

# Human Resource Management of Japanese Companies in Hungary

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## ABSTRACT

Human resource management (HRM) practices differ significantly across countries and cultures, so applying the right practices is of vital importance when establishing a foreign affiliate. How will the different methods mix? Will one of them dominate the other? How will this new hybrid HRM look like and how well will it function? What obstacles will appear?

This paper focuses on the HRM of Hungarian affiliates of Japanese manufactureres. First I introduce the main characteristics and major differences between Japanese and Hungarian HRM. Based on the results of this comparison I made interviewes with such companies, where I asked them about the problematic points. Analysis shows Japanese influence on the gender ratio and areas of responsibility of the HR department, corporate culture, safety practices, and the preference of in-hosue trainings, while pay and benefits, and recruitment methods seem to be rather Hungarian.

However, some companies reported to have issues, in praticular with motivating employees, and the lack of valid performance appraisal systems, that remain unsolved. In the last section of thesis I try to suggest solutions for those problems and give advice for future investors.

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## INTRODUCTION

When expanding to foreign markets companies have to adapt to new social, political, economic, and cultural rules, local trends, and national and institutional contexts. This affects the entire organization including its strategy and everyday practices. Human resource management (HRM) is considered to be the most localized of functions (Pudelko & Harzing, 2007), and therefore is expected to change most across borders. Questions arise: how does one style of HRM blend in with another? Will the new HRM be more like that of the home or that of the host country, and will it be as efficient and effective as either of them? What difficulties will arise along the way?

Multinationals might limit their export of country-of-origin practices to what they consider to be their core competences and converge to local trends in other areas. However, one study showed that German subsidiaries of Japanese companies (and Japanese subsidiaries of German companies) resemble neither home nor host parent practices, but instead follow the American style of HRM. This is a new approach, a convergence to what Pudelko & Harzing (et al., 2007) felt was the world-wide best practices model. Other researchers studying the behavior of Japanese firms abroad found diverse ways of setting up a new HRM system. For instance, Farley (et al., 2004) states that Japanese manufacturers in the United States transplanted certain aspects of their home-style practices, mainly high degree of job security, intensive on-the-job training, teamwork, etc. Yuen (1993) compared Japanese and American subsidiaries in Singapore and concluded that the former ones demonstrated greater host-country influence. Another study of the same region found that quality circles, company-level unions, and consensual decision making were transferable, but lifetime employment and seniority system were not because of cultural reasons (Gill & Wong, 1998).

It is a particularly interesting topic, because in the Hungarian subsidiaries of Japanese companies a unique mix of a huge variety of practices is expected to be found. This is due to the early foundation of Japanese-Hungarian collaboration in Hungary's modern economic development, the above mentioned US-style influence on

European affiliates of Japanese multinationals, and the European Union's impact on Hungarian market practices. The experiences of these organizations would almost certainly be of significant practical importance to other Japanese firms considering expansion to Hungary. As such, this thesis will examine the HRM practices of Hungarian affiliates of Japanese firms, and attempt to shed light on any improvements that could be made.

We begin with an introduction to Hungarian HRM through consideration of the geological and historical features that affected and formed modern Hungary. We then analyze the different features of Japanese, American, and Hungarian human resource management, and how they contrast and might clash. To confirm these perceived characteristics and differences between each style a questionnaire for HR department personnel was formed, one that would also address the core questions of international HRM formation listed earlier. Interviews were conducted with Hungarian subsidiaries of Japanese companies operating in the country as of June 2011. The results of these interviews were then analyzed and used to discuss the practical implications for HRM in subsidiaries of Japanese companies and suggestions for future research.

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# 1. HUNGARIAN HRM

## 1.1 HISTORY OF JAPANESE FDI TO HUNGARY

The first investments were made in the service sector in the late 1970s, early '80s. General trading companies, such as Itochu, opened local representative offices one after the other with the purpose of mediating transaction and trade with Japan, and acting as distributors, representing certain goods in their line of products. This was therefore the time when investment relations in the form of simple debt security with the island country first appeared. „According to surveys the usual overseas strategy of Japanese companies always begins with export. This is followed by the configuration of the marketing and service networks, which are also used for market research. The decision to invest directly comes much later. Japanese investors have followed this pattern on every part of the world so far” (Boromisza, 2007).

The Japanese government added Hungary to the Generalized System of Preferences (GSP)<sup>1</sup> in 1986, contributing to an upswing of trade between the two countries and creating a favorable relationship for the development of investment relations. However, the big breakthrough was brought about by the transition from communism to Western-style democracy in Hungary in 1989 (Bornemisza et. al), and investments of notable amounts of money were made only from the 1990s. The largest of these was the establishment of Magyar Suzuki Co. in 1991. This investment project became the center of attention for the Japanese business life, as Suzuki's experience in Hungary would be a model for other Japanese companies wanting to invest in the country. Positive experiences were strong motivating factors for other Japanese firms currently expanding in Europe, and in many cases helped potential Japanese investors make investment decisions – always concluded after long, careful, and exhaustive consideration – to choose Hungary over other countries in the region.

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<sup>1</sup> The Generalized System of Preferences, or GSP, is a formal system of exemption from the more general rules of the World Trade Organization (WTO). Specifically, it is a system of exemption from the most favored nation principle (MFN) that obliges WTO member countries to treat the imports of all other WTO member countries no worse than they treat the imports of their "most favored" trading partner (wikipedia.org).

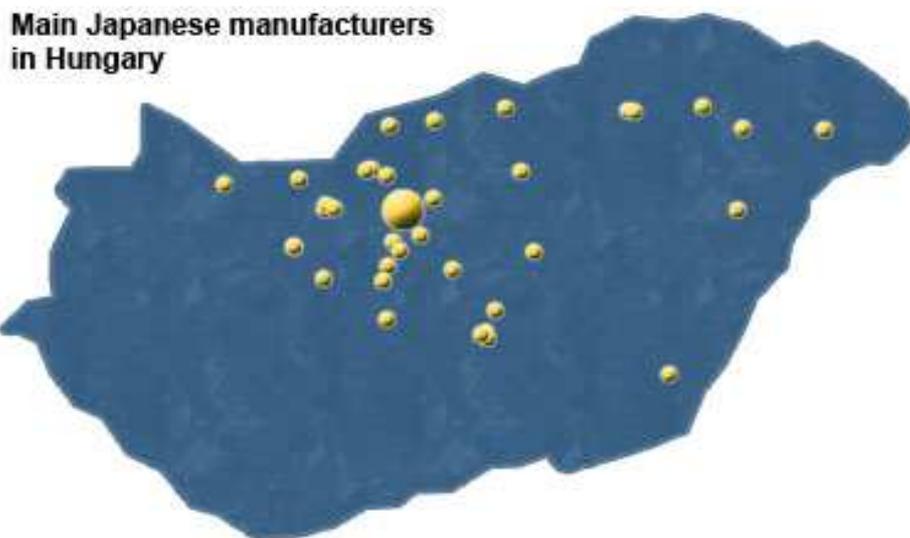
The settlement of Suzuki initiated a wave of investments that, although with altering intensity, continues even today. This is the so called wave of follower investments, so named because the settled investment of a multinational company is gradually followed by a series of its traditional suppliers. These are usually small and medium-size enterprises (SMEs) that are unable to operate internationally due to their lack of capital strength, and would not expand to unknown markets on their own (Boromisza et al). Also, it is important to note that Hungarian SMEs, which were formed en masse in the 1990s, were unable to become the suppliers of these multinational corporations, due to technological fallbacks, lack of capital, and difficulties in labor development (Wimmer & Zalayné 2009, Poór 2010).

Sony began manufacturing in Gödöllő in 1997 ([www.sony-europe.com](http://www.sony-europe.com)), and was joined by Alpine, Aikawa, Calrion and TDK of the electronic entertainment industry, and Denso and Sews of the car parts manufacturing industry. These companies were also established in the second half of the 1990s. 2004 and 2005 brought three major investments: that of Asahi Glass, Ibiden, and Bridgestone. All of which operate in the automobile industry (Bassa, 2007).

## 1.2 JAPANESE COMPANIES IN HUNGARY

According to JETRO, as of June 2011 there are 119 Japanese companies currently operating in Hungary, of which 39 are manufacturers. Their location can be seen in the figure below ([www.jetro.co.jp](http://www.jetro.co.jp)).

FIGURE 1: LOCATION OF JAPANESE MANUFACTURERS IN HUNGARY



Source: JETRO Hungary

As shown by Figure 1, most companies are located within the North-Eastern half of the country, with a larger cluster in and around the densely populated capital, Budapest. Practically all manufacturing sites are outside Budapest, and the companies that are based there are engaged in trade or in the service sector. The proximity of the capital is significant, because many of the business and policy related services, that are essential for companies, are offered there. The families of Japanese expatriates can also find the services they need for everyday life more readily here. Companies of the processing industry settled in cities with industrial traditions and a skilled workforce (Bassa, 2007), such as Shinwa in Miskolc, a city that used to be the national center of heavy industry in the Soviet era.

### 1.3 GEOGRAPHICAL AND HISTORICAL FACTORS

To better understand Hungary it is important to know more about its geographical location and history. As Misha Glenny (1993) a BBC World Service reporter wrote: „No country can claim to be more Central European than Hungary. Physically it is right in the middle of Europe, while culturally it is a bridge between Russia and the East on the one hand and the West on the other. It also marks the divide between the historically

powerful countries of north-eastern Europe and the unstable Balkan nations in the south. It can easily claim to belong to any of these political and geographical areas and, for different reasons, is drawn to all of them.”

Its geographical position has always played a significant role in the history of Hungary, and history always defines the culture of a nation. A good example for this is that as a result of centuries-long oppression by foreign powers, such as the Ottomans, the Austrians and the Soviets, Hungarians are passionately patriotic, but also are flexible and adaptive to new circumstances.

#### 1.4 TRANSITION

In 1989 the collapse of the Soviet Union brought about the disintegration of the People’s Republic of Hungary, and with it the soviet-style political system and planned economy. The outbreak of war in neighbouring Yugoslavia from 1990 affected Hungary at the same time, and made the transition more difficult (Kimura, 1997). In countries behind the ‘Iron Curtain’ technological development fell behind. A huge investment would be needed to catch up with western competitors. However, because of the former socialist system Hungarians did not have equity, foreign investors were needed. Companies had to be privatized in order to receive foreign capital and technology, together with management reforms (Morita, 1996). Moreover, people were used to the centrally planned economy and did not understand concepts of market economy such as profit, capital, investment, market, etc. (Kimura et al).

Still, Hungary did comparatively well during the transition. It was second only to Poland in growth, and second only to Czechoslovakia (and later the Czech Republic) in controlling unemployment and inflation, whilst it was the first in the region to open to the world economy and in structural reforms (Kádár, 1996). As mentioned earlier major, significant Japanese investment occurred only after 1989. Thanks to the early success of standard-bearers such as Suzuki, Japanese FDI to Central Europe concentrated mostly to Hungary, and Japanese companies were established in a faster pace than in other countries of the region. This was helped by the visa waiver program effective since 1992 between Japan and Hungary (Boromisza, 2007).

## 2. A WORLD MAP OF HUMAN RESOURCE MANAGEMENT

The proximity of Hungary to large European markets, combined with heavy investment by Japanese firms in the 1990s, has resulted in a blend of two different management philosophies in post-Soviet Hungary. It would, therefore, be prudent to compare human resource management in Hungary to both American and Japanese models. HRM originated in North American companies, whilst Japan has a very distinctive system of managing employees reflecting the importance of, for instance, loyalty and seniority in Japanese culture. The two practices contrast almost entirely, making them excellent starting points for any comparison, The following topics will be discussed:

1. The HR Department
2. Recruitment and Selection
  - 2.1 Personnel Planning and Recruiting
  - 2.2 Testing and Selecting Employees
3. Training and Development
4. Appraising and Compensating Employees
  - 4.1 Performance Management and Appraisal
  - 4.2 Compensating Employees
5. Managing Employee Relations
  - 5.1 Managing Labor Relations and Collective Bargaining
  - 5.2 Labor Safety and Health

Hungarian HRM is greatly affected by Western European practices, which in turn originate largely from the American model. As a result, HRM in Hungary is similar to that of the United States in many ways. Some of the differences can be explained by Hungary's unique cultural and historical background, discussed in the previous chapter.

The following table summarizes the differences between Japanese and American organizations (Cangemi and Kowalski, 1992).

TABLE 1: DIFFERENCES IN JAPANESE AND AMERICAN ORGANIZATIONS

JAPANESE ORGANIZATION	AMERICAN ORGANIZATION
Lifetime employment	Short-term employment
Slow evaluation and promotion	Rapid evaluation and promotion
Non-specialized career paths	Specialized career paths
Implicit control mechanisms	Explicit control mechanisms
Collective decision making	Individual decision making
Collective responsibility	Individual responsibility
Holistic concern	Segmented concern

### 1. The HR Department

Of the 4.4 million employed workforce in Hungary (KSH, 2011), 67% work for small and medium-sized enterprises (SMEs), and 22.5% work for subsidiaries of multinational companies. In Japan 71 % of the workforce work for SMEs. 20-20% of these firms are in the retail and the service industries, whilst manufacturing is only the 5<sup>th</sup> biggest category with 11% (The Economist, 2010). This ratio is lowest in the United States, with less than 58% of people working for SMEs. Figure 2 summarizes the above mentioned.

TABLE 2: SMES CONTRIBUTION TO TOTAL ECONOMY, 2007 (%)

	No. of Enterprises	Total Employment	Value Added
France	99.8	60.5	56.0
Germany	99.5	60.4	53.6
UK	99.6	54.1	51.0
US <sup>a</sup>	98.9	57.9	na
Japan <sup>b</sup>	99.7	69.0	53.0

a 2006 b 2004-05

Source: OECD, Structural and Demographic Business Statistics; Japan METI/Ministry of Internal Affairs

As Wimmer & Zalayné (2009) stated, the use of formalized HR systems correlates to the size of the company. Therefore, due to their small size, most SMEs do not need a separate HR specialist or department (Poór, 2010). In the United States employers usually have about one HR professional for every 100 employees, so small firms generally do not have a full-time HR specialist, and HRM tends to be ad hoc and informal (Dessler, 2009). Mayson and Barrett (2006) write that small firms tend to rely on "unimaginative" HR recruitment methods such as newspaper ads, word-of-mouth, walk-ins, and they often do not offer any manner of trainings. However, in Japan, since SMEs are often affiliated with keiretsus (a conglomeration of firms), they are a part of a large group of organizations. This results, as reported in *The Economist* (2010) in their HR practices being more similar to that of large companies.

In the Hungarian companies that possess an HR department, the head of HR is a member of the board of directors in 88% of them, and takes part in strategy development in 60% of them. All companies have a written or unwritten business strategy, and 74% also have an HR strategy (Farkas et al., 2010). This ratio is slightly higher in Japan, at around 80% (Yamanouchi, 1999). Investigations by Karoliny (2005) found that companies with Hungarian owners have written HR strategy in a lower ratio.

The optimal role distribution between HR specialists and line managers (LMs) is another area of significant differences between models. Western scholars question the capacity and commitment of LMs to execute HR responsibilities (Kirkpatrick, 1992; MacGovern, 1997; Maxwell, 2006; Rousseau 2006). Dany, Guedri & Hatt (2008) suggest that a shared function increases the cooperation between HR specialists and LMs by improving the quality of communication between the two parties, preventing both sides from concentrating exclusively on their own priorities. They claim that "HRM specialists should share with LMs the responsibility of implementing HRM policies, but they need, however, to keep a predominant role during the implementation process in order to overcome the possible lack of interest and competences in HR of LMs". (Dany et al., 2008)

In the CEE region line managers play a predominant role in HR-related functions. In Hungary they have primary responsibility for making decisions in every key HR function in 40% of responding organizations. In the field of pay and benefits and workforce expansion or reduction this rate is almost 60% and 50% respectively (Karoliny et al., 2010).

Compared to the Western model described above, in which HR only provides structure, in Japan HR provides policy, and has primary responsibility over all HR functions ([www.jetprogramme.org](http://www.jetprogramme.org)).

The HR department of a Japanese company is male-dominated. In the Western world, the opposite is true. The Chartered Institute of Personnel and Development (CIPD) reported that 72% of its members are females; however, 60% of their listed HR directors are male ([www.regananddean.com](http://www.regananddean.com), [www.personneltoday.com](http://www.personneltoday.com)). Within Europe HR is the field of corporate governance most likely to be dominated by female managers. (Lazarova et al., 2008) An interesting characteristic feature of HR in CEE countries is that it is almost entirely female-dominated, especially in Hungary, where males make up only 24% of all HR department heads (Karoliny et. al, 2010). Imbalance in gender within an organization might be one of the causes of assimilarieties between Japanese and Western HRM.

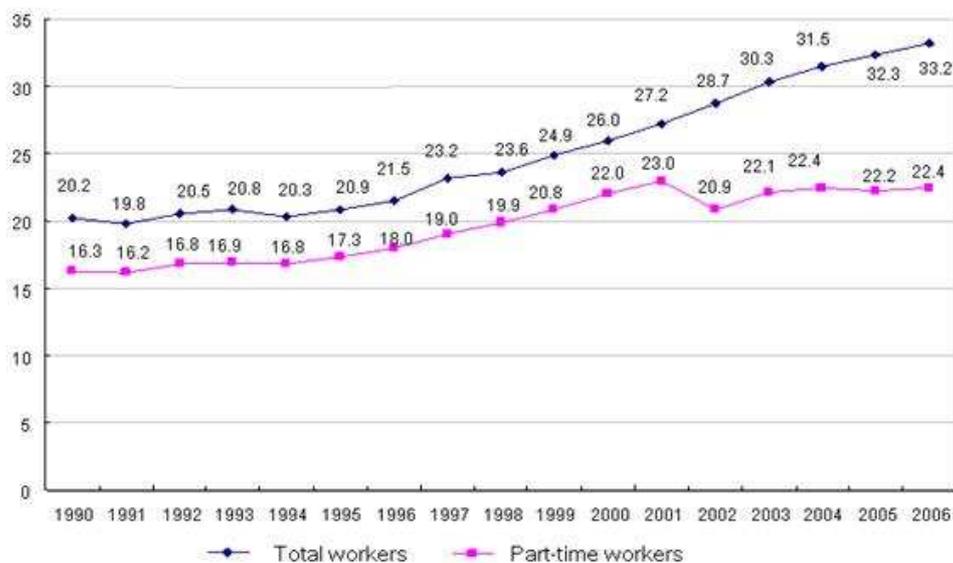
## **2. Recruitment and Selection**

### **2.1 Personnel Planning and Recruiting**

Japan uses a very unique method of personnel planning: due to the traditional practice of lifetime employment, companies recruit a large number of fresh graduates every year in April (the beginning of a new fiscal year). The selection process for an individual, executed by HR and described in the next section, is long, taking around 6 months to complete, and strict, in order to ensure good person–organization fit. Since employees are not hired for specific positions, person–job fit is not taken into consideration. Also as a result of the lifetime employment system, mid-career workplace changes in Japan are extremely rare. The Japanese recruiting system is

often criticized as being too slow to adapt to the fast changing job market, and that the social structure underlying these practices is so deeply rooted that even powerful foreign companies are unable to keep their own practices and must conform to the Japanese way (Robinson, 2003). On the other hand, measures have been taken to diversify recruitment systems. For instance, in-house staff recruitment is present in 30% of firms, and many companies are introducing year-round recruitment and the temp-to-hire system. The introduction of internship programs is a particularly noteworthy change, as it is now present in more than 40% of all companies, and close to 80% of companies with more than 5,000 employees. Also 30% of these large firms offer career counseling to workers (Japan Productivity Center 2003, Japan Institute of Labour 2003). Two more interesting characteristics of the workforce of Japanese companies is that more than 80% of them have part-time and contracted employees, and although Japan is the home of some of the most developed technologies of the world, almost no companies offer teleworking options to their employees (Yamanouchi, 1999).

FIGURE 2: PART-TIME WORKERS AS A PROPORTION OF TOTAL NUMBER OF WORKERS IN JAPAN, 1990–2006 (%)



Source: Ministry of Internal Affairs and Communications, Labour Force Survey, Japan, 1990–2006

As for workforce reduction, Yamanouchi (1999) found that Japanese firms freeze recruitment (40%), do not renew the contract of contracted employees (27%), redistribute employees (24%), or offer early retirement (17%) in order to avoid layoffs. This shows that companies still try to follow the traditional way of keeping their personnel.

In comparison, workforce planning practices in American companies are absolutely different. In the United States the Equal Employment Opportunity Commission (EEOC) binds employers by law to provide equal employment opportunity for everyone. For instance, having a non-diverse workforce staffed by relying on word-of-mouth referrals can get firms into trouble for discriminatory practices. Filling job openings with current employees through in-house recruiting is very common. If external candidates are needed, the most common method is to utilize internet recruiting via adverts on the company's homepage, for instance. The next most popular tool is local newspaper ads. Nowadays, social networking sites also provide assistance (Dessler, 2009). The hiring of temporary workers is becoming more and more popular. They are only paid for the hours worked, often do not receive benefits, and are easier to hire and fire. It is also considered a form of trial run before hiring them as regular employees (Zappe, 2005). Zottoli & Wanous (2000) state that inside recruitment sources (i.e. referrals by current personnel, internal job posting and former employee rehires) are more effective in predicting job performance and generate less withdrawal from the organization than employing outside sources (i.e. advertisements, walk-ins and employment agencies). Like Japan, college graduate recruiting is an important source of employees, although this method is expensive and more time-consuming than in-hiring. Similarly, the number of college internships, often unpaid, has grown dramatically in recent years (Dessler, 2009). One research found that, on average, employers offer jobs to over 70% of interns (BNA Bulletin, 2007).

According to the Cranet Report<sup>2</sup> from 2010 personnel planning in Hungarian companies is usually made by (Karoliny et al.,2010):

- Line management alone 43%
- Line management with the help of HR 28%
- HR department with the help of line management 24%
- HR department alone 5%

From the same report workforce expansion/reduction is done by:

- Line management alone 49%
- Line management with the help of HR 28%
- HR with the help of line management 22%
- HR alone 1%

As a result of the 2008 financial crisis the planned actions are as follows (Poór, 2009):

1. Cost reduction
2. Increase of organizational efficiency
3. Revision of strategy
4. Delaying investments
5. Wage freeze
6. Entrance to new markets
7. Workforce reduction
8. Increase of marketing expenses

This finding is important because it shows that Hungarian companies, like their Japanese counterparts, are also trying to avoid laying off employees. However, American companies have different priorities. A survey on the effects of the economic crisis on HR programs in December 2008 found that they made the following changes (Watson Wyatt Worldwide, 2008):

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<sup>2</sup> The Cranfield Network on International Human Resource Management (Cranet) is a global research collaboration between over 40 universities and business schools. It carries out regular international comparative surveys of organizational policies and practices in comparative HRM across the world.

1. Restrictions to company travel policy
2. Hiring freeze
3. Layoff
4. Cancel company holiday party

There is significant difference between employee retention practices in the United States versus Japan and Hungary. Also Japan uses a very distinctive recruitment method.

## 2.2 Testing and Selecting Employees

When applying for a job in Japan, applicants often must first register with a recruiting website, through which they fill in entry sheets and perform internet based aptitude- and personality tests specific to their desired organizations. They then participate in seminars, and sit a paper and pencil test. Successful applicants are commonly interviewed more than once. Individual interview and application forms are used by 90% of companies when selecting employees, followed by the use of a guarantor in 40%, psychological tests 38% and group interviews in 26%. Assessment Centers are not a popular personnel selection method. (Yamanouchi, 1999)

For most employees in the United States the first step of an application is the filling-in of an application form. Many firms use online or offline tests to pre-screen applicants before in-depths interviews. This is equally true for all worker categories, from physical to managerial staff. Management Assessment Centers are also used in the United States, as despite of their high cost, studies have proved their validity. Interviews are used by virtually all employers (Dessler, 2009). Also, over 80% of HR managers report performing background-checks of candidates, and 35% obtain credit history reports (BNA Bulletin, 2004).

In Hungary recruitment is usually conducted in-house. Emphasis is placed upon selecting managers, but is not so rigorous when hiring manual workers. Koncz (2004) also reports that the more skilled and more expensive the workforce being selected, the more complex the selection process will be and the more types of scientific tools

will be used. Such workforces include experts of specialized knowledge, jobs requiring special skills and talent, and dangerous jobs. The most common method of selection is the aptitude test. The majority of multinational companies in Hungary use these. Karoliny (2005) writes that in 81% of Hungarian companies all positions are defined and have detailed job descriptions. These are used for (1.) selection; (2.) training; (3.) performance appraisal and pay determination; and (4.) the planning of scope of activities and the development of job profiles.

The United States and Japan use formalized selection system. Hungarian companies pay more attention to the selection of managers than that of other workforces.

### **3. Training and Development**

In Japan, all new employees receive orientation and training upon entry. Other training needs are usually determined based upon the result of the performance appraisal. This only differs in the case of line workers, where the line manager decides who needs what kind of training. The highest emphasis is placed upon the development of managers (strategy and management trainings), and the lowest on environment and labor safety (Yamanouchi, 1999). However, this may be a recent phenomenon caused by the global financial crisis Japan has been experiencing since 2008. Companies need to keep up with fast changing world trends, and therefore have fewer resources to focus on internal matters.

In the United States, training used to focus on technical skills, but recently more and more employees participate in training on team-building, decision-making, communication skills, technology and computer skills, and so on. Dessler (2009) also writes that companies (in 2002) spent about \$826 per employee for training that accounted for about 28 hours (approximately 3.5 days) for each employee. He claims the training influences organizational effectiveness more than appraisal and feedback, but less than the goal setting in its effect on productivity. Companies use task analysis in the case of new employees, and performance analysis in the case of current

employees to determine „skill gaps” and from there, training needs. Many companies develop competency models in order to identify core skills, knowledge, and behaviors essential to efficiently perform the job. Popular training techniques include on-the-job (such as coaching, understudy method, job rotation), vestibule, and apprenticeship training. One survey, however, found that 80% of what employees learn about their job is through informal means, such as collaborating with colleagues (Weintraub & Martineau, 2002). American companies also tend to spend a lot of time and money on managerial development. These trainings include, besides on-the-job, action learning, the case study method, management games, outside seminars, and university-related (such as executive MBA) programs.

In Hungary training and development needs are determined by the following:

Line management alone 43%

Line management with the help of HR 18%

HR department with the help of line management 37%

HR department alone 2%

The Cranet report (Karoliny et. al, 2010) found that Hungarian companies spend the most money on training when compared to the global average, while other CEE countries spend less than the global average. Hungarian managers and technical/professional workers also spend more time on training than the average of the total sample, whilst clerical and manual workers spend less. The average number of training days per year for each type of employee are as follows (calculating with 8-hour work days): 6.81 days for managers, 6.63 days for professional and technical workers, 3.53 days for clerics, and 1.98 days for manual staff. In an interview with 51 HR department heads in Hungary Bokor et al. (2006) found that career management is still under formation, planning and definition, and the average employee receives no career-related communication from their employer. The communiqués that are sent focus on managers and talents. The general opinion of HR departments is that top management neglects its career management-related duties.

Japanese, American, and Hungarian companies likewise focus mostly on the development of managers, and tend to neglect that of manual workers.

#### **4. Appraising and Compensating Employees**

##### 4.1 Performance Management and Appraisal

Performance appraisal in Japanese companies is conducted by one's immediate supervisor in 80% of the companies. The result of the appraisal influences pay in 80% of the cases, promotion in 70%, and training needs and career development in 30-30% of the cases (Yamanouchi, 1999).

In a survey by Smith et. al (1996) almost 90% of American companies reported to have mandatory performance appraisal for all employees. The result of the appraisal influences promotion and salary increases in most case, and is also considered a useful tool in career-planning. In 92% of the cases the appraisal is made by the employee's immediate supervisor, and is in turn reviewed by the supervisor's own supervisor in 74% of the cases (Dessler, 2009). Other forms of appraisal include peer appraisal, self-rating, 360-degree feedback, and the management by objectives method.

Formal appraisal systems in Hungary are mostly used in the case of managerial (59%) and professional/technical workers (58%), and not so often for clerical (45%) and manual (35%) workers (Karoliny et al., 2010). The result of the appraisal is used to determine:

1. Pay and bonus (71%)
2. Training and development needs (64%)
3. Workforce planning (51%)
4. Career moves (46%)

In the 2005 Cranet report „determining training and development needs” was the category what the result of performance appraisal influenced most.

The result of performance appraisal mostly influences pay in all 3 countries, however in Japan and the United States promotion stands second, while it is only 4<sup>th</sup> in Hungary. Hungarian companies's focus on employee development is reflected also in 'determining training needs' placing second on this list.

#### 4.2 Compensating Employees

In the United States the following factors are taken into consideration when determining pay rates: 1. Salary that other companies pay; 2. Job evaluation; 3. Pay grades and rate ranges. There is a clear difference between the pay determination of physical and clerical jobs and that of managerial and professional ones, as the latter positions tend to emphasize non-quantifiable factors, such as judgement and problem solving (Dessler, 2009). For top corporate executives the compensation package usually consists of four elements: base salary, short-term incentives (paid in cash 96% or stock), long-term incentives (eg. Stock options 48%), and executive benefits and perks (retirement plans, supplemental life-, and health insurance, leased automobile, free medical examinations, etc.). A 2007 study by Hijazi found that the compensation package of executives is determined based on 3 factors in 2/3 of all cases: job complexity, employer's ability to pay, and executive's human capital, such as education and professional experience. There is stronger emphasis on employees' performance and contribution to the company than on seniority, and a greater focus on an individual's skills and competencies than on the job's duties. Competency based pay helps to avoid the "this is not my job" problem. Most companies use a grade system to determine pay. This means that employees in the same grade receive approximately the same amount of money. Most employees do not earn only a salary or a wage, but also earn a bonus. „Individual incentive programs give performance-based pay to individual employees. Variable pay refers to group pay plans that tie payments to productivity or to some other measures of the firm's profitability" (Dessler, 2009). Practically all employers offer benefits in some form, and most full-time employees in the United States receive some. They account for roughly 1/3 of salaries and wages.

Examples include health insurance, unemployment insurance, sick leave, and vacation.

The most commonly used rewards to motivate employees (Huff, 2006):

1. Employee recognition
2. Gift certificates
3. Special events
4. Cash rewards
5. Merchandise incentives
6. E-mail/print communications
7. Training programs
8. Work/life benefits
9. Variable pay

By contrast, the traditional Japanese wage system is seniority based that means that employees are promoted and given pay raise based on the time spent with the company. This system, however, is changing, and now over 40% of the firms in Japan use performance-based wage systems. The Japan Institute of Labour (2003) describes that by scale of business, 46.0% of companies with 1,000 or more employees had introduced this system versus 35.7% of companies with fewer than 500 employees, indicating that the larger the company, the more widespread the adoption of the system. According to the report of the Japan Productivity Center this rate is highest (47.1%) in the manufacturing sector. The same report states the increase of the practice of competency assessment in Japanese firms over the last 10 years probably due to the Western influence on Japan.

In Hungary pay is determined by:

Line management alone 58%

Line management with the help of HR 24%

HR department with the help of line management 18%

HR department alone 0%

When this data was broken down to individual employee categories the Cranet report found that in the CEE countries, especially in the Hungarian sample, the individual and company-level forms of pay determination dominate in almost all categories of employees. In detail, managers' pay is determined on the individual or company/division level, for manual workers on company/division level in the CEE region (excluding Hungary, where it is determined on the individual level). National or industry-wide collective bargaining is insignificant. In the case of professional and clerical employees, individual, company, national/industry level is equally represented (each 30%) in the total Cranet sample, however national or industry-wide collective bargaining takes up only 20% of all cases of pay determination in the CEE region, and 10% in the Hungarian one. Also, Karoliny (2005) found that there is a slight difference between Hungarian-owned vs. foreigner-owned Hungarian companies. Hungarian-owned firms tend to determine pay on the individual level more often, while foreigner-owned companies take external labor market trends into consideration in a higher percentage of cases. National or industry-wide collective bargaining is equally low in both types of organizations. The most prevalent forms of pay are performance-related pay (PRP), variable pay, and financial participation. When viewed as a global trend, manager PRP is mainly based on company performance. However, in Hungary this is mainly based on individual performance, company performance second, followed by team and department performance, even in the case of professional employees. PRP is more popular in all employee categories than financial participation. Variable pay in all staff category is slightly higher in Hungary and much higher in the CEE region than in the total sample (Karoliny et al., 2010).

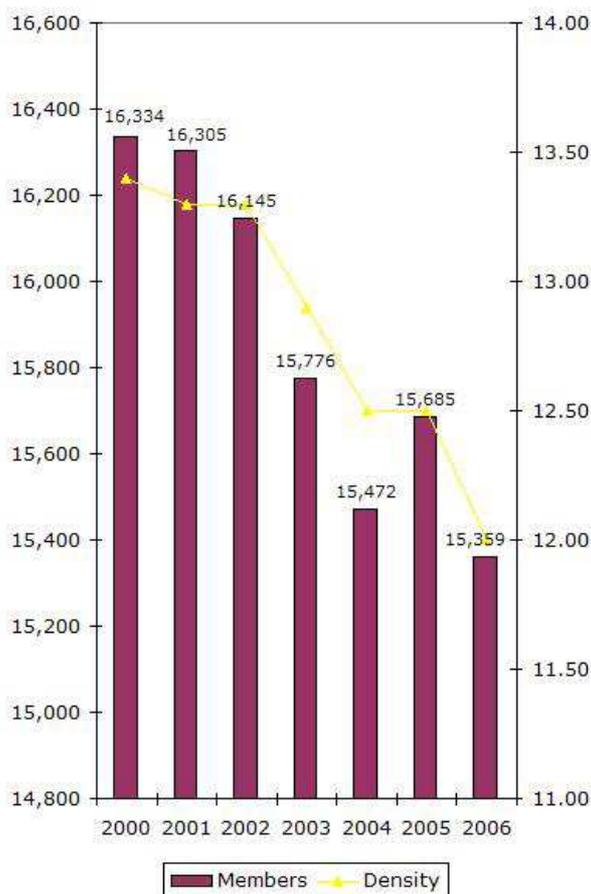
Most American companies use a grade system to determine pay. In Japan seniority and length of employment are what influence one's salary. Whilst in Hungary pay is determined in most cases on the individual level.

## 5. Managing Employee Relations

### 5.1 Labor Unions and Collective Bargaining

Unions usually represent blue-collar workers, but as membership decreases, the relative power and influence of unions decrease too. In addition, factors such as international business, mergers and acquisitions, and outsourcing have eliminated many jobs traditionally associated with union membership, and affected collective bargaining agreements (Dessler, 2009). These statements are true for the United States, Japan, and Hungary as well (Nakamura, 2007; Karoliny et. al, 2010).

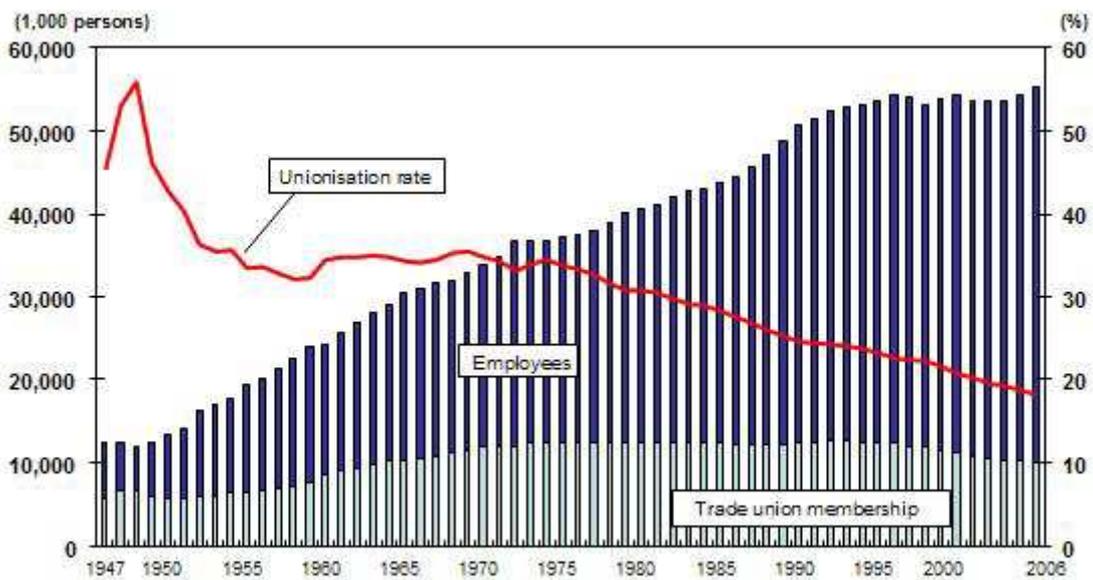
FIGURE 3: TRADE UNION MEMBERSHIP (THOUSANDS) AND DENSITY (%) IN THE US, 2000–2006



Source: US Department of Labor, Bureau of Labor Statistics, 2000–2006 (Demetriades & Pedersini, 2008)

Figure 3 illustrates the drop of union membership in the United States from 2000 to 2006. Density means the ratio of unionized workers compared to all workers. It can be seen that, as of 2006, almost 12% of the US workforce is unionized. In Japan, company-based labor unions are a mainstay of labor organization. However, even there workers' unionization rate decreases every year (Figure 4). The rate of unionization in Japan is approximately 18%.

FIGURE 4: AVERAGE RATE OF UNIONIZATION IN JAPAN, 1947–2006



Source: Ministry of Health, Labour and Welfare, Basic Survey on Labour Unions, Japan, 2007 (Demetriades & Pedersini, 2008)

It is globally true that the HR department has the highest influence on labor relations. In Hungary the proportion is as follows:

- Line management alone 40%
- Line management with the help of HR 13%
- HR department with line management's help 23%
- HR department alone 24%

The Cranet report states that of the 32 participating countries the Hungarian sample has the highest proportion of non-unionized organizations (35%) and the lowest proportion of organizations where over three quarters of the workforce is unionized (6%). This low level of unionization is typical of all CEE countries. Makó (2005) found that local companies are more unionized than the subsidiaries of multinational companies. This is relevant, because employees of Hungarian affiliates of Japanese companies are also expected to be non-unionized.

As mentioned previously, collective bargaining is present in an insignificant level (10%) in Hungary, as pay is usually determined on the individual level.

## 5.2 Labor safety and health

There are various Japanese management methodologies that target workplace safety and cleanness. 3 of the most widely used by Hungarian affiliates (mentioned most times by HR heads during the interviews) are introduced below.

1. **Kaizen:** continuous development. According to Masaaki Imai, who embedded this term and philosophy in the international business life, kaizen is an approach that involves innovation (applying the latest high-cost technology), and the usage of inexpensive, commonsense tools and techniques (Imai, 1997). Its major components include Total Quality Control (TQM), Total Productive Maintenance (TPM), just-in-time (JIT) management, and quality circles (QCs) to name a few (Imai, 1986).
2. **3M:** minimizes cost of production without decreasing the products' quality (Mukherjee, 2007). The '3Ms' must be eliminated from the workplace. Its parts are:  
Muri: means unreasonable, impossible. All elements and processes that employees cannot, will not, or do not want to do must be eliminated.  
Mura: means inconsistency, irregularity. Minimizes the discrepancy between the best and the worst product or service. This strengthens the confidence in the company of customers and management likewise, because they know what can be expected.

Muda: means futility, uselessness. Taiichi Ohno, the 'father' of the Toyota Production System defines 7 mudas: delays, excessive inventory, defects, accidents, non-value adding work, over-processing, and over-production. Further studies defined 2 more mudas: the invention of products that customers do not need, and the missing of opportunities. (Mukherjee, 2007; Raisinghani et al., 2011)

3. **5S**: a slogan of the manufacturing and service sectors that aims workplace development. Processes are made more effective and efficient by sorting items used, and maintaining the cleanness of the area. The 5 S-es are (based on the interviews with HR heads):

Seiri: means sorting. The separation of necessary things from unnecessary and the elimination of the latter.

Seiton: means putting in order. Everything should always be stored in the designated and most convenient place.

Seiso: means systematic cleaning. Maintaining the cleanness of the work area and of all equipment.

Seiketsu: means cleanliness. All practices should be executed in a clean, organized way.

Shitsuke: means discipline. Being respectful towards co-workers and supervisors.

Some companies add other elements to this list, for instance, a large Japanese manufacturer in Hungary added 'safety'.

### 3. MAIN RESEARCH

As the result of the above comparison the following characteristic features of Hungarian HRM are observed:

- Female-dominated sector
- Primary dominance of line management
- Emphasis on the selection and training of managerial employees over clerical, manual, and technical/professional staff
- The result of performance appraisals influences pay and bonus the most, with quantity of training received a secondary factor
- Significant time and monetary resources are spent on employee development
- Individual pay
- Few unions

#### 3.1 RESEARCH METHOD

A qualitative case-based approach was considered the most appropriate for this research, because no previous studies have focused on the actual practices of Japanese companies operating in Hungary. Data was collected through structured interviews with 32 HR representatives.

As mentioned earlier, there are 119 Japanese companies currently operating in Hungary (as of June 2011). The table below categorizes them according to size, shows the number of manufacturers in each category, the number of companies who participated in the present study, and that how many of those firms have an HR department.

TABLE 3: JAPANESE COMPANIES IN HUNGARY DIVIDED INTO FOUR CATEGORIES BASED UPON THE SIZE OF PERSONNEL

	No. of personnel	No. of companies	Manufacturers (% of total)	Interviewed	HR dept.
Large	250<	21	18 (46%)	15	14
Medium	50 - 249	30	16 (41%)	12	7
Small	10 - 49	36	5 (13%)	5	2
Micro	<9	32	0 (0%)	0	
Total		119	39 (100%)	32	23

Table 1 demonstrates that the companies with the larger workforces tend to be manufacturers. Large firms are also more likely to have an HR department. In order to avoid data bias based on assimilairities in types of business it was decided to interview only manufacturers. Interviews were conducted with a representative of the HR department in 32 of 39 Japanese affiliates over a one-month period in September 2011.

Based upon the gaps in our understanding of the HRM of these companies the following questions were asked:

1. What is the nationality of the owner?
2. What is the total number of employees, and the number of Japanese employees?
3. What is the size of the HR department?
4. What is the gender of the head of the department?
5. Is there a written or unwritten HR strategy?
6. What are the HR department's areas of responsibility?
7. Who makes personnel planning?
8. How are the different types of employees (physical, clerical, professional, and managerial) recruited and selected?
9. What kind and how much training do you offer for employees?
10. Who decides who receives them?

11. Who conducts performance appraisals and what does their result influence? (E.g. pay, bonus, career moves, training needs, etc.)
12. On what level is pay determined? E.g. individual-, company-, industry level, etc.
13. How is your company different from other Hungarian firms? Do you use any unique practices?
14. Do you feel any Japanese influence in your everyday work?

Additional questions (added after the first 3 interviews, but answered in all of them):

15. What language course do you offer and to whom?
16. What are your labor safety policies?

Interviews lasted an average of 30 minutes. The data was analyzed using within-case and cross-case analysis. Cases were organized into a matrix where all of them were written out as stand-alone case histories, and also all sections (such as recruitment, selection, training, etc.) were grouped together for an easier comparison.

### 3.2 FINDINGS

Analysis of the answers are divided into the following sections:

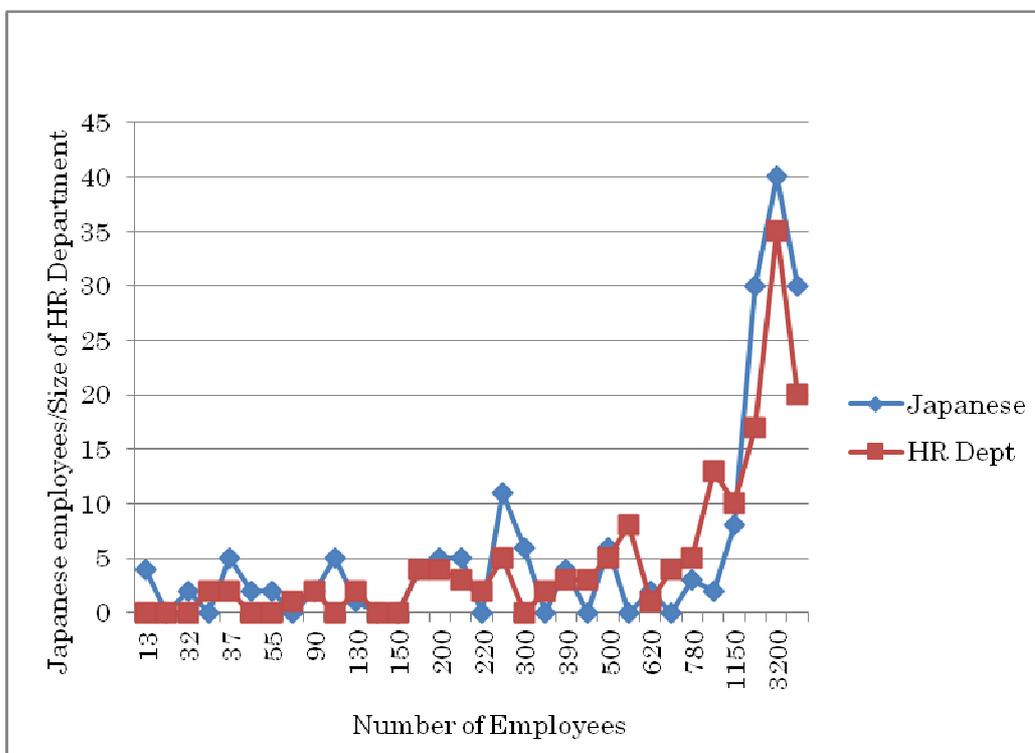
1. The HR Department
2. Recruitment and Selection
3. Training and development
4. Performance Appraisal
5. Compensation
6. Managing Employee Relations
7. Labor Safety and Health
8. Company Culture
9. The Japanese through the Eyes of Hungarians, Hungarians Through the Eyes of the Japanese

## 1. The HR Department

Of the 32 interviewed, 9 companies reported not having an HR department or a person responsible solely for HR functions: 3 small, 5 medium, and 1 large firm. Out of the 23 companies that do have an HR department, 15 have an HR strategy, whether written or unwritten. This amounts to is 65%, almost 10% less than the Hungarian data in the Cranet report suggests. It is important to note that the head of the HR department is in many cases not an HR specialist, but transferred from within the organization to perform this role. Also, there is a recognized trend of companies trying to take more conscious HR decisions and develop a more organized HR department with detailed descriptions of functions, jobs, and goals. A large company reported developing a competency model, and three to develop organizational career management systems.

A non-linear relationship can be found between both the total number of all employees and the number of Japanese employees, and between the number of all employees and the size of the HR department. Although there seems to be no direct relationship between the number of Japanese employees and the size of the HR department the graph below (Figure 2) suggests otherwise.

FIGURE 5: LINE GRAPH DISPLAYING THE NUMBER OF JAPANESE (BLUE) AND HR-DESIGNATED (RED) EMPLOYEES WITHIN EACH INTERVIEWED COMPANY



Correlation analysis shows the highest correlation between the number of Japanese employees and the size of the HR department. This suggests a Japanese influence on HR. As mentioned earlier, Japanese companies, even SMEs, tend to have more well-organized, more dominant HR than their Hungarian counterparts. In the case of Hungarian affiliates of Japanese firms, therefore, this correlation between the number of Japanese employees and the size of the HR department can be traced back to national differences.

TABLE 4: CORRELATION BETWEEN THE SIZE OF THE HR DEPARTMENT, TOTAL NUMBER OF EMPLOYEES, AND THE NUMBER OF JAPANESE EMPLOYEES

	HR department	All employees	Japanese
HR department	1		
All employees	0.8791	1	
Japanese	0.8860	0.8487	1

All the HR heads were Hungarian nationals. There are 18 female and 14 male HR heads, when including the person responsible for HR functions in companies that do not have an HR department. When only including firms that do have an HR department this ratio becomes 14 females to 9 males. This means that only 56% (61% in the limited sample) are female compared to the Hungarian data of 80%. There are two possible explanations: one is that the parent company's ethos has influenced the daughter companies; Japanese firms tend to have male HR heads. Another is that the industry they operate in is influential; the electronics and automobile industry is fundamentally male dominated.

## 2. Recruitment and Selection

Many companies reported that their HR department is not solely responsible for HR functions but also for administration and general affairs. This seems to be a Japanese influence.

The demand for recruitment comes from production (line management) in 2/3 of the companies, and in the remaining 1/3 examples of top management or business planning's decision can be seen, often helped by HR, or mother company's command. One company reported that line management is responsible for determining the need for manual workers and HR for all other employee categories.

However, recruitment and testing are solely performed by HR. Most companies answered the questions in two categories: manual and office workers. Half of the companies reported not having to advertise to find manual workers, because they have enough applicants sending unsolicited applications that they can simply choose from their database. It is also common practice in Hungary to hire current workers' family members, friends, and acquaintances. This method is widely used because of its motivational effects. As one HR specialist described "when someone close to you got you a job you do not want to embarrass them by not doing your best". (Head of HR of a medium sized Japanese manufacturer in Hungary.)

When job openings for manual workers are advertised local media, such as local newspapers, TV channel, or Employment Centers, and occasionally internet portals are used. Two companies said they first lease manual workers and if they are satisfied with them then they offer a permanent position. One of the small companies has no manual workers at all despite being a manufacturing company.

Prospective manual workers are tested in two stages, they first undergo a written and a practical examination, and then have an interview with their future immediate supervisor.

In the case of office workers and managers, the most common form of recruitment is internet advertisement, but local media is also used. 7 companies reported using head-hunters (4 large, 2 medium, 1 small), whereas 3, all large, expressed a strong opposition to the use of such method. There is no apparent trend between the company size or number of Japanese/HR employees and the method used.

### 3. Training and Development

In the field of training and development there seems to be a big difference in company practices depending upon their size. There is a clear positive trend between the size of the company and the complexity and depth of the planned training system it possesses. 2 of the small companies reported not offering any kind of training schemes, 1 offered programs to engineers only, and another to office workers only. Only one of the small companies offered training to any workers regardless of their position, solely based upon their needs. All medium sized companies offer training to their employees, but only those with 150 employees and above possess a planned system for both manual workers (who tend to receive in-house trainings) and office or managerial staff (who usually participate in out-of-house trainings). 2 companies reported to have a system where the employees indicate what types of trainings they want to undergo and HR decides if they can or not.

Half of the 18 large companies emphasized their strong focus on employee development and have an annual training plan for workers of all categories. 2 said they

currently have a special emphasis on manager development where they learn lean management. One large company currently offers no training whatsoever due to the severe effects of the economic depression, and one only to offered those programs necessitated by law. The Japanese leaders of this company complain that high employee turnover makes it inefficient to spend money on employee development. 2 large companies reported having a special emphasis on the development of engineers, and 1 to having a system whereby HR decides the budget for training, but leaves it for line management to choose who should participate.

Within Japan, companies have a culture of community and loyalty that is unique within the western world. Until very recently, employees would be expected to stay with the company for their entire career, and many of these 'lifers' still do (Robinson, 2003). In this situation, where employee attrition is not a concern, training may be focused upon an employee without reservation. From personal experience and from interviews it was also apparent that Hungarian satellite companies expect the same kind of loyalty from their employees. It is thus not unreasonable to expect that a similar training culture might be seen in these firms, with employees offered courses in Japanese language so that they might progress to the higher echelons of the parent company.

However, only 3 large companies offer any kind of Japanese language course to their employees, although all 3 used English as their primary language. Of the 32 companies interviewed, 80% used English as either the official language or required fluency from their office workers. For engineers and manual workers fluency is optional. 3 companies reported that they had initially offered English courses but enthusiasm had languished.

Surprisingly, however, 2 medium and 2 big companies reported German as a required language, due to their close cooperation and joint ventures with German companies.

#### 4. Performance Appraisal

Performance appraisal is conducted twice a year in almost all companies and is done by the immediate supervisor in 70% of them. One company reported they do not yet have a performance appraisal system but are planning to implement one in the near future. Two companies reported having a separate system for manual workers based on total production and not on individual performance, and that it is conducted daily in one of them and monthly in the other.

All companies reported that the result of performance appraisals influence pay rises and bonuses, with bonuses being used in the majority of the cases. 4 reported it plays a role in determining training and development needs, and 3 that it influences career progression.

#### 5. Compensation

Pay determination is usually done on the individual level in all work categories in Hungary (Karoliny et al.,2010). The present study aimed to find out if this practice is altered in Japanese owned companies. In the case of small companies all reported using the individual system with the exception of one company that announced the recent application of a corporate pay scale for new employees. 5 of the medium sized companies also answered that pay is determined on the individual level, with one of them adding that the Japanese CEO is not satisfied with that system and would much rather follow a more systemized practice like large companies in Japan. 3 companies reported to have a company-level uniform wage for all physical workers, and individually determined pay for office staff. The remaining 4 companies reported using a corporate wage scale, yet determining the pay of each employee individually within a certain range.

90% of the big companies reported to have a company-level systematic method of determining pay. Only 2 reported having a uniform wage for physical workers and individual-based for office staff. The other 13 use pay scales that differentiate according to seniority or ability. Even in these systems, however, we found that there

is more flexibility and differentiation in the case of office staff and that pay is more likely to be fixed for physical workers. All in all there is a clear tendency wherein the smaller the company is, the more likely it is to determine pay on an individual level, while the bigger the company is, the more likely it is to use a corporate pay scale and standardized pay.

## 6. Managing Employee Relations

As mentioned earlier, Hungary has a very low ratio of unionized workers. Therefore, not surprisingly, only one company mentioned bargaining with labor unions. Others did not even include it in their list of responsibilities.

## 7. Labor Safety and Health

Although pay and benefits is a crucial aspect of an organization's health, one of the main responsibilities of the HR department of Japanese companies in Hungary is labor safety. There often is a separate team dedicated to this within HR, or a separate department of Safety, but it closely cooperates with HR. Labor safety was not included in the original questionnaire, but was added after the first few interviews, because it was mentioned by all HR heads as a key area of interest. It is a very important topic for manufacturing companies and is especially important for the present study, as 95% (30 out of 32) of the companies use Japanese methods to keep their environment safe and clean. Being a central issue, this was also one of the reasons why many employees found their company more Japanese than Hungarian. Although, the department of labor safety does not always belong to HR, HR is responsible for many things connected to it, such as protective equipment, physician attendance, insurance. Moreover, Japanese methods such as 3M, 5S, kaizen, TQC, etc., impact the whole company not just the production site, and seep in to the everyday life of all employees.

## 8. Company Culture

Question 14 of the interview asked for HR's perception of whether the company had a Japanese 'climate' to it, and if they used any identifiable Japanese methods in their everyday operations. 80% replied that they feel the Japanese influence. 10% said

they were a typical Hungarian company, and the remaining 10% that they rather had the atmosphere of Western multinational enterprise. The 'western' 10% of companies' have their parent companies in Europe, or are small companies with no or only 1 Japanese employee.

Those who did 'feel' their company Japanese spoke of a variety of reasons: a strong Japanese strategic leadership, where the parent company gives orders and the affiliate merely executes them; an emphasis on labor safety, something not so strongly stressed in Hungarian companies; Japanese management methodologies; authoritarianism and hierarchy; a preference towards in-house trainings as opposed to contracting outside companies or professionals; or the handling of holidays, where management expect employees to follow the Japanese tradition of not taking their vacations. Some large companies reported problems with motivating employees, and added that they feel this is not a problem in Japan.

Many firms reported organizational development as a current topic, whereby they try to build a more organized and conscious company and HR department. Managers are to learn lean management and have a better understanding of the Japanese-style human resource management.

#### 9. The Japanese through the Eyes of Hungarians, Hungarians Through the Eyes of the Japanese

Based on my personal experience working for a Japanese manufacturer in Hungary I would like to introduce how Japanese and Hungarian co-workers see each other. My observations concur with those of Sato and her colleagues, who researched another Japanese manufacturer (Horváth, 2007) in Hungary. I should emphasize that Japanese employees are usually in top positions, while Hungarians are usually subordinates.

In general, Hungarians are satisfied with their Japanese bosses. They find them considerate, farseeing, and just. They tell exactly what they expect and organize work effectively. They are very precise, always keeping deadlines. They are always patient

with new workers, and willing to help anyone when needed. They are very friendly with their Hungarian colleagues.

However, language problems cause a lot of trouble. Hungarians often complain that Japanese tend to discuss important matters among each others in Japanese, and therefore many essential information may not even reach them. It is the fault of both parties though, as usually none of them speak English adequately, and it is impractical to call an interpreter for every conversation. Hungarians sometimes feel that Japanese colleagues do not listen to them or their ideas, or say they like a suggestion yet ignore it afterwards. The Japanese employees always follow orders from Japan without reconsideration, pay too much attention to rules and take cleanliness and order too seriously. For example, the keeping of the 5S is a cause of trouble on a daily basis. Japanese people do not take risks, do not take the initiative, and do not make decision alone. They first consult with others and by the time they reach a consensus, a Hungarian has long forgotten about the problem.

On the other hand, Japanese regard Hungarians' creativity as their greatest asset. They like their innovative ideas, their enthusiasm, and that they always find new opportunities. Their diligence couples with the desire to learn, and they strive to perform on their maximum level. Japanese often praise the English knowledge of Hungarians. They behave respectfully with their superiors and customers. Japanese find Hungarians friendly, who deeply value human relations.

However, Japanese people also have a lot of complaints, especially when it comes to discipline. Hungarians are often late, do not keep to deadlines, and often break the rules. For example, one constant source of problems was a hat that Hungarians did not want to wear, but was essential for labor safety. Another example was frequent speeding by forklift truck drivers, who regarded the speed limits as too slow, especially as they may have been accustomed to ignoring such limitation at previous companies. Japanese management often complained that Hungarians do not clean up after work, and do not keep the 5S. They do not take responsibility and either pretend to not know about the subject, or make excuses for themselves. They often give ambiguous

answers, and cannot briefly summarize what they want to say. They often put family before work, and their own interests before that of the company.

It is clear that Japanese and Hungarian cannot yet work alongside without difficulties due to cultural and lingual differences on both individual and company level. There are various ways to overcome this, for instance with the help of intercultural trainings, but not many companies choose this way. For one thing they are expensive, and employers often do not believe in its effectiveness, especially as employees do not have the time and energy to participate.

## 4. DISCUSSION AND CONCLUSION

The objective of this research was to identify the characteristics of HRM in the Hungarian affiliates of Japanese manufacturers. Using a case study approach involving 32 firms, the study found the following:

- A high correlation between the number of Japanese employees and the size of the HR department was found. It means that the former has a positive impact on the latter. Also, all people responsible for HR functions are Hungarians.
- 65% of companies has an HR strategy whether it being written or unwritten.
- 56% percent of the HR heads are female. This is halfway between the Japanese male and the Hungarian female dominance.
- The demand for recruitment comes from the parent company, or from line management. No clear tendency was found.
- Recruitment is HR's responsibility. Manual workers are sought for through local media, while managers through internet portals.
- The selection of manual workers consists of a paper and pencil test and an interview with the future supervisor, while for office staff and managers it is based on their CV and more rounds of interviews with managers of higher rank.
- Almost all companies do performance appraisals conducted by the immediate supervisor. The results are usually used to determine bonus and pay. In some cases it also influences decisions on training and career moves.
- Most companies offer training for physical and office workers likewise. There often is a special focus on the training of engineers. The bigger a company is the more probable it is to have a planned training system for all its employees.
- The most important foreign language to speak is English, with German being the second.
- The pay of office staff is usually determined on an individual basis within the intervals of a corporate pay scale. For physical workers it tends to be standardized.
- Labor safety is a very important topic of the everyday life of manufacturers. Many Japanese management methodologies are used, such as 5S, 3M, kaizen, etc.

- 80% of these companies' climate is rather Japanese. It is because of a strong Japanese strategic leadership, the preference of in-house trainings, the strong focus on labor safety, and the implementation of lean management.
- Many companies expressed their desire to have a stronger and more organized HR department, and that they are currently undergoing company evolution/development.
- Collaboration between Japanese and Hungarian employees is not smooth yet, due to cultural and language differences.
- The 2 most common problems these companies face is employee motivation, and the handling of vacations.

#### 4.1 THEORETICAL AND PRACTICAL IMPLICATIONS

The present study has several theoretical implications. First, the findings shed light on an important but under-researched question of the human resource practices in Hungarian affiliates of Japanese manufacturers. Although there is vast research on Japanese HRM, there are only few scholars focusing on Central and Eastern European subsidiaries of Japanese firms. The findings show a complex system of practices used, and also point out some difficulties these companies face. Second, this research adds to the growing body of studies on Hungarian HRM. Since the collapse of the Soviet Union in 1989 Hungary has undergone significant politico-economical changes and a Hungarian style of business and management is crystallizing just now. Therefore it is imperative to quickly gain a deep understanding of it.

The findings of this research also provide several implications for the practicing manager and for future investors. Addressing the main problems of Hungarian affiliates of Japanese companies, one suggestion would be to make Hungarian worker more familiar with the parent company's culture. As some HR heads said that they feel motivation is not an issue in Japan, maybe if the local workforce would know more about Japanese HRM practices, they would gain new insight into what their supervisors expect. As for taking or not taking holidays, spending time with family is very important for Hungarians. Therefore they will take their vacations. Also, since the wages most workers receive are very low, they will rather take paid sick leaves than

unpaid holiday. There should be some compromise between the Japanese and the Hungarian parties, but the Hungarian side is not probable to make many changes in their practices. In short, using this data, conscious measures can be taken to set up a well-operating HRM system.

#### 4.2 LIMITATION AND FUTURE RESEARCH

This research could be improved by including more companies from more sectors in the survey. At this time it was impossible due to the small number and size of other companies, but their expansion is expected in the future. Also, there was only one respondent from each company that could lead to bias. In order to have a more objective picture more people should be asked from the same organization.

Unfortunately there is no excessive data on Hungarian firms and their practices, although it would be very interesting to compare Hungarian-owned manufacturers to Japanese-owned ones, and do the same in other sectors too. However, this research as it is still gives valuable insight into the everyday life of Hungarian affiliates of Japanese companies to current and prospective investors.

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