

Dr. Jozsef Poor, Profesor of Management

Institution: Szent István University

Postal Address: Tessedik S. u. 6, H – 2100 Gödöllő

Phone: +36 30383 7618

E-mail: poorjf@t-online.hu

Đurđica Kontra-Čapo, PhD student

Institution: University of Pécs, Faculty of Business and Economics

Postal Address: Rákócziút80., H – 7633 Pécs

Phone: 091 574 3454

E-mail: kontra@email.t-com.hr

HUMAN RESOURCE MANAGEMENT IN TRANSITION

UPRAVLJANJE LJUDSKIM RESURSIMA U TRANZICIJI

ABSTRACT

The current research is part of a long-term research cooperation – Central and Eastern European International Research Team (hereinafter CEEIRT) – that is composed of researchers from different universities from Central and Eastern European (CEE) Region and aimed at examining the changing of HR practices and roles in MNC subsidiaries. We seek to understand what trends have emerged in the certain HR practical applications and roles in our region in response to the socio-economic changes. In the research project we examined the HR functions and practical applications of Multinational Company (MNC) subsidiaries in Croatia.

Croatia's competitive advantages over other countries in the region are based on developed infrastructure, a highly educated workforce and proximity to raw materials and resources allow.

Persistent economic problems still remain and include a rather high labor cost, the slow progress of necessary coordination of economic activities and the government has done very little to improve the situation regarding climate of the foreign direct investments. The Croatian labor force is the second most expensive in the region. In order to avoid competition with countries with low operating costs (Romania and Bulgaria), Croatia should focus on higher value-added sectors and knowledge-intensive activities.

Foreign investors report high profitability and quality standard. Croatia's greatest strength is the relatively stable economy and excellent infrastructure. Last but not least, the proven ability of the country that high-tech industries are performing well and there is a high level of engineering and design skills.

In Croatian economy employees have extremely good attitude, which includes the low level absenteeism, high levels of motivation, labor productivity and accuracy.

As negative factors of Croatian economy include employment of unskilled workers at high costs compared to regional competitors. It should be remembered there is a shortage in the labor market of experienced professionals. Labor taxes are considered relatively high, which is illustrated with a significant difference between net wages and total labor costs of employment. The above findings are the results of our CEEIRT research.

We used same questionnaires. The mostly paper-based ones and a small part of the web-survey was supplied via a Web interface. The report's findings were the methods of descriptive statistics (frequency, distribution average) were based on use. Answers to a number of priority issues by the processing of data are visualized graphically. In several cases the personal interviews that were used to collect case-examples - while ensuring the anonymity – have been added to the analysis.

Keywords: Human resources, research, MNC=Multinational Companies, economy and technology

SAŽETAK

„Central and Eastern European International Research Team” (CEEIRT) osnovan je 2009. godine s ciljem provođenja trogodišnjeg istraživačkog programa na području ljudskih potencijala. Tim okuplja istraživače sa različitih sveučilišta i institucija Srednje i Istočne Europe, koji u zemljama u tranziciji istražuju promjene na području ljudskih potencijala uzrokovani ekonomskih promjenama u regiji.

Istraživanje koje smo proveli daje sliku o praksi i okruženju ljudskih potencijala u podružnicama MNC koji su prisutni u Hrvatskoj.

U usporedbi sa drugim zemljama regije Hrvatska ima značajnu prednost u infrastrukturnoj povezanosti, visokokvalificiranoj radnoj snazi i blizini sirovina i ostalih resursa. S druge strane, takva radna snaga je skupa za ulagače, gospodarske aktivnosti nisu zadovoljavajuće koordinirane, a vladine mjere nisu u dovoljnoj mjeri učinkovite.

Hrvatska je jedna od najskupljih zemalja jugoistočne Europe u pogledu cijene radne snage. Da bi stekla konkurentsku prednost pred drugim zemljama regije sa niskom cijenom rada (primjerice Rumunjska ili Bugarska), Hrvatska može iskoristiti ulaganje u one djelatnosti koji zahtijevaju visoku razinu stručnog znanja u područjima sa visokim stupnjem dodane vrijednosti.

Strani ulagači svjedoče o iznimno visokoj razini rentabilnosti i standardima kvalitete. Najveća prednost Hrvatske leži u relativno stabilnom gospodarstvu, iznimno dobro razvijenoj infrastrukturnoj mreži i dokazanoj sposobnosti upravljanja hi-tech tehnologijom, ali i raspolaganju visoke razine znanja na području inženjeringa i dizajna. U hrvatskom gospodarstvu prisutan je izuzetno dobar odnos zaposlenika prema radu, što podrazumijeva male vrijednosti izostanaka sa radnog mjesta, prisutnost visoke razine njihove motivacije, proizvodnosti i točnosti.

Negativna tendencija je visoka cijena zapošljavanja nekvalificirane radne snage u odnosu na konkurentne zemlje regije, nedostatak iskusne radne snage, osim toga porezi su relativno visoki što je razvidno iz velike razlike ukupnog troška rada u odnosu na isplaćenu neto plaću.

Navedeno razmatranje je rezultat istraživanja.

S ciljem pojednostavljivanja statističke obrade za on-line i osobno ispitivanje koristili smo iste upitnike. Obradu rezultata smo temeljili na metodi deskriptivne statistike (frekvencije, prosjek distribucije). Odgovore na neka pitanja smo i grafički prikazali. U nekoliko slučajeva su analizi dodani i osobni intervjui uz osiguranje anonimnosti sugovornika.

Cljučne riječi: ljudski resursi, istraživanje, multinacionalne kompanije (MNC), tehnologija

1. Responder countries and the economic indicators

The following twelve countries took part in the Ceeirt research: Austria, Bulgaria, Czechoslovakia, Estonia, Croatia, Poland, Latvia, Hungary, Romania, Serbia, Slovakia, and Slovenia.

In the last decades the Central and Eastern European countries, also the ones in our research, benefited from the inflow of foreign capital. According to the Spiegel (2009) these countries became the stars of the capitalism, where the GDP growth well exceeded that of the developed countries’.

The global economic crisis took the countries of the region by surprise. The growth declined almost everywhere except for Poland. These countries had to face negative GDP growth for the first time in years accompanied with high inflation, and growing unemployment.

2. The foreign direct investment and the employment

In the mentioned countries the volume of the foreign direct investment (FDI) and the portfolio investment two typical categories of the foreign investments grew strongly and steadily. However

the data presented in the UNCTAD 2010 shows that between 2000 and 2003 a different tendency applies. From 2004 to 2007 again continuous FDI growth can be experienced. After that resulting from the global crisis in 2008 it declines rapidly. Nowadays compared to previous years slight growth can be observed. Currently the international companies employ over 80 million employees at their subsidiaries (Table 1).

Table 1 Foreign Direct Investment trends in the world

	Actual value											Forecast		
Year	1990	1996	1999	2000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FDI	208	1,400	1,600	1,490	735	800	1,000	1,411	2,100	1,771	1,114	1,200	1,300-1,500	1,600-2,000

Source: UNCTAD (2010): *World Investment Report, 2010*. United Nations, Geneva.

3. HR practices of the region before and after the communist regime

The HR activity was under tight governmental control in the Central and Eastern European countries within the communist regime. One of the first major challenges of the HR departments of the countries in transition was to deal with the grand volume of layoffs following the privatization (Redman-Keithley, 1998).

In his book about the social responsibility of international companies in Eastern Europe Lewis (2005) says that the multinational companies in many ways redrew the map of the labor market of former socialist countries. The egalitarianism got abolished and the compensation became dependent of the importance of the work. The exceptionally high performance was awarded with exceptionally high payment. Along with the technical knowledge the importance of knowing foreign languages became emphasized. Although in a certain topic there was no progress for a long time: "Can a local be controlled by a local, can a local be controlled by a western, but can a local be controlled by someone coming from another Eastern European country" By now this question seems to be resolved. More and more Central and Eastern European faces the situation that in other countries of the region the locals become their subordinates. The multinational companies turned the local companies politics free. HR received a key role. In most cases these companies achieve better performance than the locals. International companies can utilize their resource based competitive advantage in contrast to the relatively weak and undeveloped or changing local institutional system.

CRANET (2006) coordinated by the University of Pécs, (Poór et al., 2007) and other researches (Karoliny et al., 2003) clearly prove that this function is far more than the mere recording of employee data. By now HR became an executive function (Karoliny et al, 2008) in the most countries of the region at their national companies, at the subsidiaries of the international companies and the local large companies.

4. The Western Balkan countries and the FDI

The Western Balkan countries received significantly less foreign working capital than the Central and Eastern European countries. Due to the political and economic instability of the countries in the Balkan they weren't attractive for the international investors. Up until the year 2000 only very low level of FDI inflow was realized. The only but substantial exception was Croatia to where from 1997 constantly large amount of foreign working capital arrived.

Between 1990 and 1996 the four Western Balkan countries (Serbia and Montenegro, Bosnia and Herzegovina, Albania and Macedonia) received only 900 million dollars of foreign working capital, which is only 2.7 percent of the total FDI inflow to the 27 transitional economies. However more than half of the amount received by the Western Balkan countries was targeted to Croatia. Table 2. contains data of the FDI inflow to the Western Balkan countries between 2000 and 2006.

Table 2 FDI inflow to the Western Balkan (million USD) (2000-2006)

Country\Year	2000	2001	2002	2003	2004	2005	2006	Total
Albania	143	204	135	178	322	265	300	1,547
Bosnia and Herzegovina	150	130	266	382	490	400	570	2,388
Croatia	1,085	1,407	591	2,025	899	2,000	1,200	9,207
Macedonia	175	441	78	96	156	97	200	1,243
Serbia and Montenegro	25	165	562	1,405	1,031	2,020	2,000	7,208

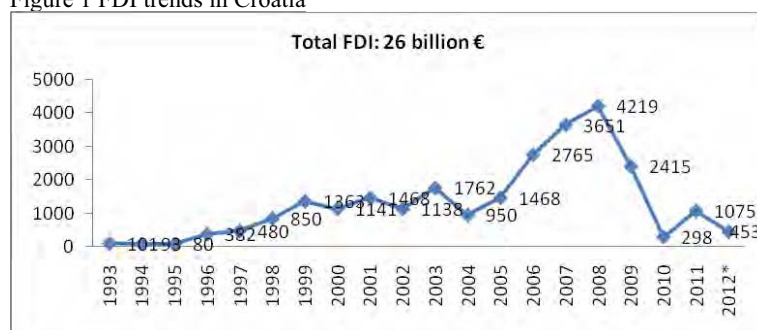
Source: EBRD, 2006

The increasing level of FDI is due to the effects of the globalization through the abolition of international trade barriers and the different investment incentive actions.

In these countries privatization focused on the service sector and so it wasn't typical in the production sector (Skuflic - Botrić, 2006). Despite the fact that the Western Balkan economies aren't ready for the new economic conditions required for the implementation of successful privatization processes, governmental steps are being taken to increase the low level of capital accumulation (Hunya, 2000). For this the transformation and the reformation of the outdated institutional system is required, which will in this way affect the taxation system, the trade policies, the corporate governance practices, the public administration etc.

The biggest investor for Croatia is Austria with close to 26% of the total FDI inflow. The second biggest investor is the Netherlands with 18% which is followed by Germany (11%) and Hungary (10%) between 1993 and 2010.

Figure 1 FDI trends in Croatia



Source: <http://www.hnb.hr/statistika/hstatistika.htm>

5. Foreign investments

Greenfield investments are still not recognized as an attractive FDI area in Croatia, particularly in the export oriented manufacturing sector. However, in that specific sector Croatia is the first in FDI stock comparing with all other SEE countries competing successfully with the new EU member states.

In comparison to the new members of the EU and the other Southeast European countries, Croatia has the fifth largest FDI stock and also the fifth largest FDI per capita (EUR 2,970). Over 60% of FDI in years 1993-2005 was in the form of equity investment, while 1999 huge privatization-related FDI inflow resulted in the equity investments representing almost 90% of total FDI. 10 foreign owned, legally independent subsidiaries participated in the questionnaire survey.

As the result of the trends in the number of employees and in the revenue reviewed above, the average productivity index has decreased from the level of 261 thousand Euros/person to the level of under 190 thousand Euros/person in the period examined which means a 30% decline.

The subsidiaries participating in the survey came to Croatia from 7 different countries. Three companies (34%) from Austria, 1-1 company from France, Germany, The Netherlands, Sweden and USA. If we take a look at the management culture of the companies, the highest proportions of companies in the sample analyzed belong to the so-called Germanic (67%) management culture.

The majority (40%) of the companies participating in the survey operates in the bank sector in Croatia while the second strongest sectors are the sectors of consumer goods and services with their 20%. Most of the (80%) of the respondents indicated that they were seeking growing and portfolio expansion during the period examined. Almost 40% of the companies surveyed were characterized by stability, efficiency improvements. Redundancies and rationalization were chosen by the same percentage (40%) while the number of staff of the companies participating in the survey decreased quite considerably.

The average number of employees served by one HR professional increased from 94 in 2008 to 98 in 2009 in the companies surveyed. The number and the composition of HR staff in the companies examined in the survey haven't changed with their 30 HR professionals and 10 HR admin (75-25%).

The HR staffs in the companies examined are very different. Two of the companies don't have any HR staff while we can state that in each company having a number of employees above 50 we can find at least one HR professional.

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

One of the results of human resource management actions is the age distribution of the labor 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 one fifth of the employees of the subsidiaries participating in the survey fell within this age group. The proportion of employees under 25 years of age was much lower (around 7%) and the body consisted of the employees between 25-45 years of age – with a percentage over 74%.

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. None of the companies examined spent more than 5% of their annual labour budget on training employees and the relative weight of the training budget was under 3% in the majority of the companies.

The average number of days lost annually due to absence was under 10 in approximately 90% of the respondent companies and only one company reported that this number was 11 which result is really close to the average. The mean value of the absences increased from 5 to 9 almost doubled from 2008 to 2009.

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

important: knowledge of foreign languages (50%); business knowledge (value chain, value creation) (30%) and change management, teamwork, HR services (20%).

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

With regard to the key issues of the next 12-24 months, the interviewed HR managers considered improving efficiency most important. More than half (60%) of the respondents thought that this business expectation is the most important tasks HR professionals have to face. In many of the companies this is accompanied by company development (30%). To improve the business focus of the HR professionals the respondents put emphasis on measures and business performance.

From the personal characteristics of the interviewed professionals we examined demographic characteristics and also their professional qualifications and the characteristics of their positions held. The gender distribution of the interviewees shows a female dominance (70-30%) which result responds to the fact that HR is a female dominated profession. 60% of the respondents are below 40 years while another 40% are between the age of 40 and 54. Almost all the interviewees participating in the survey have university, college or equivalent qualifications, but none of them has PhDs. Except one respondent all (90%) of the respondents has a qualification in social sciences. The majority of the interviewee are top hR managers with the title of HR Director, HR manager or HR Department Head. Only one person has worked in his/her position for more than 15 years. However, the majority have spent longer time, typically 3-10 years in their positions.

REFERENCES

Cavusgil, S.T.- Knight, G.-Riesenberger, J.R. (2008): International Business. Strategy, Management and the New Realities. Pearson-Prentice Hall, Uppers Sidle River (NJ).

CRANET (2011): International Executive Report 2005, CRANET Survey on Comparative Human Resource Management. CRANET-Cranfield University.

Farkas F.- Karoliny M.-né.-Poór J. (2009): Azemberierőforrásmenedzsmentmagyarésközép-keleteurópaisajátosságai a CRANET kutatásalapján. Vezetéstudomány, 2009. 7-8., pp.3-11.

Fodor P.-Kiss T.- Poór J. (2010): A válsághatása a HR-re és a tudásmenedzsmentre – négykelet-európaiországszervezeteinekempirikusvizsgálataalapján. Vezetéstudomány. 2010. 10. szám, pp. 2-18.

Karoliny M.-né.- Poór J. (2010): Emberierőforrásmenedzsment. Complex Kiadó, Budapest.

Karoliny M.-né.-Farkas F.-Poór J. (2011): Varying importance of HR and its outcomes in different management cultureswith CEE focus. (unpublished manuscript), PTE KTK, Pécs.

Karoliny Zs. – Farkas F. – Poór J. (2009): In Focus: Hungarian and Eastern European Characteristics of Human Resource Management - An International Comparative Survey. Journal for East European Management Studies, No. 1. pp. 9-47.

Lewis, P.C. (2005). How the East was won. New York: Palgrave Macmillan.

Poór J. (2009): Nemzetköziemberierőforrásmenedzsment. Complex Kiadó, Budapest.

Poór J. (Szerk.) (2010): Menedzsmenttanácsadásikézikönyv. AkadémiaKiadó, Budapest.

Poór J.-Németh G. (2010): HR tanácsadás. In: Poór J.: Menedzsmenttanácsadásikézikönyv. AkadémiaiKiadó, Budapest.

Poór, J.- Karoliny, Zs. - Farkas, F. (2007): *Human Resource Management in Hungary in Light of Eastern European and Global Comparison* EBS (Estonian Business School) Review (2), No 23. pp. 19-36.

Poór, J.,-Engle, A. - Gross, A. (2010): Human Resource Management Practices of Large Multinational Firms In Hungary 1988-2005. *ActaOeconomica*, 4, pp: 427–460.

Poór, J.-Farkas, F. (Eds.) (2001): Nemzetközimenedzsment. KJK, Budapest.

Svetlik, I. et al., (2010): Human Resource Management in the Countries of the former Yugoslavia. *Review of International Comparative Management*, 11, (December), pp. 807-833.

Ulrich, D. - Allen, J.-Brockbak, W.- Younger, J.- Nyman, M. (2009): HR Transformation. New York: McGraw Hill.