives, which could then be passed on to state agencies — including the secret police (Tung & Havlovic 1996:6). Soulsby and Clark suggest that these former political activities had tainted personnel departments to the extent that during the transition period some senior Czech managers deliberately reduced their personnel department’s scope and authority (1998:86-87). But by 2005 foreign investment and international joint ventures had introduced more ‘Western’ style HRM departments into Eastern European firms and the previous bad reputation of personnel sections no longer appeared to be an issue for DT’s subsidiary workers (Ross 2006).

Interestingly DT set up a matrix style reporting structure whereby HR managers across the group reported directly to senior HR executives in the parent firm, rather than their local managing director (Interview T-Mobile 2004). This centralised control helped to reinforce the coordination of the groups HR practices. DT also held twice yearly ‘HR Summits’ where it brought together all its subsidiary HR managers to share and exchange information, and discuss topical issues. Interviews suggested that DT considered this personal contact amongst it HR subsidiary managers to be an important vehicle for generating trust between different cultures, regions and countries.

DT’s post-acquisition integration strategies also included the use of expatriates to transfer skills and expertise to its Eastern European subsidiaries. Expatriate jobs were generally of a strategic nature or involved work that required very specific expert knowledge. DT advised that expatriates were further used to support and train local staff. This appears to have been conducted on an ad hoc basis, as there were no formal programs for rotating expatriates and/or local managers between subsidiaries (Interviews with DT 2006). However, senior DT managers advised that this situation was not optimal and that their IHRM section would like to implement a more standardised rotation policy that would allow more managers to gain international experience (Interviews with DT 2006).

DT’s SIHRM coordination policies also included attempts to standardise management compensation practices. While actual compensation levels varied depending on the economic circumstances and local wages of individual countries, the structure of managers’ compensation packages became more standardised. In this regard DT formulated Global Compensation Guidelines (GCG) that served as a guide for the remuneration of managers and senior executives across its Eastern European subsidiaries. These guidelines included five management levels, with total compensation split between a fixed income component, a performance related management bonus and fringe benefits. Further, all managers were employed on individual employment contracts that were outside the scope of any collective agreements that may have been operating within the subsidiaries. Senior executives within the top two management levels were eligible for extra long-term incentives, while the performance related (variable) component of their income was worth up to fifty per cent of their total compensation (DT internal document 2005). In contrast the performance related (variable) component for managers in the lower three management levels comprised only
twenty per cent of their total remuneration. DT stated that harmonising remuneration practices across the group led to greater transparency and fairness (DT internal document 2005).

However, the implementation of DT’s ‘One Company’ policy met with some resistance within the subsidiaries. Employees in successful subsidiaries in particular could not understand why they had to change their practices in order to accommodate and better address problems in less successful subsidiaries across the group. A further issue was the historical management legacy of the communist era. Following the collapse of communism and ensuing rapid economic liberalisation and privatisation, local managers had little or no experience with free market economies and many struggled to adjust to market forces. A recurring theme from the subsidiary managers who were interviewed were the problems associated with older workers. One expatriate managing director in the Czech Republic advised that when conducting meetings he would sometimes ask the assembled managers to consider an issue and to come up with ideas and/or strategies for addressing the issue at the next meeting. He stated that when the team met up again the younger managers would invariably have a list of options or ideas that they had developed, while the older managers would simply ask ‘what do you want us to do?’. This lack of initiative was a hallmark of the communist era and proved a difficult challenge. The response of many of DT’s subsidiaries was to target these workers for redundancy (Interviews 2004-2005). These problems appeared more pronounced in Slovakia, which had an authoritarian government throughout much of the 1990s and subsequently did not truly embrace free market practices until a change of government in 1998; such free market practices had already been introduced within the Czech Republic and Hungary (Interviews Slovakia 2005).

Unions & European Works Councils
Unions in Eastern Europe were influenced by institutional and historical factors. Unions under the previous socialist regimes were controlled by the state and were, therefore, associated with the ruling communist party. Their role was to transmit party policy and union membership was virtually compulsory. Following the collapse of the former system most Eastern European countries legislated to allow workers to form independent unions (Egorov 1996:98). Cox and Mason (2000) therefore divide Eastern European unions into ‘new’ and ‘successor’ organisations, with the latter being reformed versions of organisations that existed during the socialist era.

DT states that it recognises the rights to freedom of association and collective bargaining throughout its subsidiaries, within the scope of national regulations and existing agreements (DT internal document). But DT has not attempted to export its German style codetermination practices to any of its Eastern European subsidiaries. Rather, interviews suggest that within the context of its Eastern European subsidiaries its relationship with local unions tends to be limited to the minimum required by local laws and practices.

There are no unions in T-Mobile Czech Republic or T-Mobile Slovensko, and there is evidence that management have actively tried to prevent unions from establishing themselves in these firms. Being mobile TelCos these subsidiaries also have little history of union activity. In contrast, older Easter European fixed line TelCos have a longer union history, but these organisations carry the historical baggage of their socialist past when they were effectively an arm of local communist party governments. For example, while the Trade Union of Communication of Slovakia (OZS) retained many of its older members within Slovak Telecom, its previous association with the communist party, along with changing social attitudes, has made it difficult for it to recruit newer members from more recently employed younger workers (Interview OZS 2005; Slovak Telecom 2005). Both new and successor unions operate at Magyar Telecom, which caused a fracturing of the union movement within the firm and limited their influence on management policies. Large scale downsizing strategies at the fixed line TelCos, Slovak Telecom and Magyar Telecom, further reduced their overall union membership numbers and influence.
Following the admission of the Czech Republic, Slovakia and Hungary into the European Union (EU) in 2004, the above subsidiaries were required to send representatives to the DT European Works Council (EWC). But the DT EWC operates quite differently from the DT German based works council in that management do not consider it to be a forum for co-determination, but rather a vehicle for providing information and consultation on topics of a transnational nature (DT internal document). Interviews inferred that DT management were quite happy to comply with the provisions of the EWC, as it created far fewer legal obligations than the local German works council (Interviews with DT 2005).

CONCLUSION

Path dependency theories suggest that historical factors associated with Eastern Europe’s former socialist economic and political system would constrain the ability of Western MNCs, such as DT, from introducing Western style HRM practices into their Eastern European subsidiaries (Hausner et al 1995:136-38; Bandelj 2003). But this research suggests that such issues were far more pronounced during the transition period in the early to mid-1990s. An exception was the continuing problems associated with older workers that were institutionalised under the former system. But from the point of view of MNCs such as DT, such problems lessened over time as these workers retired and/or were made redundant. The TelCo subsidiaries then employed younger workers with little recollection of the former system.

In contrast to path dependency theories, many of DT’s SIHRM policies could be seen as path making, as DT gained experience in managing its international operations; (Hausner et al 1995:136-38; De Cieri & Dowling 1999). DT’s IHRM strategies then shifted from a multidomestic towards a more global approach, with HRM practices increasingly being transferred and standardised across its subsidiaries. De Cieri & Dowling’s model considers the influence of endogenous factors such as intra-organisational networks and MNC mechanisms of coordination (1999). In this regard DT’s ‘One Company policy’ strove to better align the groups HRM practices, employment conditions and organisational culture. These HRM polices appeared to be context generalizable, in that DT was relatively successful in exporting them across the group (Taylor 1996). DT’s EWC provided a further vehicle for the coordination and discussion of transnational HRM issues.

These changes may have been further facilitated by exogenous factors such as the industry characteristics of the telecommunications sector (De Cieri & Dowling 1999). This is a dynamic sector linked to widespread technological and organisational change (see Ross 2003). As outlined above, mobile TelCos employees also tend to be younger, non-unionised, workers, which negated union opposition to DT management’s HRM strategies and initiatives in its mobile TelCo subsidiaries. There was also evidence that some managers in DT’s Eastern European subsidiaries actively sought to keep unions out of their firms. Where successor unions did exist in DT’s older fixed line TelCos their influence was limited by falling membership and a negative historical legacy associated with their former links to the communist party. This suggests that within the eastern European context, the IR polices of DT’s subsidiaries tended to be context specific (Taylor 1996). Thus, while some degree of internal consistency was occurring within IHRM practices across the DT group, the relationship between management and unions were being dictated by local IR cultures and legislation.

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