The authors of the article “Value Creation Through Restructuring – Key Value Drivers and Value Creation Models” by Siniša Mali, Sladan Barjaktarović Rakočević and Gheorghe Savoiu [OiK, Vol. 2012, Iss. 4 (153) (Dec 2012)] have failed to include a publication by Stifanos Hailemariam [Corporate Value Creation, Governance and Privatisation: Restructuring and Managing Enterprises in Transition – The Case of Eritrea, University of Groningen, 2001] in their cited literature. Below we publish the necessary corrections.

As a process of improving business efficiency, restructuring is nowadays widely implemented in both the developed and the developing countries. Companies and economies undergo restructuring processes in order to achieve a higher level of performance and survive when the existing business structures become ineffective [Hailemariam 2001].

The goal of the restructuring process is to transform the company into an enterprise that creates value for the shareholders [Hailemariam 2001].

McTaggart, Kontes and Mankins define value creation as managing performances of individual business units with respect to the realized money flows and the returns on investment rate [McTaggart, Kontes, Mankins, 1994; Hailemariam 2001].

According to Knight, value is created by operational and investment decisions managers make on a daily basis [Knight, 1998]. For the value-based management to succeed, it has to be built into daily decision-making. This means achieving a high level of managerial understanding of how management can have an impact on the increase in the company’s value and on the translation of abstract concepts of value creation into meaningful daily operation tasks [Hailemariam 2001].

The focus on value creation implies that decisions and activities are assessed in terms of how much value they will create, and that the value-creation oriented behaviour is encouraged throughout the organization. Establishing a value-creation culture requires far-reaching organizational change. If management is oriented toward results, business aspects like ICT will be adopted more easily Čudanov, Jaško 2012]. Monnery maintains that the value creation process requires that managers should fully apprehend which factors create value and in which way they should encourage employees to do things in a different manner [Monnery 1995; Hailemariam 2001].

Value is created only if the business unit or the entire company can earn the rate of return on invested capital that exceeds its cost of capital [Hailemariam 2001].

pentagon is used in creating a conceptual framework and identifying the key value drivers to measure whether value in business is created or lost [Copeland, Koller; Murrin 1996]. This framework is based
on the analysis of the free cash flows and the key value drivers [Hailemariam 2001].

weighted average cost of capital. The value of the growth potential is, on the other hand, determined by the key value drivers – the rate of return on invested capital, amount of net new investments, competitive advantage period, investment rate, and the weighted average cost of capital. The competitive advantage period indicates the period of time during which the expected rate of return on invested capital exceeds the company’s weighted average cost of capital [Hailemariam 2001].

Two authors, Crum and Golderberg, developed a conceptual framework for the assessment of the company sustainability known as a PARE model (Potential and Resilience Evaluation Model) [Crum, Goldberg 1998]. These authors maintain that taking steps that improve the potential and resilience of the company is value creative [Hailemariam 2001]. According to the model, strong potential and strong resilience show that the company is a powerful competitor and actions should be taken to retain this position [Hailemariam 2001].

On the other hand, low resilience and low potential show that the management should think about liquidation or, at least, about a serious restructuring of the company [Hailemariam 2001].

Analysis of the company in terms of its potentials and resilience helps identify the problems and points to the corrective steps that should be undertaken to create value [Hailemariam 2001]. According to this model, the attractiveness of the industry and the competitive advantage are the major sources of value creation [Porter 1985]. The more favourable they are, the higher the likelihood that the company will create value [Hailemariam 2001].

After reviewing the position submitted by the main co-author, the Editorial Board decided to publish a revised version of the study and replace the Retraction Notice with a Corrigendum. The authors wish to apologize for the error.
VALUE CREATION THROUGH RESTRUCTURING – KEY VALUE DRIVERS AND VALUE CREATION MODELS

Introduction

As a process of improving business efficiency, restructuring is nowadays widely implemented in both the developed and the developing countries. Companies and economies undergo restructuring processes in order to achieve a higher level of performance and survive when the existing business structures become ineffective.

The goal of the restructuring process is to transform the company into an enterprise that creates value for the shareholders. In that respect, the key activity in value creation is identification of the strategies that will improve cash flows and reduce business risks in a most effective manner. Every strategy has to be quantified regarding its effects on the cash flows and the business risk, as well as regarding the capability of its implementation given the competitive forces in the market.

In order to create a framework for effective creation and implementation of the above mentioned strategies, it is necessary that a concept of value-based management be adopted for the purpose of value maximization. Value drivers are variables which the management can have influence on and, through the restructuring process, increase the value of the company. Implementing the restructuring process through the management of these value drivers increases the company’s cash flow by increasing sales, reducing costs, and increasing total assets turnover, on the one hand, and by reducing the business risk and the cost of capital, on the other. The very notion of

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value creation refers to the increase in the rate of return on invested capital through a combination of increasing cash flows and reducing risk.

Definition and calculation of value

The concept of value creation in the organization has been the subject of interest for many authors. McTaggart, Kontes and Mankins define value creation as managing performances of individual business units with respect to the realized money flows and the returns on investment rate\(^1\).

Having in mind that value creation is one of the most important organizational goals from the shareholders’ perspective, the concept of value-based management is a prevailing one in both theory and practice. Rappaport advocates the implementation of value-based management for the purpose of creating value in business\(^2\). In addition, Copeland, Koller and Murrin plead for the transformation of the entire organization in order to maximize the value, using the same value-based management\(^3\) approach. These authors maintain that an important component of the value-based management is an in-depth understanding of which business factors actually affect value creation. These factors, known as the value drivers, affect the company’s financial performance and their management creates value in business operations.

Clark and Allen claim that shareholders do not consider value to be a function of accounting data but are rather of the opinion that it entails the image that the market has about the organization regarding its qualitative features, such as risk or perceived growth. These qualitative attributes cannot be found in quarterly reports but can increase financial results and contribute to shareholder value creation in a manifold way\(^4\).

Jensen\(^5\), however, maintains that it needs much more to create value in the organization than merely set maximization of value as an organizational goal. In order that the organization be successful and become a leader in a competitive environment, maximization of value as a measure of success should be complemented by vision, strategy and tactics that integrate all the participants in the organization towards achieving a mutual goal.

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In their work, Lucac and Frazier come to a conclusion that, although strategic plans show that strategies support the corporate vision, these plans are not necessarily systemically linked with shareholder value\(^6\). In order to explicitly associate strategy with value, the authors designed a mechanism in which the shareholder value is vertically presented, while strategic plans are presented on a horizontal axis. Such an approach allowed for linking concrete strategies with their contribution to the shareholders’ value.

According to Knight, value is created by operational and investment decisions managers make on a daily basis\(^7\). For the value-based management to succeed, it has to be built into daily decision-making. This means achieving a high level of managerial understanding of how management can have an impact on the increase in the company’s value and on the translation of abstract concepts of value creation into meaningful daily operation tasks.

In their work, Hahn and Kuhn develop a comprehensive approach to creating a decision-supporting model in value-based management\(^8\). The core of the model is an integrated system of business planning. The model is developed in such a manner that it implements powerful methods of optimization that can mitigate risk impacts.

The focus on value creation implies that decisions and activities are assessed in terms of how much value they will create, and that the value-creation oriented behaviour is encouraged throughout the organization. Establishing a value-creation culture requires far-reaching organizational changes. If management is oriented toward results, business aspects like ICT will be adopted more easily\(^9\). Monnery maintains that the value creation process requires that managers should fully apprehend which factors create value and in which way they should encourage employees to do things in a different manner\(^10\).

The strategy of successful companies depends on their perception of the very process of value creation, which includes the managers’ knowledge about how to improve business performance. According to one group of authors, understanding the value creation process is based on knowledge or experience of the causes of problems in business operations and the reasons for which the company cannot maximize its

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potentials, as well as of the method in which managers can affect the business to improve performance\textsuperscript{11}.

Wall and Greiling analysed whether and in which way accounting techniques used as managerial decision-making support in value-based management differ depending on the standpoints of shareholders vs. stakeholders. They point out that the impact of accounting information upon managerial decision-making can be twofold: direct, in the form of input data, or indirect, when they affect managers’ behaviour\textsuperscript{12}.

Managers’ behavior and decision-making support in value-based management could be affected by some other important factors, useful for new models like the quality of the intensive monitoring services on the markets\textsuperscript{13}, the sub-processes of task integration and human integration\textsuperscript{14}, the incentive granting through economic value added\textsuperscript{15}, the modularization of content (the service or product), context (in which the transactions occur), infrastructure\textsuperscript{16} or the calculation of achievable productivity during a permanent restructuring process\textsuperscript{17}.

In general, value is a term that denotes how much something is worth. It can be measured and expressed in various ways. In this paper, the emphasis is on creating and measuring value that can expressed in financial terms. The concept of value creation itself refers to the increase in the rate of return on the invested capital through a combination of increase in cash flows and reduction of business risk. Value is created only if the business unit or the entire company can earn the rate of return on invested capital that exceeds its cost of capital.

In this paper, we propose the discounting cash flow method (DCF method) as a fundamental approach to measuring created value. This approach offers a more sophisticated and a more reliable insight into the value of the company in comparison with the accounting approach. It is based on the concept that an investment creates value if it generates the rate of return that is higher than the rate of return on


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investments with a similar risk. In other words, for a given risk level, the company that has a higher rate of return on invested capital will be in a position to invest fewer assets, generate larger cash flows and create more value for its shareholders. In addition, the DCF method can be used to calculate the amount of risk, which is reflected in a discount rate. The discount rate represents a required rate of return on the capital invested and denotes the risk or the likelihood of achieving the anticipated cash flows in the future. In general, a weighted average cost of capital is used as a discount rate in DCF calculations.

Based on the abovementioned, in order to calculate the value, it is necessary to define the returns (in the DCF method, returns relate to the cash flow from business operations), the respective discount rate (in general, as discussed, it is a weighted average cost of capital), as well as the time period during which the financial projections are made. The value is than calculated through the discounting of anticipated cash flows in a defined time period by using an appropriate discount rate. In that respect, the formula shows that value can be increased either through the increase in returns or decrease in the discount rate. A combination of both strategies is possible and desirable, as already discussed.

Key value drivers

An important aspect in understanding the management of a company for the purpose of maximizing its value is the understanding of which factors are key ones in the value creation process. It is these factors or variables that are called the key value drivers. By managing these factors, the management can influence the cash flows and, consequently, contribute to the scope and the manner in which the value is created.

A value driver is simply a variable whose change can have an impact on the company’s value. In order to be “usable”, value drivers should be organized in such a manner that the management can identify those that have the greatest impact on value creation and delegate responsibility for their performances directly to the respective line of management within an organization.

Identifying the key value drivers is a creative process that requires a lot of effort and is a result of frequent trials and errors. Mechanic approaches based on the existing information and purely financial approaches can rarely identify the key value drivers. Bringing the management of the value drivers into harmony with the decision-making process in the organization is the key to a successful value-based management of the company.

Value-based management entails identification of value drivers than can guide managers towards creating an optimum shareholder value. Naturally, the key value
drivers differ from one industry to another and it is the duty of the management to identify and control them\(^\text{18}\).

The analysis of key value drivers may benefit from the use of the well-known DuPont analysis. This analysis states that the rate of return on invested assets depends on the net profit margin and the assets turnover. In that respect, the net profit margin can change either by increasing sales or reducing costs and the management needs to identify key value drivers and define strategies that can contribute to these changes. On the other hand, the assets turnover can be improved through the proper management and use of all assets components – accounts payables, accounts receivables, inventory turnover, fixed assets turnover, etc.

By increasing the net profit margin and by a better management of the assets, the management influences the amount of cash flows, which directly relates to the realized profit margin and required investments in fixed assets and working capital. Assuming that the increased cash flows improve the competitive position of the company thus decreasing the business risk, the identification of the key value drivers through the DuPont analysis can help the management in the value creation process.

By using the traditional DuPont analysis, the leading logistics company in Serbia managed to clearly identify its key value drivers. Concentrating on the management of these drivers through the restructuring program that lasted for almost two years, the company managed to increase its cash flows. In addition, through the implementation of different financing policies, the cost of capital was also significantly reduced. These measures resulted in the increase of the enterprise value of the company during this period by almost 30%.

In another example, the leading paint and coatings producer in Serbia went through an extensive restructuring process during which the shareholders implemented the value-based management. The financial goals and the performance measurement systems in line with the previously identified value drivers were introduced. Such measures improved the business efficiency, profitability and, eventually, the attractiveness of the company, which resulted in its successful sale to a strategic foreign investor.

Value creation models

Certain authors have attempted to define the framework, that is, the methodology for creation or increasing the value of the company on behalf of and to the benefit of shareholders. As we will see further on, the presented models of value creation are

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Based on the principles stated in the previous chapter of the paper. From the financial point of view of the value creation process, the realized return on investment has to be higher in comparison with the cost of capital used to finance that investment. From the business point of view of the value creation process, the company’s management has to make decisions related to operations, financing and investing on a daily basis, having in mind the core value drivers and the manner in which they affect the value creation process.

There are four basic value creation models – the restructuring pentagon, the PARE model, the Porter’s value chain and Rappaport’s value network model.

Restructuring pentagon

The restructuring pentagon is used in creating a conceptual framework and identifying the key value drivers to measure whether value in business is created or lost\(^\text{19}\). This framework is based on the analysis of the free cash flows and the key value drivers. The value of the company is the sum of the values of the existing assets and its growth potential. The value of the existing assets is defined by the level of after-tax earnings and the weighted average cost of capital. The value of the growth potential is, on the other hand, determined by the key value drivers – the rate of return on invested capital, amount of net new investments, competitive advantage period, investment rate, and the weighted average cost of capital. The competitive advantage period indicates the period of time during which the expected rate of return on invested capital exceeds the company’s weighted average cost of capital.

The restructuring pentagon shows that the market value of the company is lower than the potential value of the company by a gap that exists between the capital market perception of the company’s value, as well as by any missed opportunities for the company’s restructuring. In that respect, value can be created through the restructuring activities aimed at narrowing the gap – internally and externally oriented business restructuring, as well as financial restructuring.

PARE model

Two authors, Crum and Golderberg, developed a conceptual framework for the assessment of the company sustainability known as a PARE model (Potential and Resilience Evaluation Model)\(^\text{20}\). These authors maintain that taking steps that improve the potential and resilience of the company is value creative.

According to these authors, the company’s potential relates to its capability to generate cash flows and depends on its ability to introduce innovation and to implement certain activities, or projects.

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On the other hand, the company’s resilience refers to the risk associated with the future cash flows. Two strategically important risk dimensions associated with the company’s business operations are the exposure position and the reserve capacity of the company.

According to the model, strong potential and strong resilience show that the company is a powerful competitor and actions should be taken to retain this position. On the other hand, low resilience and low potential show that the management should think about liquidation or, at least, about a serious restructuring of the company. An analysis of the company in terms of its potentials and resilience helps identify the problems and points to the corrective steps that should be undertaken to create value.

**Value chain**

Value chain is a model created by Michael Porter. According to this model, the attractiveness of the industry and the competitive advantage are the major sources of value creation\(^1\). The more favourable they are, the higher the likelihood that the company will create value. The advantage of this model is that it not only identifies various activities that create the business chain of the company but also identifies potential points at which the created value can be increased.

The term *value chain* denotes all activities that add value, from the product design, procurement of manufacturing equipment, manufacturing process itself, to the distribution of final product to the end user. The goal of the value chain analysis is to analyze all of these activities and restructure them so that they create value.

The concept that Porter’s model offers is essential in understanding business and the environment of any company that is subject to restructuring. Through the value chain analysis, managers can learn which activities are necessary to be restructured in order to add or increase the value of the company\(^2\).

**Value Network Model**

The *value network model* was created by Rappaport and offers a conceptual framework for the analysis of the value creation process\(^3\). It is used for creating value through restructuring, investment and financing activities.

Fundamentally, the model uses the DCF method to measuring the created value. The model calculated the shareholders’ value by discounting the projected cash flows using an appropriate discount rate (usually the weighted average cost of capital).

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\(^2\) Jaško O., Krivokapić J., Ćudanov M. (2010), Standards of job classification as organization design tool based on Mintzberg’s and Porter’s theoretical assumptions, Proceedings of 7th Conference Standardization, prototypes and quality: a means of Balkan countries’ collaboration, Faculty of Organizational Sciences, Belgrade, Serbia.

According to this model, there are seven key value drivers – sales growth, operating margin, tax rate, required investments in fixed assets, required investments in working capital, planning horizon and the cost of capital. The advantage of this model is in that it describes the relation between the management decisions and the key value drivers. Operational decisions such as the production mix, price, promotion, advertising, distribution and customer service are primarily concerned with the first three value drivers. Investment decisions such as increasing the inventory level or production capacity relate to the fourth and the fifth value driver. Finally, the cost of capital as a value driver depends not only on the business risk, but also on the financial decisions made by the management in terms of the amount of leverage used, as well as the implementation of adequate financing instruments.

Conclusion

This paper deals with the methodology of value creation in companies going through the restructuring process. The subject of the paper is the analysis of the conceptual frameworks for the identification of business variables that affect the value creation process. These variables are called the key value drivers. The aim of their identification is to find a method to increase the company’s value by managing them through the restructuring of operating, financing and investment activities.

Using the discounted cash flow method, the company’s value is defined through the amount of projected cash flows as well as the level of a discount rate, which is usually represented by the weighted average cost of capital that reflects the probability of achieving the projected cash flows. In order to increase value, it is necessary to increase the cash flows and decrease the business risk, represented by the discount rate. Through the restructuring program that is based on identification and management of the key value drivers, the management should combine the increase in sales, reduction in costs and improvements in the total assets turnover to increase cash flows. On the other hand, the management should also concentrate on reducing the business risk and, consequently, reducing the cost of capital.

From the financial point of view, the realized return on invested capital needs to be higher than the cost of that capital, as stated by Rappaport and Copeland. From the business point of view, the company’s management has to make decisions regarding operations, financing and investments on a daily basis, having in mind the key value drivers and the manner in which they affect the value creation process, as stated by Porter.
References


Value creation through restructuring – key value drivers and value creation models

Abstract

The subject of this paper is the methodology for value creation in companies going through the restructuring process. The approach is based on key value drivers. The definition of value, measuring value and value creation models are presented. The objective is to make the management understand how to create value through restructuring activities and decisions regarding operations, financing and investments. In order to create value, management needs to pursue strategies that raise the return on invested capital, reduce the risk, or are a combination of the two.

Key words: restructuring, value creation, key value drivers, value creation models

TWORZENIE WARTOŚCI POPRZEZ
RESTRUKTURYZACJĘ – KLUCZOWE CZynnIKI
WARTOŚCI I MODELE TWORZENIA WARTOŚCI

Streszczenie

Tematem niniejszej pracy jest metodologia tworzenia wartości firm przechodzących przez proces restrukturyzacji. Podejście to jest oparte na kluczowych czynnikach wartości. Podane są definicje wartości, pomiaru wartości i tworzenia wartości. Celem pracy jest uzmysłowienie zarządom, jak można stworzyć wartość poprzez restrukturyzację oraz decyzje dotyczące operacji, finansowania i inwestowania. Aby stworzyć wartość, zarządy muszą stosować strategie, które zwiększają zwroty zainwestowanego kapitału, zmniejszają ryzyko lub są kombinacją obu strategii.

SŁOWA KLUCZOWE: restrukturyzacja, tworzenie wartości, kluczowe czynniki wartości, modele tworzenia wartości
STRAATEGIC HRM OUTSIDE OF CORPORATE HQ: LOST IN TRANSLATION?  

Introduction

In today’s ever increasingly competitive global marketplace it is pivotal for firms to effectively manage not only tangible resources but also to exploit intangibles in a complex, global arena. Given this context, both Human Resource (HR) scholars and practitioners have been examining how to efficiently manage a global workforce and the implications this has for the HR function and competences of HR professionals.

Most knowledge about global Corporate HR has been conducted at the level of corporate Head Quarters (HQs), reflecting that this is where the design and implementation of the organisation’s global HR policies, especially for top management and expatriates, is likely to occur (Novicevic and Harvey, 2001; Scullion and Starkey, 2000; Sparrow, et al., 2004). New typologies of global HR functions have been developed based on this Corporate level analysis (Evans et al., 2002; Farndale et al., 2010; Novicevic and Harvey, 2001; Scullion and Starkey, 2000; Sparrow et al., 2004).

In terms of global HR research at the level of the subsidiary, considerable focus has been given to the ‘convergence’ and ‘divergence’ debate, especially in the context of country of origin (Edwards et al., 2007; Edwards and Kuruvilla, 2005; Pudelko and Harzing, 2007). More recently, attention has been given to reverse diffusion where HR practices are generated at the subsidiary and adopted by HQs (Edwards and Tempel, 2010). The role that knowledge flows have for the transfer of information and policies between HQs and subsidiaries (and vice versa) has also received

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considerable attention among scholars of global organisations (e.g., Gupta and Govindarajan, 2000; Minbaeva, et al., 2003).

A limitation within the literature is that it is often assumed that knowledge of HQ policies and practices is effectively transferred and implemented in the organisation’s subsidiaries irrespective of the role of key actors, their preferences, competences and cultural context. While evidence of ‘ceremonial adoption’ of HR practices has been found (e.g., Meyer and Rowan, 1977; Kostova and Roth, 2002), the explicit role that knowledge and perceptions of HR have in this process has not been explored. In particular, the possibility of divergence in knowledge and perceptions about HR generally, that is, its role, influence and function within an organisation, rather than specific practices, have not been investigated previously.

The key research question that this paper answers is whether an individual’s knowledge and perception of the role of (strategic or not), the influence of HR, and HR’s implementation vary based on whether they are located in the organisation’s corporate HQs; a subsidiary of the same organisation; and what the individual’s role is in the organisation (HQ HR Director; HR manager/specialist or line manager). The paper’s true uniqueness arises from the multiple respondent nature of the data collected (i.e., a five-way matched sample for 143 organisations).

The data analysed are part of a wider EU-funded study that examines the determinants of foreign direct investment (FDI); the role and functions of human resource management; and subsidiary level performance in three Central Eastern European Countries: Poland, Hungary and the Czech Republic. These countries are examined because they have received the largest share of UK foreign direct investment (FDI) in the region (UNCTAD, World Investment Report, 2008) and there has been relatively little research on the HR function and HR practices in this important and emerging region of the world (see Morley et al., 2009 for a notable exception).

Review of the Literature

A broad selection of literature and context is relevant to this investigation. Focus is given to the discussion of three areas: (a) knowledge transfer in MNCs; (b) perceptions of strategic HRM and the changing HR function; and (c) a brief discussion of the three non UK-study countries is given in order to provide important contextual information.

Knowledge Transfer in MNCs

The ability to share knowledge across units and across national borders is a prime reason behind the formation of Multi-National Corporations (MNCs, hereafter) (Kogut and Zander, 1993; Gupta and Govindarajan, 1994). According to Noorderhaven
and Harzing, “Knowledge is an important, if not the most important, strategic resource of firms (Grant, 1996; McEvily and Chakravarthy, 2002; Szulanski, 1996), and the ability to share knowledge between units of the organisation is an important basis of competitive advantage of firms (Argote and Ingram, 2000; Nonaka and Takeuchi, 1995).” (2009: 719).

The success of knowledge transfer will be mediated by the knowledge receivers’ ability and willingness to absorb knowledge, and the environment in which knowledge is determined, shared, interpreted (Minbaeva et al., 2003; Minbaeva, 2005). Fundamental to this environmental context, is the relationship between HQs and the subsidiary, including the nature of the subsidiary’s dependence, its place within the organisation’s value chain, and levels of trust, social interaction and networking between units of the organisation (see Noorderhaven and Harzing, 2009 for a recent analysis). These contexts will also influence the extent of adoption of HR practices (Kostova and Roth, 2002) within subsidiaries, including the association between various HRM practices and knowledge transfer within MNCs (Minbaeva, 2005).

Perceptions of SHRM & the Changing HR Function

The recognition that HR plays an important role in gaining competitive advantage in today’s business environments, including its increasing global responsibilities, has contributed to a view that there has been a transformation of the roles and responsibilities of the HRM function within organisations. This transformation is often assumed to be characterised by a greater strategic role for HR and a devolution of personnel/HR responsibilities to line managers (for a recent survey of the strategic human resource management literature, see Lengnick-Hall et al., 2009).

Evidence on the emergence and spread of a substantial strategic role for HR is, at best, mixed, however (Becker and Huselid, 2006; Brewster et al., 2004; Farndale, 2005; Kearns, 2004; Lengnick-Hall, et al., 2009). While the presumed increased strategic role of HR has been challenged, questions have also been raised about changing relations between HR and line managers and the extent and effectiveness of devolution within organisations (Andolsek and Stebe, 2005; Budhwar, 2000; Maxwell and Watson, 2006; Morley et al., 2006).

Maxwell and Watson (2006) emphasise that: ‘A fundamental element of HR business partnership development is arguably commonality in line and HR manager perceptions of the HR function in which line managers are elemental (Larsen and Brewster, 2003). Evidence that there is such commonality is conspicuous by its absence.’ (p. 1153). Using a multi-respondent methodology within a single organisation, the authors compared HR and line managers’ views about strategy and the delivery of HR. Significant divergence in perceptions between the two types of respondents emerged in relation to the delivery of HR (i.e., the extent of devolution) and divergence in the perception of the strategy espoused by corporate HQs and
line managers. While there was evidence of devolvement in all of the HR activities investigated they found that in every activity the HR managers’ perceptions of line manager involvement is greater than the level of involvement as perceived by the line manager. (ibid, 2006: 1160).

What is not clear from the literatures reviewed thus far is whether knowledge and perceptions of corporate HQ’s policies and an appreciation of how these policies are formulated, and in particular, HR’s role in any such strategic policy formation are transferred out of HQs. If the importance of HR is not known within an organisation’s subsidiaries, HR is likely to continue its well documented struggle for status (Hope-Hailey et al., 1997). This is likely to be exacerbated further when the subsidiary is based in economies that are relatively new to the concept of HR, such as the three study countries, and thus may be uncertain about its role and influence, especially regarding any non-administrative HR functions. All of these factors are likely to create significant challenges for a partnership approach to delivery. Thus, the national context of where knowledge and perception about HR’s role and influence is transferred is likely to be important.

The National Context

There is a significant strand of literature which shows that national, institutional and cultural contexts influence the role required of the HR department (see, for example, Farndale et al., 2008). These factors are also likely to influence how HR is experienced in practice (Earley and Singh, 2000).

While the research presented in this paper is essentially set within economies of ‘low coordination’ (Farndale et al., 2008), a simple categorisation of the three Central Eastern European Countries examined should be avoided (House et al., 2004). In particular, their frequent homogenisation as “former communist”/”Soviet bloc” or “transition” economies fails to capture the unique complexities that each country presents, especially for foreign investors.

If the three study countries were to be ranked by their exposure to markets and capitalism at the time of transition in the late 1980s, Poland would rank lowest; followed by the Czech Republic; and Hungary, with its experiment of ‘market socialism’, the highest (for detailed discussion of these issues for Poland see Kemp-Welch, 2008; Listwan et al., 2009; for the Czech Republic, see Koubek, 2009; and for Hungary, Poor, 2009). These rankings, however, have been significantly influenced by Foreign Direct Investment (FDI) flows post-transition and especially over the past ten years. Foreign Direct Investment has been pivotal to the growth and development of the study countries. Their relatively low wage and taxation rates and high levels of education have made them particularly attractive to investment from EU countries investors (e.g., Germany, Holland, and the UK) (Guagliano and Riela, 2005). Poland has received the bulk of FDI inflows among the study countries (in 2007, for example,
it received 17,563.01 (USD millions) of FDI inflow; Czech Republic, 9,131.77 (USD millions); and Hungary 5,572.57 (USD millions) (OECD Statistics, 2010). All three countries have a relatively large number of graduates, but Poland is by far the highest at 13.98 per 1000 (2007); 11.26 Czech Republic; Hungary, 10.89 (by comparison, this number is 11.8 in Germany) (Eurostat, European Commission, 2007).

It is also important to recognise that under communism, across the three study countries – albeit to varying degrees – ‘HR’ or rather, to use the correct historical term, ‘personnel officer’s’/‘departments of personnel policy’ (often referred to as the ‘cadre department’) – were very much linked to the state and appointments to these departments were made by Communist Party secretaries (see Bangert and Poor, 1995; Koukert, 2009; Poor, 2009 for further discussion). In all the study countries, there are now professional associations of Personnel Managers/HR Managers and HR is a required module for students studying for a Business Degree. So, like the economic and political systems, the role of HR has changed significantly in all the countries as has the profile and backgrounds of people performing HR. Nevertheless, the relatively recent historical role of HR and its somewhat recent emergence as a profession with non-administrative/transactional responsibilities establishes significant contextual factors to the analysis presented.

Primary Research Objective & Questions

The above literature was used to formulate the primary research objective and questions.

Key Objective: To explore whether multiple respondents within the same organisation have different levels of knowledge and perceptions about the role and influence of HR and its delivery.

- Is there a shared knowledge and perception of (a) the extent of HR’s role and influence and (b) how HR contributes to strategy, in practice?
- Is there a shared understanding of whether there has been an increased role for line managers in the delivery of HR (i.e., the devolvement debate)? Does this understanding vary across HQ and domestic and foreign subsidiaries; and within units (e.g., between HQ and HR managers/specialists and line managers)?
- How does national context mediate these relationships?

The Data and Sample

The methods used to collect the data were a large-scale telephone survey conducted by a professional survey company and in-depth personal interviews.
the data were collected between 2009 and 2010. The population was provided by the Dun and Bradstreet’s Global Reference Solution (GRS) database. The GRS database is the most comprehensive and detailed source for information on complex companies (Henriques, 2009). The results presented in this paper are based on a matched sample whereby the UK HR Director and two HR managers/specialists and two line managers in the organisation’s UK and foreign subsidiaries completed interviews (5 respondents per organisation). Completed 5 way ‘matched’ interviews were achieved in 143 organisations (representing a response rate of 37.8% and 715 completed interviews amongst these respondents). For a detailed discussion of the population and the sample, see Sheehan (2012).

It is important to note that the overseas interviews were conducted by native speakers who had been trained by the professional survey company based in the UK. Fifty-seven of the study subsidiaries were based in Poland; 46 in the Czech Republic; 40 in Hungary; and 143 in the UK. A minimum quota of 40 responses per country was set.

**Qualitative Data**

In-depth follow-up interviews were undertaken in twelve of the survey companies. The qualitative analysis presented in this paper is based on 60 in-depth, personal interviews with 12 HR Directors/Global HR Directors at Corporate HQs; 24 HR managers/specialists and 24 line managers at the foreign and domestic subsidiaries. Twelve of the subsidiary interviews were UK based; six were based in Poland and the remaining six were divided evenly between the Czech Republic and Hungary.

Ninety-two percent of the overseas interviews were conducted in the interviewee’s native language, which was conducted by an interpreter. The duration of the interviews varied from 40 minutes to over 3 hours. In this paper, extracts from the raw data are used to help to explain and understand the data generated by the survey. In other words, these interviews help to explain some of the ‘why’ behind the survey data.

**Findings**

*Knowledge and Perception of HR’s Role and Influence (Research Question 1)*

**Knowledge of Strategy**

Rows 1–2 (Table 1) investigate issues of basic organisational knowledge. Respondents were asked if the organisation had a (a) written business strategy and (b) written personnel/HR strategy.
Table 1. The Strategic Role of the HR Function: HQ and Subsidiary Perceptions

<table>
<thead>
<tr>
<th>Strategic</th>
<th>[Strategic HQ Director (1)]</th>
<th>[HR Manager/Specialist, UK Subsidiary (2)]</th>
<th>[Line Manager, UK Subsidiary (3)]</th>
<th>[HR Manager/Specialist Foreign Subsidiary (4)]</th>
<th>[Line Manager, Foreign Subsidiary (5)]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organisation has a written Business Strategy</td>
<td>92.3</td>
<td>86.8 Did not know = 2.8</td>
<td>78.2* Did not know = 14.5</td>
<td>82.5 Did not know = 9.5</td>
</tr>
<tr>
<td>2</td>
<td>Organisation has a written Personnel/HR Strategy</td>
<td>71.2</td>
<td>70.6 Did not know = 1.4</td>
<td>60.3* Did not know = 23.5</td>
<td>70.4 Did not know = 8.5</td>
</tr>
<tr>
<td>3</td>
<td>Head of Personnel/HR Department has a place on the main Board of Directors or the equivalent</td>
<td>61.3</td>
<td>49.2* Did not know = 10.1</td>
<td>38.8** Did not know = 35.6</td>
<td>40.5** Did not know = 19.2</td>
</tr>
<tr>
<td>4</td>
<td>Head of Personnel/HR Department has direct access to the CEO through formal reporting mechanisms</td>
<td>76.2</td>
<td>62.3* Did not know = 12.6</td>
<td>37.5** Did not know = 34.3</td>
<td>35.6** Did not know = 21.8</td>
</tr>
<tr>
<td>5</td>
<td>At what stage is the person responsible for personnel/HR involved with the development of the organisation's Business Strategy?</td>
<td>From the outset</td>
<td>59.6</td>
<td>30.2** Did not know = 10.2</td>
<td>12.0** Did not know = 21.3</td>
</tr>
<tr>
<td></td>
<td>Through subsequent consultation</td>
<td>28.2</td>
<td>10.2** Did not know = 10.2</td>
<td>3.0** Did not know = 10.2</td>
<td>3.0** Did not know = 10.2</td>
</tr>
<tr>
<td></td>
<td>On Implementation</td>
<td>4.9</td>
<td>18.8** Did not know = 19.5</td>
<td>n/a</td>
<td>25.6** Did not know = 21.3</td>
</tr>
<tr>
<td></td>
<td>Not consulted</td>
<td>7.3</td>
<td>19.5** Did not know = 21.3</td>
<td>n/a</td>
<td>30.5** Did not know = 21.3</td>
</tr>
<tr>
<td>6</td>
<td>Has there been an increase in the strategic role of HR in the past 3 years at the organisational/HQ level?</td>
<td>Yes</td>
<td>69.2</td>
<td>62.3 Did not know = 1.4</td>
<td>60.9 Did not know = 17.3</td>
</tr>
<tr>
<td></td>
<td>No change</td>
<td>15.2</td>
<td>9.1 Did not know = 1.4</td>
<td>9.5 Did not know = 17.3</td>
<td>9.5 Did not know = 17.3</td>
</tr>
<tr>
<td></td>
<td>Decrease</td>
<td>14.2</td>
<td>10.5 Did not know = 1.4</td>
<td>10.5 Did not know = 17.3</td>
<td>10.5 Did not know = 17.3</td>
</tr>
<tr>
<td></td>
<td>Did not know</td>
<td>139</td>
<td>138</td>
<td>136</td>
<td>136</td>
</tr>
</tbody>
</table>

Total N = 681
The non-parametric Mann-Witney test was calculated to test the significance of the differences between the contingent groups. The results reported in Table 1 are for tests on significant differences between HQ HR Directors (column 1) and each of the other respondents within the organisation (columns 2–5).

The results show a high percentage of formal strategies in the organisations, which is not surprising since they are all large multinational organisations. Ninety-two percent of sample organisations had a written business strategy (compared to approximately 81% for UK Cranet survey organisations) and 71.2% had a written HR strategy (compared to just over 60% for UK Cranet organisations). There is a high percentage of awareness of these strategies among HR specialists in both subsidiaries. For example, 70.6% and 70.4% of HR managers in the domestic and foreign subsidiaries respectively knew that the organisation had a personnel/HR strategy, which would be expected.

Awareness of these strategic issues is significantly lower among line managers and the difference in their responses to those of the HR Director were all statistically significant for these questions at the p<=0.05 level or higher. Within the foreign subsidiaries, 21.6% and 37.6% of line managers did not know that the organisation had a business strategy or had a personnel strategy respectively (for domestic line managers the percentages were 14.5% and 23.5% respectively). Just over 17% of foreign line managers who attempted to answer the question about the existence of a personnel strategy answered it incorrectly.

Interviews with line managers shed some light on these findings:

“Why would I know? I have no time! All that matters for me and my team is the weekly performance reports – and what I need to show there is that I am saving money and generating more revenue. Nothing else matters.” (Line Manager, UK).

“You have to understand for those of us from former communist countries, terms like ‘strategy’/strategic planning’ or the view that things have a ‘strategic role’, reminds us of the former days of centralised planning. Planning didn’t work, nor does ‘strategy’/strategic planning’ in companies”. (Line Manager, Czech Republic).

The most common reasons why line managers appear not to know about their organisation’s strategy is a lack of time and a lack of incentive to absorb this type of knowledge. Many interviewees could see no reason why they should know about the organisation’s strategy as they could not see a link to how it would improve their performance or their team’s performance.

Over half of the interviewees in the foreign subsidiaries also highlighted that most of the organisation’s documents (e.g., Annual Reports; HR Policies; strategy documents) and websites were in English, which was viewed as an additional barrier to understanding organisational level strategy and policies. This presented more of a barrier to interviewees in Hungary and the Czech Republic where English language proficiency is generally not as high as it is in Poland (Eurostat, 2007).
The following quote is representative of these interviewees’ views on the language issue:

“If HQ wanted such information to genuinely cascade down to us at subsidiary level, they would translate more documents and send e-mails in our own language. It is OK for me as I have studied English since at school, but it is a big issue for the older employees, for almost all of the manual employees and most of the employees from the rural areas. I have raised this very issue a few times when people from HQ visit but I have been told to just tell people to use ‘Google translate’. It is not the same... It shows a bit of arrogance and a lack of commitment to us...”. (HR Manager, Poland)

Influence of HR

One way to examine the influence of HR is to examine the positional power of the HR department within the organisation. In particular, its position in the organisational hierarchy, including Board membership (Purcell, 1994; Ulrich, 1997). Having regular access to the CEO is also another important way in which HR can have strategic influence within the organisation (Golden and Ramanujam, 1985; Lawler, 1995).

A question was therefore put to all respondents about whether the HR department at the senior level in the organisation has Board membership. In 61.3% of organisations, HR does have a place on the Board. This is higher than the Cranet 2000 data where HR had a place on the Board in only 48.7% of organisations but broadly consistent with the 63.1% reported in the 1990 survey (see Farndale, 2005 for discussion and analysis). It is perhaps surprising that 10.1% and 19.2% of HR managers/specialists outside of corporate HQ were not able to answer this question and 12.1% and 20.8% of the domestic and foreign HR managers/specialists answered this question incorrectly. The difference between the HR Director and HR managers/specialists in both types of subsidiaries was statistically significant (all at the p<=0.05 level for domestic HR managers and at the p<=0.01 level for the foreign HR managers). Line managers were even less likely to know whether HR had a place on the Board (35.6% and 41.6% of domestic and foreign line managers did not know whether HR had a place on the Board). Both of these differences were statistically significant at the p<=0.01 level.

In 76.2% of organisations the Head of HR has direct access to the CEO. Just over 12% and 21.8% of domestic and foreign HR managers/specialists were unable to answer this question (statistically significant at the p<=0.05 and p<0.01 levels respectively). Over 30% of line managers in both types of subsidiaries could not answer this question or answered it incorrectly (again, both differences are statistically significant at the p<=0.01 level).

In contrast, among the HR managers/specialists who had a good knowledge of the company’s strategy and the influence of HR (or lack of), there was a common desire to progress their careers in the organisation and the vast majority of such interviewees (75% overall) had either professional qualifications in HR or had been at
least exposed to HR in a module at College/University. There was no difference in these patterns between the domestic and foreign HR managers/specialists.

**Involvement in Corporate Strategy Development**

The point at which a department is involved in corporate strategic decision making is likely to be an essential factor in the degree of influence it has in the organisation. A department can participate from the outset in key decisions or, at the other end of the scale, not be consulted about a decision and will then just need to implement it. Since this question was so specific to how HR worked in the organisations, it was not put to line managers. In 59.6% of sample organisations, the most senior HR managers were involved from the outset of corporate strategy development (the Cranet data were similar at 53.8%). In 7.3% of organisations, HR was not consulted about business strategy (the Cranet equivalent for this was just over 10%).

Views from the HR managers/specialists within the subsidiaries about HR’s role in strategy development varied in statistically significant levels from that reported by the HR Director for all of the responses. Moreover, 21.3% and 28.9% of the domestic and foreign HR managers/specialists were unable to answer this question and high percentages of respondents incorrectly believed that HR was not consulted about business strategy. Few were aware that in the majority of organisations HR was consulted from the start about strategic decisions.

HR Directors expressed surprise at these findings:

“We [HR] are consulted, usually at the outset, and always at the outset, if it is anything to do with our overseas facilities. We have a better understanding of the complexities of these sites – especially their cultures, laws and unique hierarchies... – than anyone else on the SMT [Senior Management Team] and they [SMT] knows it. I am surprised and a bit disappointed that people in the HR team are not aware of how involved we are. I will need to address this. It is essential that they know we are involved and we do influence decisions in this organisation. We are very strategic”. (HR Director)

**An Increased Strategic Role for HR?**

In almost 70% of organisations, the HQ HR Directors reported an increase in HR’s strategic role over the past three years, or since their tenure with the organisation (only respondents who had worked in the organisation for more than a year were asked this question). The HR managers in both types of subsidiaries also reported an increase (62.3% and 60.9% for the domestic and foreign subsidiaries). It should be noted that 20% of HR managers/specialists in the foreign subsidiaries could not answer the question; for the UK subsidiary this number was 17.3%. So despite the considerable rhetoric about strategic HR, relatively large percentages of HR managers/specialists did not have a sense of whether HR was becoming more strategic in their organisations.
Interestingly, changes in the strategic role of HR are not all ‘one way’. At the HQ level, no change in the strategic role of HR in this respect was reported for 15.2% of organisations and 14.2% of HQ respondents indicated that there had been a decline in HR’s strategic role.

In all of the companies where interviews were conducted, HR’s strategic role had either increased or remained the same:

“Even here at the subsidiary level, HR is more involved with all aspects of the formation and implementation of strategy. We are no longer an after-thought. Management has finally realised you cannot get things done well unless you have a well trained and committed work force. HR policy and practices must enhance and fit with the strategy of this company”. (HR Manager, UK)

“I cannot say I have seen any change in relation to HR being ‘strategic’. This may be because I am at a subsidiary. Our role really is to make sure we implement policies from HQ efficiently and smoothly and work with the trade union, which HQ finds tricky”. (HR Manager, Czech Republic)

Perceptions of Line Managers Involvement in the Delivery of HR (Research Question 2)

In order to obtain an overview of the range of HR activities undertaken by line managers, both line managers and HR managers/specialists were asked to give their views on: the extent to which line managers were involved with (a) pay and benefits; (b) recruitment and selection; (c) training and development; (d) responsibility for IR; (e) responsibility for workforce expansion and reduction. Four responses were possible: (1) no line management involvement (the HR Department alone had responsibility for the function and thus there was no devolvement of HR); (2) HR Department in consultation with Line Management; (3) line management in consultation with HR; and (4) full devolvement to line managers. The results reported in Table 2 represent whether or not line managers had some role (i.e., the response was not equal to (1), ‘no line management involvement’) in the delivery of the specific HR function and as perceived by all 5 respondents within a particular organisation.
Table 2. Perceptions of line managers in HR: involvement in activities: Line Management Involvement

<table>
<thead>
<tr>
<th>HR Practices</th>
<th>HQ HR Manager, UK Subsidiary, Views on whether Line Managers have involvement in HR Activities (%) (involved or not)</th>
<th>HR Manager, Foreign Subsidiary, Views on whether Line Managers have involvement in HR Activities (%) (involved or not)</th>
<th>Line Manager, Foreign Subsidiary, Views on their involvement in HR Activities (%) (involved or not)</th>
<th>Line Manager, UK Subsidiary, Views on whether Line Managers have involvement in HR Activities (%) (involved or not)</th>
<th>Line Manager, Foreign Subsidiary, Views on their involvement in HR Activities (%) (involved or not)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment &amp; selection:</td>
<td>89.5 75.3*</td>
<td>77.3*</td>
<td>70.0</td>
<td>67.6</td>
<td>55.9*</td>
</tr>
<tr>
<td>Pay &amp; benefits:</td>
<td>83.2 66.2**</td>
<td>72.3*</td>
<td>62.1*</td>
<td>54.7*</td>
<td>28.7**</td>
</tr>
<tr>
<td>Training &amp; development:</td>
<td>88.1 77.5*</td>
<td>78.7*</td>
<td>67.1*</td>
<td>70.5</td>
<td>52.9**</td>
</tr>
<tr>
<td>Responsibility for IR:</td>
<td>71.3 62.0</td>
<td>65.2</td>
<td>60.7</td>
<td>55.4</td>
<td>52.9</td>
</tr>
<tr>
<td>Responsibility for workforce expansion/reduction:</td>
<td>88.8 77.5*</td>
<td>78.7*</td>
<td>57.8**</td>
<td>61.9*</td>
<td>42.6**</td>
</tr>
<tr>
<td>Total N = 699</td>
<td>143 142</td>
<td>141</td>
<td>140</td>
<td>139</td>
<td>136</td>
</tr>
</tbody>
</table>

First, there were no HR activities that line managers expressed the opinion that they were not involved in delivering, thereby indicating initial evidence of devolution. Starting the discussion at HQ, these HR Directors tended to over-estimate devolution across the subsidiaries. The stars in columns (3) and (5) show where the difference between HQ HR Directors and subsidiary HR managers/specialists’ responses about devolution were statistically significantly different. Significant differences were more likely for the UK subsidiary (4 out of the 5 activities) compared...
to the foreign subsidiary where significant difference occurred in only 2 out of the 5 activities, reflecting that perceptions about devolvement in the foreign subsidiaries were lower among all respondents.

The second major pattern of divergence emerges for the analysis of perceptions of devolvement between HR and line managers within the same subsidiary. For every activity examined, HR’s perceptions of line manager involvement is greater than the level of involvement as perceived by the line managers (an almost identical finding is reported by Maxwell and Watson (2006)). This pattern of divergence is found across both domestic and foreign subsidiaries. In the UK subsidiaries, HR and line manager perceptions were statistically significantly different from one another for 3 out of the 5 HR activities examined; for the foreign subsidiaries this was the case for 4 out 5 (80%) of activities.

The interviews help to highlight some of the explanations for these results and also show the strong feelings among line managers, in particular, about the issue of devolvement:

“As we build HR’s strategic role in the organisation, line managers are expected to deliver more HR….. While devolvement is the trend, this is not feasible in many of our foreign subsidiaries. There is outright opposition among line manager to delivering HR. They hate dealing with ‘people’ or ‘soft’ issues and truly believe this is below them and ‘not their job’. There is a strong gender dimension to all of this as well – HR is perceived to be a ‘woman’s job’ in many of these subsidiaries in the region...”. (HR Director, UK)

“There is a big HR Department upstairs. They should be managing the training and appraisals and all of that ‘stuff’. I need to be left alone to run this line; I need time to upkeep it. At the end of the day it is me running this line that makes the company money, not ticking some boxes of some form designed by HR. They design these forms, let them tick their boxes!”. (Line Manager, Hungary)

Devolvement is not always so problematic. In some of the organisations a partnership approach between HR and line managers appears to be taken:

“I work well with line managers. I am careful to explain why I am asking them to take on any additional responsibilities and I am always careful to ensure that any developmental assistance that they may need to take on any new responsibilities is met. We also have delivery of HR worked into their performance appraisals now, which then can increase their performance-related pay. This was actually key to getting their buy-in looking back”. (HR Manager, Poland)

Summary and Discussion

This paper examined whether the knowledge and perception of HR’s role, influence and delivery diverged by unit and respondent across a sample of MNCs. This
was done by surveying HR Directors at Corporate HQ in the UK and HR managers/specialists and line managers in the organisation's domestic and foreign subsidiaries.

For the sample organisations, there is general evidence that HR has a strategic role at company HQs, that this role has been increasing, and that more HR responsibilities are being devolved to line managers, which is broadly consistent with the strategic HRM literature. The transfer of knowledge about HR's strategic role outside of Corporate HQs, however, appears to be highly problematic. It was found that the transfer of knowledge diverges significantly across foreign and domestic subsidiaries and between HR specialist themselves and HR managers/specialists and line managers. There was a general tendency to underestimate the extent of HR's strategic contribution within the sample organisations among all the respondents outside of Corporate HQs, especially in the foreign subsidiaries. This knowledge gap about HR's role and influence outside of HQs appears to have significant effects on the construction of HR's image within the organisations.

There is general support for devolvement in the delivery of HR by line managers. Not one organisation reported that there was not some degree of decentralisation for any of the HR activities examined. Similar to the findings by Watson and Maxwell (2006), significant divergences in opinions about devolvement emerged across the respondents. The HQ HR Directors perceived HR to be more devolved than subsidiary HR managers/specialists and HR managers/specialists perceived HR to be more devolved than line managers.

An important relationship also emerged in both types of the data analysed: where knowledge divergence was lower about HR's role and influence (when these were of a strategic nature), the level of HR devolvement was higher. The transfer of knowledge about HR's strategic role and influence within the organisation contributed to the formation of how HR was viewed which, in turn, affected line managers' willingness to engage in HR responsibilities. A recommendation therefore is that HQ HR must do more to transfer knowledge about its strategic role to its subsidiaries, not only to help construct its image as a strategic business partner but, to facilitate devolvement of HR to line managers, especially in their foreign subsidiaries.

The majority of interviews with HQ HR Directors (75%) found that there is an expectation that HR managers/specialist within the subsidiaries, have taken on, or will take on, in the near future, a more strategic role. It was clear in the interviews that HR managers/specialists in the subsidiaries spent the majority of their time on administrative and transactional matters. Thus, the finding that HR managers/specialists in the subsidiaries appear to be heavily involved in more transactional types of HR has important implications for the role and responsibilities that HR managers/specialists are actually carrying out compared to what their ‘bosses’ (at HQ) perceive them to be doing. A recommendation, therefore, is that it may be useful for HQ HR Directors to conduct an ‘audit’ with their HR managers/specialists about the
allocation of their time between transactional and strategic activities and explore barriers faced to becoming more strategic (Reilly, 2008).

The national context of the three study countries also influenced the findings. Twenty-nine percent of the Polish survey respondents had worked in either the UK and/or Irish labour markets (see Bachan and Sheehan, 2011). In contrast, less than 10% of the Czech or Hungarian survey respondents had worked abroad. In the interviews, it was apparent that previous exposure to HRM abroad, especially in the UK and/or Irish context, given the nature of the sample, influenced knowledge and perception about HR. This was especially so for the line managers. This experience in the UK and/or Ireland was, not surprisingly, also associated with higher levels of English capabilities among the Polish interviewees (and most probably among the survey respondents) which facilitated knowledge abilities about HQ policies, written in English. In addition, the Polish subsidiaries were more likely to have an independent or independent relationship with HQ; be involved with upstream activities and to be based in services compared to their counterparts in the Czech Republic and Hungary. All of these factors contribute to lower knowledge divergence about HR and an associated higher level of devolvement of HR in the Polish subsidiaries, compared to the other two study countries.

In sum, this paper has shown the importance of successfully transferring knowledge about HR’s role and influence to subsidiaries and across HR managers/specialists and line managers within MNCs. The transfer of this knowledge significantly influences the construction of HR’s image within organisations which, in turn, influences HR devolvement. Future research will examine the implications of knowledge transfer for the performance of the sample subsidiaries and explore the factors that influence the perceptions of HR’s competences and professionalism outside of corporate HQs.

References


