FACTORS AFFECTING THE APPLIED APPROACH OF IHRM IN PRACTICE: THE EXAMPLE OF BUDAPEST BANK (GE MONEY)

ZSÓFIA SZABÓ PhD Student
Szent István University, Gödöllő

ABSTRACT

Multinational companies have to use not just Human Resource Management, but International Human Resource Management Methodology to be able to allocate their human resources optimally in their subsidiaries. IHRM (International Human Resource Management) faces a set of problems that are considerably more complex and diverse than those encountered in respect of HRM. There are numerous approaches to IHRM, and a certain number of factors appear to play a role in identifying the one that is deemed appropriate in a given situation. General Electric (GE) is a more than one hundred years old company with a responsible and opened corporate culture, one of the best examples from multinational companies. In this paper I would like to introduce the influencing factors to IHRM in practice, in the house of Budapest Bank (GE Money Group) by my interview with the HR director. With everything said, we can conclude that Budapest Bank is a corporation with the long run goal of having their subsidiaries run entirely by workforce from the host country (local management), thus optimizing the allocation of resources, while at the same time, focusing on utilizing the advantages of international career management to the maximum. Thriving for optimality on all grounds, Budapest Bank by GE use possibly the most developed IHRM to date.

1. Introduction

Multinational companies have to use not just Human Resource Management, but International Human Resource Management Methodology to be able to allocate their human resources optimally in their subsidiaries. IHRM (International Human Resource Management) faces a set of problems that are considerably more complex and diverse than those encountered in respect of HRM.

There are numerous approaches to IHRM, and a certain number of factors appear to play a role in identifying the one that is deemed appropriate in a given situation. The primary success factor, however, is whether the company concerned manages to bridge cultural differences while preserving an open and flexible corporate culture.

GE is more than a hundred years old company with a responsible and opened corporate culture, one of the best examples for a multinational companies. In this paper I would like to introduce the influencing factors to IHRM in practice, in the Budapest Bank, by my interview with the HR Director.

2. Goal and methodology

One of the goals of my Ph.D. thesis is to describe the changes that have taken place in the proportion of Hungarian and foreign managers in the top management of multinational firms operating in Hungary since the time of regime change.

As a starting point in the first phase of research, I established a theoretical framework that provides for interpreting the results of empirical research. The most important parts of this framework are the "IHRM approaches" and the "Factors affecting the applied approach to IHRM". In this paper I would like to present these factors through a practical example.

3. Results

As the result of my article the factors affecting the applied approach to IHRM can be seen in a practical environment. The reader will become familiar with the short history of the company and the corporate structure of its Hungarian subsidiary, and also the ongoing changes in the Top Management's distribution in terms of nationality, to understand later entirely the approach of IHRM of the company. I will present the influencing factors linked directly to the practice of Budapest Bank, as the reader can witness the methodology in the „real world".

4. The short story of GE

Before 1889, Thomas Edison had business interests in many electricity-related companies. In 1889, Drexel, Morgan & Co., a company founded by J.P. Morgan and Anthony J. Drexel, financed Edison's research and helped merge those companies under one corporation to form Edison General Electric Company which was incorporated in New York on April 24, 1889. The new company also acquired Sprague Electric Railway & Motor Company in the same year. At about the same time, Charles Coffin, leading Thomson-Houston Electric Company, acquired a number of competitors and gained access to their key patents. General Electric was formed by the 1892 merger of Edison General Electric Company of Schenectady, New York and Thomson-Houston Electric Company of Lynn, Massachusetts with the help of Drexel, Morgan & Co. The company was incorporated in New York, with the Schenectady plant used as headquarters for many years thereafter. In 1896, General Electric was one of the original 12 companies listed on the newly formed Dow Jones Industrial Average. After 117 years, it is the only one of the original companies still listed on the Dow index, although it has not been on the index continuously.

Today GE has five big business units:

- GE Technology Infrastructure
- GE Energy Infrastructure
- GE Capital
- GE Home & Business Solutions
- NBC Universal

GE Capital is the financial services unit of General Electric, one of five major units. It has various divisions include GE Aviation Services, GE Real Estate, GE Energy Financial Services, GE Money, and GE Commercial Distribution Finance. GE Capital provides commercial lending and leasing, as well as a range of financial services for health care, media, communications, entertainment, consumers, real estate, and aviation. GE Capital focuses primarily on loans and leases that it underwrites to hold on its own balance sheet rather than on generating fees by originating loans and leases, then selling them to third parties. Most of GE Capital's commercial loans are to small and mid-sized companies, spread across multiple industries and geographies and secured by tangible assets. GE Capital's consumer lending activities are also diversified by product and geography, and include operations in 55 countries. In 2009, GE Capital had more than 60,000 employees worldwide.

5. About Budapest Bank

Budapest Bank Zrt. has been an influential player of the Hungarian financial market for 25 years. As one of the first commercial banks in the country, it offers comprehensive financial services to individual and business customers since the establishment of the two-tier banking system in 1987.

GE (General Electric Company), first acquired a stake in Budapest Bank in 1995 through the acquisition of bank shares jointly held by the Hungarian government, state-owned companies and cooperatives.

Increasing its stake in the company, GE became majority shareholder in 2001 with the acquisition of shares held by the EBRD, ÁPV Rt. (the then state holding company), and small shareholders. From that time on, the Bank's solid financial background has been guaranteed by GE. Currently, GE holds a stake of 100% in Budapest Bank.

GE Capital is the division which integrates the full range of GE enterprises offering financial services. The Global Banking business – including Budapest Bank – is part of GE Capital, and offers a wide array of financial and banking solutions to customers worldwide.

Budapest Bank has adopted the values and code of ethics of its parent company GE. This set of values stipulates full compliance with the regulations relevant to their line of business: honest, fair, reliable and ethical conduct, convinced there is only one road to success that will also preserve a high reputation and earn the trust of clients, and this is success achieved through ethical conduct. Consequently, GE employees do everything in their power to meet the highest standards in respect of ethical business conduct.

In the spirit of the value system and philosophy of the Budapest Bank Group's parent GE, the stakeholders of Budapest Bank believe in playing an active role in the life of the community. Through financial support and with the help of our employees, the bank strives to contribute to the promotion of community values and the preservation of the wider environment, and hence to the development of society at large*.

6. The history of the Top Management's distribution regarding nationality

I made interviews with the HR Director in 2005, and later on, in 2013. The structure has changed in the past few years.

In 2005 Budapest Bank Group was formed by five financial service provider incorporated companies. (Budapest Autófinanszírozási Rt., Budapest Bank Autóparkkezelő Rt., Budapest Lízing Rt., Budapest Alapkezelő Rt., Budapest Eszközfinanszírozási Rt.), and of course Budapest Bank Rt. itself. These five belong to the management of Budapest Bank, their existence as individual companies were inspired by legal and administrative simplicity.

There were two big divisions (consumer and commercial divisions) under the management of the CEO. Besides this, there were 18 central department (mostly support functions, such as IT, HR, Risk Management, Finance, Marketing), with their own directors, all of which were direct reports to the CEO.

Therefore, top management had 26 members, the CEO, the directors of the companies in Budapest Bank Group (5 members), the heads of Consumer – and of Commercial Division, and the directors of the 18 central department.

In 2013 the organization chart was a bit different. The five individual companies of the group has integrated under the management of Commercial and Consumer divisions. The number of the central departments were reduced to 8, these are the following: Operation, HR&Communication, IT, Risk Management, Finance, Legal Department, Compliance, Internal Audit. So the top management counts 11 members now, the CEO, the heads of the commercial and consumer divisions, and the 8 directors of the central (support) functions.

The CEO had been the same Hungarian gentleman until 1998 who managed the company during the privatization in 1995. After his retirement, the global management sent an English CEO, and he held the position until 2004. His replacement also was an English professional promoted by the global management.

* Official homepage of BB -http://www.budapestbank.hu/info/budapestbank/index_eng.php

The revolution arrived during the summer of 2011: the CEO appointed by the global management was a Hungarian financial expert with very serious international background.

At the beginning, in 1995, when GE Money privatized Budapest Bank, out of 18 central directors 10 were governed by foreign managers. Half of them from the United States, the other half from different West-European countries.

As soon as the managers had planted the seeds of GE culture, the basics of GE business operations, they left the country after their mission, and were replaced by Hungarian managers.

By 2000 only 5 foreigners were present in the top management, two English (CEO and Operational Manager), and three expert from the USA (Finance, Risk Management, IT). In 2001 three of them returned home, so besides the English CEO only the IT Director was an expatriate within the top management. The IT Director left his position and was replaced by Hungarian professional than five years ago.

The five individual companies within Budapest Bank Group always had local management, and the Commercial and Consumer divisions always had Hungarian leaders.

So as the CEO has been a Hungarian manager since 2011, Budapest Bank Zrt. operates with 100% Hungarian management nowadays.

7. Approaches to IHRM

There are four basic approaches to IHRM distinguished in special literature (Dowling-Welch-Schuler, 1998, page 31):

Ethnocentric approach: The parent country exports its HR policy to the subsidiaries. Strategic decisions are made at the parent company. Typically, the proportion of expatriates is high and the parent company performs strict control over the activity of the subsidiaries.

Polycentric approach: Subsidiaries are independent of the center, and each subsidiary follows a HR strategy that is most appropriate for its own country.

Region-centric approach: Subsidiaries are grouped into regions and HR policy is coordinated within the region concerned. Subsidiaries are managed by managers of the countries within the region, the level of communication and control within the region is high, however, the regions are relatively independent of the parent company.

Geocentric approach: The objectives of the parent company and the subsidiaries are coordinated at a global level, each subsidiary follows a global strategy whose elements are in part identical within, and valid for the whole group of companies, in part they are characteristic for the given company alone. The elements are defined in terms of their suitability to serve the company as an integral whole entity.

GE included Budapest Bank, part of GE Money, applies geocentric IHRM. As one of the world's oldest and biggest companies they are player of the world market without borders. As much as a company can do such a thing.

8. Factors affecting the applied approach to IHRM

The factors that play a role in selecting an approach to IHRM can be divided into two groups: that of external factors and internal factors. (Fisher-Schoenfeldt-Shaw, 2000, p. 810—812). First, I will consider the three external factors, then the four internal factors will follow. After each factor analyzed theoretically, I present it in the practice of Budapest Bank.

8.1. External factors

1). **Political and legal circumstances:** host countries are essentially interested in limiting the number of work force arriving from abroad, while promoting the employment of local people, thereby creating an internal labor force with higher expertise and experience. Regulations would differ from one country to another. The more stringent the limitation, the more difficult will be the application of an ethnocentric approach

Hungary, as all other post-socialist countries, was a blank spot on the map of capitalist corporations, where they had the opportunity to explore new markets. Because of the saturation of their already existing markets, the political insecurity of the region became a much less influential factor compared to the business opportunity the region had to offer. On top of that, the Hungarian government encouraged FDI investment. In 1995, when Budapest Bank was privatized by GE, the political and legal circumstances were cleared up, so this wasn't an influencing factor regarding the number of expatriate managers.

2). **Level of managerial, educational, and technological development in the host country:** in case the parent country establishes itself in a country where the said level is significantly lower compared to that of the parent country, the firm's demand for a more stringent control over the activities in the host country will appear to be justified. Increased centralization will in turn call for an ethnocentric approach

In 1995, when GE entered the Hungarian market, the new generation of managers prepared to run a multinational subsidiary, was emerging after the change of the political system. So the global management sent here expats to teach the corporate and financial know-how owned by GE to the future management. As the new generation of Hungarian managers developed locally, the company replaced the expat leaders. Today, this generation of managers has developed, which makes it possible to replace expatriate Top Managers with Hungarian ones. This is why today, the businesses once lead entirely by expatriates are now lead 100% by Hungarian managers.

3). **Cultural differences between the parent country and the host country:** surprisingly, this is the factor responsible for most of the problems and expatriate-related failures. Cultural differences merit contemplation for at least two reasons. First, there are countries where people are more likely to adopt an ethnocentric approach. Take, for example, the Japanese, whereas Europeans and Americans seem clearly less tolerant when it comes to strict control and centralization. Second, the deep-rootedness of cultural differences between a multinational company and the host country imposes a limit on selecting an approach. The greater the difference between cultures, the less feasible the implementation of an ethnocentric, schematic, centralized HR strategy will be, and the higher will be the need for a shift towards a polycentric and regio-centric approach will be

At the beginning, the reason all the expatriate manager came to Hungary was to import a specific corporate culture and set of values to the new subsidiary. As these values and the corporate culture had a leading role in the success of GE this mission was extremely important for the global management. When they had succeeded in planting the seeds, GE's explicit goal was to employ more and more Hungarian managers, since by this time, these employees had the proper education, and experience, and could use their local-specific knowledge to the company's advantage. This is a typical case of heading towards a geo-centric approach.

8.2. Internal factors

1). **International experience of the company**: A company with diverse and extensive international experience can apply more diversified, refined, and established methods in the course of launching a new subsidiary. In other words, it requires a lower rate of centralization compared, for example, to a company that is about to establish its first subsidiary.

GE with more than 110 years past, with presence in most of the world's countries had enough experience to establish one more in Hungary, centralization wasn't important from this perspective.

2). **Experience in establishing a subsidiary:** If the company, similarly to its competitors, is not present on the market of a country, then the firm will be forced to introduce a more cautious, centralized (well-established) HR technique, meaning it will more likely adopt an ethnocentric approach. If, on the other hand, it enters a well-known location, it will more probably take bold steps and apply a different approach.

Yet another factor that would justify the plan to import a basically unknown corporate culture into a post-socialist country. Their goal was to rely on this instead of experimenting with new concepts.

3). **Features of technology and production**: Where a high level of technology and production is applied, the need for reliable staff from the parent country is considerably higher in order to ensure that machinery is handled with care and compliance with standards posing high requirements is maintained. This consideration applies more to the technically less developed countries.
This factor hasn't played any role, merely because Budapest Bank provides financial services, so there isn't any kind of production linked to their operation. We mustn't forget though that Budapest Bank established a number of new financial products in Hungarian market, and in the beginning needed expatriate guards to plant and protect the know-how.

4). **The current stage in organizational life cycle**: The company has more extensive local experience while taking the initial steps approaching the world market. It is in this phase that exporting established HR techniques is the easiest for the firm, therefore it is likely to take an ethnocentric approach. Later, in the phase of functional growth, it keeps expanding the scope of international activities and increasing the number of its subsidiaries. The company tends to view its units operating abroad as "belongings" of the parent company, therefore a polycentric approach is frequently applied in this phase. In its phase of directed expansion, the company intends to acquire a higher market share by improving productivity and reducing costs, rather than achieving effective growth. Integration of the organizational units begins, whereby a regio-centric approach is taken, with a possible shift toward a geocentric approach. The company is subjected to tight market competition in the phase of strategic expansion, forcing it to treat its units as a global entity and harmonize its objectives in order to maximize the competitive advantage it enjoys, hence it will apply a geocentric approach.
According to the HR Director of Budapest Bank, they are in the strategic growth level within GE, and they have by this time arrived to the geocentric approach.
These are the seven factors which determine the attitude of a company toward HR in a multinational setting, and, indirectly, the proportion of expatriates to host country managers in its top management. It is clear in Budapest Bank's case how these factors influenced the company in its choice of the proper IHRM approach.

9. Conclusion

In the end, we can state that Budapest Bank is a corporation with the long run goal of having their subsidiaries run entirely by workforce from the host country, thus optimizing the allocation of resources. At the same time, the company focuses deeply on utilizing the advantages of international HR management to the maximum.

In the first 10 years, managers from other European countries directed the Hungarian subsidiary, with the scope of importing their corporate culture and to control trading processes in a post-socialist environment.

And when Budapest Bank internalized their values, culture, vision, and mission, and also a new generation of Hungarian managers with the proper expertise and experience emerged, the parent company began to fill the positions in Top Management with Hungarians instead of expatriate leaders. Currently every member of the top management is Hungarian.

Budapest Bank is a real example of a multinational company whose choice of IHRM approach was influenced also in its practice by theoretical factors: a company with exemplary geocentric IHRM practice.

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