

## **The Contextual Analysis of HRM practices in Multinational Companies in the Czech Republic**

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### **Abstract**

This paper aims to analyze the current state of the Czech Republic's socioeconomic environment and the HRM practices of MNCs. The Contextual Analysis was made by using data records from 2015 to 2020 from the Czech Statistical Office, Santander Trade's website, and CzechInvest. By using Hofstede's six dimensions, the Czech Republic was compared with its neighbor countries: Germany, Poland, and Slovakia. Literature review was done by using articles from the prestigious scientific journals. The study found that the Czech Republic is an attractive foreign investment market because of the followings: it has one of Europe's most strategic geographical locations. Its excellent infrastructure contributes to the Czech Republic's positioning as an important crossroads for European business corridors; its FDI policies and investor-friendly regulations, which offer a number of advantages for foreign investors; and its socioeconomic environment, which is also suitable for the establishment of new businesses in the country. At the end, the study recommends further research on the effects of the COVID-19 pandemic on MNCs, FDI, and the Czech Republic's policies on how to eliminate these effects.

**Keywords:** *Socioeconomic situation, Foreign Direct Investment (FDI), Human Resource Management*



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### **INTRODUCTION**

Globalization, political systems and technological changes have had great effects on global marketing, where huge companies present their services and products. As a result of these changes, subsidiaries were established in foreign countries, and International Human Resource Management (IHRM) became popular in the management of human resources at subsidiaries.

Despite being under Soviet occupation where the activities of the companies were operated under strict party and state control for many years, the Czech Republic was able to integrate more into the Western economic system than other CEE countries (Morley et al., 2016). After the Velvet Revolution in 1989, foreign companies started to open their subsidiaries in the Czech Republic. In the beginning, they faced some challenges in the labor market, such as a lack of market-oriented management skills, financial and controlling knowledge, etc., but by the end of the 90s, the situation had positively changed in the country (Poór et al., 2017) and companies started to transfer HR practices from developed countries (Venegas et al., 2016). Development and implementation of HRM functions by MNCs are better than local ones so that they apply various methods such as performance and career management, training, and orientations (Poór et al., 2017).

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After getting membership of the Visegrád Group (1993), the OECD (1995), the EU (2004) and joining NATO (1999), the Czech Republic welcomed foreign subsidiaries, which had a great influence on the economic development of the country. The government plans to increase the number of MNCs in the country. Social contributions and taxes paid by MNCs to the government and their high wages and salaries to employees play a significant role in the development of the country's economy, especially public finances (Septimiu, 2019). Foreign direct investment was/is critical for the Czech Republic's economic development, job creation, and entry into the market economy (Poór et al., 2017; Septimiu, 2019).

However, operating as MNCs is not easy for companies because they have to decide whether their subsidiaries have a decentralized management structure or a centralized management structure where the headquarter in the home country manages and controls the subsidiaries. Therefore, in order to track and understand the development of the HRM practices and policies of multinational companies (MNCs), it is crucial to follow the changes in the labor market, foreign direct investment flow, and MNCs' human resource management systems (Morley et al. 2016).

During a literature analysis on the Czech Republic's socioeconomic environment and the HRM practices of MNCs, it was discovered that there are an insufficient number of studies have been conducted in the Czech Republic on the topic academically and in management. Another disadvantage is the low number of research papers published in English; the majority are in Czech. Therefore, this paper aims to analyze the current state of the Czech Republic's socioeconomic environment and the HRM practices of MNCs. The Contextual Analysis was made by using data records from 2015 to 2020 from the Czech Statistical Office, Santander Trade's website, and CzechInvest. By using Hofstede's six dimensions, the Czech Republic was compared with its neighbor countries: Germany, Poland, and Slovakia. Literature review was done by using articles from the prestigious scientific journals. This study contributes significantly to the scholarly literature and fills a previously identified research gap.

## **RESEARCH METHOD**

A literature review is an examination of academic references on a single topic. It provides an analysis of existing understanding, helping identify relevant theories, hypotheses, approaches, techniques, and gaps in established science. Therefore, it plays a unique role in research papers. The literature review was chosen as a research methodology in order to write this paper.

First, articles from prestigious journals and books about HRM performance and practices in multinational companies are collected, objectively reviewed, and useful information gathered, analyzed, and described. In addition, to provide a robust and meaningful analysis of international HRM practices, Hofstede's national cultural dimensions of cross-cultural management are applied to compare the HRM of the Czech Republic with its neighboring countries: Germany, Poland, and Slovakia.

Second, the Czech Republic's socio-economic environment is examined through an analysis of the country's GDP structures (both by industry and employment shares), as well as through an analysis of registered foreign-owned enterprises. Data records from 2015 to 2020 from the Czech Statistical Office, Santander Trade's website, and CzechInvest are gathered, summarized, and analyzed.

To achieve the aim of this study, peer-reviewed articles published in reputable journals and books were systematically reviewed. The search query included key terms: socioeconomic situation; foreign direct investment (FDI); human resource management; and the Czech Republic. To obtain current trends, the search for articles was narrowed to the period 1969 to 2020, and a total of 36 articles were accessed and reviewed out of 60. The research was carried out between 2019 and 2020.

## **SOCIO-ECONOMIC COUNTRY OVERVIEW**

### **Labor Market**

In the early 1990s, there was a dramatic change in the Czech and Polish economies. As a result of this dramatic change, the planned economy was replaced by the free market system, and the effect of this change showed itself in the supply of goods (Tung & Havlovic, 1996). There were changes in patterns, and lots of products were not in demand. All of the above-mentioned issues brought up redundancies in employment (Tung & Havlovic, 1996). Due to them, competitive pressure and the need to make a profit were other reasons for redundancy. There was a reduction in payrolls to increase productivity as most of the firms were overstaffed due to the communist era effect (Tung & Havlovic, 1996).

In order to measure the socio-economic development of the country from 2015 to 2020, real GDP growth, GDP per capita in PPS, unemployment, and inflation rates were analyzed. According to the Table 1 (figures was taken from the Czech Statistical Office, 2020), it can be concluded that the unemployment rate in Czechia decreased from 5,1% to 2,0%, which is a good indicator for the country. Despite an increase in GDP per capita in PPS from year to year, real GDP growth falls from 5.3% to 2.6%. The inflation rate in the country has increased. It was 0,3% in 2015 and raised to 2,6% in 2019 (the Czech Statistical Office, 2020).

Nowadays, many companies in different countries are facing labor deficits, and this bottleneck prevents economic growth (Atradius, 2019). To eliminate employee deficits, the government tries to increase the number of women employees and skilled immigrants to transfer from low-skilled employment to high-skilled employment (OECD, 2019). The government also plans to increase the number of MNCs in the country. Social contributions and taxes paid by MNCs to the government and their high wages and salaries to employees play a significant role in the development of the country's economy, especially public finances (Septimiu, 2019).

**Table 1.** GDP, inflation, and unemployment rate

<b>Item/years</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Real GDP growth (%)	5,3	2,5	4,4	2,8	2,6
Unemployment (%)	5,1	4,0	2,9	2,2	2,0
Inflation	0,3	0,6	2,4	2,0	2,6

GDP per capita in PPS EU-28=100%	88	88	90	91	92
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As we can see from Table 2 (figures was taken from the Czech Statistical Office, 2020), there is an increase in the number of employed people, the minimum monthly wage, and kept job vacancies while the number of kept job applicants and unemployed people has significantly decreased over the given years (2015–2020). In a detailed way, the number of employed people (thousand persons) was 5041,9 in 2015 and it increased to 5303,1 in 2019. Also, the minimum monthly wage was 9200 CZK in 2015, and it increased to 13350 CZK in 2019. The same increasing tendency showed 102545 kept job vacancies in 2015 and it increased to 340957 in 2019. The decrease in the number of kept job applicants started from 453118 in 2015 and the final number for 2019 was 215532. The number of unemployed people (thousand persons) started to decrease in 2015 with an amount of 268,0, and the final calculated number for the year 2019 was 109,1.

Despite the fact that the Czech Republic has a prosperous market economy and the lowest unemployment rates among the EU countries, the country's economy has been suffering from a fast-aging population, insufficient health care and unsustainable pensions, a lack of skilled workers, and a lagging education system<sup>1</sup>. In order to eliminate these challenges, the government implements actions such as increasing the number of female employees and attracting skilled immigrants.

**Table 2.** Data on Labor Market

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Employed (Thousand persons)	5041,9	5138,6	5221,6	5293,8	5303,1
Minimum monthly wage, CZK	9200	9900	11000	12200	13350
Job vacancies kept in the labor office register	102545	132496	216629	324410	340957
Job applicants kept in the labour office register	453118	381373	280620	231534	215532
Unemployed (Thousand persons)	268,0	211,4	155,5	121,6	109,1

<sup>1</sup> <https://www.cia.gov/the-world-factbook/countries/czechia/#economy>

### Foreign Direct Investment

As a definition of foreign direct investment, it can be given in this way: it is a category of cross-border investment with a resident in one particular economy and, at the same time, it has control or a significant degree of influence on the management of another economic resident<sup>2</sup>. It plays an important role in the economic growth of every country.

Despite many developed and developing countries' adoption of policies to attract investments, the amount of productive investment in the world has declined due to less friendly marketing (UNCTD, 2019). To attract foreign investments and develop their industries, countries use special economic zones (SEZs). SEZs in Czechia are managed by a government and to entice foreign investors, the government made income tax breaks available to them (UNCTD, 2019).

In their book, Poór et al., (2017) divided the inflow of FDI (foreign direct investment) in the Czech Republic into three phases. In the first phase, which covers from 1993 to 2002, the foreign direct investment was in the form of share capital and amounted to almost 9% of GDP. In the second phase, which covers from 2003 to 2007, the annual inflow of foreign investment in the Czech Republic decreased to an average of 5% of GDP. In the third phase, which covers from 2007 to 2013, the annual inflow of foreign investment decreased to 2.5% of GDP due to the global financial crisis. In the second and third phases, the main external investments were reinvested profits.

Foreign direct investment was/is critical for the Czech Republic's economic development, job creation, and entry into the market economy (Poór et al., 2017; Septimiu, 2019). Table 3 shows the data related to the FDI of the Czech Republic from 2016 till 2019 (data was taken from Santander Trade, n.d). From the table, it can be seen that there is an increase in the number of greenfield investments into the Czech Republic, while at the same time, there is a decrease in FDI inward flow, as it was 9,815,000 USD in 2016 and this number decreased to 9,479,000 USD in 2018. The FDI stock had an increase in 2017 and this increase was replaced by a decrease in 2018.

MNCs play an important role in the development of national economies and influence the amount of foreign direct investment (Venegas et al., 2016). The number of foreign-controlled registered businesses in the Czech Republic has increased from 79411 to 87409 between 2015 and 2019. Despite this increase, it has to be mentioned that the number of foreign-controlled businesses was 89085 in 2018 and it has decreased to 87409 in 2019. The foreign-controlled businesses' ratio to total registered businesses is 33%, and this number is quite enough to affect the economic development of the country (see Table 4 (data was taken from the Czech Statistical Office, 2020)).

**Table 3.** FDI of Czech Republic

<b>FDI</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
FDI Inward Flow (million USD)	9,815	9,522	9,479
FDI Stock (million USD)	121855	155994	155024

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<sup>2</sup> <https://datahelpdesk.worldbank.org/knowledgebase/articles/114954-what-is-the-difference-between-foreign-direct-inve>

Number of Greenfield Investments***	97	110	132
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**Table 4.** Number of Businesses in the Czech Republic

	<b>2015</b>	<b>2018</b>	<b>2019</b>
Foreign-controlled	79411	89085	87409
Total registered businesses	2768953	2889422	2892452

As it is shown in Tables 5 and 6 (figures was taken from the CzechInvest (2019)), China has the highest amount of investment with 174,3 mln USD, while the most invested industry is vehicle manufacturing, with a total investment amount of 312.6 million USD. Japan and Germany share the second and third places as investing countries, while Korea and Austria share the last two places in the given tables. Also, as an invested industry, the plastic and metalworking and metal-processing industries share the second and third places, while electronics and mechanical engineering share the last two places in given tables.

**Table 5.** Main investing countries

<b>Country of origin</b>	<b>Investment amount (USD million)</b>
China	174.30
Japan	140.52
Germany	120.95
Korea	67.42
Austria	34.45

**Table 6.** Main invested industry

<b>Country of origin</b>	<b>Investment amount (USD million)</b>
Vehicle manufacturing	312.61
Plastic	264.46
Metalworking and metal-processing	255.85

Electronics	188.92
Mechanical engineering	186.51

Imports and exports also affect the amount of foreign direct investment the country receives and its economic growth. In 2018, Czechia's main export markets were Germany (33.3%), Slovakia (7.0%), Poland (6.2%), the United Kingdom (5.4%), and France (5%) (Atradius, 2019). In 2018, Czechia's main import sources were the following countries: Germany (24.7%), China (15.1%), Poland (7.4%), Slovakia (4.8%), and Italy (3.7%) (Atradius, 2019).

## **HRM AT FOREIGN COMPANIES' SUBSIDIARIES**

### **Human Resource Management (HRM)**

There are different approaches to the definition of HRM. When analyzing HR departments in the Czech Republic, it can be concluded that the activities of HR departments are relevant to the "model" approach (Koubek & Brewster, 1995). To identify, define, and offer various HRM practices and approaches to the companies of the Czech Republic, scholars conduct several types of research.

Koubek and Vatchkova (2004) examined the surveys conducted in 1996 and 1998/1999. Regarding the development of HRM in Czechia, they found the following results:

1. In the market economy, many positive changes have happened in HRM.
2. The most important changes happened in training and development, especially among managers and professionals.
3. Another success was in the management of the changes in HRM.
4. The transfer of the HRM role to the strategic partner started to progress.
5. Wages began to have an impact on employee performance.
6. Flexible employment was adopted slowly.

There is a lack of research on identifying new models of multinational companies' (MNCs') involvement and their effect on the companies' HRM activities (Poór et al., 2017). Scholars conduct researches on how HRM can help improve, integrate, coordinate, and maintain businesses in the globalized world (Thill et al., 2016). We also should mention that the globalization and differences in HRM of MNCs have had side effects on the volatility of employment (Venegas et al., 2016).

The Czech Republic was included in the high-scoring group of the CEE (Brewster and Bennett, 2010). The infrastructure where the organizations perform in the Czech Republic is more advanced than in Poland, as the Czech Republic was highly industrialized and developed prior to the communist takeover (Tung & Havlovic, 1996). Being geographically closer to West Europe, the Czech economy was and remains more advanced in terms of manufacturing technology, which shows in its results in sophisticated HR planning and staffing activities, but in comparison with Poland, the Czech Republic needs more advanced HR planning and staffing methods (Tung & Havlovic, 1996).

After the Velvet Revolution in 1989, foreign companies started to open their subsidiaries in the Czech Republic. In the beginning, they faced some challenges in the labor market, such as a lack of market-oriented management skills, financial and controlling knowledge, etc, but by the end of the 90s, the situation had positively changed in the country (Poór et al., 2017) and companies

started to transfer HR practices from developed countries (Venegas et al., 2016). In the past, there was poor job security, weak employee voice, and less skilled employees, but then everything started to change in a positive way, so that employee voice started to be more strong, job security more stable, and employees began to work on themselves and develop their work-related skills (Wood et al., 2015). Development and implementation of HRM functions by MNCs are better than local ones so that they apply various methods such as performance and career management, training, and orientations (Poór et al., 2017).

Fejfarová and Urbancová (2016) conducted research to identify the latest results of HRM in SMEs in the Czech Republic. Due to the results of the conducted surveys, it can be noted that there are important internal factors in human resource management. Also, the provided surveys helped to provide an evaluation of the HRM activities, which are very important for the HR strategy and policy of the SMEs. The collected information and careful analysis of the survey results could assist SMEs in organizing and establishing appropriate HR strategies and policies that will allow them to respond to any changes in conditions and trends in HR management (Fejfarová & Urbancová, 2016).

According to Taylor et al. (1966, cited by Poór et al., 2017), there are three basic system relationships between the parent organization and its subsidiaries: exportive, adaptive, and integrative. The HR functions in the exportive system are developed in the same way as the parent company without any adopted changes. The local subsidiaries in the adaptive system of relations adopt the HR system from the parent company according to their local needs. All of the useful and applicable solutions are accepted and implemented in all units of the company in the integrative system of relations.

Nowadays, most companies accept the HR department as a strategic partner. By the contribution to the systematically managed organization development with the goals of other departments the HR strategy determines the points that need to be set, clarifies the changes and the ways how they should be provided in HR processes so that the organizations will be able to reach their best goals easily in a short time manner (Vrchota & Řehoř, 2019).

SHRM is a bridge between HRM and strategic management. It identifies itself as an approach that helps to understand how the organization will achieve its goals by using its employees, HR strategies, practices, and HR policies (Armstrong, 2009). Having an effective HR process management means having an excellent tool to introduce, improve, and manage the policies and procedures of human resources (Vrchota, & Řehoř, 2019).

Delery (1998) wrote that most of the work in SHRM acknowledges that HRM practices and policies are the main tools that organizations employ to develop and sustain the necessary human resources. Organizations should use HRM practices to achieve their goals and see how these practices work together to improve performance. HR managers should know the relationship between additive and interactive relationships, and their effects on the organization. Schuler and Jackson (1987) in their article advised using planning, staffing, appraising, compensating, and training and development from human resource practice.

Based on international human resource management literature, it can be concluded that HR practices and techniques in various countries differ from each other. Farndale and Paauwe (2007) researched similarities and variations in international human resource management practices. Talent management for senior managers, expatriate management systems, open job postings, and succession planning tools are common practices, and reward, performance

management systems for non-senior staff, diversity policy, employee relations, and training differ from each other.

Ahlvik and Björkman (2015) analyzed three dimensions of transfer of the practices of HRM from parent companies to their subsidiaries: implementation, integration, and internalization. In the first dimension, the parent company transfers its HRM practices to the subsidiary. In the second dimension, namely integration, the parent company analyzes the degree of integration that was applied to the subsidiary and its connected local system. And the last dimension refers to identifying the level of internalization of the applied HRM practices in the subsidiary (Ahlvik & Björkman, 2015).

Hiltrop (1991) conducted research to examine the human resource practices of multinational companies in Belgium and compare the results with the local ones. In his research, he finds that as a multinational company, the foreign subsidiary has to implement a number of activities that are not required in local companies, such as providing relocation and conducting orientation activities to expatriates, managing international employee rotation programs, and coping with international union activity. Despite the high quality of human resource management in the foreign subsidiary, Hiltrop finds that Belgian companies are more progressive in using processes to resolve disputes and address complaints of workers on a more formal basis than international ones. The reason for that is that local companies often monitor and evaluate the activities of line managers than international companies.

It has been suggested by empirical research and business practice that the majority of foreign companies' subsidiaries are more advanced than local firms and perform more complex human resource management functions (Hiltrop, 1991). As mentioned by Perlmutter (1969), multinational companies have three attitudes in the recruitment and selection process: home-country oriented (management positions of the company are led by people from the parent company), host-country oriented (management positions in the subsidiaries are led by local people) and world-oriented (management positions in the subsidiaries can be led by people from any nationality in the world). There is also a regiocentric attitude, which means management positions in the subsidiaries are led by the people selected from the region (Keeley, 2001).

Schuler and Dowling (1990) noted in their book that poor management of human resources in the foreign subsidiary often causes business failures in the international sphere. Yan (2003) mentioned in his research that the greater the interdependence of HRM between parent companies and their subsidiaries, the greater will be the advantages of the companies. By sharing the corporate culture and reputation internally and outside of the company, the HRM helps to form, improve, and strengthen the brand of the company (Jančíková & Milichovský, 2019).

Venegas et al., (2016) mentioned in their research that the local HR departments of foreign subsidiaries in the Czech Republic are generally engaged in recruitment, compensation, and benefits-related activities. They also note that the main challenges HR managers face are related to Czech labor law. Currently, the HRM department transfers its role from operational services to the strategic partner functions (Venegas et al., 2016).

There are some complex challenges for multinational corporations, and the process of choosing and applying different management approaches and mechanisms is one of them

(Savaneviciene & Kersiene, 2015). According to Scullion (1995, pp. 352–353), the following reasons are very important to understand the significance of IHRM:

1. Recent years have seen a rapid increase in global activity and global competition. As the MNCs increase in number and influence, so the role of international HRM in those companies grows in significance.
2. The effective management of human resources internationally is increasingly being recognized as a major determinant of success or failure in international business.
3. Research evidence shows that (i) shortage of international managers is becoming an increasing problem for international firms, (ii) to a large extent the successful implementation of global strategies depends on the existence of an adequate supply of internationally experienced managers, (iii) business failures in the international arena may often be linked to poor management of human resources, and (iv) expatriate failures continue to be a significant problem for many international firms.

Moreover, ethics related issues are also important for HR managers. Ethics studies the morals, morality systems, and principles of conduct (Poór et al., 2016). Pojman and Fieser (2012) define the main roles of ethics as following: preventing society from falling apart; lowering human suffering; supporting human development; finding solutions for conflicts of interest; rewarding or punishing right and wrong behavior.

Although many companies in Czechia use codes of conduct and apply the principles of CSR, there are still ethical problems in the area of law, jurisdiction, political life, the functioning of the police force, and state administration that cause problems for the companies (Poór et al., 2016). Such problems can be violations in payment terms, abuse of commitments, and outrage of contract terms, etc. (Poór et al., 2016). Czechia also suffers from corruption which affects badly to the economic, political, and social aspects (Poór et al., 2016).

### **Culture**

There is a significant influence of foreigners on the socio-economic status of the country. According to statistics (The Czech Statistical Office, 2019), there are 566,931 foreigners in the Czech Republic. As we can see from Table 7 (figures was taken from the Czech Statistical Office, 2019), there is an increase in total numbers of foreigners (permanent residence, temporary residence (EU nationals), long-term residence, long-term visa), but there is a decrease in the number of asylum seekers throughout the given years (2016-2018). In a detailed way, the number of foreigners with permanent residence was 271957 in 2016 and it increased to 289459 in 2018. Also, the number of foreigners with temporary residence (EU nationals) was 129110 in 2016 and it increased to 145177 in 2018. The same increasing tendency was shown in the long-term residence, which was 79227 in 2016 and increased to 113793 in 2018. The number of foreigners with long-term visas was 13147 in 2016 and it increased to 15916 in 2018. The number of asylum seekers started to decrease in 2016 with an amount of 2972, and the final calculated number for the year 2018 was 2586. All this diversity, of course, influences the practices and activities of human resource managers in local and international companies.

**Table 7.** Data on foreigners

	<b>2016</b>	<b>2017</b>	<b>2018</b>
Total	496413	526811	566931
Permanent residence	271957	281489	289459
Temporary residence (EU nationals)	129110	136589	145177
Long-term residence	79227	90251	113793
Long-term visa	13147	15813	15916
Asylum status	2972	2669	2586

A lot of research was conducted on a comparative study of human resource management (Poór et al., 2017). Yan (2003) analyzed the impacts of different national origins and cultures on HRM practices among four national culture groups and found that there was a significant relationship among them. As a human resource manager of an international company, a manager should know how different regions and nations identify and solve problems and challenges. To be aware of the impacts of cultural dimensions on human resource practices, managers should rely on Hofstede's six cultural dimensions.

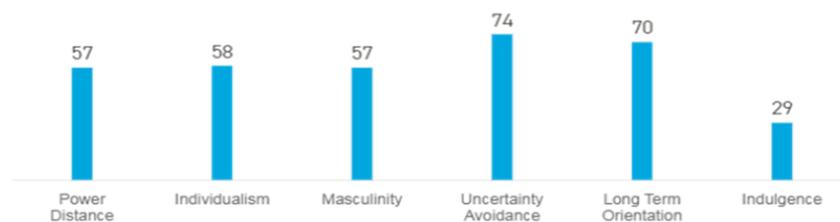
In 1993, Saha (cited by Tung & Havlovic, 1996) represented an international HRM model which showed HRM practices as a dependent variable. Due to Saha, the dependent variable was sensitive to two independent variables, which were: a) national environment and culture; and b) organizational culture and characteristics.

In MNCs, cross cultural differences are based on individuals 'attitudes, values, and norms, and the reasons for raised problems are different experiences and understandings of how to organize an activity (Savaneviciene & Kersiene, 2015). The difference in cross-cultural perception could cause the successful or unsuccessful assumption of international cooperation (Savaneviciene & Kersiene, 2015). HRM is accepted as the criteria for the success and failure of international businesses. This means that the quality of HRM determines the success level of MNCs (Caligiuri et al., 2004). HRM affects significantly the performance of the general strategy and the control in MNC due to the complexity of these processes in various cultures (Scullion et al., 2007). While analyzing the peculiarities of HRM in MNCs, a balancing issue arises between the need for economic integration and local environmental pressure (Scullion et al., 2007).

Although there are many researchers who support the impact of culture on HRM functions in foreign companies, some scholars disagree with this view. They claim that technological development and global competition will eliminate the differences among HRM systems in different countries (Poór et al., 2017). To have a better understanding of society's culture, it is worthwhile

to study the national culture dimensions developed by Geert Hofstede<sup>3</sup> and identify the challenges faced by the MNCs'. By using Hofstede dimensions, the Czech Republic was compared with its neighbour countries; Germany, Poland, and Slovakia.

As it is known, there are six cultural dimensions of Hofstede: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence. The results of the analysis of the Czech culture are illustrated in Figure 1. On the power distance dimension, Czechia possesses a score of 57, which means that it is a hierarchical society. In another world, there is a hierarchical order in organizations that people accept. On the individualism dimension, Czechia possesses a score of 58, which means that it has an individualist society. People think about themselves and their families. According to the masculinity score of 57, Czechia is a masculine society. In the uncertainty avoidance dimension, Czechia's score is 74. Such a high score means that people in organizations need to follow the rules and standards. With a score of 70 in a long-term orientation, people depend on time, context, and situation. In the last dimension, namely indulgence, the score is 29, which means that people in Czechia are pessimists and cynics.



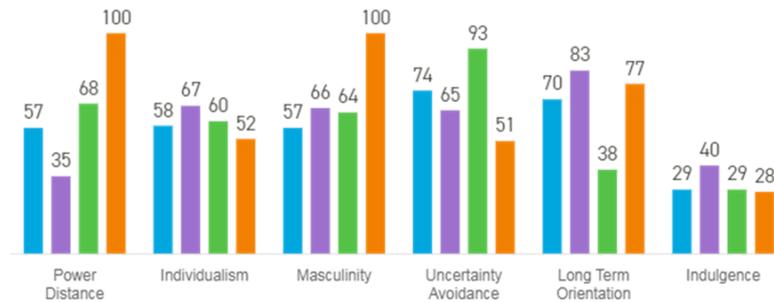
**Figure 1.** Analyse of the Czech Culture

Source: Hofstede website

Figure 2 shows the cultural dimensions of the neighboring countries of the Czech Republic: Poland, Germany, and Slovakia. In the figure, countries are ordered and pointed at as following: Czechia as blue, Germany as violet, Poland as green, and Slovakia as orange. It can be seen from the figure that there are cultural differences and similarities among these countries. On the power distance dimension, Czechia is close to Poland. It is seen that on the individualism dimension, approximately all countries are at the same level and the highest score belongs to Germany. Despite the fact that Czechia and Slovakia were once part of the same state, there is a significant cultural difference between the two countries. They have the only common score on the dimension, namely indulgence.

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<sup>3</sup> <https://www.hofstede-insights.com/country-comparison/czech-republic/>



**Figure 2.** Cultural dimensions of Czech Republic, Germany, Poland, and Slovakia

Source: Hofstede website

## CONCLUSION

MNCs play an important role in the development of national economies and influence the amount of foreign direct investment (Venegas et al., 2016). As previously stated, poor employee management can lead to the company's demise. It should also be mentioned that the HRM practices of MNC subsidiaries depend on the internationalization strategies of the companies and vary based on the FDI policy of the host countries. Taking into account that taxes and salaries paid by MNCs play an important role in economic growth, the Czech Republic plans to increase the number of MNCs (multinational companies) in the country.

Therefore, this paper aims to study the HRM practices of MNCs and the Czech Republic's socioeconomic environment. The study found that the Czech Republic is an attractive foreign investment market because of the followings:

1. It has one of Europe's most strategic geographical locations. Its excellent infrastructure contributes to the Czech Republic's positioning as an important crossroads for European business corridors.
2. Its FDI policies and investor-friendly regulations offers a number of advantages for foreign investors.
3. Its socioeconomic environment is also suitable for the establishment of new businesses in the country.

## FURTHER RESEARCH

The coronavirus has harmed a wide range of international economic and trade activity. Multinational companies and their supply chains have also been severely impacted, affecting millions of people. Foreign direct investment (FDI) into and out of countries suffered significantly in 2020. The amount of inward greenfield FDI has increased dramatically, which has important consequences for the number of jobs created by such investments. The effects of COVID-19 did not pass by the Czech Republic's economy. This study therefore recommends additional research to explore the consequences of the COVID-19 pandemic on MNCs and FDI and to offer solutions to avoid detrimental effects on the Czech Republic's economy.

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