

HUMAN RESOURCE MANAGEMENT IN BULGARIA DURING THE TRANSITION TO MARKET ECONOMY

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Introduction

The scope of the report intends to cover the main critical aspects of the changes the Bulgarian organizations face in human resource management during the transition from centralized planned to market economy.

Companies in whole Eastern Europe and in part Bulgaria being under transition for seven years have been forced to understand, launch and execute the real rules of the global market. Most of the companies had to be transformed urgently as to meet two general requirements - the force of the international markets and competitors and the internal process of privatization. The individuals had to adapt themselves to a new, quite different reality, losing the economic and social security, ensured by the socialist state.

The transition to market economy in Bulgaria is taking place in the conditions of continuous economical, political and social crisis. Its sharpening in January - February 1997 brought the decision for introduction of a currency board as a tool for limiting and neutralizing the destructive tendencies in the economy of the country. In the last seven years Bulgaria suffered:¹

1. **Decrease in GDP** - In 1996 it is 10.9 % less than GDP of the previous year. The registered decrease is the greatest for all the years of transition and contributes considerably for the total decrease of 22.9 % since 1990. In respect to this index Bulgaria stays behind all other countries in transition and it is the only one among them that records decrease in GDP in 1996.
2. **High inflation rates** -The unstable acceleration and slowing down of the inflation rates through the period 1990-1996 reached the maximum of 700 % in 1997, at the beginning of which the country entered into inflationary spiral. Inflation in Bulgaria is higher than in the other countries in transition for the last two years. Despite the expectations, inflation remains high in the conditions of currency board. From the beginning of the year up to August the inflation rate is 578 % and it is 5.5 % for September.
3. **Increase of unemployment.** The intensive trends of decrease of the number of employed reached their highest values in 1993 and maintain values around 20%. The introduction of a currency board comes

¹ See 11

along with a new wave of unemployment. People are released from: organizations, financed by the budget, for which 10 % dismissal is planned, liquidated inefficient enterprises, for the speed closing of which the country has taken obligations before the international financial institutions. Workers are laid off because of the extremely dangerous working conditions in some branches of production. Other factors for increase of labor supply are reduction in unemployment insurance benefits, cut of insurance payments for graduates, tightening the control on the price of labor and on following the labor regulations.

4. Decrease of living standards and worsening of the quality of life of the Bulgarian citizen. As a whole the conditions for reproduction and realization of human resources have worsened during the transition period. The real income per capita has reduced 65.6 % for the period 1990 - 1996. According to information of the Institute for Social Research 21 % of the households were below the social minimum in 1992, compared to 85 % in the middle of 1997. In June 1997 the cost of life is 4.5 times higher than the minimum wage. Statistical data show that food expenses represent more than half of the individual expenses.

Human resource management in the organizations is being carried out in very complicated conditions:

- high dynamics of the macroenvironment in all of its dimensions;
- continuous changes in the organizations, as a result of: change of ownership, object of activity, markets, the conditions and regime of work;
- aggravated motivation climate as a consequence of: job cuts, forced outages, irregular payments, cuts in the social programs;
- changes in the managerial staff of the enterprises, often caused by political reasons and non-consideration of the education criteria, experience in the field and quality of implementation;
- increased number of conflicts in the staff and intensified distrust in the institutions;
- insufficiency and absence of management preparation for accepting and implementing the changes in the organizations, lack of flexibility, domination of bureaucratic and administrative approaches in company management.

Thus, human resource management in Bulgaria in the transitional period is being carried out in the conditions of strong negative influence of many internal and external to the organization factors.

In a search for adequate managerial approaches in the complicated conditions of the transition in Bulgaria, a representative survey of the state of human resource management in the organizations under

the methodology of Cranfield-Price Waterhouse was conducted in 1996². The main goal of this survey is, on the basis of comparison with the trends, approaches and methods, used in HRM in the developed European countries, to reveal the potential opportunities and prospectives for improvement of HRM in the Bulgarian organizations.

Main findings

1. The studying of the SUBJECT of HRM in the Bulgarian organizations shows, that in their managerial structure **the position of the HRM department/manager has not been appraised**. Although the organizations that have a HRM department/manager are prevalent (72% of the surveyed objects), in comparison with the other European organizations³, excluding Finland, the share of Bulgarian organizations where HRM subject is not in function is the biggest. **During the last three years the dynamics of these units are low**. The bigger part of them have not changed their number and staff qualification, although the surveyed themselves point out the big changes that have taken place in the organizations.

The analysis of HRM subject, its position in the company and its activity shows some positive facts as well:

- the relative share of the employed women in HRM departments in Bulgaria is greater than in most European countries - there is no evidence for sex discrimination employment;
- the high percentage of professionals operating in the field;
- comparatively a great number of Bulgarian organizations systematically evaluate the performance of the personnel department. HRM activities are an object of higher interest in the enterprises where they exist.

The main responsibility for the decisions on personnel management in 60% of the Bulgarian organizations lies on the chief executives, followed by the administrative directors- 22% and the production directors- 5%. The participation of the line managers in HRM follows the European trend towards increase its role. Almost every second of the surveyed organizations states, that the line managers are mainly responsible for taking the decisions for: pay and benefits- in 48% of the surveyed organizations, industrial relations- 42%, training and development of the staff -49%, workforce expansion/reduction- 38%, recruitment and selection- 33%, health and safety- 27%.

In Bulgaria the line managers carry much more responsibility for decision-making in the whole specter of problems, connected with human resource management, compared with the ones in the rest of the European countries. The increase of their responsibilities in the last years is also huge.

²Bulgaria joined Cranet-E in November 1996.

³See 28

The strengthening of the strategic aspects of the management, typical of whole Europe, is difficulty making its way in Bulgaria- only 25% from the contemporary organizations account to have written corporate strategies, and 22% non-written.

The low level of application of corporate missions and strategies in Bulgarian organizations management is a fact that can be explained by a range of circumstances. The unpredictable, sometimes illogical events in the context that substantially change the terms of production, exchange and investment are factors that do not contribute for the “strategic tuning“ of managerial teams. The lack of governmental strategy for transition towards market economy, for structural reform and of priorities for its fulfillment, as well as the sharp changes of the legal regulation of the business explain the disinclination for formulating missions and strategies. Under this conditions the elaborated strategies often become not applicable.

Another explanation for lack of strategic approaches and techniques in managerial practice is the slow changing managerial mentality. According Bistra Boeva’s ⁴research the main characteristics of the Bulgarian management pattern in conditions of transition are the following:

- prevailing of short run, operative management;
- not market but production oriented management;
- domination of centralized management at the expense of the decentralized;
- low popularity of team work;
- reject of planning in the first years of transition;
- nihilistic attitude towards knowledge as a source for management.

Other causes for the low level of strategic management and the limited participation of the experts in HRM in the development of strategies are lack of managerial self-confidence and sense for temporary participation in the managerial team. The interviews held with experts in HRM clarify to a great extent the causes of their lack of motivation for participation in formulation of strategies. The experts in HRM consider themselves the most risky group when there is personnel cut. Every moment they should be ready to change the job or to leave the organization.

Part of the firms, which do not have written corporate strategies, nevertheless, have HR strategies or politics for separate parts of it. Most popular of them are the politics for: pay and benefits, training and development of the staff, recruitment and selection of the staff and communications between the employees.

A positive tendency in management of Bulgarian enterprises is the relatively high popularity of written strategies for human resources. They are developed in our country as frequently as in the French firms and more often than in the enterprises in Eastern German provinces (21 %), Hungary (26 %), Western German provinces (25 %) and Italy (27 %).

Another positive tendency is the common development of organizational policies for separate aspects of the activities on: payment and benefits (75 %); training and development of personnel (58 %), recruitment and selection (56 %), employee communications (46%), equal opportunities (18 %), philosophy of people management (18 %/ and “high fliers (19 %).

A third positive tendency is that more than half of the Bulgarian organizations which have strategies in the area of HRM report that, they are translated into work programs, with fixed deadlines for completing the events.

The head of personnel/HRM function has a place in the main board of directors in only 32% of the objects- one of the lowest degrees of participation, compared to the other European countries. Much rarer than their European colleagues are the human resource managers in the Bulgarian organizations involved in developing the company strategies from the outset. They are involved most actively in the stage of their realization.

2. The bigger part of the decisions on STAFFING PRACTICES in the Bulgarian organizations in the last years are taken under the strong pressure of external negative factors. The managerial teams are very limited at the choice of options, and the space for searching effective solutions is insufficient.

The dynamics of employment in the period 1994- 1996 shows, that in the bigger part of the surveyed organizations the number of employees has decreased in 40% of the objects surveyed. The factors, reflecting most strongly the influence of the external environment for the reviewed period are undoubtedly the deep economy crisis and the unemployment that accompanies it. The facts prove that, in the biggest part of the surveyed organizations the decrease of the workforce is a result of natural wastage, recruitment freeze, compulsory redundancies and early retirement.

At the selection of the personal, the biggest application for all of the new employments are: application forms -- in 49% of he organizations, one-to-one interviews- 36%, and references - 17% of the objects surveyed. The aptitude tests, interview panels , psychometric and graphology tests are used significantly rarer. The Assessment Centers also have weak popularity. They are used in only 1.4% of the objects surveyed.

As a whole, flexible staffing in all its forms is significantly less popular in Bulgaria, than in the other European countries. According to the results from the survey, despite its high popularity and actuality for the transition and the undoubted advantages that it offers, it is slowly coming into practice. Some of the flexible working practicies applied across European countries are not implemented within Bulgarian organizations mainly because the luck of legal regulation. Some flexible forms are still a subject of informal arrangements. With regard to this there is the biggest gap to be closed between the Bulgaria

⁴See 4, pp 40-43

and European organizations. For the moment most popular in the country are: the fixed-term contracts, shift work and temporary/casual work.

The strong dynamics of the period of transition to market economy, the expected increase of the temp of the structure reforms and privatization in Bulgaria require activation of the education, qualification and training activities of the personnel. The survival of the organizations at a large extent depends on the qualities and adaptiveness of the workforce, as well as on the ability of the managerial teams to develop and apply flexible strategies for training and development of the employees. A big part of the surveyed state that the main and most hard to resolve problems they encounter daily, are caused by the gap between the contemporary requirements and the real performance of the employed.

3. The survey shows that, the prevailing majority of the surveyed managerial teams assess the significance of the activities on TRAINING AND DEVELOPMENT of the personnel. More than half of the surveyed organizations have policies for training and development (58%). The Bulgarian companies, despite their highly limited financial resources, are currently third biggest after France and Sweden, in the relative share of companies spending a proportion more than 4% of the annual salaries and wages bill for training and development.

The priorities in the education differ from those in the other European counties. The surveyed consider the degree of importance of the training and development area over the next three years as follows: computers and new technologies - 56%, marketing and sales 52%, quality management- 52%, management and supervision of the staff - 49%, customer service skills - 47%, strategy formulation - 42%, business administration- 34% and health and safety of the work environment - 30% (the figures show the percentage of the organizations, who pointed out the respective area as most important). **The skill for strategy formulation is poorly valued, thus there is low interest for it. In comparison with the other European countries, in Bulgaria the importance of management and supervision as a training area is undervalued as well.** In the past three years the biggest of all is the dynamics of computer training, which has increased by 40% and education through coaching - respectively - 24%.

Compared to all other European countries, the Bulgarian organizations are well behind in assessment of employee training needs. They are systematically analyzed in only 42% of the surveyed objects. In cases, when this is done, most commonly used are: management requests, training audits and employee requests to be trained. Rarer for these purposes is used analysis of projected business/service plans and performance appraisal.

Half of the surveyed objects declare, that they are monitoring the effectiveness of the training. Preferred methods for the purpose are: informal feedback form line managers, formal evaluation immediately after training and informal feedback from trainees.

In the field of training, education and qualification, application of the system approach is not observed. Its big potential is not explored up to present and this is one of the directions, where most effort must be put in order to reach a higher level of effectiveness of training.

4. Individualizing of PAYMENT as a tendency is observed in Bulgarian organizations as well. Bulgaria is in the group of countries, most often (in 65% of the surveyed organizations) applying schemes of individual merit performance pay. From all surveyed European countries, in mainly Bulgarian and Dutch organizations the share of variable pay has increased. For all categories staff the group bonuses are used most commonly as a form of differentiation the payment. The data shows, that the strategies for linking the results with the pay to a increasing range have most commonly been introduced in the period 1991-1993 and revised most actively in the period 1994-1995.

The systems for performance assessment, nevertheless are not yet widely applicable. By the frequency of their usage at the moment, they can be arranged as follows: for manual staff, professional/technical staff, clerical staff and managers. The unsatisfactory utilization of the systems for performance assessment gives reasons for doubt in the motivating effect of the individualized payment. The positive fact is, that relatively many Bulgarian organizations use their customers as a subject of assessment- in 28% of the cases, which is the highest value for all surveyed countries.

5. The results of the survey show, that in unison with the European trends, a big part of the Bulgarian organizations are currently developing strategies and policies for development of COMMUNICATIONS (in 46% of the objects surveyed they are written, in 24% -non-written, and in only 15% of them there are no such policies).

Practice shows, however, that qualitative and quantitative changes of the business communications do not satisfy the contemporary requirements.

In this manner, for instance, independently of the rapidly changing conditions of the internal and external environment, in the prevailing majority of the surveyed Bulgarian organizations during the past three years the methods used for communicating with the employees on major issues have not changed. The use of verbal methods has increased the most, followed by communication through written methods, team briefings and representative staff bodies. The contemporary technical base of communications is improving slowly- video recorders(the increase is in only 2% of the objects), computer and electronic systems (the increases is valid for 10% of the organizations). The use of joint management/employee consultative committees and work committees has increased two times less than in Finland, France, Holland, Belgium and Denmark. The scope of formally briefed of the managerial and administrative

teams on strategical and financial problems in the companies are one of the lowest in the surveyed European countries.

Conclusions

The results from the surveys give reasons to plot the main directions, in which effort has to be put with priority by the managerial teams in the Bulgarian organizations for speeding up the process of transition to a more modern type of human resource management.

On one side, the surveyed themselves put forth as the biggest challenges in HRM in the next three years (arranged by the frequency of their mentioning) ; personnel training and development, recruitment and selection and pay and benefits. On the other side, the areas, where Bulgarian managerial methods and practices fall behind those of the developed European countries show more precisely the e directions for their development and perfecting. Most urgently efforts are needed for:

1. Constituting of the subject of HRM and approval of its role and functions in the contemporary Bulgarian organizations;
2. Active participation of the human resource manger in the development of the organizational strategies;
3. Wide introduction of contemporary techniques and methods for recruitment and selection of the staff;
4. Broadening of the flexible staffing practices in all its forms;
5. Introduction of the system approach in education and qualification of the staff;
6. Endorsement of the practice of performance appraisal of all kinds of staff and introduction of modern methods for assessment.
7. Fast modernization of the methods and techniques for business communications.

The practical development of these directions will provide the building of effective systems for human resource management and will make their integration to the European structures easier.