

# Human resource management in small and medium sized foreign subsidiaries in Serbia

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*Abstract: The majority of companies in the competitive sector in Central and Eastern European (CEE) economies have largely completed those major legal, strategic and structural modifications that followed privatization. With the intensification of competition a continuous renewal is now being emphasized. In this situation, the role of human resources becomes particularly important. There is a lack in HRM (Human Resource Management) literature to identify new patterns of Multinational Company (hereafter MNC) involvement and its impact on HR/HRM activities of these firms. In this contribution the first preliminary results of CEEIRT research will be presented, made in 20 major, mainly small and medium sized local subsidiaries of foreign MNCs in Serbia in 2010.*

*Key words: human resource management, multinational companies, Serbia*

## 1 Introduction

Human resource management is a vital management function that preconditions organizational success in a large extent. More and more companies make considerable efforts to improve the effectiveness of human resource management. It is widely believed that the conventional sources of competitiveness (including protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage in today's competitive markets [1], [2]. Many authors think that the human factor (knowledge, skills, and behaviour) is the key to sustaining long-term competitiveness [3]. The careful, but not extravagant, management of our human resources must become increasingly important in the lives of both local and foreign organisations alike.

In the empirical part of this study I will present the results of CEEIRT research made in Serbia<sup>1</sup>. In the research project we examined the HR functions and practical applications of multinational company (MNC) subsidiaries in Serbia. The current research is part of a long-term research cooperation – the Central and Eastern European International Research Team (hereinafter CEEIRT) – that is composed of researchers from different universities from the Central and Eastern European (CEE) region aimed at examining the changing HR practices and roles in MNC subsidiaries.

## 2 Research Methodology

Undertaking a study of HR practices in the subsidiaries of MNC in CEE region, and specifically in Serbia, we begin our examination with the next model:

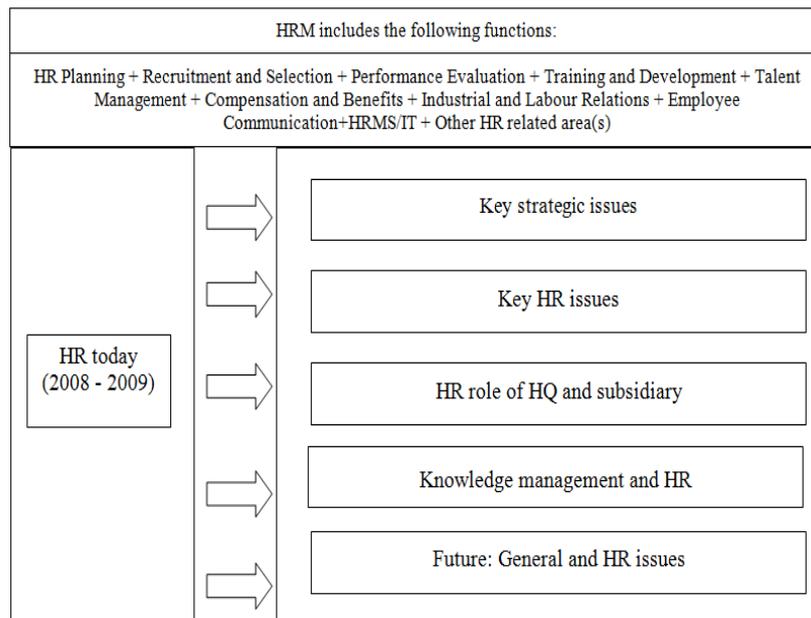


Table 1.  
Research model

Developing the research model shown in the table above we implemented international results and several of our own previous surveys. During the analysis

<sup>1</sup> The Serbian research project is the result of cooperation among Faculty of Economics Subotica, Mihajlo Pupin Technical Faculty, both from University of Novi Sad, Serbia, and Faculty of Economics from Pecs, Hungary.

we collated the observed picture with the findings of other research projects conducted in Central and Eastern European region, including Serbia thus, inter alia, we built on:

- ❑ Models developed in the field of human resource management [1] and international management [4]. Our own analyses carried out in 2004 involving 42 foreign owned Hungarian subsidiaries based on the integration of these models [5].
- ❑ Our domestic and international experience gained during Cranet<sup>2</sup> HR research being carried out in Hungary and Serbia [6], [7], [8], [9], and [10].

In this contribution I give an overview of the most significant experience gained in the small and medium sized MNC subsidiaries in Serbia. Most of our questions were related to the characteristics of participating subsidiaries observed in 2009. In some cases (number of staff, revenue and HR efficiency indicators) we collected data from both in 2008 and 2009.

This study is an intermediate milestone of ongoing research, which was initiated in 2004-2005 with similar methodology in Central and Eastern Europe and restarted at the end of 2009. Serbia was taking part in it for the first time in 2010. As we have indicated earlier, the number of samples is relatively small (n=20), however, it can fairly well represent the practice of small and medium sized multinational subsidiaries in Serbia.

General characteristics of participating companies:

- ❑ 20 local subsidiaries of different foreign owned companies registered in Serbia participated in the survey.
- ❑ The majority (60%) of participating companies are small or medium-sized enterprises based on the number of their employees (less than 250 employees).
- ❑ 50% of the surveyed companies are engaged in the production sector and 45% provide tangible and intangible services.
- ❑ 70% of the surveyed companies came from the following four countries: Austria (25%), Germany (20%), Hungary (15%) and Italy (10%). The remaining 30% represent another six countries.
- ❑ Only the 15% of the companies analyzed acquired majority control or carried out greenfield investments before 2000. About one third

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<sup>2</sup> CRANET is a non-profit HR research network involving 42 countries. Hungary (University of Pecs, Faculty of Economics) is a member since 2004, while Serbia (University of Novi Sad, Faculty of Economics Subotica) since 2008.

of foreign owners (35%) settled in Serbia between 2001 and 2005, while the majority arrived after 2005.

- ❑ About 30% of the companies participating in the survey operate in Serbia with a mandate to carry out development to the whole global market.

General characteristics of responding individuals:

- ❑ 55% of interviewees were top managers or top HR managers with the majority (65%) of them having spent at least 3 years in their current positions.
- ❑ The majority of respondents were men (60%), while all the interviewees had third level degrees.

### **3 Results**

#### **3.1 Main directions of development of the companies in the period examined**

In relation to the topic indicated in the subtitle, we examined how important the following three strategic orientations were for the respondents:

- ❑ growth, market expansion, portfolio expansion,
- ❑ stability, efficiency improvement, revenue retention, adapting to the market situation,
- ❑ redundancies, rationalization.

Most (80%) of the respondents indicated that they were seeking stability during the period examined. The half of the companies surveyed was characterized by growth and portfolio expansion, while 5-5% of the respondents has rationalization and reorganization goals.

Beside that, we examined the main competitive factors, too. Half of the companies chose production technology as the most important competitive factor. 45% of the respondents pointed out the importance of the workforce and financial sources. Optimal organization size and management were chosen by the 40% and 35% of the subsidiaries also. 10% of the companies chose the quality and protected markets. (More than one answer could be chosen in this question.)

### 3.2 Key indicators of the HR function

In this section the following HR characteristics will be presented: number and workload of the HR staff and the main indicators representing the importance, results, and efficiency characteristics of the HR activity (labour cost – total cost ratio, age pyramid, relative weight of the training budget, the turnover rate and absenteeism).

The **average number of employees served by one HR professional** increased from 70 in 2008 to 88 in 2009 in the Serbian companies surveyed. In these companies nearly the half of the total number of HR staff carried out administrative tasks while a bit more than a half was HR professionals.

The half of the HR departments of the companies examined employ 1-4 persons. 20% of the respondents employ 5-10 persons while 20% of the HR departments examined in the survey have more than 20 employees. 11-15 and 15-20 persons are employed by 5-5 per cent of the companies. All the subsidiaries in the survey have a HR department.

The **labour 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 assumptions, 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 labour cost ratio is higher than 40%). But the vast majority (76.5%) of the companies operated with a relatively low (under 30%) labour cost ratio.

One of the results of human resource management actions is the **age distribution of the labour force**. The results of our survey in this respect do not confirm the common view that there is no room for employees over 45 years of age in multinational companies as almost the half (24.1%) of the employees of the subsidiaries participating in the survey fell within this age group. The proportion of the employees under 25 years was around 15% and the body consisted of the employees between 25-45 years of age – with more than 60% in 2009.

Literature considers the **relative weight of the training budget** (compared to the entire annual labour cost) as an important indicator of modern and effective HR activity. In more than 60% of the companies examined, the relative weight of the

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training budget was under 3% and only about one third of the companies examined spent 7-20% of the annual labour budget on training employees.

The **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 6 and 10 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 the 11-11 per cent of the respondents.

### **3.3. The operation of the HR department**

#### **3.3.1. The importance of HR functions**

The next table shows the opinion of HR managers of foreign subsidiaries in Serbia about most critical factors of managing employees in the near future.

| The ranking of the areas of HRM critical in 2009 | The average of the answers |
|--|----------------------------|
| 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-labour relations                      | 3.2                        |
| Communication with the employees                 | 3.2                        |
| HR and IT  | 2.9                        |
| Other  | 2.9                        |

Table 2.

Critical areas of HR (on a 1⇒5 scale, on average)

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

Employee communication, industrial-labour relations and talent management were 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 compensation and benefits. The subsidiaries participating in the survey chose performance evaluation, HR and IT and recruiting and selection into the critical areas also. Human resource planning was chosen as the least critical area from the listed options for the respondents.

### 3.3.2. Typical HR competencies for success

From the somewhat completed list of HRM competency areas identified by one of the most knows HR gurus, Dave Ulrich [2], the respondents considered the following three to be the most important:

- ❑ personal credibility (effectiveness, efficient connections, communication skills) (70%),
- ❑ change management (60%),
- ❑ quick decision making and team work (55%).

In the opinion of 35-45 per cent of the respondents knowledge sharing and using of HRMIS belongs to the very important key competencies. Knowledge of foreign languages, business knowledge and strategic contribution were only in the end of the list.

### **3.3.3. 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.).

External service providers were most often used in training and development from the key HR functions as reported by the respondents. Beside that outsourcing is used in the functions of recruitment and selection. Almost none of the companies used the help of external service providers in human resource planning and in performance evaluation. The practice of Serbian companies in this respect either didn't change or where it did, companies reported a decrease in the use of external partners.

### **3.4. The key business issues, trends for HR to face**

The next table illustrates the opinion of Serbian HR managers about key business challenges in the next years.

| Order of priority of the key business directions, challenges | Very important |                | Important |                |
|--|----------------|----------------|-----------|----------------|
|  | Frequency      | % distribution | Frequency | % distribution |
| 1. Conform to globalization                                  | 4              | 20             | 10        | 50             |
| 2. Efficiency improvement                                    | 13             | 68             | 4         | 21             |
| 3. Company development                                       | 11             | 55             | 6         | 30             |
| 4. Company reorganization                                    | 2              | 10             | 10        | 50             |
| 5. Eastern expansion   | 4              | 20             | 6         | 30             |
| 6. Distribution development                                  | 3              | 15             | 9         | 45             |
| 7. EU changes  | 2              | 12             | 6         | 35             |

3. Table

Key business challenges in the next 1-2 years

With regard to the key issues of the next 12-24 months, the interviewed HR managers considered improving efficiency most important (68%). Half (55%) of the respondents put the challenge of company development beside the previous challenge. 20% of the companies chose conform to globalization as a very important challenge for the future and Eastern expansion was chosen by 20% of the respondents also.

### Conclusions

This explanatory survey supports the contention that small and medium sized foreign owned Serbian subsidiaries are in process of implementing a higher level HR practice. The majority of the examined firms operate with a highly effective and relatively low labour ratio. In most cases training budget is similar to the national average but as one third of the examined companies spent more than 7% of annual labour budget on training employees it verifies the higher effectiveness of HR departments in multinational companies in Serbia. Among HR activities in

small and medium sized subsidiaries the communication and labour relations are the most important. Personal credibility and change management abilities are the most critical competences of human resource managers in Serbia. To gain success at subsidiary-level, it is important to improve efficiency.

To summarize the obtained data, HR activities in small and medium sized foreign subsidiaries are on higher level than national average, but there is still place to improve its efficiency. Competent and cost effective HR activities in these companies may be an example for other enterprises and contribute to the development of HR function in Serbian companies.

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