

# The challenges of HRM activities at MNC subsidiaries in CEE region - based on CEEIRT 2015/16 research

Изазови активности менаџмента људских ресурса у филијалама мултинационалних компанија у регији Централноисточне Европе – на бази CEEIRT 2015/16 истраживања

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**Abstract:** Nowadays the human capital becomes one of the key factors of companies' success. Human resource management activities have to contribute to the employees' satisfaction and the companies' business results in the same time. Multinational companies in general have more developed and more effective management practice than local companies. This is the way the subsidiaries of multinational companies (MNC) have an important role in the spreading the modern human resource management (HRM) practice in Central and Eastern Europe (CEE). The aim of this paper is to analyze the challenges of HRM activities at the MNC subsidiaries in CEE region based on 2015/16 CEEIRT research results focusing on Czech Republic, Hungary, Poland, Romania and Serbia. A special attention will be given the following areas: the functions of the headquarters' HR department, the critical areas of HRM, the key competences of HR managers, the knowledge flow and the methods of personal competency development of HR managers.

**Key words:** human resource management, multinational companies, Central and Eastern Europe, HR department, CEEIRT

**Сажетак:** Данас хумани капитал постаје један од основних чинилаца успеха компанија. Активности менаџмента људских ресурса треба да допринесе задовољству запослених и постизању пословних циљева у исто време. Мултинационалне компаније уопштено имају развијенију и ефикаснију менаџмент праксу него локална предузећа. Зато филијале мултинационалних компанија имају важну улогу у ширењу модерне праксе менаџмента људских ресурса у Централноисточној Европи. Циљ овог рада јесте анализирање изазова активности менаџмента људских ресурса с којима се филијале мултинационалних

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компанија су очавају у региону Централноисточне Европе на основу истраживања CEEIRT из 2015/16. године, фокусирајући се на Чешку, Мађарску, Пољску, Румунију и Србију. Посебна пажња се посвећује следећим феноменима: функција одељења за људске ресурсе у централи мултинационалне компаније, критична подручја управљања људским ресурсима, кључне компетенције менаџера за људске ресурсе, токови преношења знања и методе развоја личних компетенција менаџера за људске ресурсе.

**Кључне речи:** менаџмент људских ресурса, мултинационалне компаније, Централноисточна Европа, одељење за људске ресурсе, CEEIRT

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## **Introduction**

In the 21st century, human factor - the knowledge, skills, and behaviour of employees - is the key factor to sustain long-term competitiveness of the organizations (Sparrow et al, 2010). This is why HRM is one of the most important management functions. It incorporates several interrelated activities concerning the productive use of employees: HR planning, job analysis, job design, staffing, training and development, compensation and benefits, industrial relation, and retention.

The globalization of businesses leads to the increasing recognition of the well-managed workforce and the development of the HR role from being an administrative function to one fulfilling strategic importance.

Along with these processes there is a need for new competences of HR managers. Šušnjar et al. (2017) stress that beside professional knowledge related to HR issues HR managers have to be able to measure the results of HR activities and prove how it influences the results of the company. Their personal efficiency and the contribution of HRM activities to the business performances will be evaluated.

One of the most notable features of international economy in the 21<sup>st</sup> century is the growing spread of globalization and the higher importance of multinational companies (MNC). This phenomenon is linked with the decline of the significance of national and regional forms of economic organization, in favor of a new cross-national form of capitalism.

The aim of this paper is to analyze the challenges of HRM activities at the MNC subsidiaries in CEE region based on 2015/16 CEEIRT research results focusing on Czech Republic, Hungary, Poland, Romania and Serbia. A special attention will be given the following areas: the functions of the headquarters' HR department, the critical areas of HRM, the key competences of HR managers, the knowledge flow and the methods of personal competency development of HR managers.

## **1. Theoretical background**

There are many definitions of MNCs. The broadest definition is that MNC is every company that has or controls a production or service facilities outside of its own country (Stojadinović Jovanović, 2008, p. 97). MNCs are seen as a primary shaper of the global economy, as it is formed by the MNCs' decision to invest or not in particular

geographical location, and by the resulting flows of material, components, products, financial, technological and organizational expertise (Dicken, 2007).

MNCs enter foreign markets for conventional reasons such as market acquisition, assuring resources and diversification. By moving processes and activities to lower cost countries, they are also seeking greater economies of scale and a more rational allocation of the expenditures (Dowling et al. 2013). There are several characteristics that predominantly characterized MNCs:

- the control of all phases of the business process,
- the structure based on the organization from the parent country and subsidiary branches in other countries,
- the impact on the creation of value chain in the branches,
- the initiation of foreign direct investment (FDI) - start-up capital,
- the capital investment in other countries - human, technological, financial, knowledge capital,
- the organization of business primarily in areas where high capital return,
- the usage of a global strategy for the international market (Berber & Ćuić, 2009, p. 296-297).

Berber and An (2015) note that if we look at the global market and multinational companies, and analyze HRM on the international level, the increased complexity of the process may be noted. In the domestic management of human resources situation is somewhat simpler and easier for managers, because all the work and processes are made in one specific area, national culture and business environment. By entering the global business environment, organizations come into a contact with a number of challenges such as introduction of new national cultures, uncertainty due to the entry into new and unfamiliar markets, meeting other legal regulations related to the labour relations, new and different knowledge, technologies and methods of work, and the like.

Chicano and Cake (2009) stress that multinationals generally perform their management functions (including HRM) at a higher level than local companies do. MNCs apply highly efficient methods for performance management, communication, training and career management. On the contrary, local companies usually focus on collective agreements and law-based staffing issues. Similarly, Ferndale and Pause (2007) found that the most common universal human resource management practices of MNCs to emerge at global level were: talent management for senior managers, open job posting, expatriate management systems and succession planning tools. Variations in global policies are, however, characteristics of a number of HR fields such as reward policy, diversity policy, performance management system for non-senior staff, employee relations and training. At global level, similarities are largely driven by external competitive factors resulting in the adoption of universal “best practice” and

the availability of IT systems and tools.

Briscoe et al. (2009) state that human resource management at MNCs should not only be able to support the organisational structure of the MNC and deliver the „glue” technology that these different groupings need to integrate, but it must also organize itself to deliver HR transactional services for all locations of the MNC. In the early stages of internationalization headquarters served the subsidiaries’ needs or hired local HR country managers. The modern structure for delivery of HR services throughout an MNC is referred to as “shared services”. In a shared service model individual country operations can specialize in varying aspects of international HR services and then, other countries can access these expertises without having to develop them all themselves.

There are numerous factors influencing the HRM approach taken by a particular MNC, including national politics and legislation, managerial culture, educational and technological development in host and subsidiary countries, production technology, nature of the product, national cultural differences, etc. Henderson (2017) emphasizes that most important global pressures on international human resource management in MNCs are: getting the right knowledge, skills and competencies to where they were needed globally; disseminating knowledge and innovation effectively throughout the organisation; identifying and developing talent globally.

Concerning HRM at CEE region, it has to be stated that prior to the changes that took place at the end of the 1980s in most East European countries it was very tightly controlled by the state. Personnel related issues were under the close control of the communist party and the heads of state (Koubek-Brewster, 1995). The labour markets of Eastern European countries have significantly changed by now.

The Eastern European transition has created a rather special situation in the development of the HR function, while local SMEs or traditionally managed local large companies have substantially neglected (Poór et al., 2007) this activity vital to development. It is foreign owned MNCs that have tended to assign the most importance to people management (Lewis, 2005).

Drahokoupil et al. (2015) state that the interpretations of MNC employment strategies in CEE have involved three broad perspectives. The first is the role of the business systems, home-country institutions and specific strategies of the incoming companies. The second is the established institutional framework in the host country. The third is the possibility of more complex interaction, involving different sets of actors, between the first two.

Horwitz (2011) notes that the influence of globalisation and MNC brands and opportunities for development offered by MNCs has become important in the CEE region. But CEE is not a completely homogenous group with regard to their HRM contexts and practices though there are enough similarities to allow a conceptual model

of strategic HRM in CEE to be developed. Kazlauskaitė et al. (2013) emphasizes, too, that CEE countries are heterogeneous in their HRM patterns and that the region should not be taken as a uniform management model based only on their socialist heritage and transitional processes.

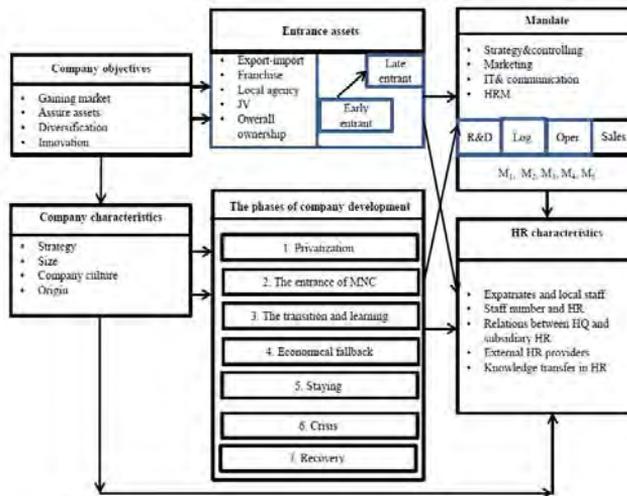
Based on the above mentioned theoretical and empirical research in the area, the authors explored the practice of HRM at the MNC subsidiaries in CEE region based on 2015/16 CEEIRT research.

## 2. Methodology

The implemented methodology in this paper is based on international CEEIRT project. The Central and Eastern European International Research Team (CEEIRT) – is composed of researchers from different universities from the Central and Eastern European (CEE) region and aimed at examining the changing Human Resource (HR) practices and roles in MNC subsidiaries.

The model of CEEIRT research is presented below:

Figure 1: The CEEIRT research model



Source: Poór et al. (2017)

To obtain data on the MNC subsidiaries' HRM practice in the CEE region standardized questionnaires (translated to the official languages of examined countries) were used. The questionnaire covered the following nine areas: the importance and key indicators of HR function; the role of headquarters and local HR department; the

HR managers' competences; the utilization of expatriates (foreign and local); the use of external HR service providers; knowledge management in HR; predicting future trends and critical issues for HR executives; the interviewees' data; the companies' organizational data.

The sampling system used by us was essentially convenience sampling. The answers were mainly collected from person responsible for HR practice in each MNC subsidiary (HR director, HR expert, CEO, etc) (Poór et al, 2014). The data analysis was done by SPSS Version 21, using descriptive statistics.

In the following, the research data about the HRM practice of multinational companies and their subsidiaries in Czech Republic, Hungary, Poland, Romania and Serbia will be presented based on 2015/16 CEEIRT research results.

### 3. Research results

After the sample overview a special attention will be given the following areas: the functions of the headquarters' HR department, the critical areas of HRM, the key competences of HR managers, the knowledge flow and the methods of personal competency development.

The current analysis was made on the sample of five CEE countries: Czech Republic, Hungary, Poland, Romania and Serbia. The total number of organizations included into the analysis is 312.

*Table 1. Sample overview*

<i>Country</i>	<i>Number of analyzed MNC subsidiaries</i>	<i>%</i>
Czech Republic	97	31
Hungary	90	29
Poland	57	18
Romania	37	12
Serbia	31	10
<b>Total</b>	<b>312</b>	<b>100</b>

*Source: The authors' research data*

From the data in Table 1 it is evident that the main part of the sample is made of MNC subsidiaries from Czech Republic, while MNC subsidiaries operating in Serbia make the smallest part of the sample.

Table 2 presents the typical functions of the HRM department of the MNC headquarters concerning the HRM activities in the subsidiary.

Table 2: Typical functions of the HQ HR (%)

Functions/ Countries	Czech Republic	Hungary	Poland	Romania	Serbia	CEE
Hands-off, provide complete freedom	20	22	29	36	36	28,6
Provide general guidelines and framework for actions	54	44	34	39	36	41,4
Provide detailed HR model, policies, procedures and rules	20	28	32	17	19	23,2
Source of all remotely significant HR decisions	6	6	6	8	10	7,2

Source: The authors' research data

Research results show that in the majority of MNCs headquarters provide general guidelines and framework for designing HRM activities in the local subsidiaries. Among the analyzed countries from CEE region MNC subsidiaries in Serbia have the highest autonomy in designing their HRM activities.

The table below shows the obtained data concerning the most critical HR areas at MNC subsidiaries.

Table 3: Critical areas of HR (on a 1⇒5 scale, on average)  
(Explanation: 1=not critical ⇒ 5=1 critical at all)

Critical areas/Countries	Czech Republic	Hungary	Poland	Romania	Serbia	CEE
HR planning	2,43	2,76	3,43	3,00	2,06	2,73
Recruitment	3,06	3,33	3,69	3,29	2,35	3,13
Selection	2,75	3,33	3,14	2,97	2,35	2,91
Performance Evaluation	2,20	2,49	2,72	2,34	2,26	2,40
Talent Management	2,61	2,65	3,35	2,74	2,29	2,73
Compensation and Benefits	2,38	2,85	2,94	2,94	1,81	2,58
Industrial/Labour Relations	2,29	2,08	2,65	2,62	1,97	2,32
Employee Communication	2,47	2,61	2,57	2,57	1,74	1,99
HRMS/IT	2,28	2,54	2,56	2,56	1,71	2,33
Health & Safety	1,59	1,92	2,84	3,80	2,33	2,69

Source: The authors' research data

The HR managers of MNC subsidiaries in CEE region consider Recruitment, Selection, HR planning and Talent Management to be the most critical HR areas. The least critical area is considered to be Employee Communication. In Czech Republic the most critical areas are Recruitment and Selection, while the least critical are Health and Safety issues. In Hungary the situation is the same, while in Poland the most critical HR areas are Recruitment and HR planning, while the least critical area is the informational aspects of this activity. In Romania, the most critical HR activities are

Health and Safety (based on 5 responses), Recruitment and Planning. The least critical HR area is Performance Evaluation. In Serbia, the most demanding HR activities are Recruitment and Selection, while the least critical is the functioning of HR information system.

Table 4 shows the key competences of HR managers at the analyzed MNC subsidiaries. Multiple answers were possible.

Table 4: Averages of the key competencies of HR managers (%)

Competences / Countries	Czech Republic	Hungary	Poland	Romania	Serbia	CEE
Business knowledge	28	29	30	21	61	33,8
Strategic contribution	23	24	23	42	16	25,6
Personal credibility	35	45	57	61	45	48,6
HR services	26	41	43	52	45	41,4
Usage of HRIS	9	16	11	27	26	17,8
Foreign languages skills	33	47	46	61	32	43,8

Source: The authors' research data

The HR managers of MNC subsidiaries in CEE region consider personal credibility to be the key competence of HR managers. In Czech Republic, Hungary and Romania, the most important competence is personal credibility while in Romania foreign language skills are considered to be as important as personal credibility. In Serbia HR services have the same, high importance as the personal credibility of HR managers.

In the following the importance of various methods of personal competency development will be analyzed.

Table 5: The importance of the methods of personal competency development in HR (on a 1-5 scale, on average)  
(Explanation: 1=not critical  $\Rightarrow$  5=1 critical at all)

Methods of competency development / Countries	Czech Republic	Hungary	Poland	Romania	Serbia	CEE
Informal learning at the HR department of your subsidiary	3.06	2.41	3.50	3.71	3.93	3.32
Informal learning at the HR department of another subsidiary	2.13	1.46	3.48	3.04	2.53	2.51
Informal learning at the parent company	2.53	2.00	3.02	2.87	3.40	2.76
Local HR-training and development	3.17	2.76	2.65	3.84	3.77	3.24
HR training and development at the parent company	2.62	1.84	2.56	3.03	2.90	2.59
HR training and development at other subsidiaries	2.41	1.62	2.48	2.69	2.34	2.31

Source: The authors' research data

In the CEE region, the most important method of personal competency development in HR area is the Informal learning at the HR department of the subsidiary, then the local HR training and development, while the least important methods are HR training and development at other subsidiaries and Informal learning at the HR department of another subsidiary. In Czech Republic and Hungary the most important method is Local HR-training and development, while the least important is Informal learning at the HR department of another subsidiary. In Poland and Serbia the most important method of HR competency development is Informal learning at the HR department of the subsidiary, while the least important is HR training and development at other subsidiaries. In Romania the most important technique is Local HR-training and development, while the least important is HR training and development at other subsidiaries.

Table 6: HR knowledge flows (on a 1-5 scale, on average)  
(Explanation: 1=unimportant ⇒ 5=very important)

Knowledge flow method / Country	Czech Republic	Hungary	Poland	Romania	Serbia	CEE
Knowledge flows from the parent company to the subsidiary	3.18	3.17	3.46	3.84	4.03	3.54
Knowledge flows from the subsidiary to the parent company	2.99	2.41	3.43	3.63	2.40	2.97
Knowledge flows between subsidiaries	3.29	2.41	3.19	3.69	3.14	3.14
HR related knowledge flows within the HR department at your subsidiary	3.15	3.31	3.04	3.75	3.67	3.38
HR related knowledge flows at your subsidiary between the HR department and other organizational units	3.05	2.96	2.98	3.43	-	3.11

Source: The authors' research data

In the analyzed five countries from the CEE region, the most important way of HR knowledge flow is from the parent company to the subsidiary and the least important is the knowledge flow from the subsidiary to the parent company. In Czech Republic the most important way of HR knowledge flow is between the subsidiaries, while the least important is the flow from the subsidiary to the parent company. In Hungary the most important HR knowledge flow is the HR related knowledge flow within the HR department at the subsidiary, while the least important is that from the parent company and between subsidiaries. In Poland and Romania, the most important HR knowledge flow method is that from the parent company to the subsidiary and the least important is the HR related knowledge flow at the subsidiary between the HR department and other organizational units. In Serbia, the most important is the flow

from the parent company to the subsidiary, while the least important is the opposite way – from the subsidiary to the parent company.

## **Conclusions**

Multinational companies have an important role in the development of the management techniques in CEE region. As they apply modern HRM methods MNC subsidiaries are an example for local firms in the development of human resource management practice, contributing to the use of more efficient HRM techniques.

Based of the results of the CEEIRT research from 2015/16 research period it can be concluded that the local HR departments of MNC's subsidiaries in Czech Republic, Hungary, Poland, Romania and Serbia have a relatively high degree of autonomy, because the parent company's HR department usually defines only general guidelines and frameworks for actions, and does not interfere with the daily HR activities. The most critical HRM activities in the opinion of the HR managers of MNC subsidiaries in CEE region are: Recruitment, Selection and HR planning. The least critical area is Employee Communication. The HR managers of MNC subsidiaries in CEE region consider personal credibility to the key competence of HR managers.

In the CEE region, the most important method of personal competency development in HR area is the Informal learning at the HR department of the subsidiary, then the local HR training and development, while the least important methods are HR training and development at other subsidiaries and Informal learning at the HR department of another subsidiary. The most important way of HR knowledge flow is from the parent company to the subsidiary and the least important is the knowledge flow from the subsidiary to the parent company.

The obtained data show significant variations in the HR activities and the challenges of HR are in the MNC subsidiaries in the five analyzed CEE country. The results are in line with the statements of numerous authors on the heterogeneity in the HR practice of the countries in the CEE region. The research results show that there is a tendency of convergence in HRM activities at the subsidiaries of MNCs at CEE region, while the national differences prove that there is still not a unique HR practice as there are still some divergence in the practice of analyzed companies in Czech Republic, Hungary, Poland, Romania and Serbia.

In order to develop successful country-specific HRM practice, HRM managers of multinational companies are advised to consider the above described challenges of the HRM activities of the MNC subsidiaries in CEE region.

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## Summary

In the 21<sup>st</sup> century, human capital becomes one of the key factors of companies' success. HRM activities have to contribute to the employees' satisfaction and the companies' business results in the same time. MNC have an important role in the dissemination of the modern HRM practices in CEE region. The paper presents the results of the CEEIRT 2015/16 research on the challenges of the HR managers and their activities in the MNC subsidiaries in Czech Republic, Hungary, Poland, Romania and Serbia. The functions of the headquarters' HR department, the critical areas of HRM, the key competences of HR managers and the methods of their personal competency development, and the MNCs' knowledge flow are analyzed in the paper.