

## HRM in Transition in Croatian Subsidiaries of MNCs in Line with Central And Eastern European Survey

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**Abstract:** The Central and Eastern European International Research Team (hereafter CEEIRT) – composed of researchers from universities from the Central and Eastern European Region has developed a model of human resource management practices in the subsidiaries of multinational corporations in CEE Region. This model was used to explore and describe the changes of key HR variables in the light of different firm specific factors. The model was equally applied across the SEE Region and in research have been included 12 countries and 286 subsidiaries of foreign owned companies. Based on this model, an interview and on-line survey of top level HR executives at 10 subsidiaries of large multinational companies in Croatia and at 276 executives in other CEE countries was completed. The paper describes how these practices and roles have developed in response to the sweeping economic changes within the region and points out the expectations of practitioners for the future. According to the model applied, the research has covered the most important organizational and economic characteristics of the MNC subsidiaries in Croatia, key indicators of the HR function, the most important HR characteristics of the period examined, knowledge management in the field of HR including main directions, methods and characteristics of knowledge flows, and finally, the future of HR describing the most significant changes from a HR point of view occurring in the next period.

**Keywords:** human resource management, multinational companies, local subsidiaries, Central and Eastern Europe, Croatia, financial and economic crisis

**JEL Classification:** F23, J24, M12, M50, O15

### Introduction

The majority of companies in the competitive sphere in both economies have largely completed those major legal, strategic and structural modifications that followed pri-

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vatization. They have more or less left the reconstruction of the different company functions behind. With the intensification of competition continuous renewal is now being emphasized.

In this situation, the role of human resources becomes particularly important in the private and public sector of western countries and, more and more companies make considerable efforts to improve the effectiveness of human resource management. HRM 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 and Other HR related area(s).

It is widely argued within academia, that the conventional sources of competitiveness (including protected markets, technology, and access to financial resources) are not sufficient for developing and maintaining a competitive advantage in today's competitive markets (Brewster et al., 2004 and Ulrich et al., 2009). Many authors claim that the human factor in economy (knowledge, skills, and behaviour) is the key success factor to sustaining long-term competitiveness (Sparrow et al., 2010).

There is a lack in the HRM (Human Resource Management) literature to identify new patterns of Multinational Company involvement and its impact on HR/HRM activities of these firms but authors exploring in that field of research believe that multinationals generally operate their management functions (Szalavetz, 2010 and Bekes et al., 2011) including HRM (Hiltrop, 1991; Dowling, Festing and Engle, 2008; Chikán and Czakó, 2009) at a higher level than local companies do, and they apply highly efficient methods in areas of performance management, communication, training of new entrants and career management, whilst local companies tend to focus on collective agreements and staffing issues related to strikes.

That was one of the main reasons that we have begun a long-term research project investigating the transition of HR practices and roles in Multinational Company (MNC) subsidiaries in Croatia and CEE Region, as part of the Central and Eastern European Research Team (CEEIRT). We seek to understand how these practices and roles have developed in response to the sweeping economic changes within this region and the expectations of practitioners' for the future.

In that sense, a model of human resource management practices in the subsidiaries of multinational corporations was developed. This model describes the changes of key HR variables in the light of different firm specific factors. Based on this model, an interview and on-line survey of top level HR executives at subsidiaries of large multinational companies in Croatia has been conducted.

According to the model applied, the research has covered the most important organizational and economic characteristics of the MNC subsidiaries in Croatia, key indicators of the HR function, the most important HR characteristics of the period examined, knowledge management in the field of HR including main directions, methods and characteristics of knowledge flows, and finally, the future of HR describing the most significant changes from a HR point of view occurring in the next period.

The current financial and economic crisis originating in the developed countries, it has rapidly impacted the world economy. This crisis may negatively impact employment levels at large and medium sized MNC subsidiaries, pressuring MNC Headquarters (HQ) to drastically reduce managerial salary levels. The crisis, however, also provides an opportunity to implement efficient global HR policy responses to enhance the stability of the financial system and stimulate economic growth. This new situation requires new knowledge and a more complete understanding on how people are managed, developed, coordinated, and controlled at MNCs, particularly in Croatian subsidiaries.

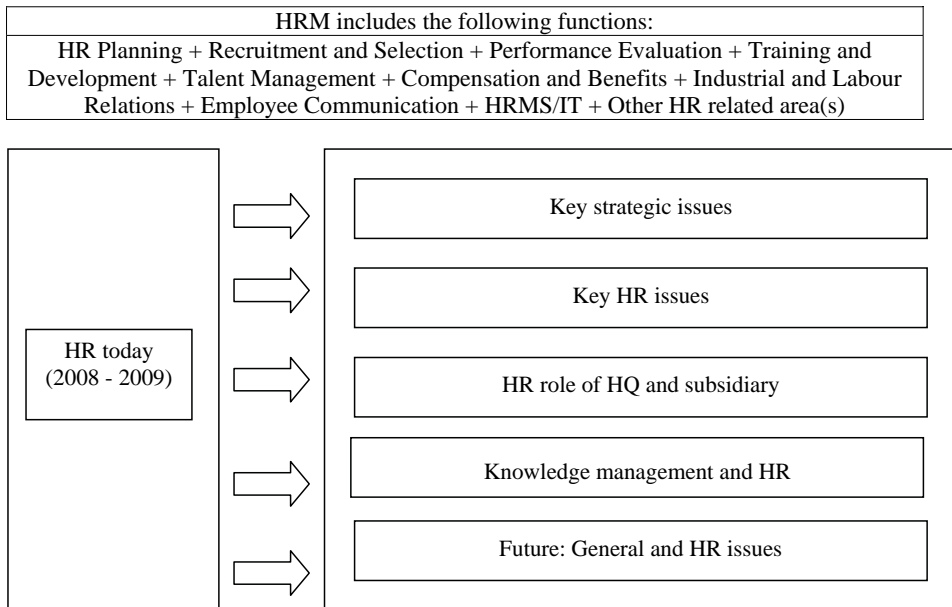
In this summary we give an overview of the most significant experience gained in the 10 MNC subsidiaries in Croatia participating (through personal interviews) in the survey until 15 December, the closing date of the research.

**Research model**

Although the analysis was descriptive; it revealed objective data in all cases. In order to facilitate statistical analysis, the same questionnaire during the personal interviews at the companies and during the online surveying was used. The gathered data were coded and the coded answers were analysed

The research was carried out based on the model shown in Figure 1.

Figure 1: Research model



In developing the research model shown in the figure above we implemented international results and several of our own previous surveys. During the analysis we collated the observed picture with the findings of other researches conducted at the department thus, inter alia, we built on:

- Models developed in the field of human resource management (Brewster et al, 2004) and international management (Hill, 2002; Wild et al., 2003) and analysis carried out in 2004 involving 42 foreign MNC owned Hungarian subsidiaries based on the integration of these models (Poór, 2009).
- Our domestic and international experience gained during the Cranet<sup>1</sup> HR researches being carried out at our department. (Karoliny-Farkas-Poór, 2009; Karoliny-Poór, 2010).
- The results of our collected and published recent theoretical and empirical examinations in the field of knowledge management such as Dobrai-Farkas 2010 and 2008, Dobrai 2008, Dobrai-Farkas 2007, Farkas et al. 2005.)
- Also the research experience we gained over recent years during our analyses in the field of change management (Farkas, 2004), management consulting (Poór, 2010) and organizational and national culture (Jarjabka, 2009).
- In addition, the most recent HR researches we conducted in relation to the global economic crisis that broke out in 2008 (Fodor-Kiss-Poór, 2010).

In the 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 – and the evolution of its productivity index, its mandate in the value chain and the main steps, directions of its 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 characteristics of the HR activity (labour cost – total cost ratio, age distribution of the employees, relative weight of the training budget, level and rate of fluctuation and absenteeism.)
- ***Most important HR characteristics of the period examined:*** the importance of the HR function, foreign and Croatian expats, distribution of roles between central and local HR, the role of local HR in developing and operating the different HRM subsystems, most important key competencies 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 12-24 months.
- ***Data of the respondents:*** data on the current HR department and its employees.

The appropriate sample size for a population-based survey is determined largely by three factors: (1) confidence level, (2) size of population and (3) confidence interval. Concerning this survey and fact that 10 MNC subsidiaries who have participated are not representative for Croatia, but in some measure it shows the HR practise of the most important MNCs in this country.

Most of our questions were related to the characteristics of the participating subsidiaries observed in 2009. In some cases (number of staff, revenue and HR efficiency indicators) we collected data from both 2008 and 2009.

The statements included in the report are based on the use of descriptive statistical models (frequency, distribution, average).

### *Hypotheses*

After developing the research model important elements have been selected and hypotheses set up. Given wide scope of conceptual framework we chose to select elements across the model for investigation. The hypotheses were as follows:

1. H#1: Due to the global economic crisis, local subsidiaries of international companies are much less likely to downsize their full-time staff than contracted employees.
2. H#2: Effectiveness of HR department at foreign-owned firms is expected to be much above the work efficiency of local companies. It will be interpreted by the following indicators: *number of HR staff, labour cost – operating cost ratio, relative weight of training budget.*
3. H#3: After having finished initial phases of development (merging and acquisition or firm establishment, reconstruction), training and development activities will decrease, and number of Croatian impatriates will increase.
4. H#4: HR departments of local subsidiaries manage their relationships with the HR units at HQ in a variety of different ways. A high level of centralization of HR activities, controlled by HQ, is not expected for the surveyed firms.
5. H#5: With growing people management awareness amongst line management, HR will lose its primary role and authority will be shared by HR and line management.
6. H#6: Training and development activities will be more likely than other areas of HR to be outsourced to external providers.

### **Methodology**

Based on the elements of the general research model discussed earlier, in this paper we will focus on six key categories:

- *Characteristics of surveyed subsidiaries:* capturing the most important organizational and economic characteristics, namely origin of parent company, year of establishment of subsidiary, main area of operation of the company – sector – size of organization (based on revenue and number of employees) and evolution of its productivity ratio, its mandate in value chain and main steps, directions of its development.
- *Key indicators of HR function:* namely number and workload of staff employed in HR departments, main indicators representing importance, results, and efficiency characteristics of HR activity (labour cost – total cost ratio, age distribution of employees, relative weight of training budget, level and rate of fluctuation and absenteeism.)
- *Most important HR characteristics of the period examined:* importance of HR function, use of foreign and Croatian expats, distribution of roles between central and local HR, role of local HR in developing and operating different HRM subsystems, most important key competencies and fundamental sources of professional development of the person interviewed.
- *Knowledge management of HR:* main directions, methods and characteristics of knowledge flows.
- *The future of HR:* most significant issues or actions in HR expected to occur in the next 12-24 months.
- *Data of respondents:* data on current HR department and its employees.

#### *General characteristics of the participating companies:*

- 10 local subsidiaries of different foreign owned companies registered in Croatia participated in the survey.
- The majority of the participating companies are rather middle sized than large enterprises according to the new EU classification based on the number of their employees (above 250 employees) or on their revenue (above 50 million Euros).
- The majority (40%) of the companies participating in the survey operates in the bank sector in Croatia while the second strongest sectors are the sectors of consumer goods and services each with 20%.
- The subsidiaries participating in the survey came to Croatia from 7 different countries. Three companies (34%) from Austria, 1 company from France, Germany, The Netherlands, Sweden and USA.
- The half of the companies doesn't have control on the whole value chain but have activities in a number of stages of the value chain.

### General characteristics of the responding individuals:

- The majority of the interviewees are top HR managers with the title of HR Director, HR manager or HR Department Head.
- The gender distribution of the interviewees shows a female dominance (70-30%) and all of them had third level degrees.

Below we summarize the relevant findings in connection with the eight most important topics of the survey.

## Results

### *Characteristics of the key indicators of HR function*

The **number of staff** employed at the examined companies in 2008 was 3.760, while in 2009 it increased to 3.918 employees which show increase of 4%. This fact, unexpected reaction to the crisis may be explained with the following:

- Some companies participating in the survey had already significantly rationalized their labour force before the crisis.
- Those subsidiaries that employed a significant number of people with fixed-term contracts or leased labour force dismissed these employees as a first measure of response.
- A number of firms defined as processing and developer companies actually increased their number of employees during the crisis.

In the same time the generated revenue has significantly decreased from 982 Mil € in 2008 to 738 Mil € in 2009 which is decrease of 25% compared to year 2008. This can be considered as a direct effect of the global financial and economic crisis.

The second indicator, the **number of staff served by HR staff** ascended during the examined two years. The HR staffs in the companies examined are very different. Two of the companies don't have any HR staff while we can state that in each company having a number of employees above 50 we can find at least one HR professional.

It is an interesting point the largest number of employees (217 persons) served by one HR professional we can find in a company operating in financial sector while this ratio is the smallest in a company operating in services sector where to 20 employees belong two HR professionals (one HR professional serves only 10 persons in those companies).

In 2008 respondent companies had HR staff that served just over 70 employees. In 2009 this indicator dropped below 88 employees, because the total number of employees increased by about 16% while staff in HR decreased by about 10%. In 2009 nearly 52% of the total number of HR staff was professional and 48 % belonged to the administrative categories.

**Relative weight of training budget** (compared to the entire annual labour costs) as an important factor of modern and effective HR activity indicated that none of the companies examined, spent more than 5% of their annual labour budget on training employees, and the relative weight of the training budget was under 3% in the majority of the companies. The global average of this indicator calculated using the formerly mentioned CRANET international comparative HR database is 3.36%, the Eastern European index is 3.15% and Croatian results are under regional indicators.

### *The relationship between headquarters and local HR:*

The relationship between subsidiaries and parent company are described with the following three basic systems of relations (Taylor et al. 1966):

- In exportive system of relations; HR systems developed in parent company are adopted without changes.
- In adaptive system of relations; local subsidiaries adapt HR systems adopted from parent company according to their local needs.
- In integrative system of relations; all good and applicable solutions are attempted to be spread and implemented in all units of the company regardless of their HR system of origin.

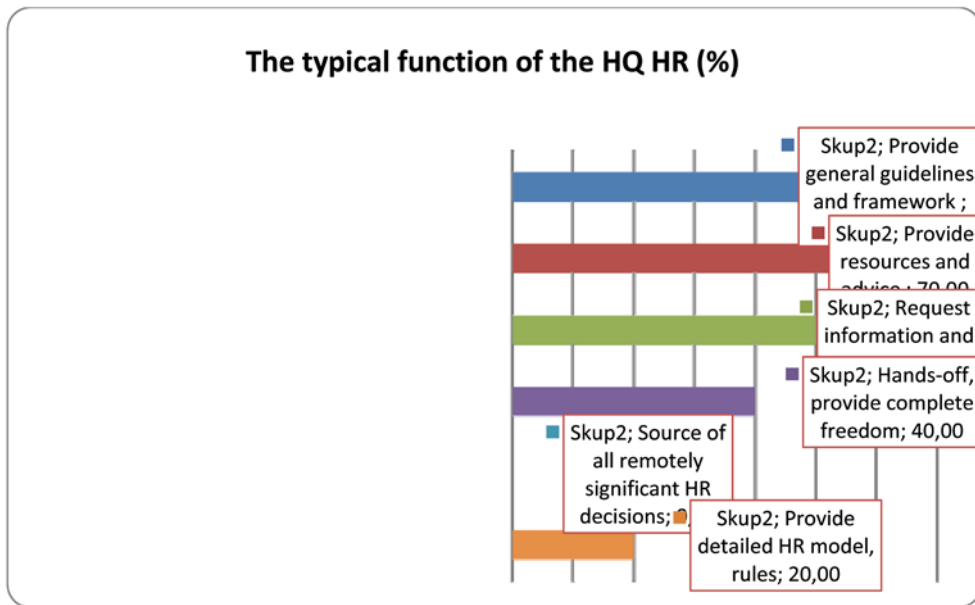
In research conducted among American subsidiaries operating in Asia and Europe Lawler (2006) concluded, that the most dominant deciding factor in adoption and adaptation of HR systems is the size of local companies. Which system will be implemented depends on the sum of the impacts of internal and external factors that form and influence the organization. In certain cases national culture of host country and legal, regulatory environment are considered as important influencing factors.

We found several different function sharing practices among the companies examined:

- However, the typical solution that was implemented by 70% of the respondents was that the HR department of the company's headquarters, besides carrying out the consulting role, 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 addition one half of the companies reported that the typical function of the HQ HR is an auditing role with providing information and reports.
- On the other hand, 40% of the HR departments of the responding subsidiaries reported getting hands-off, almost complete freedom from the headquarters and decentralized HR activity.
- 20% of the respondents related centralization with given processes and tasks.



Figure 2: Typical functions of the HQ HR



### *Expats and their roles*

The belief that management practices are universal has spread widely along with globalisation. The assumption is if you have succeeded in one culture, you are likely to be successful in another. Hofstede (1980) argues that, although management practices may be universal, they have to be adapted to local cultures.

Following Perlmutter's (1969) analysis, multinational companies can follow an ethnocentric, polycentric, regiocentric or geocentric selection mechanism. In ethnocentric orientation, key positions of local company are held by professionals from parent company. In polycentric companies, local key positions are held by locals but their promotion to higher positions is very limited. In companies following regiocentric selection mechanism, locals can hold key positions not only in subsidiary but also in centres and in work roles coordinating the management of the region. In companies following geocentric selection mechanism, locals can obtain position even in top management of the company.

Usually two types of long-term emissaries are distinguished. The ones arriving from abroad (from the parent company or from a third country) who are also called expatriates and the ones from the Croatian subsidiary appointed for a long-term deputation abroad (at the parent company or subsidiaries operating in other countries).

- Only one of the subsidiaries participating in the survey employed foreign expats in non-managerial positions (one person only).

- The presence of expats employed in managerial positions is more significant, but only 4 companies employed foreign expats in such position. Where they were present, their number was typically between 1 and 2 but one respondent employed 6 of them.

80% of the responding organizations had foreign expats from the parent company. The other 20% of foreign expats came to Croatia from countries different from the country of the parent company. Usually foreign expats take managerial positions within the subsidiary (80%).

Impatriation “involves the transfer of subsidiary managers to headquarters for a specific period of time” (Harzing and Ruysseveldt, 2004: 266). Below we outline how often and to what positions Croatian expats were sent to foreign (non-Croatian) units of MNCs:

- The majority (90%) of respondents did not send employees abroad.
- Only one company reported that sent abroad employee (employed in trade field) for managerial position.
- The number of sending employees in non-managerial positions is the same but this person works in financial field.

### *Changes in importance of HR functions*

Talent management was first in the ranking of HR areas considered most critical in the period examined, being a little ahead of the evergreen problem area, the issue of employee communication. The responding subsidiaries deemed HR planning and industrial-labour relations just almost as critical.

*Table 1: Critical areas of HR*

*(Explanation: 1= critical ⇒ 5 = not at all critical)*

<b>The ranking of the areas of HRM critical in 2009</b>	<b>The average of the answers</b>
• Talent management	3.3
• Employee communication	3.0
• Human resource planning	2.9
• Industrial-labour relations	2.9
• Recruitment and selection	2.7
• Training and development	2.3
• Performance evaluation	1.9
• Compensation and benefits	1.4

### *Typical HR competencies for success*

From the somewhat completed list of HRM competency areas identified by one of the most known HR gurus, Dave Ulrich et al. in 2009, the respondents considered the following three to be the most important:

- Knowledge of foreign languages (50%),
- Business knowledge (value chain, value creation) (30%).
- Change management, teamwork, HR services (20%),

Personal credibility, quick decision making, strategic contribution, knowledge sharing and use of HRMIS followed the mentioned three competencies in the ranking.

### *Primary responsibility of decision making in main functions of HR*

Ulrich et al (2009:126) assume that a successful process of HR transformation „depends on the quality of HR professionals and their relationships with line managers”.

As the data from the research show, the majority of the 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 rather by the local line management based usually on consultation with the HR department. It is more seldom that the responsibility attached to HR decisions is shared in a way that the final decision maker is the representative of the local HR department. The local HR department reported the widest freedom of decision making on the field of industrial-labour relations and HRMIS.

### *The role of external HR service providers*

Nowadays human resources are managed in many organizations with the involvement of external service providers. Besides traditional HR consultants, an increasing number of service providers appear who enter the market offering new services (e.g. labour leasing, outsourcing, interim managers, etc.) (Poór-Németh, 2010).

External service providers were most often used in training and development from the key HR functions as reported by the respondents. In selection and HRMIS there was also found a small participation.

## **6. Conclusions**

This research is an intermediate milestone of an ongoing long-term regional research project, which was initiated in 2004-2005 with similar methodology and restarted at the end of 2009. As it has indicated earlier, the number of samples is relatively small; however, it can represent the practice of large multinational subsidiaries in Croatia. In the meantime the research concerning several CEE countries (Estonia, Slovakia, Hungary, Poland, Romania and Serbia) has been conducted. When eventually combined with the regional results, the Croatian data will be compared with these regional results on the basis of both general descriptive and correlation and more specific forms of regression analyses.

From other side, this explanatory research supports the contention that small and medium sized foreign owned Croatian subsidiaries are in process of implementing a higher level of HR practice and prove validity of hypotheses posted.

- **H#1** was verified by this descriptive research. In the case of the majority of 10 investigated subsidiaries of MNCs, the number of full-time employees has increased.
- **H#2** was partly verified by this descriptive analysis. The majority of the examined firms operate with a highly effective and relatively low labour ratio. Because interviewed companies spent less than 3% of annual labour budget on training employees it does not verify the higher effectiveness of HR departments in multinational companies in Croatia.
- **H#3:** This examination has supported our assertion that at multinational subsidiaries in Croatia, the number of foreign expatriates has been continuously decreasing and the majority of companies do not employ foreign expats nor send Croatian expats abroad.
- **H#4:** The survey has supported the contention that local subsidiaries are managed in a wide variety of ways. High degrees of centralization coming from the global HQ could be observed in only a few organizations.
- **H#5:** Across a wide range of personnel decisions, the majority of HR departments cooperate with line management.
- **H#6:** As an effect of the crisis, local subsidiaries of multinational companies have used the services of external consultants in small measure. Examined companies used external service providers mainly in the field of training and development.

## NOTES

<sup>1</sup> CRANET is a non-profit HR research network involving 42 countries and our department is a member since 2004.

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