

The Internationalization of HR Function in Local Subsidiaries of MNCs in CEE Countries

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Abstract

After 1990 multinational companies (MNCs) started to invest and operate in Central and Eastern Europe (CEE), where they have played an important role in the distribution of modern human resource management (HRM) concepts and have been models for the implementation of relevant HRM practices. As MNCs – beside their capital – usually bring also their management philosophy to the region, they contribute to the internationalization of their local subsidiaries. The aim of this paper is to explore the HRM function's level of internationalization in local subsidiaries of MNCs. The analysis was carried out on data collected through the international benchmark research project Central and Eastern European International Research Team (CEEIRT) during 2012-2013. The sample consists of about 250 companies from five CEE countries (Hungary, Poland, Romania, Slovakia and Serbia), participating in the CEEIRT research project on a voluntary basis. The paper covers issues related to the employment of expats, the role of headquarters' HR department in the local HRM activities and the importance of foreign language skills for HR managers. Research findings underline the importance of HRM in the internationalization process of local subsidiaries of multinational companies in Central and Eastern Europe. Despite its limitations - occurring due to the benchmark character of the research - the paper gives valuable insight on the internationalization process of the HRM activities of local subsidiaries of MNCs in the CEE region. To provide a statistically more adequate explanation of the differences between MNC subsidiaries from the five analyzed countries, future research with a larger sample and representative sectoral distribution of companies would be necessary.

Keywords

Internationalization, HRM, CEE, CEEIRT, expatriates.

Introduction

The globalization of businesses lead to the increasing recognition of the well-managed workforce and the development of the HR role from being an administrative or support function to one fulfilling strategic importance. The competitiveness of companies and even countries or regions has increasingly been recognized to stem from the caliber of their staff and people management strategies (Porter 1990; Pucik 1992).

Recent management literature (Brewster, Maryhofer, & Morley, 2004; Ulrich, Allen, Brockbak, Younger, & Nyman, 2009) states that the conventional sources of competitiveness (like protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage in today's competitive markets. As the importance of adequate human resources has been acknowledged, more and more companies make considerable efforts to improve the effectiveness of human resource management. Many authors think that

the human factor (knowledge, skills, and behaviour) is the key to sustaining long-term competitiveness (Sparrow, Hird, Hesketh, & Cooper, 2010).

Dowling, Festing and Engle (2008), like Chikán and Czakó (2009) stress that multinationals generally operate their management functions (including HRM) at a higher level than local companies do. Multinational companies apply highly efficient methods for performance management, communication, training and career management. On the contrary, local companies usually focus on collective agreements and staffing issues related to strikes. The foreign companies have an important influence on the recipient country's economic development. Erdős (2003) considers that multinational companies with high capital value have an important influence on the smaller countries' growth potential. Besides the advantages of multinational companies, Stiglitz (2003) also calls attention to their disadvantages, highlighting that these big companies often tread down the small local companies.

International assignment failures not only affect the organization's international business performance and development but also can frustrate an employee's career growth (Caligiuri, Hyland, Joshi, & Bross, 1998; Newton, Hutchings, & Kabanoff, 2007). Because each expatriate's adjustment and performance are likely to influence the organization's success in building foreign business, strategies for selecting, training, and placing expatriates are critical to the success of a multinational corporation's operations. Scholars predict that expatriates who attend cross-cultural training should be more prepared for uncertainty and tolerate changes to their habits, norms, policies, and work environment (Bozionelos, 2009).

Multinational companies that arrived in Central and Eastern European region use two main categories of foreign investments: foreign direct investments and portfolio investments. By foreign direct investments (FDI) the investor secures direct control over assets and operation of a company in another country. Poór, Seres-Huszárik and Mura (2012, p. 8) point out that the characteristics of the local market, economic environment and the national culture might demand the adaptation of the company's strategy and its management practice to local circumstances. Portfolio invest-

ment means that the investors purchase different financial assets and shares, but this often means only a passive influence on the operations of the purchased company. In most cases multinational companies got into the region by foreign direct investments.

By foreign direct investments (FDI) the investor secures direct control over assets and operation of a company in another country. In his book about the roles played by international enterprises in Eastern Europe; Lewis (2005) explains that, in many respects, these multinational companies have redrawn the labour market maps of the former socialist countries. They eliminated the equality factor and introduced basic salaries which were in accordance with the importance of jobs. Outstanding job performance was rewarded with outstanding pay, and, in addition to technical skills, they emphasised the importance of foreign language proficiency. Poór et al. (2012, p. 8) pointed out that the characteristics of the local market, economic and institutional environment and the national culture might demand – to varying degrees – the adaptation of company's strategy and its management practice to local circumstances.

1. About the CEEIRT research methodology

The international CEEIRT (Central and Eastern European International Research Team) consortium is composed of researchers and university professors from twelve countries of Central and Eastern Europe (CEE). The empirical research based on questionnaires tackles the HR practice of multinational companies' settled down in the region and it has been carried out since 2009.

International research results and the results of the authors' previous surveys as well in were used developing the research model (Poór & Farkas, 2012, p. 10). The model has developed in the past few years and now we take into consideration more internal factors (company characteristics, phases in company development, mandates etc.) than at the beginning of the CEEIRT research. In the research period 2012-2013 our analysis was made based on the research model presented in Figure 1.

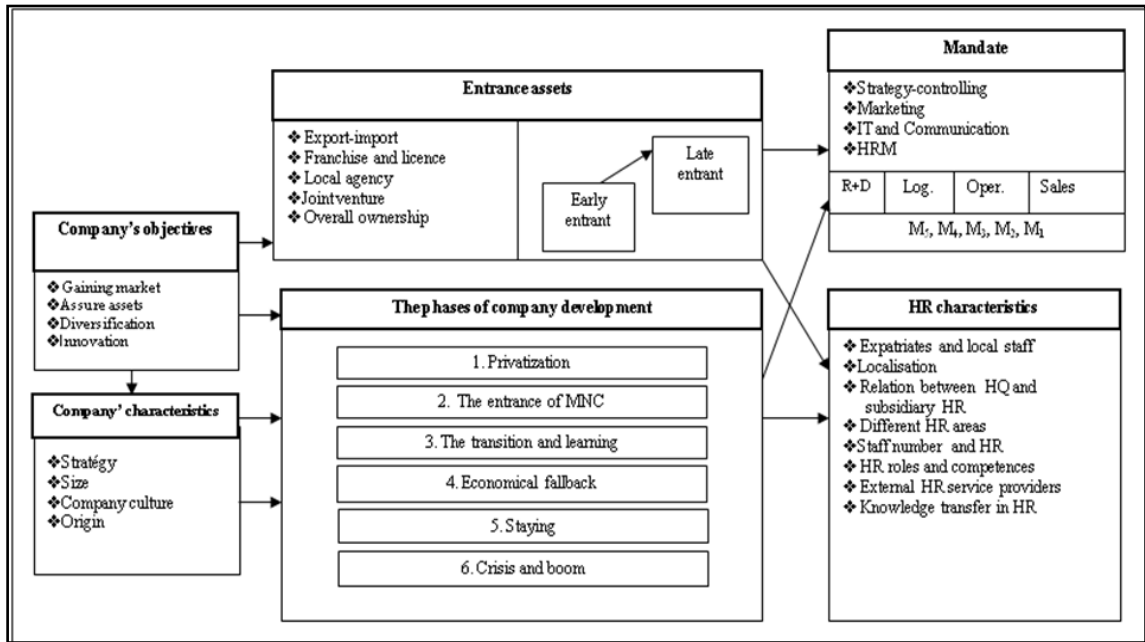


Figure 1 Research model
Source: Poór and Farkas, 2012

The aim of this paper is to explore the HRM function's level of internationalization in local subsidiaries of multinational companies settled down in Hungary, Poland, Romania, Serbia and Slovakia.

Standardized questionnaires (translated into the official languages of examined countries) were used for company interviews and on-line survey¹ to make statistical analysis and data comparison easier. The questionnaire was filled out by the person responsible for HR practice from the MNC subsidiaries (HR director, HR expert, CEO, etc).

The questionnaire covered the following nine areas:

- the interviewees' data
- the companies' organizational data
- the importance and key indicators of HR function
- the role of headquarter and local HR department
- the HR managers' competences
- the expatriates (foreign and local)
- the use of external HR service providers
- knowledge management in HR
- the future tasks for HR.

After presenting the companies' organizational data, in this paper we will analyze the role of the HR department from the MNCs' headquarter and subsidiaries', the number of foreign expatriates in managerial and non-managerial position, the trends in sending local employees to foreign assignments and the requirement of knowing foreign language(s) as one of the competences expected from HR managers in MNC subsidiaries operating in Hungary, Poland, Serbia and Slovakia based on data collected in 2012 and 2013.

Even though the sample of companies we have reached is not representative for all MNC subsidiaries operating in the analyzed countries, the results of this benchmark survey reflect some characteristics of the internationalization of HR practices and signal the challenges faced by these companies.

2. Samples overview

In the research period 2012-2013, 118 Hungarian, 53 Polish, 34 Romanian, 19 Serbian and 30 Slovakian international companies participated in the CEEIRT survey. The table below shows the number and percentage distribution of participants by country.

Table 1 Percentage of participating companies by country

	HU	PL	RO	SRB	SVK	Total
Number	118	53	34	19	30	254
Percentage (%)	46.5	20.9	13.4	7.5	11.8	100.00

Source: Authors' own research

¹ The web survey can be accessed at the following address: www.cceirt-hrm.eu

The majority of companies involved in the research operate in Hungary or Poland, the subsidiaries from Romania and Slovakia are present in our research in less proportion and the fewest analyzed companies operate in Serbia.

The second table shows the distribution of participating MNCs by industry sector.

Table 2 The distribution of participating MNCs by sector

Sectors	Manufacturing industries	Trade	Financial services	Other services	Internal business services	Other	Total
Number	116	42	33	48	9	6	254
Percentage (%)	45.7	16.5	13.0	18.9	3.5	2.4	100.0

Source: Authors' own research

The subsidiaries of multinational companies participating in the survey were equally operating in manufacturing industry and in various services.

The third table shows the distribution of participating MNCs by size.

Table 3 The distribution of participating MNCs by size (%)

Number of employees	Hungary	Poland	Romania	Serbia	Slovakia	Total
Under 250	40.0	47.1	48.5	52.9	78.6	48.0
251-1000	26.1	29.4	30.3	11.8	14.3	25.0
1001-2000	15.7	11.8	15.2	35.3	3.6	14.8
2001-5000	13.0	9.1	6.1	0	3.6	9.4
More than 5000	5.2	2.0	0	0	0	2.9

Source: Authors' own research

Almost half of the analyzed local subsidiaries belong to small and medium sized companies. Only about 27% of the companies have more than 1000 employees. The highest proportion of small companies (with fewer than 250 employees) was interviewed in Slovakia.

MNCs' headquarter, the number of foreign expatriates in managerial and non-managerial position, the trends in sending local employees to foreign assignments and the requirement of knowing foreign knowledge from HR managers.

3. Results

In the following section we will present the results concerning the role of the HR department of the

The fourth table presents the typical role of headquarters' HR department in the human resource management activities of local subsidiaries.

Table 4 The typical role of HQ HR department (%)

Typical role of HQ HR department	Hungary	Poland	Romania	Serbia	Slovakia	Total
Hands off, provide complete freedom	19.8	16.0	24.1	5.6	19.8	19.8
Provide general guidelines	53.4	48.0	34.5	44.4	47.5	47.5
Provide detailed HR model, policy	20.7	24.0	34.5	44.4	24.1	25.2
Source of all remotely significant HR decisions	6.0	12.0	6.9	5.6	6.9	7.4

Source: Authors' own research

In most of the cases the HR department of the company's headquarters lays down general guidelines and provides a standard framework for the work of HR departments of the subsidiaries and requires information and reporting from them. In several companies the headquarters is also responsible for developing the detailed HR model. Only about 7% of companies have absolutely ce-

tralized HR practices. On the other hand, acquiring an almost complete freedom from headquarters and decentralized HR activity is characteristic of almost 20% of the analyzed MNC subsidiaries. In Hungary, Poland and Slovakia the headquarters' HR department is providing detailed HR policy and model. In Romania and Serbia the proportion of headquarters' providing general guide-

lines is similar to those providing detailed policy and model.

Tables 5 and 6 show survey results about the use of foreign expatriates in managerial and non-

managerial positions in the local subsidiaries of multinational companies in the analyzed five countries.

Table 5 The use of foreign expatriates in managerial positions

Foreign expats – managerial positions	Hungary	Poland	Romania	Serbia	Slovakia	Total
Not used	55.3%	66.0%	64.5%	57.9%	66.7%	60.4%
1 person	15.8%	9.4%	3.2%	21.1%	20.0%	13.8%
2-3 persons	9.6%	9.4%	16.1%	5.3%	13.3%	10.5%
4-5 persons	7.9%	9.4%	6.5%	5.3%	0.0%	6.9%
6-10 persons	1.8%	3.8%	3.2%	5.3%	0.0%	2.4%
11-15 persons	0.9%	0.0%	0.0%	5.3%	0.0%	0.8%
16-20 persons	1.8%	0.0%	3.2%	0.0%	0.0%	1.2%
More than 20 persons	7.0%	1.9%	3.2%	0.0%	0.0%	4.0%

Source: Authors' own research

From the obtained data it can be concluded that employing foreign expatriates for managerial positions is not common in the majority of the local subsidiaries of MNCs in the analyzed countries. In more than 60% of the analyzed companies foreign expats are not used at all in managerial positions. In about 25% of local subsidiaries 1-3 foreign expats are working as managers. In less than

10% of the analyzed companies there are 4-10 expatriates at the managerial positions. In 2% of the examined companies there are 11-20 expatriates, while in 4% there more than 20 foreign expatriates can be found in managerial positions. The employment of foreign expats as managers is the most common in Hungary and the least common in Slovakia.

Table 6 The use of foreign expatriates in non-managerial positions

Foreign expats – non managerial positions	Hungary	Poland	Romania	Serbia	Slovakia	Total
Not used	71.9%	83.0%	74.2%	78.9%	93.3%	77.7%
1 person	10.5%	5.7%	3.2%	5.3%	0.0%	6.9%
2-3 persons	4.4%	1.9%	9.7%	0.0%	6.7%	4.5%
4-5 persons	3.5%	3.8%	3.2%	10.5%	0.0%	3.6%
6-10 persons	4.4%	1.9%	0.0%	5.3%	0.0%	2.8%
11-15 persons	0.9%	0.0%	3.2%	0.0%	0.0%	0.8%
16-20 persons	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
More than 20 persons	4.4%	3.8%	6.5%	0.0%	0.0%	3.6%

Source: Authors' own research

The employment of foreign expatriates in non-managerial position is even less common in the local subsidiaries of foreign MNCs from the analyzed five countries, than the promotion of foreign expats to managerial positions. In almost 80% of companies foreign expats are not used at all for non-managerial positions. In about 11% of local subsidiaries 1-3 foreign expats are working in non-managerial positions. In less than 7% of the

analyzed companies there are 4-10 expatriates at the non-managerial positions. There are no companies with 11-20 expatriates at the non-managerial jobs, while in about 4% of them there are more than 20 foreign expatriates at the managerial positions. The employment of foreign expats at the non-managerial positions is the most common in Hungary and Romania and the least common in Slovakia.

Table 7 The use of local expatriates in managerial positions

Local expats – managerial positions	Hungary	Poland	Romania	Serbia	Slovakia	Total
Not used	71.4%	77.4%	66.7%	73.7%	92.9%	74.7%
1 person	10.7%	7.5%	12.1%	10.5%	3.6%	9.4%
2-3 persons	7.1%	5.7%	9.1%	0.0%	0.0%	5.7%
4-5 persons	1.8%	3.8%	6.1%	10.5%	0.0%	3.3%
6-10 persons	4.5%	3.8%	3.0%	5.3%	0.0%	3.7%
11-15 persons	0.0%	0.0%	3.0%	0.0%	0.0%	0.4%
16-20 persons	3.6%	0.0%	0.0%	0.0%	3.6%	2.0%
More than 20 persons	0.9%	1.9%	0.0%	0.0%	0.0%	0.8%

Source: Authors' own research

From these data it can be concluded that the majority of the local subsidiaries of MNCs do not send their local employees to foreign assignments. In almost 75% of the analyzed companies local managers do not get the possibility to work as expatriates. In about 15% of local subsidiaries only 1-3 local expats are working as managers abroad. In less than 10% of the analyzed compa-

nies there are 4-10 expatriates at the managerial positions. In 2.4% of the examined companies there are 11-20 expatriates, while in less than 4% of them there are more than 20 local employees at foreign assignments. Sending local managers to work for the company abroad is the most common in Romania while it is the least common in Slovakia.

Table 8 The use of local expatriates in non-managerial positions

Local expats – non managerial positions	Hungary	Poland	Romania	Serbia	Slovakia	Total
Not used	66.1%	77.4%	75.8%	78.9%	92.9%	73.9%
1 person	8.9%	5.7%	0.0%	0.0%	3.6%	5.7%
2-3 persons	5.4%	3.8%	9.1%	10.5%	0.0%	5.3%
4-5 persons	2.7%	5.7%	0.0%	5.3%	0.0%	2.9%
6-10 persons	7.1%	1.9%	6.1%	5.3%	3.6%	5.3%
11-15 persons	0.9%	3.8%	6.1%	0.0%	0.0%	2.0%
16-20 persons	2.7%	0.0%	0.0%	0.0%	0.0%	1.2%
More than 20 persons	6.3%	1.9%	3.0%	0.0%	0.0%	3.7%

Source: Authors' own research

From the data shown in table 8 it can be concluded that the employment of local expatriates at non-managerial positions is equally not common as the use of local expatriates in managerial positions. In almost 74% of the examined companies local employees in non-managerial positions are not sent to foreign assignments at all. In about 11% of local subsidiaries 1-3 local expats are working at non-managerial positions abroad. In about 8% of the analyzed companies there are 4-10 local expatriates in non-managerial positions, in about 3% of companies there are 11-20 local expatriates, while in about 4% of them there are more than 20 local expatriates in non managerial positions. The employment of local expats in non-managerial positions is the most common in Hungary and the least common in Slovakia.

The last table shows the research results concerning the most important HR competences.

Table 9 The key competences for HR managers (%)

Key competences	Hungary	Poland	Romania	Serbia	Slovakia	Total
Personal credibility	87.9	96.0	93.9	88.2	78.6	89.3
Knowledge of foreign languages	79.5	80.0	75.8	76.5	60.7	76.7
HR services	70.9	79.6	84.8	76.5	60.7	73.8
Business knowledge	66.4	79.6	69.7	76.5	50.0	68.3
Strategic contribution	69.0	77.6	75.8	70.6	46.4	69.1
Use of HRMIS (IT)	52.1	45.7	72.7	76.5	64.3	56.8

Source: Authors' own research

Survey data show that in all five analyzed countries personal credibility is the most important competence for HR managers at the local subsidiaries of MNCs. It is interesting that the knowledge of foreign languages is the second most important factor. As the research was done in the local subsidiaries of multinational companies, it was assumed that this is evidence, not a key competence. The next factors are HR services and strategic contribution showing that professional knowledge is necessary for HR managers to gain strategic role in the company. The use of HR information system is considered to be the least important competence for HR managers from the analyzed ones. There is no significant difference among the analyzed countries regarding the ranking of the key competences contributing to the success of the HR managers.

Conclusions

Multinational companies have an important role in the change of management techniques in CEE region. As they apply modern HRM methods MNC subsidiaries are an example for local firms in development of human resource management practice and contribute to the changing of attitudes about the role of employees in the companies' success.

Based of the results of the CEEIRT research it can be concluded that the local HR departments of MNCs' subsidiaries in Hungary, Poland, Romania, Serbia and Slovakia 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 employment of foreign expatriates in the managerial position in the five analyzed countries is not common. Only 40% of the examined local subsidiaries of MNCs have this practice. For non-managerial position the use of foreign expats is even less common, only about 23% of analyzed companies employ them. The use of foreign expats – both in managerial and non-managerial positions – is the highest in Hungary and the lowest in Slovakia.

In Hungary, Poland, Romania, Serbia or Slovakia the practice to send local managers and employees to foreign assignments is not common. About 25% of examined local subsidiaries of MNCs use to send their managers or employees to work abroad. The highest share of companies employing local expats is in Hungary, while the lowest is in Slovakia.

HR managers from the region are expected to have personal credibility, foreign language skills, knowledge of HR capacity to provide a strategic contribution to the company. Emphasizing personal credibility may suggest that HR managers are working with people and sometimes they decide about their destiny, therefore they should have better than average interpersonal skills. At the same time HR managers have to efficiently and effectively carry out their work to achieve the company's national, regional and global strategic aims.

Based on survey data it can be concluded that the level of internationalization of the HR function in the local subsidiaries of MNCs in Hungary, Poland, Romania, Serbia and Slovakia is on a moderate level. The HQ's HR department is providing general guidelines for the HR activities of local subsidiaries, while the use of foreign and

local expatriates is not common in the region. The importance of knowing foreign language is an important key competence of local HR managers. There is no significant difference between the analyzed countries regarding the level of internationalization of HR activities.


It is expected that with the intensification of the process of globalization, the level of internationalization of HR activities in the CEE countries will increase and local HR departments will get higher autonomy from their HQ, will employ more foreign and local expats for managerial and non-managerial positions and the foreign language skills of an HR manager will be an evidence, not a key competence.

The authors intend to develop this research in three different directions:

- A deeper statistical investigation concerning correlation and regression analyses are planned.
- We intend to examine cultural similarities and differences in HR practice at organizations with different cultural background (American, German, Latin, etc.)
- In the following stage of our research, we will try to identify any patterns in type of industry, size of firm or national origin of the firm.

It is important for MNCs to be aware of the economic, political and social challenges of this rapidly developing region, where they want to establish a subsidiary, in order to successfully adapt the global HR practices and techniques in their local subsidiaries.

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