

HUMAN RESOURCE MANAGEMENT UNDER CHANGES AT FOREIGN SUBSIDIARIES IN SLOVAKIA IN LIGHT OF REGIONAL COMPARISON

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Abstract: *A model of human resource management practices in the subsidiaries of multinational corporations in Slovakia was developed by the Central and Eastern European International Research Team (hereafter CEEIRT) – composed of researchers from universities from the Central and Eastern European Region. 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 22 subsidiaries of large multinational companies in Slovakia and at 267 foreign owned firms 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. Initially our article focuses on the analysis of previous relevant HR results and models. Next way we present an overview of Foreign Direct Investment (FDI) development in new member states of the European Union, particularly in Slovakia. Besides the analysis of the FDI origin country the sectoral structure of FDI and employment practices in foreign firms on the Slovak territory is analyzed.*

Key words: *Human resource management, Foreign direct investment (FDI), Local subsidiaries and Central and Eastern Europe (CEE).*

JEL Classification: *M12, O15.*

Introduction

According to the UNCTAD World Investment Report 2010, global foreign direct investment (FDI) witnessed a modest, but uneven recovery in the first half of 2010. This sparks some cautious optimism for FDI prospects in the short run and for a full recovery further on. UNCTAD expects global inflows to reach more than \$1.2 trillion in 2010, rise further to \$1.3–1.5 trillion in 2011, and head towards \$1.6–2 trillion in 2012. However, these FDI prospects are fraught with risks and uncertainties, including the fragility of the global economic recovery.

1 Statement of a problem

1.1 FDI globally and in CEE region and in Slovakia

Developing and transition economies attracted half of global FDI inflows, and invested one quarter of global FDI outflows. They are leading the FDI recovery and will remain favourable destinations for FDI.

According to the Slovak Statistical Office data, about 650 billion US dollars of foreign investment flowed into the twelve new EU member countries until 2009. From this investment Slovakia obtained 50.1 billion USD and had a share of 7.7%. Hungary obtained 85.9 billion (share of 13.2%), Poland 182.8 billion USD and Czech Republic 115.8 billion USD [13], [19].

1.2 Employment and foreign capital

Foreign direct investment was very important for economic development, employment and economic growth of Central European countries on their way to the market economy. Especially Slovakia, which is the smallest economy among the Visegrad four countries (Czech Republic, Hungary, Poland and Slovakia), recorded in several past years very rapid economic growth thanks its economic reform and relatively high level of FDI inflow. This growth had a positive impact on the rate of unemployment, but it is still a problem which has various reasons: In Slovakia there is still high rate of unemployment of certain socially weak groups of population, investment is not evenly spread in the country and economic recovery after the crisis is still rather slow.

From a global point of view, international companies employ more than 80 million people in their subsidiaries all over the world [12], [16], [17]. The proportion of people employed at subsidiaries of international companies varies significantly between countries. According to the representative data of the UNCTAD World Investment Report, 50,6% of the employees in the private sector work for multinational companies in Ireland. The same indicator in Hungary was 22,4% at the beginning of the millennium, according to the mentioned report.

In Slovakia, foreign-owned companies employed about 600 thousand people in 2010. This number equals to one fourth of the people employed in the Slovak national economy and about 35% of the people employed in the competitive sector

2 Methods

In undertaking a study of HR practices in the subsidiaries of MNCs in Central Europe, and specifically in Slovakia, we begin by adopting a broad framework encompassing the major internal factors (objectives of the firm, corporate strategy, firm (subsidiary) maturity, entrance, development for MNC subsidiaries in Slovakia and Central and Eastern Europe (DSS), subsidiary mandates) that affect the operations of such firms (Exhibit 1). While a discussion concerning each element in this model is beyond the scope of this paper, this model provides a context for the discussion, consistent with recent presentations highlighting the criticality of HR variables in the context of situational variables [2], [18].

Based on the elements of the general research model discussed earlier, in this research report we have focused our investigation on the following six key categories:

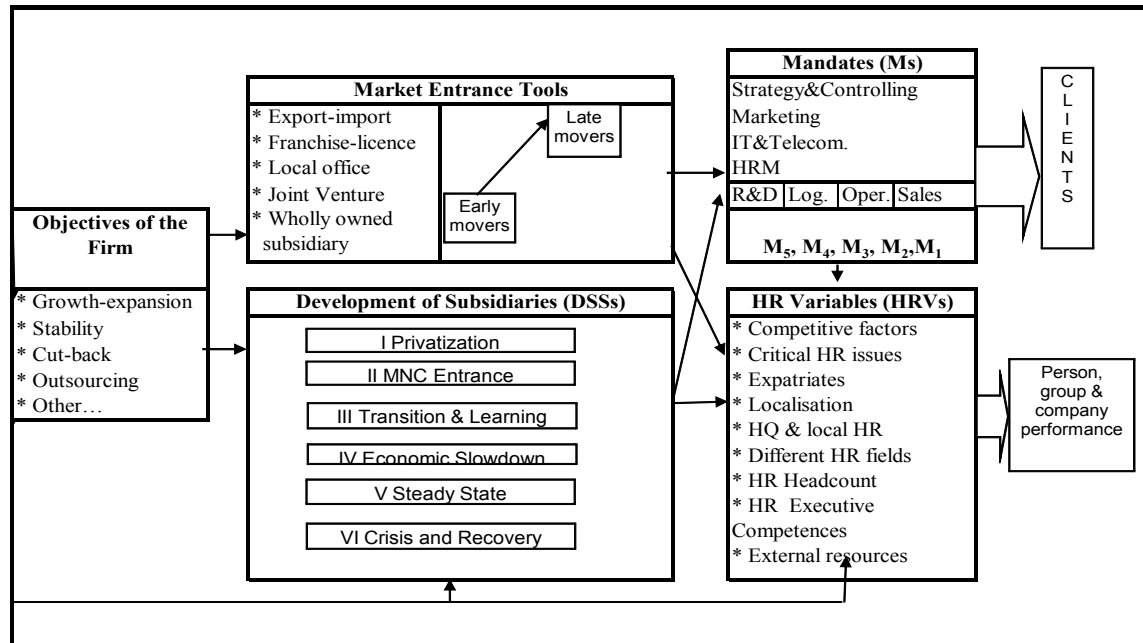
- *Characteristics of surveyed subsidiaries*: capturing the most important organizational and economic characteristics, namely origin of parent company, year of establishment of subsidiary, main area of operation of the company – sector –, size of organization (based on revenue and number of employees) 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 Hungarian 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. (Comments: Here we will not discuss only the following subject areas: knowledge management in HR and the future of HR).

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 both from 2008 and 2009. Although the analysis was descriptive, it revealed objective data in all cases. In order to facilitate statistical analysis, we used the same questionnaire during personal interviews at companies and during online surveying; we coded gathered data and analyzed coded answers.

Fig. 1: Model and HR Variables Within the Context of Multinational Subsidiaries



Source: Author

3 Population characteristics and the sample

3.1 General characteristics of participating companies

Originally 12 countries indicated their interest to be involved with this project. Ultimately we received valuable information from all 12 countries. These 12 countries have contributed to the regional data set while to date the results from seven countries (Croatia, Estonia, Hungary, Poland, Romania, Serbia and Slovakia) have been prepared for this detailed report.

Tab. 1: Overview on respondents

No	Countries	Responses
1	Austria	3
2	Bulgaria	5
3	Croatia	11
4	Czech Rep.	1
5	Estonia	45
6	Hungary	74
7	Lithuania	2
8	Poland	88
9	Romania	17
10	Serbia	20
11	Slovakia	22
12	Slovenia	1
Total		289

Source: Author

In this summary we give an overview of the general characteristics of participating companies, gained in the 22 MNC Slovakian subsidiaries in light of regional comparison (Exhibit 2):

- Some of 289 local subsidiaries of different foreign owned companies registered in the CEE region participated in the survey and 22 from this cohort are responded our survey questionnaire from Slovakia
- The number of staff employed at the companies examined decreased less than we expected due to the crisis. This can be explained by the following points:
 - ↳ Some companies participating in the survey had rationalized their labor force significantly already before the crisis.
 - ↳ Those subsidiaries that employed a significant number of people with fixed-term contracts or leased labor force dismissed these employees in the first place.
 - ↳ Some over diversified companies sold or outsourced their non-core businesses.
 - ↳ The number of employees didn't decrease, moreover increased even during the crisis in many processing and developer companies.

Tab. 2: Number of employees and revenue of the participating companies in CEE region (n=289) and in Slovakia (n=22)

Year	CEE		Slovakia	
	Number of employees	Revenue (billion euro)	Number of employees	Revenue (billion euro)
2009	292.697	43,25	20.487	1.049

Source: Author

- Some 44% of the organizations examined in the total CEE sample were engaged in manufacturing. And 44% of organizations in trade, tangible and intangible services while 12% of organizations in other industries. In Slovakian sample 39% of the organizations examined were competing in the manufacturing sector, while the other 61% in trade, tangible and intangible services.
- In the CEE sample, the foreign owners of more than half (69%) of the subsidiaries examined acquired majority control or carried out the green-field investments before 1995. The half of the examined subsidiaries came to

Slovakia between 2000 and 2009. More than a third of them (36%) acquired majority control or carried out the Greenfield investments before 1995, the remaining ones (14%) settled in Slovakia between 1996 and 2000.

- Half (50%) of the respondents indicated that they were seeking growth and market expansion during the period examined. Stability, efficiency improvement and revenue retention were also important for more than a half (55%) of the subsidiaries. Only a quarter (27%) of the organizations chose the redundancies and rationalization option, as a description of the main strategic orientation of the years investigated.
- Parent firms in the CEE sample were found from a wide variety of nations in the regional sample. While 60% of the multinational firms came from the following seven countries: Germany (19%), USA (13%), Sweden (6%), France (6.6%), Austria (5.7%), and Hungary and Finland (5.4% each), another 13 countries account for an additional nearly 27% of the sample, and the remaining 13% of the sample is accounted for by 15 countries. The Swedish and Finnish companies are more dominant investors in Northern-Eastern European countries (for instances Estonia and Poland), while the German, Austrian and U.S. companies have a stronger presence in the Central and Southern European countries. More than two thirds (68%) of the participants come from the following countries in Slovakian sample: Czech Republic (27%), Germany (14%), Sweden (9%), USA (9%), and Hungary (9%), while another 7 countries account for the remaining 32%.
- In the CEE sample, the foreign owners of more than half (69%) of the subsidiaries examined acquired majority control or carried out the green-field investments before 1995. The foreign owners of more than half of the companies participating in the survey came to Slovakia realizing green-field investments and 45% of them obtained majority control in Slovakian companies during the privatization and the following acquisitions.
- 43% of the companies operate with a single to develop and market product services for global markets in the CEE sample. Based on the responses it can be stated that almost 40% of the subsidiaries sales its products on the local markets. More than one quarter (27%) of the participants has control just on a part of the value chain but almost one third (32%) controls most of the processes of the value chain.

3.2 General characteristics of the responding individuals

From the personal characteristics of the interviewed professionals we examined demographic characteristics and also their professional qualifications and the characteristics of their positions held.

- Almost half (42%) of the individuals participating in the survey in the total sample are top HR managers: with the title of HR vice president, director, manager or department head.

- In the Slovak survey, one fifth of the respondents' participants are in the top HR manager position and another 45% are in HR or other managerial position. The remaining part of the respondents is member of HR staff or work in other department of the companies examined in the survey.

4 Characteristics of the key indicators of HR function

In this section we give a summary of the following HR characteristics:

- Number and workload of the HR staff,
- The main indicators representing the importance, results, and efficiency characteristics of the HR activity (labor cost – total cost ratio, age distribution of employees, and relative size of the training budget, the fluctuation rate and absenteeism).

4.1 Number and workload of HR staff

In the CEE sample, number of HR staff is relatively high. Only of 4% of responding subsidiaries has not any HR staff. The HR departments of the companies in the Slovakian sample examined are relatively small as the number of HR staff was under than 5 persons in the case of more than 65% of the respondents, while there hasn't been any organization among the subsidiaries which hasn't got any HR staff.

In the CEE sample, employees per HR position ranged between 50 and 147 people in our sample. In comparison with the CEE sample, the majority of the participant organizations in Slovakia employ less than 250 employees. Although the number of the smaller companies increased in the last two years one third of the respondents belong to what we would classify large enterprises. The surveys indicated average number of employees served by one HR staff member increased from 152 in 2008 to 161 in 2009. In these companies nearly 60 % of the total number of HR staff carried out administrative tasks while 40 % were HR professionals.

Tab. 3: Number of employees and HR staff in the participating companies

	Number of employees	HR professional	HR admin staff	Total number of HR staff	Employees per HR position
CEE	292.697	1.979	2.662	4.605	64
Slovakia	20.487	59	76	135	161

Source: Author

4.2 Labour cost – operating cost ratio

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 assumptions, the effects of HRM have a stronger and more direct influence on the company's performance if this ratio is higher [2], [5]. In the CEE sample, the vast majority of the companies operated with a relatively low (under 30%) labor cost ratio

About one third of the Slovakian subsidiaries participating in the survey fell into this category (where the labor cost ratio is higher than 40%). But the vast majority (63%) of the companies operated with a relatively low (under 30%) labor cost ratio.

4.3 Age distribution

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 confirm the common view that multinational companies prefer to employ the younger generations:

- 20% of employees are above the age of 45 in the CEE sample
- the majority (84%) of employees are under the age of 45 in the Slovakian sample.

4.4 Training cost ratio

Literature considers the relative weight of the training budget (compared to the total annual labour cost) as an important indicator of modern and effective HR activity.

- CEE: Some 73% of the companies spent less than 3% of the annual personnel cost budget on training of their employees in 2009.
- Slovakia: In the half of the companies examined, the relative weight of the training budget was under 2% in 2008. We also found a quite high proportion where the companies spent 10-20% or even more of the annual labour budget on training employees. In 2009 the companies with higher rates decreased this number. The global average of this indicator calculated using the Cranet international comparative HR database was 3,36 %, the Eastern European index was 3,15% and the Hungarian 3,54% [8].

4.5 Labour turnover

An important characteristic of HR effectiveness is the labour turnover. According to the conservative approach, the cost of an average employee leaving amounts to 1.5 times their annual wage cost [3]. However, it is important to see that different people's leaving have different consequences. If a key employee leaves the company, it has a much larger impact compared to a simple employee leaving.

- CEE: The level of fluctuation was under 10% in more than half of the subsidiaries; however there are companies with indices higher than 20% or even 40%.
- Slovakia: In 2008 the level of turnover was fairly high in the majority of the subsidiaries participating in the survey. One third of them have 20-30% and two

of them had over 40 %. In 2009 the extreme values haven't changed but the average value of the turnover decreased.

4.6 Expatriates and their roles

The belief that management practices are universal has spread widely along with globalization. Following Perlmutter's [13] 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 centers 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 expatriate assignments are distinguished. Expatriates arriving from abroad (from parent company of a third country) are also called expatriates, as are employees from the Slovakian subsidiary appointed for a long-term deputation away from Slovakia (at parent company or subsidiaries operating in other countries).

Foreign expatriates

Number of expatriates decreases according to level of maturity of subsidiaries. Expatriate managers are most frequently seen during an acquisition or major realignments of a subsidiary's activities. During global crisis there are thought to be fewer expatriates, as they are an expensive form of human resource.

- **CEE:** Nearly half of the respondents employ foreign expects in managerial and less than a third in non-managerial positions. The typical number of foreign expects within a company ranges between one and three positions. Over 67% percent of the responding organizations in the total sample had foreign expects from the parent company
- **Slovakia:** Almost the half (45%) of the subsidiaries participating in the survey didn't employ foreign expatriates in non-managerial positions. In those few companies that employed foreign expatriates in non-managerial positions permanently, the number of these expatriates was typically only four to five employees. Only one respondent employed more than 10 such expatriates. The presence of expatriates employed in managerial positions is more significant but only the 30% of the respondents employed foreign expatriates in such positions in the period examined. Where they were present, their number was typically one to five employees. From the examined sample we can say that half of the foreign expatriates are employed in managerial position and half of them in non-managerial position. More than the half (53%) of the responding organizations had foreign expects from the parent company while the others came from countries different from the country of the parent company.

Local expatriates – inpatriates

Impatriation “involves the transfer of subsidiary managers to headquarters for a specific period of time” [6].

- **CEE:** There was no such foreign deputation in more than 70% of the respondents in the total sample. The proportions of companies not sending employees to managerial positions and to non-managerial positions can be seen to be highest in four countries: Croatia, Estonia, Romania, and Serbia. If employees are sent abroad the typical numbers of employees were between one to three persons.
- **Slovakia:** More respondents sent than received employees abroad to non-managerial positions, there was no such foreign deputation in more than 60% of the respondents. Companies that sent employees abroad, sent usually 2-3 persons. But we had two companies in the sample which sent more than 20 people to foreign MNCs for a longer period. The proportion of companies not sending employees to managerial positions was higher (68%) than the proportion of those not sending employees to non-managerial positions. Companies that sent out employees who obtained foreign managerial positions, mostly sent 1-3 persons

5 Discussion

5.1 The operation of HR departments

Taylor et al. [15] describe the relationship between subsidiaries and parent company with the following three basic systems of relations:

- a) In extortive system of relations; HR systems developed in parent company are adopted without changes.
- b) In adaptive system of relations; local subsidiaries adapt HR systems adopted from parent company according to their local needs.
- c) 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.

Lawler [9], [10] concluded from his research conducted among American subsidiaries operating in Asia and Europe, that the most dominant deciding factor in adoption and adaptation of HR systems is the size of local companies. The question is reasonable: which solution should be applied in a certain case? The above mentioned authors say that the system to be implemented depends on the sum of the impacts of internal and external factors that form and influence the organization [11]. In certain cases national culture of host country and legal, regulatory environment are considered influencing factors.

The relationship between headquarters and local HR

We found several approaches among the companies examined as follows:

- CEE: Some 15% of the subsidiaries reported hands off treatment from the headquarters HR staff, while in almost 6% of the situations the HQs provide central control.
- Slovakia: Almost all typical function of the HQ HR was chosen with the same frequency by the subsidiaries. Only one function was chosen with a lower frequency. The least typical function of the HQ HR is the absolute centralization which means that even the less important decisions are made by the HQ. The highest level of decentralization is when the HQ provides complete freedom to the subsidiaries. With hands-off the subsidiaries have to send only reports and information to the HQ HR.

Changes in importance of HR functions

- CEE: Human resource planning, employee communication and compensation and benefits were considered the most critical in the ranking of HR areas.
- Slovakia: Human resource planning was first in the ranking of HR areas considered most critical in the period examined. Industrial labour relations were chosen as the least important area of HR by the subsidiaries.

Typical HR competencies for success

From the somewhat completed list of HRM competency areas identified by [19] and [20] in 2009, the respondents considered the following three to be the most important:

- CEE: For the entire region the following three HR competencies were reported to be the most important: teamwork (13.2%), change management (13.1%) and personal credibility (12.5%). However, in the Hungarian, Romanian, and Serbian sub samples, results indicate personal credibility was reported as the most important criteria for HR competency success. Also, in the Romanian subsidiaries strategic contribution is seen as the second most critical area associated with HR competency success.

Slovakia:

- For the first rank (55%) the business knowledge (value chain, value creation) was chosen but teamwork and the knowledge of foreign languages have almost the same importance (45-45%),
- personal credibility, change management and quiche decision making with knowledge sharing were sorted out with the same frequency (41%) by the respondents,
- The least important competencies for success in 2009 were strategic contribution, HRMIS and the area of HR services.

Primary responsibility of decision making in key HR functions

Our current survey confirms the finding also established in other studies [4], [7], [8] that members of the management hierarchy have larger responsibility or control in some HR decisions and local employees of the HR department have in others.

- CEE and Slovakia: 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 but in some cases only by the local management. 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 [20].

5.2 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.).

CEE and Slovakia: External service providers were most often used in training and development from the key HR functions as reported by the respondents. They were also often involved in recruitment and selection and in the area of compensation and benefits. The practice of companies in this respect either didn't change or where it did, companies reported a decrease in the use of external partners.

Conclusion

In the research project we examined the HR functions and practical applications of 22 MNC subsidiaries in Slovakia. This paper summarized the relevant findings in connection with the most important topics of the survey carried out in Slovakia in light of regional survey. We can conclude that the HR departments of the companies examined are relatively small as the number of HR staff was under than 5 persons in the case of more than 65% of the respondents, while there hasn't been any organization among the subsidiaries which hasn't got any HR staff. In the half of the companies examined, the relative weight of the training budget was under 2% in 2008. We also found a quite high proportion where the companies spent 10-20% or even more of the annual labour budget on training employees⁵. Our current survey confirms the finding also established in other studies [4] that members of the management hierarchy have larger responsibility or control in some HR decisions and local employees of the HR department have in others. As we have indicated earlier, the number of samples is relatively small; however, it can represent the practice of large multinational subsidiaries in Slovakia.

⁵ The global average of this indicator calculated using the formerly mentioned Cranet international comparative HR database was 3.36%, the Eastern European index was 3.15% [4].

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Received: 23. 03. 2012
Reviewed: 25. 06. 2012
Approved for publication: 01. 11. 2012