

## ULOGA HRM FUNKCIJE U LOKALNIM FILIJALAMA MULTINACIONALNIH KOMPANIJA U SRBIJI

### THE POSITION OF HRM FUNCTION AT THE LOCAL SUBSIDIARIES OF MULTINATIONAL COMPANIES IN SERBIA

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**Abstrakt:** Zbog prelaska na tržišnu ekonomiju i pojave stranih direktnih investicija u regionu, multinacionalne kompanije su se pojavile i u Srbiji. Danas multinacionalne kompanije imaju sve veću ulogu u privredi regiona. Globalne kompanije pored kapitala donele su i poslovnu filozofiju i menadžment praksu. Lokalne filijale multinacionalnih kompanija često adaptiraju praksu matične organizacije.

Efektivna i moderna HR praksa multinacionalnih kompanija ima pozitivan uticaj i na praksu upravljanja ljudskim resursima (HRM) lokalnih kompanija. Cilj ovog rada je da prikaže ulogu i položaj HRM funkcije kod lokalnih filijala multinacionalnih kompanija u Srbiji na bazi CEEIRT istraživanja.

**Ključne riječi:** multinacionalne kompanije, HRM Serbia

**Abstract:** Due to the transition to a market economy in Serbia and the arrival of foreign direct investments to this region, multinational companies (MNCs) appeared too. Currently MNCs are playing an increasingly important role in the economy of the region. Global multinational companies besides their capital bring along their business and management philosophy as well. Local subsidiaries often adopt the particular human resource management (HRM) practices of the MNCs, thus the MNCs' effective and modern HRM practices have a beneficial influence on the local companies' HRM practice. The aim of this paper is to present the position of human resource management function (HRM department) at the local subsidiaries of multinational companies in Serbia based on results of the Central and Eastern

European International Research Team (CEEIRT) research.

**Keywords:** multinational companies, subsidiaries, HRM department, HRM practice, Serbia

#### INTRODUCTION

There is a clear lack of empirical Human Resource Management (HRM) literature in terms of identifying new patterns of multinational company (MNC) involvement in the Central and Eastern European (CEE) region and of the impact of MNC operations on the patterns of the HRM solutions applied by these firms. Kuzlauskaitė et al. (2013) emphasize that a comparative study of HRM patterns in the CEE region is relevant and necessary from both national and international perspective. Besides the possibility to diagnose the main trends in the training practice in the CEE region, the experience of more developed CEE countries may be very valuable for countries with less developed training activities, too. Bogičević-Milikić, Janićijević and Petković (2008) analyzed the position of HRM in Serbia based on interviews with HRM managers and HRM directors in 38 selected Serbian companies. They have found that the role of HRM function is very weak, but a growing number of companies are introducing HRM departments. The majority of these recently established HRM departments have limited functions - mostly performing administrative tasks.

Leković and Šušnjar (2010) claim that the majority of HRM responsibilities (staffing, compensation) are in the line managers' authority, but the main responsibility for these HRM issues is, indeed, in

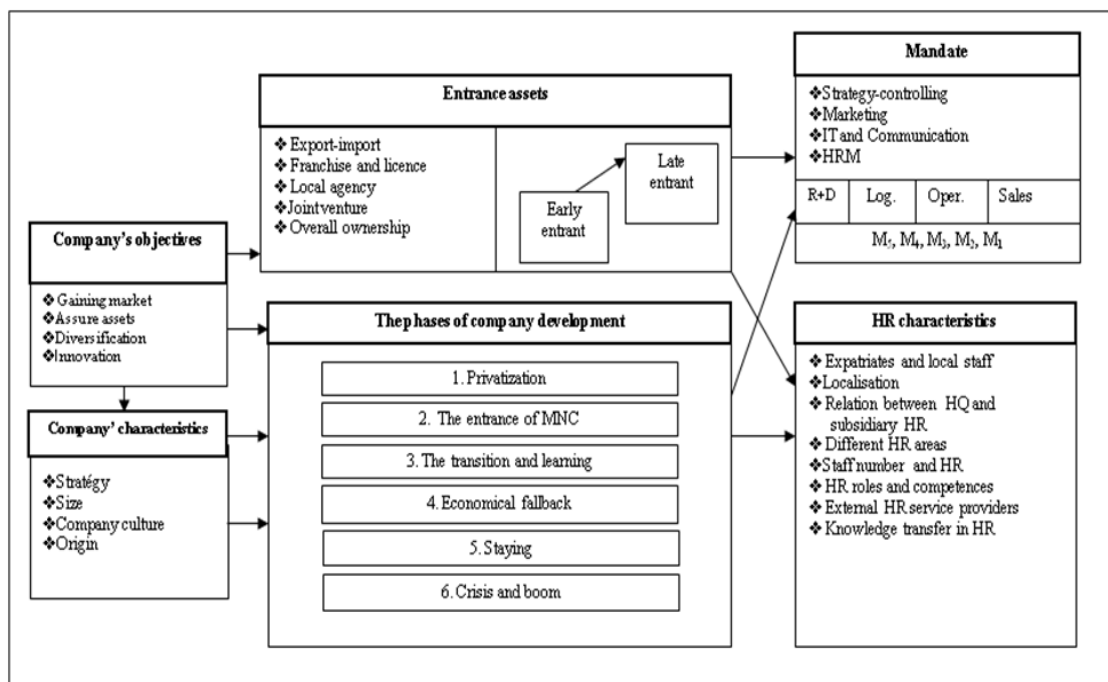
the hands of top managers. Based on Cranet data Slavic, Susnjarić, and Poór (2012) claim that in Serbia about 60% of HR directors have a place on the Board of Directors. But it is presumably not a sign of the high significance of HRM, but the result of a functional organizational structure of the majority of the examined companies. The senior HR managers in Serbia are recruited from internal sources; they are usually HR professionals from the HRM department promoted to this position. In the majority of Serbian companies line managers are primarily responsible for main HR decisions. They make decisions about recruitment and selection, compensation and training and development, as well, alone, even without consultation with the HR managers.

### RESEARCH METHODOLOGY

In this ongoing research project we examine the HR functions and practical applications of MNC subsidiaries in seven countries in the Central and

Eastern European region. The current research is part of a long-term cooperative research consortium – the Central and Eastern European International Research Team (known hereafter as CEEIRT) – that is composed of researchers from different universities from the CEE region and aimed at examining the changing Human Resource practices and roles in MNC subsidiaries. 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. In developing the underlying research model we have used international research results and the results of our previous surveys. (Poór, Farkas and Engle, 2012) The model has developed over the past few years and now we take into consideration additional internal factors (company characteristics, phases in company development, mandates, etc.) than at the beginning of the CEEIRT research.

In 2011 we made our analysis based on the following research model:



1. Figure: Research model

Source: Authors' own research

We have used standardized questionnaires (translated to the official languages of examined countries) for company interviews and the on-line survey to make statistical analysis and data comparison more valid and reliable. The questionnaire was filled out by the person responsible for HR practice from the MNC subsidiaries (e.g. 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 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

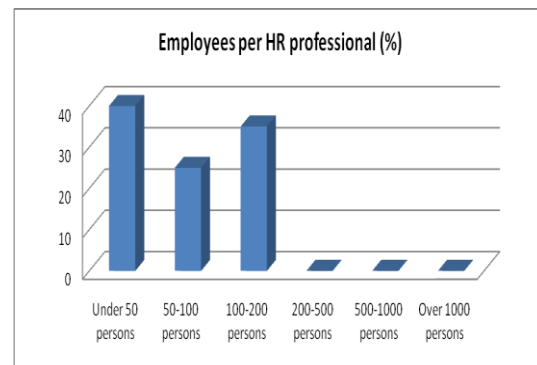
After presenting companies' organizational data, in this paper we will analyze the role and position of the HR department in Serbia in 2011 presenting the obtained data about the number of employees served by a HR professional, labour cost-operation cost ratio, important competitive factors, function of headquarters' HR department and the critical HR areas according the opinion of HR professionals .

A total of 20 foreign owned, legally independent subsidiaries participated in the questionnaire survey. The 20 subsidiaries participating in CEEIRT research in Serbia employ 23 389 persons in 2009. About 60 % of the examined Serbian companies employ 250 persons or less, one quarter had employees between 250 and 1000 employees. The remaining 15% belong to the typical large enterprises with more than 1000 employees. The subsidiaries participating in the survey came to Serbia from 11 different countries. One quarter from Austria, 20% from Germany, 15% from Hungary and 10% from Italy. The remaining 30% came from France, Sweden, USA, Norway, Russia and Croatia. The subsidiaries examined acquired majority control or carried out Greenfield investments in Serbia after 1996. Some 15% of the companies settled here between 1996 and 2000 while the remaining 85% came only after 2000. Most of the foreign owners of the companies participating in the survey obtained majority control in Serbian companies during the privatization combined with acquisition or with the following acquisitions. One quarter of the examined companies are engaged in light industry and another quarter of them in financial institutions and banks. Some 15% of the respondents operate in trade while another 15% produce consumer goods. The remaining companies belong to heavy industry, engineering, services and other fields of operation at 5% levels for these fields.

## RESULTS

Half of the HR departments of the companies examined employ one to four persons. Some 20% of the respondents employ five to ten persons while 20% of the HR departments examined in the survey have more than 20 employees. Five percent of the firms employed either 11-15 or 15-20 HR staff. All the subsidiaries in the survey have a HR department.

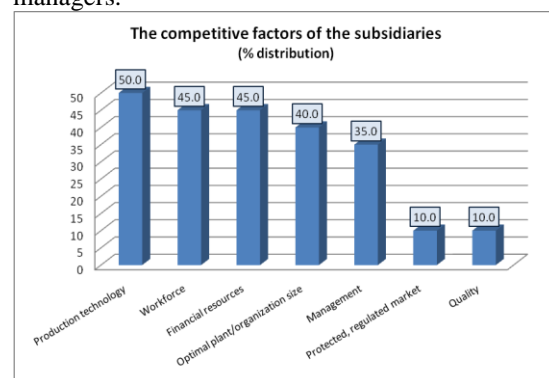
The second figure presents the number of employees each HR staff serves.



Source: Authors' own research

Figure 2: Employees per HR professional (%)

For every HR professional, there are 50 employees on average in nearly 40% of the organizations examined. In 35% of the subsidiaries there are 100-200 persons for one HR professional while in one quarter of them there are between 50 and 100 employees per HR staff person. The labor cost – operating cost ratio is one of the frequently analyzed indicators of the importance of the HR function in the company's life. According to some researchers, the effects of HRM have a stronger and more direct influence on the company's performance if this ratio is higher. About 23.5% of the subsidiaries participating in the survey fell into this category (where the labor cost ratio is higher than 40%). But the vast majority (76.5%) of the companies operated with a relatively low (under 30%) typically with 10-30 labor cost ratio. The third figure presents the competitive factors according to the opinion of MNC subsidiaries' HR managers.



Source: Authors' own research

Figure 3: The importance of the competitive factors of the subsidiaries

Half of the companies chose production technology as the most important competitive factor. Some 45% of the respondents pointed out the importance of the workforce and financial

sources. Optimal organization size and management were chosen by 40% and 35% of the subsidiaries respectively. The 10% of the companies chose the quality and protected markets. (More than one answer could be chosen in this question also.) Many researchers consider the relative size of the training budget (compared to the entire annual labor cost) as an important indicator of modern and effective HR activity. In more than 60% of the companies examined, the relative size of the training budget was under 3% and only about one third of the companies examined spent 7-20% of the annual labor budget on training employees. The employee turnover rate was under 10% in more than half of the subsidiaries participating in the survey with many companies having barely measurable low values. One quarter of the respondents has problems with the turnover because the level of the fluctuation was around 10-30%. 9% of the companies reported higher than 40% values. The average number of days lost annually due to absence was between six and ten days in one third of the companies. Another third of them chose the category 21-30 days. The mean value of absence was under one day and between 10-20 days by 11 per cent of the respondents. The fourth figure shows the typical function of the headquarters' HR department considering the activities of the HR department of the subsidiaries'.



Source: Author's own research

Figure 4: The typical function of the HQ HR (%)

We found several different activity or function sharing practices among the companies examined.

- ❑ However, the typical solution, one that was implemented by almost three quarters (73.7%) of the respondents, was that the HR department of the company's headquarters, besides carrying out the auditing function, lays down general guidelines, provides a standard framework for the work of HR departments of the subsidiaries, and requires information and reporting from them.
- ❑ In almost two thirds (63,2%) of the companies the typical function of the HR department is providing sources and advise when it is requested.
- ❑ In almost the half (42.1%) of the companies it also has auditing function.
- ❑ A strong third (36.8%) of the respondents reported that the local HR department has complete freedom.
- ❑ In one quarter (26.3%) of the companies the headquarters was responsible for developing the detailed HR model and not only personnel guidelines but also the rules of procedures, processes were developed centrally. The operations of these global HR systems were usually supported by modern IT solutions.
- ❑ Almost 10% of the respondents marked the practically absolute centralization.
- ❑ 5% of the HR departments of the subsidiaries participating in the survey were involved in strategic issues.
- ❑ Decentralized work is characteristic in 31.6% of the subsidiaries.

Table 1 represents the critical HR areas according to the opinion of Serbian HR professionals at the subsidiaries of MNCs.

Rank 1 means critical area, while rank 5 means that it is not a critical area at all.

Table 1: Ranking of critical HRM areas

The ranking of the areas of HRM critical	The average ranks
Human resource planning	1.9
Recruitment and selection	2.8
Performance evaluation	3.1
Training and development	3
Talent management	3.2
Compensation and benefits	3
Industrial-labor relations	3.2
Communication with the employees	3.2
HR and IT	2.9
Other	2.9

Source: Author's own research

Human resource planning, staffing and HR and IT were first in the ranking of HR areas considered most critical in the period examined, being a little ahead of the ongoing problem area of compensation and benefits. The subsidiaries participating in the survey also chose performance evaluation, as critical area of their responsibility sets. Talent management, industrial relations and employee communications were chosen as the least critical areas of HR functionality.

#### DISCUSSION AND CONCLUSIONS

In the Serbian subsidiaries of multinational companies in 2011 HR departments had a moderate role and moderately developed HR practice.

HR departments at general had four employees, while one HR staff served on average about 50 employees. The ratio of labor costs-operating costs was low, about 10-30%. The training budget was low, as well, less than 3% of the annual payroll costs. HR professionals in Serbia considered technology, workforce and financial factors as the most important competitive factors. The majority of HR departments had autonomy, as the headquarters' HR departments give only general guidelines or provide advice, if required.

Even though the sample of companies we have reached is not representative for all MNC subsidiaries operating in Serbia, the results of this benchmark survey reflect the characteristics of the HR practices and signal the challenges faced by these companies. The obtained data may be valuable for academics analyzing the HR practice in Serbia and CEE region and for MNCs operating or planning to enter to Serbian market to develop country-specific HR practice.

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