

SPECIFIC PROBLEMS OF HUMAN RESOURCE MANAGEMENT IN FOREIGN OWNED COMPANIES IN SLOVAKIA

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Abstract. The paper concentrates on the issue of human resources management (HRM) practices in subsidiaries of multinational companies performing its business in Slovakia. This investigation is a part of broader international research led in selected Central and Eastern European countries including Hungary, Poland and Slovakia. The first part of article briefly describes theoretical aspects of examined issues. The second part represents the applied research focused on the current state of foreign direct investment and human resources management in foreign owned companies in Slovakia, its key business issues, problems, trends and specifics. Research methodology is based on the official statistical economic data processing and analyses of specialized questionnaires and their evaluation.

Key words: Human Resource Management, multinational corporations, Foreign Direct Investment, Central and Eastern Europe, Slovakia.

Introduction

The economic and social transition process in Central and Eastern Europe was closely related to the arrival of foreign capital and multinational companies (MNC). Many authors believe that multinational companies design and implement their management functions – including HRM – better than local companies do (e.g. Harzing, Ruyseveldt 2004). Multinational companies apply highly efficient methods in the majority of HR functions: performance management, communication, training of new employees, career management, whilst local companies tend to focus more on staffing concerns or administrative issues. Specific problems of HR management are concerning the human resources strategies of small and medium enterprises (Madzinová, Sedláková 2014).

The article presents results of research realized in cooperation with the Central and Eastern European Research Team (CEEIRT) project focusing on Human Resource Management coordinated by prof. Poór from the Szent István

University in Gödöllő, Hungary, with the use of data gathering via questionnaires, corporate reports and analyses. The study of HR practices in subsidiaries of MNC-s in Central Europe is based on a broader framework encompassing the major external and internal factors that affect the operations of companies: their goals and characteristics, stages of development, mandate of subsidiaries in value chain, HR characteristics (Poór et al. 2010). The detailed description of each element in research model is beyond the scope of this article; basically the model provides a context for discussion, highlighting the importance of HR variables in the context of situational, historical and institutional variables (Brewster 2006). Although the research items were originally descriptive in nature, an analysis revealed objective results in all cases. In order to facilitate statistical analysis, we used the same questionnaire during the personal interviews at the companies, during the online survey coding and analyzed the coded answers. The results of our research are presented in the second part of the article.

1. Particularities of International Human Resource Management

Globalization has brought remarkable developments in the diversity and complexity of international business and multinational enterprises. Concomitant with these developments has been increasing awareness that the management of a global workforce is a critical dimension of international business. A major aspect of MNC management relates to the area of Strategic International Human Resource Management (SIHRM).

The research of international human resources management has been characterized by three broad approaches (Dowling 1999). Older works in this area (e.g. Laurent 1986) highlighted the problems of cross-cultural management. The second area of research was focused on the comparisons of HRM in countries and regions (Rowley et al. 2004). The third major area of research in international HRM has been focused on different aspects of human resource management in multinational companies. This last area can be defined as the international human resource management, including the same elements as HRM within one country, but with the added complexity, given the diversity of national contexts (Dowling, Welch 2004).

An important aspect of international human resource management represents the understanding of changes in the micro level stemming from the cross-national transfer of employees and managerial practices (Caligiuri 2000). In parallel with this research there was also paid attention to problems at the macro level, such as issues of a strategic nature of international HRM and its impact on performance of MNC-s (McWilliams et al. 2001). The definition of SIHRM was formulated as “human resource management issues, functions, policies and procedures, which are the result of strategic actions of MNC-s,

their impact on companies and their objectives” (Schuler et al. 1993). Schuler came to the conclusion that the fundamental problem is the tension between global coordination (integration) and local response capacity (differentiation). His conceptual model of the survey is a useful tool that combines the strategic and international dimension of HRM. He has identified important endogenous factors – the international experience of the company, organizational structure and international orientation of the company, and proposed to include among them the life cycle of the organization.

Taylor et al. (1996) also recognized the impact of exogenous factors on MNC-s in relation to SIHRM (type of government, the condition of the economy, legislation, general business practices in the host country) and the mutual influence among organizational factors such as trans-national strategies, phase of the life cycle and SIHRM. While previous frames provided useful starting points, recent global events, such as scandals and terrorism (it is estimated that MNC-s are using about 1-2% of their income on protection against the terrorism, especially the kidnapping of managers), indicate the need to shift towards the risk management in multinational companies in order to build a modern vision of SIHRM. The uncertainty has increased in following areas (Czinkota, Ronkainen, 2004):

- consumer demand for the firm’s goods and services;
- supply of needed inputs, resources and services;
- government policies and laws enacted to deal with terrorism, thereby altering the business environment and the ease with which the business is conducted;
- macroeconomic development;
- nature of relations among countries.

The SIHRM is closely related to these areas of risk. Therefore, these factors require special attention and revision of the SIHRM framework for MNC-s. The complexity of globalization and global events requires in particular the multi-theoretical, multilevel analyses with penetration into macro and micro space, i.e. the move in the analysis between the global system and the national space (mezzo-analysis) (De Cieri, Dowling 2006).

The key work that systematizes approaches of MNC-s to the management and staffing the foreign branches is *The Global Challenge: Framework for International Human Resource Management* (Evans et al. 2002). Authors defined explicitly the forces that affect the sensitivity of integration framework and formulate the HRM functions. According to the authors achieving the accord with corporate goals, the desired standardization of activities and also achieving the specialization of individual branches is subject to effective HR policy. In addition, the key element to ensuring the global integration is the use of expatriates, who will rely once again on effective human resources policy. In this

work authors present the four basic approaches to international HRM:

- the ethnocentric approach, where foreign branches have no autonomy, strategic decisions are carried out by headquarters and main positions in domestic and foreign country are also in the hands of top management. Subsidiaries are managed by expatriates from the parent country;
- the polycentric approach, where a subsidiary is treated as a separate national unit with certain powers. These branches are usually managed by local employees who are rarely assigned to the top positions in the company headquarters;
- the geocentric approach, that takes no account of nationality, but essential are the skills. For the success of this approach, there is a need for close interconnection with the worldwide integrated global business strategy.

Region-centric approach is similar to the geocentric approach, and also uses a wider range of managers, but it is limited to the specific region. Regional managers are usually not delegated to the headquarters and have relatively large freedom of decision. From the point of view of strategy many authors accentuate the linkage of HRM to strategic issues and consider it as a crucial dimension of the company strategic management.

2. The Research on HRM in foreign owned companies in Slovakia

The research has been concentrated on the foreign direct investment (FDI) development and HR management applications in subsidiaries of MNC-s in Slovakia. In our work we have participated on the research of the long-term cooperative research consortium – the Central and Eastern European International Research Team (CEEIRT) composed of researchers from different universities of Central and Eastern Europe and aimed at examining the changing Human Resource practices and roles in MNC subsidiaries. The results of our work were published in various scientific publications and studies (Poór et al. 2010; Vološin et al. 2011; Poór et al. 2015). We seek to understand what trends have emerged in the professional practice of HR and the key roles of HRM in our geographic area in response to the socio-economic changes in the region.

2.1. Methodology of the empirical research

In the frame of research the following areas were covered:

- characteristics of the subsidiaries surveyed: the most important organizational and economic characteristics (origin of the parent company, year of establishment of the subsidiary, main area of operation of the company – sector, size of the organization – based on revenue and the number of employees – the evolution of productivity index, mandate in the value chain and the main steps, directions of development);

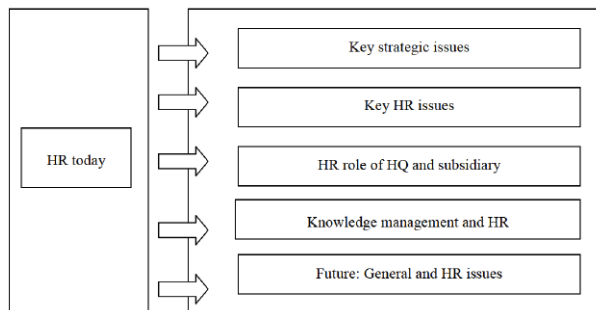
- key indicators of the HR function: the number and workload of the staff employed in HR departments, the main indicators representing the importance, results, efficiency of characteristics of the HR activity (labour cost – total cost ratio, age distribution of the employees, relative weight of the training budget, rate of fluctuation and absenteeism);
- most important HR characteristics of the period examined: the importance of HR function, foreign and local expatriates, distribution of roles between central and local HR, the role of local HR in developing and operating the different HRM subsystems, most important key competences and fundamental sources of professional development of the person interviewed.
- knowledge management in the field of HR: main directions, methods and characteristics of knowledge flows;
- the future of HR: most significant changes from a HR point of view occurring in the next two years;
- data of the respondents: data on the current HR department and its employees.

The statements included in the report were based on the use of descriptive statistical models (frequency, distribution, average). We also presented graphically the data obtained from processing the answers to several important questions. Several case examples collected during the personal interviews – while ensuring anonymity – were also added to our analysis.

2.2 The CEEIRT research model

Although the research items were originally descriptive in nature, an analysis revealed objective results in all cases. In order to facilitate statistical analysis, we used the same questionnaire during the personal interviews at the companies, during the online survey coding and analyzed the coded answers. Our research was carried out based on the model shown in Figure 1.

Figure 1. The structure of CEEIRT research conceptual model



Source: Poór et al. (2015).

The model assumes that HRM system in a multinational company includes the following functions: HR Planning + Recruitment and Selection + Performance Evaluation + Training and Development + Talent Management + Compensation and Benefits + Industrial and Labour Relations + Employee Communication + HRMS/IT + Other HR related area(s).

In developing of the research model presented above, we implemented international results and several results from our own previous surveys. During the analysis we collated the observed picture with the findings of other research projects conducted at the department. We built our research on models developed in the field of human resource management (Brewster 2006) and international human resources management (Sparrow, Hiltrop 1997; Rowley et al. 2004; Sparrow 2009), as well as analyses involving 42 foreign owned Hungarian subsidiaries based on the integration of these models (Poór et al. 2010). In the research we also used:

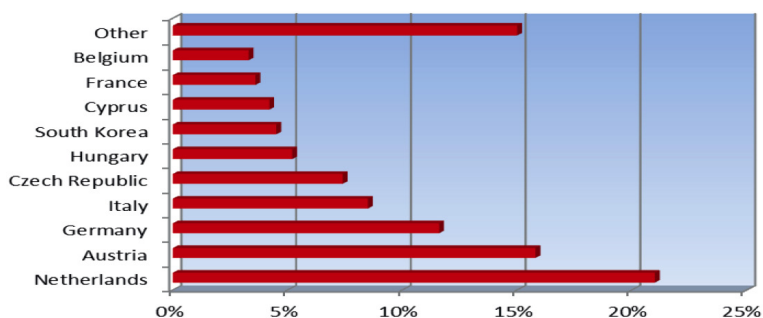
- our domestic and international experience gained during the Cranet HR researches (Farkas et al. 2009; Farkas et al. 2010);
- results of collected and published recent theoretical and empirical examinations in the field of knowledge management and HRM such as Dobrai, Farkas 2009, 2010; Farkas et al. 2010;
- research experience we gained over recent years during our analyses in the field of change management, management consulting and organizational and national culture.

In addition, we also used the most recent HR researches conducted in relation to the global economic crisis that occurred in 2008-2009.

3. Foreign Direct Investments and employment in Slovakia

According to OECD Statistics (April 2016), the FDI inward position of Slovakia is now about US\$ 48.164 billion. The negative FDI inflow in 2013 and 2014 stopped, and there has been still a great potential for foreign investments in Slovakia, especially in the central and eastern regions of the country. With respect to the majority of the FDI invested in Slovakia, according to data at the end of 2014, the order of most significant investors has somewhat changed compared to the previous year. The Netherlands and Austria retained their leading positions, but the position of Germany stepped forward and outpaced Italy (Figure 2). By the end of period observed, 65 countries from around the world invested in Slovakia. In total, 92% of FDI in Slovakia comes from member states of the European Union.

Figure 2. Foreign direct investments in Slovakia by the country of origin (% of total volume).



Source: Poór et al. 2015.

From the perspective of sectors the industrial production, energy and building sector cover about 50 % of FDI in Slovakia, 33 % belong to financial services and trade. In past several years Slovakia became the most intensive world car producer with the biggest number of cars produced yearly per capita. This rapid growth of car production was caused by huge investment of three multinational companies: Volkswagen Group, PSA Peugeot – Citroën and Kia Motors. The growth of car production stimulated investments of other world producers of automotive parts and accessories, with a positive impact on the whole economy and employment.

The highest concentration of foreign capital related to the number of companies is in Slovak wholesale and retail trade sector, the second sector is the professional, scientific and technical services and the third sector is the building industry. Also other sectors like industry, administrative and support service activities, information and the telecommunication sectors are highly saturated by foreign capital and controlled by foreign firms. More than 76% of foreign firms are located in Western Slovakia, 11% in Central Slovakia and 13% of companies are located in Eastern Slovakia.

Foreign direct investments were very important for economic development, employment and economic growth of Central European countries on their way to a free market economy. Slovakia, as the smallest economy among the four Visegrad countries, recorded very rapid economic growth over the past years due to its economic reforms and relatively high level of FDI inflow. This growth had a positive impact on the unemployment rate, which is still a national problem. This concern with employment levels is exacerbated as these investments are unevenly distributed geographically in the country. Employment in affiliates under foreign control is characterized by the share of some 44% of total people employed in manufacturing sector. The total employment represents about 24% in services sector. Actually the foreign-owned companies employ

more than 600,000 people in Slovakia. This number equals to one fourth of people employed in the Slovak economy and about 30% of them employed in the competitive sector.

Problem of employment in Slovakia is the uneven regional distribution of new jobs. In analyzed period some 62% of new jobs were created in Western regions (Bratislava, Trnava, Nitra, Trenčín). In Central Slovakia (Banská Bystrica and Žilina) it was only 19% and the same 19% was in Eastern Slovakia (Košice and Prešov). This disproportion is partly caused by asymmetric model of the state organization (Bratislava as the capital city is located on western boundary). Last but not least, the mountainous character of the country combined with the rudimentary highway network is complicating transport and economic equalization between the Eastern and Western Slovakia.

4. Specialized survey on HRM in Slovakia

Some 30 foreign-owned, legally independent subsidiaries participated in the special questionnaire survey. We have also examined in our survey the local role of value chain segments controlled by these subsidiaries (Poór et al. 2012). Based on the responses, it can be stated that the largest portion (76.7%) of the subsidiaries play a limited, subsidiary role (mainly the production and services segments of the value chain). The other important portion (40% and 36.7% of the participants), control only a part of the value chain (acquisition and sales). The last portion of the respondents (26.7% and 26.7%) of subsidiaries control two elements of the processes of the value chain (development and marketing).

The relationship between the headquarters HR department and local HR: some 37.9% of respondents reported that the headquarters provide general guidelines and framework for actions of the local HR departments, about 31 % of respondents stated that although headquarters expect information and report while acting as an auditor, their system provides complete freedom (decentralization) for the local HR departments of the subsidiaries, and 24.1% of respondents said that the function of the HQ-HR is to provide the subsidiaries with detailed HR model, policies, procedures and rules.

As the survey showed, majority of respondents regard most of the interventions in the key functions of HR as the result of a joint decision in which the final decision is made most often by the local line management. This approach is particularly true in the areas of performance evaluation and compensation and benefits. The main responsibility of decision of local line management, consulting with the HR local department is only found in the areas of Human Resource Planning and industrial-labour relations. The responsibility of the local HR department consulting with local line management is in recruitment and occupational safety and health (OSH). In Slovakia the professionals of the local HR department have the greatest freedom of making decisions in industrial-labour relations.

In our survey we tried to identify the critical HR questions: recruitment and selection (2.9 out of 5) was the first in the ranking of HR areas considered to be the most critical during the period examined. The areas of Human Resource Planning, the industrial-labour relations and the training and development (2.8/5 each) were chosen as less important areas. The areas of cost and benefits, employee communication, performance evaluation and talent management (2.7/5 each) were chosen as marginally important issue of HR of the subsidiaries.

Respondents report that it is less easy to find well-trained technical workers (in the labour market): 46.4% of respondents. Foreign language skills are not problem in most of the jobs: 35.7% answered that it is not typical at all. Company can keep talent easily: 35.7% of the respondents said that it has large feature. It can offer competitive wages for employees in every job: 35.7% report that it is a minor feature. 37% of the participants said that there is not any significant influence of trade unions at all.

As for foreign assignments, it is necessary to mention two types of long-term international assignees: expatriates from abroad (from a parent company or from a third country), and employees originating from the domestic subsidiary appointed for a long-term period on mission abroad (to the parent company or subsidiaries working in other countries).

The survey showed that foreign expatriates have not been employed in non-managerial positions by the majority of 93.3% of the Slovak subsidiaries participating in the survey. In those companies that did employ permanently foreign expatriates in non-managerial positions, the number of them ranged between 2-3 persons.

The presence of expatriates being employed in managerial positions is more significant, but two thirds (66.7% of the respondents) have not employed foreign expatriates in such positions. In the rest companies the number of them ranged between one and five persons. On the other side, the number and position of Slovak expatriates is small. As stated above, very few Slovak nationals go “out” on long term international assignments. This lack of transfers back to corporate headquarters or to other subsidiary sites has implications for the development of globalized human capital originated in Slovakia.

Conclusions

Human resources development is undoubtedly an important part of each company’s strategy. In our research we have focused on specific problems of HR management in foreign owned companies in Slovakia. The following key business issues, problems and trends have been considered to be important according to the respondents – human resources managers of MNC-s’ Slovak subsidiaries – participating in our survey:

- the serious impact of economic crisis on the financial situation of companies, which resulted in a decrease of labour force and reduction in the HR department, and the staff;

- maintaining/increasing the market share of the company, flexibility by the introduction of the new Labour Code, and increasing the HRMS user-friendly application;
- there is often no activity devoted to the development of the HR of the company at all. The companies have not clear developing strategy in their current form in any field. The insurance subsidiary established in Slovakia has been subtracted by the parent corporation and it is only operating as a branch of a foreign company;
- the recruitment functions of the HR department will be growing, if the demand of the companies' products is increased and the parent company gives new projects to their subsidiaries. But, this task will be fulfilled easily as the rate of unemployment has been high in this region;
- because of the existing economic uncertainty, firms reduce production and the number of staff as well. There has also been a problem of political instability and growing cost. Changes of the tax system have also an impact on instability;
- the issue of HR knowledge transfer among the subsidiary and other departments. The key topics are development of communication, expansion and better cooperation;
- the problem often is the head-hunting;
- the HR tasks are often carried out by one person, so he/she has to perform too many tasks. In the future the HR department is expected to be developed and expanded, and the processes may be complicated;
- rising labour costs, economic downturn in hospitals, the migration of physicians, and disadvantageous regulatory (legal) conditions;
- qualified labour shortages existing in all areas of the production. Companies are reporting the problem of finding and attracting skilled workers in small countries;
- language courses, additional training programmes, compliance with the legislation, communication with the managers and employees and information transfer are important topics to come.

In conclusion, the foreign companies are very important for the Slovak economy. But the HR management in the international context is more complex. The basic differences are: higher number of functions and activities, higher qualification requirements, need of personal commitment and time requirements. The employment of expatriates and local staff is still in development, and mainly depends on strategy of the particular company.

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