

INTERNATIONAL CONFERENCE
“NEW TRENDS AND TENDENCIES IN HUMAN RESOURCE
MANAGEMENT – EAST MEETS WEST”

PLENARY REPORT
COMPARATIVE ANALYSIS OF HRM PRACTICES IN
THE POST COMMUNIST COUNTRIES

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Introduction

The interest in the ongoing changes in human resource management in the countries of the former socialist block or post communist countries (PCC) within the context of globalization is prompted mainly by the circumstance that these countries nourish labour force which has been increasingly and widely used in EU companies [1, p. 115]. The number of economic immigrants from PCC to the European Union has been steadily growing. In 2007 [2] the number of Bulgarians employed within EU was over 450 000 (14% of the total number of the employed in the country, which is 3 252 600). From almost total isolation the countries participate more and more actively in European economic and social processes. Furthermore, the increased and improved capacity of the “emerging markets” still remains attractive for potential foreign investors. For example, the year 2007 reported an impressive growth of retail trade: 18% in Romania, 14% in Lithuania and 10% in Bulgaria while in Europe the decrease was 2,9% [3]. The economic crisis rapidly changes the business environment but the interest in the potential is primarily grounded on future periods of growth.

The aim of the paper is to assess how HRM practices in post communist countries contribute to the globalization of the labour market by applying integral principles, methods and approaches in managing human resource in the organization. To achieve this aim the convergence and divergence issues in HRM of the group have to be studied and outlined. From a practical point of view this knowledge is essential since convergence facilitates mobility and vice versa – divergence implies increased costs to adapt to specific realities. It is also important to analyze the process of adaptation of the countries to the HR management environment in the European Union. An interesting issue is also the speed of changes in HRM and their typologization (evolutionary, revolutionary). Along with the steps adopted in view of the methodology, specific research on the influence of foreign investments on HRM changes has been undertaken. The following hypothesis has been tested: „Foreign investments and foreign companies on the territory of the country are drivers to changes in HRM bringing convergence of the practices of the investing country and those of the host country” (first hypothesis). Concurrently, the second hypothesis has been also verified: „The advancement of the HRM function, measured through the degree of applicability of separate practices, is directly dependent on the level of economic development in the country”. We will also consider the cases and countries where “national regulations and cultural idiosyncrasies

impede the entry of foreign HRM practices” (third hypothesis). Accordingly, the following issues are analyzed:

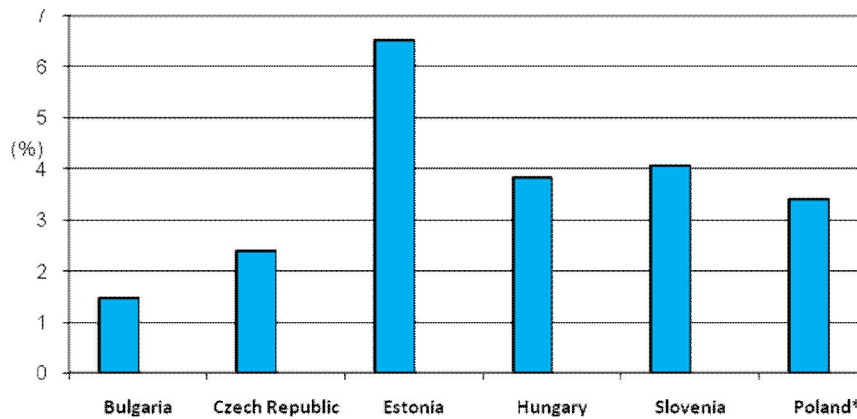
1. The state and development of economic systems as a basis for the convergence and divergence processes of HRM practices.
2. Comparative survey of HRM practices in six countries of the so-called New Europe: Bulgaria, Estonia, Slovenia, Czech Republic, Hungary and Poland.
3. The role of direct foreign investments as a factor for the convergence of HRM practices

The data source are three consecutive publications of Cranet – 1996, 1999 and 2003-2005 used to follow the dynamics of accession of countries with different start position and political history to the European labour and social community. The average figures for EU have been calculated on arithmetic mean basis for the fifteen EU member states. The figures for Germany aggregate the average values for the East and West German provinces.

External conditions for human resource management

What was typical for all countries during this period was the adjustment of their development to the rules and requirements of market economy and the European Union. The HR potential redirected its focus to adopting new principles of production, forms of management, communication models, acquirement of knowledge and so on. The results of the changes undertaken by the countries in transition can be tracked down in the level and dynamics of the major macroeconomic indicators.

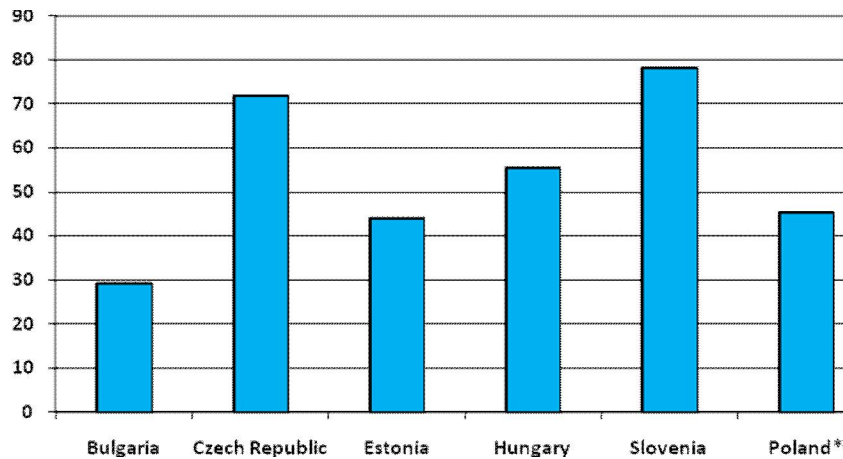
The growth of the Gross Domestic Product (GDP) as a basic measure of the overall economic performance reported definite progress. The highest growth rates were registered in Estonia, followed by Hungary and Slovenia. The lowest rates were reported in Bulgaria, which in 1996 and 1997 suffered a strong GDP drop (Fig.1).



**For Poland the data refer to the period 1998 – 2003*

Figure 1. Average GDP growth during the period 1995-2003 (epp.eurostat.ec.europa.eu)

Another alternative in assessing the reforms carried out during the analyzed period is the comparison with the average GDP per capita growth on a purchasing power parity basis for the EU 25 member states (Fig.2). This indicator highlights the performance of the Czech Republic and Slovenia while Bulgaria once again ranks last. Our country proved to be lagging behind all countries regarding transformations in social and economic development during this period.



** For Poland the data refer to the period 1996 – 2003*

Figure 2. Average growth of GDP per capita during the period 1995-2003 (epp.eurostat.ec.europa.eu)

In the period of transformations after the 90s, the national resource of all countries was quickly exhausted and foreign direct investments turned into a key factor for the economic development of the countries as a prerequisite for:

- Development of the potential specific for each country;
- Restructuring of existing businesses;
- Create new jobs;
- Increasing the output of products and services;
- Intensifying the exchange of successful management practices and experience;
- Capitalizing on international synergies.

In the analyzed period Poland, the Czech Republic and Hungary attracted the largest inflows of foreign investment, respectively 50.1, 36.5 and 31 billion US dollars. The other countries managed to attract quite less amounts of FDI: Bulgaria – 7.4 billion US dollars, Estonia – 3.6 billion US dollars and Slovenia – 3.5 billion US dollars. The total amount of investments is not the only criterion in assessing the investment activity in the respective countries. FDI per capita and their dynamics are indicative of the country’s capacity with respect to absorbing investments (Table 1).

Table 1. Foreign direct investment per capita for the period 1995-2003
(epp.eurostat.ec.europa.eu)

	FDI per capita									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average
Bulgaria	16,55	20,59	77,17	82,34	111,42	121,22	99,88	116,02	267,27	101,38
Czech Republic	247,98	138,47	126,23	360,99	614,60	485,15	549,49	831,11	205,95	395,55
Estonia	139,30	105,26	189,69	416,78	221,21	281,98	396,79	208,85	677,56	293,05
Hungary	494,09	320,01	404,54	324,41	323,01	270,41	385,88	294,21	210,74	336,37
Slovenia	75,70	87,14	168,19	108,57	53,88	68,37	185,92	820,65	167,01	192,83
Poland	94,73	116,44	127,02	164,64	188,02	241,71	149,37	108,02	120,07	145,56

The figures show that the FDI per capita accumulated for the period in Estonia, the Czech Republic and Hungary are of one and the same order (about 3 billion US dollars) and they suggest a much higher intensity of the investment process in Estonia. And from the point of view of the dynamics of the FDI per capita attracted for the period, Bulgaria marks considerable changes by reporting an increase of investments for the period by 16 times. In Estonia the increase is by 5 times, in Slovenia 2 times, and in Poland it is by 1.3 times. The

Czech Republic and Hungary, where the largest inflows were recorded, report a decline in comparison with the base year of 1995.

Figure 3 illustrates how differences in FDI inflows level down across the years for the separate countries.

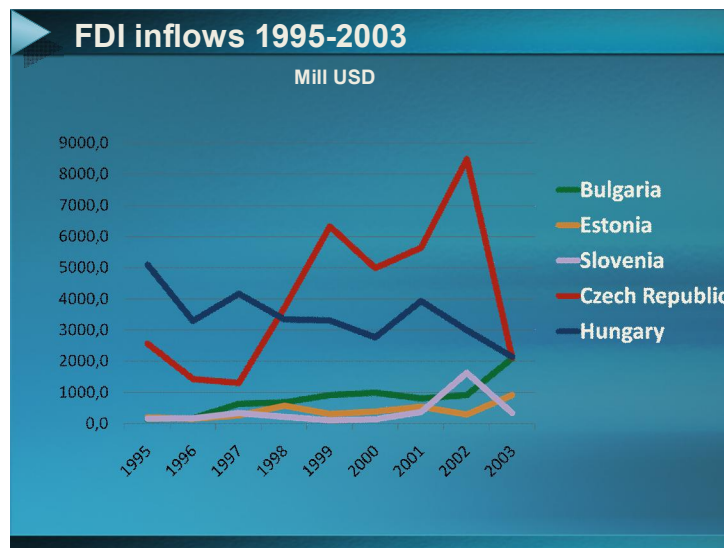


Figure 3. FDI inflows in the countries (epp.eurostat.ec.europa.eu)

The results from the investment inflows in the separate countries, measured by economic growth, are different. Directing investments to sectors is also different as is the level of their absorption. Regardless of the result, the need for an adequate, adaptive and quality human resource is beyond any doubt.

An important indicator of the result from undertaken reforms in the analyzed period is the achieved labour productivity measured as GDP per person employed. Comparison with the average rate reached by the member states of EU 25 shows that Slovenia, Hungary and the Czech Republic score highest while Bulgaria has about 1/3 of the average figure for the member states. Similar are the results in comparing hourly wages.

Meanwhile, the dynamics of this indicator reveals that after 1995 the average productivity rate has changed most dramatically in Estonia (60%) followed by Poland (28%), Hungary (20%), Slovenia (18%), Bulgaria (11%) and the Czech Republic (9%) (Fig. 5).

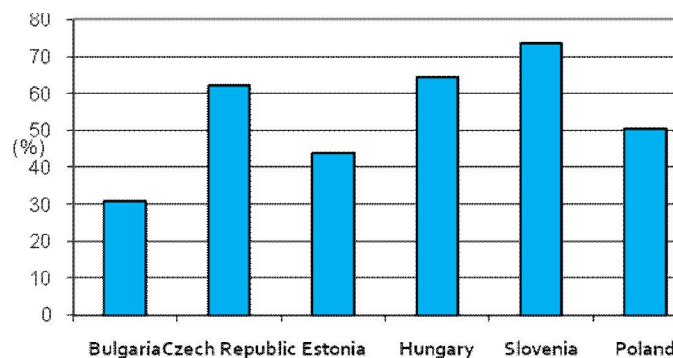


Figure 4. GDP per capita 1995-2003, EU25=100 (epp.eurostat.ec.europa.eu)

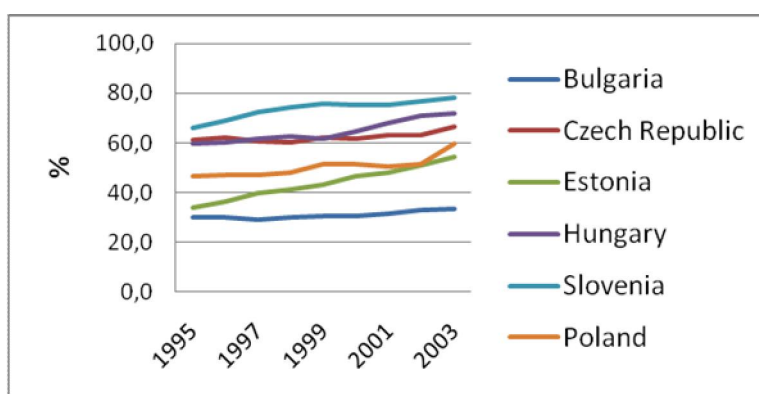
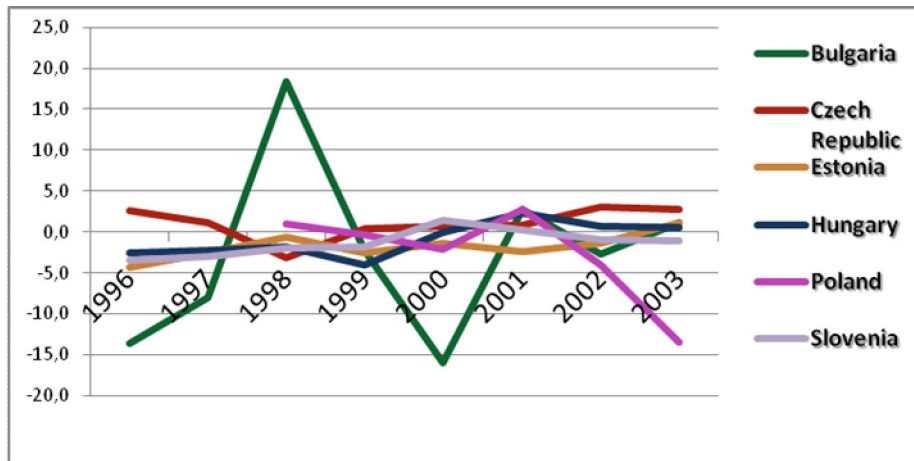


Figure 5. Labour productivity per person employed in the period 1995-2003, EU25=100

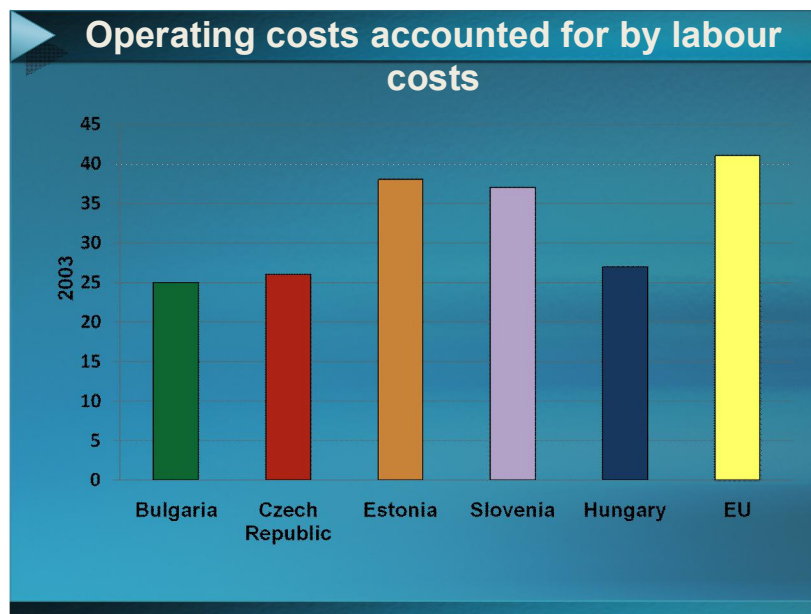
Moreover, the curve illustrating the change in the labour's share in income for Bulgaria has the steepest profile in comparison with all EU member states. It highlights the progressive decrease in the labour's share in income since 1995 on. Figure 5 clearly shows that labour productivity in Bulgaria is the lowest in comparison with the remaining countries in the group. Poland is the only other country whose curve of change in the labour's share in income has a similar, though less steeper profile. Besides, in Poland the compensation per employee in current prices marks a much slower increase in comparison with labour productivity. Another interesting correlation that can be seen on the graphs, related to the growth of compensation per employee in current prices and the amount of FDI inflows, is the opposite dynamics in the change of the two macroeconomic indicators (FDI and compensations). There is an obvious tendency for direct foreign investments to fall down when labour costs in a certain country rise and vice versa (Fig. 6).



* Growth rate of the ratio: compensation per employee in current prices divided by GDP (in current prices) per total employment

Figure 6. Growth of compensation per employee in current prices *

Labour costs in the group of countries can be compared with the results of the Cranet survey for 2003 demonstrating labour costs of surveyed companies as a share of their operating costs (Fig. 7). The graph illustrates how all the countries lag behind compared to the average figures for this indicator in EU companies.



Источник: Cranet survey on comparative human resource management international executive report 2005

Figure 7. Operating costs accounted for by labour costs in 2003.

(Cranet – international report)

HRM practices are directly influenced by the state of the national labour market, by employment and unemployment rates [5, p.26] (Fig. 8 and Fig. 9).

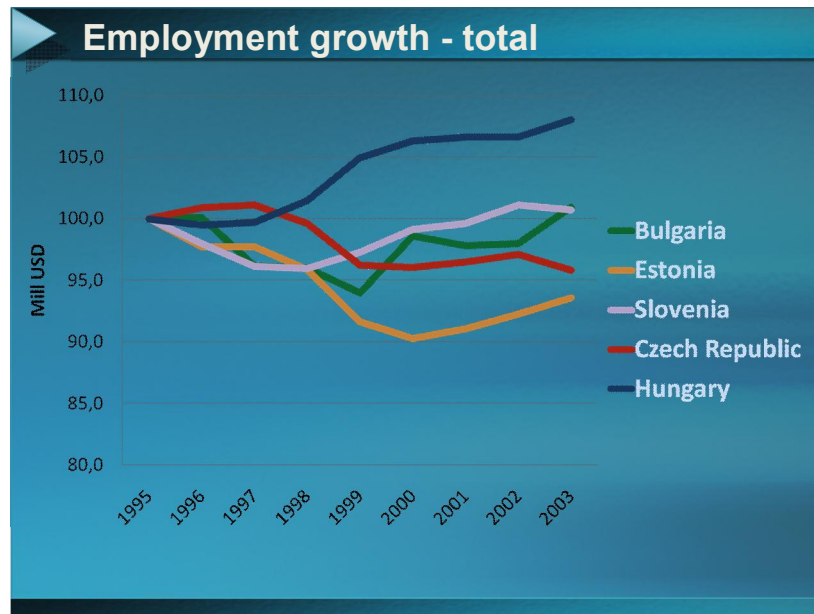


Figure 8. Employment growth (epp.eurostat.ec.europa.eu)

The huge differences in employment growth rates in the countries entailed substantial differences in HRM policies and approaches after 1995 (Fig. 9).

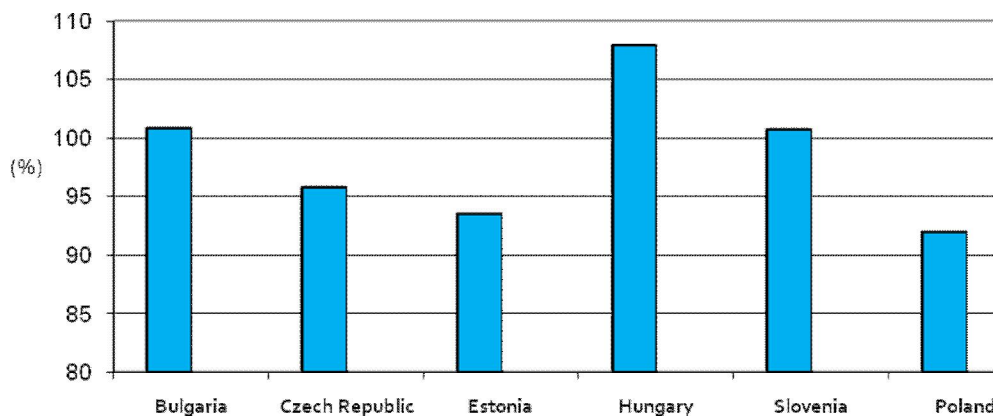


Figure 9. Employment rate changes in the period 1995-2003 (1995=100) (epp.eurostat.ec.europa.eu)

As is seen from the graph, employment rates are equal for Bulgaria and Slovenia, yet close to the base year. This means that the employment policy maintained in these countries in the period under survey has not led to any substantial results. A totally different situation can be seen in Estonia and Hungary where the average employment rate diverges in opposite

directions. The fact that these two countries have registered the highest GDP growth rates (as well as labour productivity changes) indicates that they support different policies with respect to employment, however both being efficient.

All countries in the period under survey advocate a well-targeted and efficient policy to harness the inflation burst from the beginning of the 90s in all countries in transition, including the countries under survey. Data show that they register descending tendencies, i.e. all the countries have undertaken efficient policies to harness and curb inflation, the lowest rates recorded in the Czech Republic (Fig. 10).

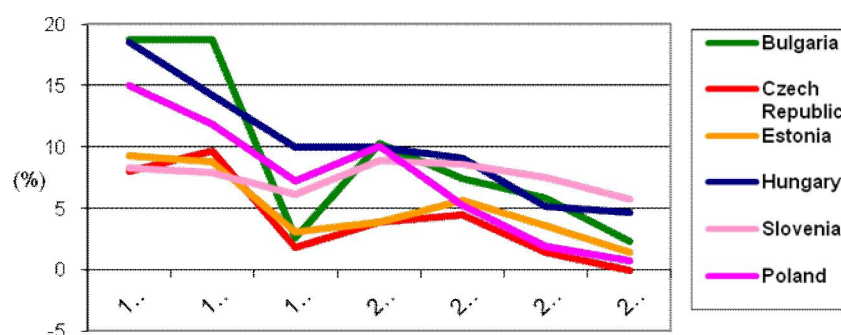


Figure 10. Dynamics of inflation in the period 1995-2003 (epp.eurostat.ec.europa.eu)

As a result of the reforms carried out across all economic sectors the analyzed countries managed to achieve stability in the period under survey.

The countries from this group share a long common history after World War II and have in many respects maintained successful economic cooperation within the framework of the Council for Mutual Economic Assistance (Comecon) as well as political and social cooperation. In spite of the break down of the Comecon community, common interests should be upheld and the experience gained through the years should be constructively used.

The transition to market economy has its specific features in each country: the Polish transition is often described as ‘shock’, the Hungarian – as ‘calm’, and the Bulgarian can be characterized in Schumpeter’s term as ‘destructive construction’.

Comparative analysis of human resource management in the group of countries

In the beginning of the period under survey, it can be noticed that only in the Czech Republic the HRM manager is viewed as a business partner, evidence even exceeds average values for relevant indicators in EU. In the remaining parties the HRM manager has rather an administrative role. With the years, however, indicator rates mark considerable improvement

in the third period under survey, and in Slovenia they even beat the average figures for EU. It is a fact that the HRM manager's status is still quite different in the separate countries and we cannot talk about convergence.

Modern HRM pursues strategic activity. How far this is true can be judged by the involvement of the HRM manager in the development of the business strategy. In the beginning of the period data inform that in Slovenia the strategic activity measured by this indicator exceeds far the average rates for EU. In the Czech Republic, Hungary and Poland it fluctuates around the average EU rates. Only in Bulgaria and Estonia the values deflect in negative direction. At the end of the period under survey convergence for this indicator can be observed between the Czech Republic, Slovenia and Hungary around values very close to the average EU rates. Bulgaria and Estonia again diverge from the general tendency. What is remarkable is that in Bulgaria the HRM manager's involvement in developing the business strategy is even much narrower than in 1996. For Estonia the tendency is for convergence with the values commonly shared by the group.

In general, it can be concluded that in all countries belonging to the group there is an increase in the number of organizations where written HRM strategies are being developed. At the end of the period under consideration, great divergence of values for this indicator is obvious. A question arises here to what extent the content and quality of HRM strategies could be compared across countries and companies. The answer to that question could throw light on the explanation of the divergence observed.

In conclusion, for the group of countries surveyed it can be summarized that there is a positive tendency towards bringing closer the HRM manager's status and reaching convergence with the patterns typical for EU countries.

Within the framework of the period in question there is a clear positive tendency in all countries from the group towards an increase in the number of corporations undertaking to elaborate a written business strategy. This change is particularly noticeable in Bulgaria and in the Czech Republic, by 180% and 59%, respectively. At the end of the period under survey, in spite of the positive changes in all countries from the group, it cannot be claimed that convergence has been achieved, not even with average EU values. In countries such as Slovenia, the Czech Republic and Hungary the different rates of management practices exceed far the values observed in EU member states. Meanwhile, the data on Bulgaria and Estonia fluctuate around the average rates for EU.

As far as the availability of a written mission statement is concerned, data prove convergence within the group of countries under consideration as well as with normal

practices in EU. Here we could emphasize the poor change in Bulgarian companies compared to the beginning of the period, and once again their practices underperforming with respect to average EU rates. Estonia has achieved much better rates measured up against those observed in EU member states.

The assessment of the strategic orientation in the group of countries in a period of adjustment to the realities in EU proves false the hypothesis of direct correlation between the economic status and the development of HRM practices. Obviously, in periods of active changes the rule has its exceptions.

Typical for modern corporations is the empowerment of line managers to make decisions regarding HRM policies. It is even suggested that human resource issues are so important and are really a key success factor that they cannot be left only to personnel experts.

The responsibility of line managers (independently or together with the HRM department) on issues related to remuneration and compensation or to staff cut down is far greater than the responsibility of the HRM department (independently or together with the line manager). In this area of HRM there is no convergence in the group of countries under survey. The correlation between the responsibilities of line managers and those supported together with the HRM department differ considerably from country to country. The large percentage of companies in the group of countries under survey where line managers bear the sole responsibility of making decisions on remuneration and compensation is quite remarkable. In EU this responsibility is mostly shared by line managers and HRM departments.

The responsibility on issues related to staff increase or cut down options in the group of post-communist countries is also shared by the line manager and the HRM department. The percentage of companies supporting similar practices in the separate countries is quite close and fluctuates around the average figures for EU. There is a general tendency in the group towards a decrease in the percentage of companies where this responsibility lies entirely within the line manager competences as well as increase in the percentage of shared responsibility. The trends in EU are similar. In this sense, it can be ascertained that there is convergence both within the group itself and with the practices of EU member states.

As far as decisions regarding staff recruitment and selection are concerned, there is close cooperation between line managers and the HRM departments, observing tendencies towards convergence of the practices in this area within the group as a whole and with EU practices. The HRM department alone has a minimum role in making decisions on these policies.

As regards the issues on staff training and development and industrial relations, the responsibility lies within the HRM department, however mainly shared with the line manager. In industrial relations the role of HRM departments is much more impressive, but the percentage ratios between the countries are quite different. In this sense, we cannot talk about convergence in the group. Within the framework of the period under consideration, post-communist countries have achieved quite close rates regarding the responsibility for staff training and development exceeding the average figures for EU. An exception from this tendency is reported by Bulgaria, which failed to make up for its low starting position, and Hungary, where shared responsibility registers descent, though the responsibility of the HRM department alone hits an impressive growth (exceeding twice even average EU values).

During the period under survey, the most widespread flexible work scheme (FWS) is the shift working option followed by fixed term labour contract and part-time working. Contracts based on annualized hours have limited application, the highest rates in post-communist countries fluctuating around, and even exceeding the average figures for EU. The lowest scores are reported in Estonia and Hungary, about 1/3 and 1/3 below the average rates for EU, respectively. Quite remarkable is the dramatic fall (about 4,5 times) of this type of flexible working scheme in Hungary in the period under survey.

As regards shift working, certain level of convergence was achieved in the group under survey around values above the average for EU member states. The tendency observed is towards wider use of this type of FWS both in the group and among member states. The greatest growth in this respect is reported by Bulgaria – an increase by 50% compared to the beginning of the period. Only Hungary deviates from the general tendency with a slight drop down for this indicator.

In employing part-time working schemes companies from the group under consideration have largely evened out their practices at the end of the period from 1996 to 2003, and what is more, around the average EU rates. Only Bulgaria has managed to reach only half the rate attained by member states.

Temporary hiring is an option enjoying varied popularity in the countries from the group under survey, rates being below the average figures for EU member states. Only in the Czech Republic and Estonia this type of FWS is almost as popular as in EU.

Fixed-term labour contracts are widely used and it can be ascertained that convergence has been reached in the group of post-communist countries. The rates around which convergence of practices has been reached are above the average for EU. It seems to remain

unchanged during the period under survey. The lack of change in the use of fixed-term contracts is typical for Hungary, while Bulgaria has registered decrease on this indicator.

Home working and teleworking, as not so popular forms of flexible working, have limited use, which varies in the analyzed countries. A positive trend is their increasingly wider use compared to the beginning of the period and the convergence to the average EU rates. Only Hungary deviates from the general tendency reporting decrease in home working in 2003 by almost 50% measured to 1996. In the Czech Republic there is a huge growth in teleworking – almost 7 times bigger. This brings the Czech practice very close to the practices supported in EU. Similar is the situation in Bulgaria and in the EU member states as well. In the period under survey their average rates have doubled.

As a whole, the performance appraisal process in companies from post-communist countries follows the European tendency of growth in using formal appraisal for all categories of staff. The highest rate was scored by the Czech Republic – 50%, where figures for 2003 beat the average for EU. In general, we cannot talk about convergence in the group under consideration as the speed of expanding the use of formal appraisal systems in companies varies within the period from 1996 to 2003.

The countries covered by the survey use all sources of information required for the performance appraisal process in line with the best practices in EU and worldwide. Line managers play the most significant role in staff appraisal, and higher level managers are the next whose assessment has priority. In certain rare cases appraisal systems include self-assessment and assessment by subordinates and by colleagues. Assessment on behalf of customers is used equally in the five countries and it is very close to the average in EU. Exception is made by Estonia where assessment by customers is used twice as much compared to the average figure for EU. Self-assessment is much less used than reported average rates in EU. In the Czech Republic and Hungary a huge growth in using self-assessment can be observed, thus the percentage of using this source of information exceeding the average for EU. In Bulgaria and EU the trend is towards reduction.

As regards the relevance of appraisal systems to remuneration assessment, convergence can be observed in the group of countries, however, around values above the average for EU. Bulgaria disagrees with the group since the speed of expanding the employment of appraisal systems in assessing remuneration is not enough to make up for its lower starting position.

Using employee stock options as a motivating factor is a relatively new practice for the countries in the group. Stock option schemes are among the most frequent incentives for

managers followed by specialists. In the period under concern, there are big amplitudes in using this type of incentive. A tendency towards convergence of practices can be observed around the average rates for EU. The member states also witnessed changes in the period 1996 – 2003 featuring an increase in using stock option schemes as an incentive for all staff categories. Most impressive were changes in Hungary reporting a dramatic fall to rates close to the average for EU. Visible were the changes in using this incentive for the management. In the period under survey the increase is almost double, and in 2003 figures considerably surpassed the average for EU. Data on Estonia are also quite interesting. At the end of the period it turned out that stock option schemes are an incentive intended exclusively for the management. The rate of using this incentive is close to the average in EU.

The situation with applying employee participation in profit distribution as an incentive is very similar. Data indicate that in the group of countries under survey in 1996 this was the most preferred method in Poland and the Czech Republic. But the year 2003 reported a fall for companies in the Czech Republic coming close to the average rates for EU. In Bulgaria and Hungary the trend reports wider application of participation in profit distribution as an incentive for all staff categories. This is also the tendency in EU. Most impressive are changes in Bulgaria where 1996 registered more than 50% increase in the practice applicability to all staff categories.

One of the major challenges for the countries in transition is the democratization of management, of business communication in the organization, respectively. The penetration of new technologies and their integration in business operations has an effect on the means of communication in the company as well. During the period under survey, all five countries feature a huge growth in employing electronic means of communication. In the Czech Republic and Estonia this growth even hit scores exceeding the average figures for EU. At the same time, there is a decline in the number of companies not employing electronic communications. This is particularly noticeable in Hungary where companies not using similar means of communication in 2003 are less than half the ones reported in 1996. EU member states also register trends of increasing use of electronic communications (an increase of almost 50% compared to the beginning of the period) and fall down in the number of businesses not using similar type of communications.

During the last three years the influence of trade unions has grown weaker in all the countries under survey. EU also reports a similar tendency. The reason probably lies in the fact that this form of uniting employees in order to protect their collective interests is not so popular in newly established private sector businesses while in big corporations of long-

lasting traditions trade union membership is widely practiced. Nevertheless, membership density among companies in the five countries ranks highest in the Czech Republic, Hungary and Bulgaria. Estonia reports the lowest trade union membership density where the popularity of trade unions hits bottom in the group of surveyed countries.

Table 2 presents the convergence-divergence model for the group of countries under survey.

Table 2. Convergence-divergence model of HRM practices in the ex socialist block countries

Area of study	Practices in the countries		Exceptions	Applying EU practices (average for EU)	
	Convergence	Divergence		Convergence	Divergence
1	2	3	4	5	6
Functions of the HRM department					
HRM manager on Board of Directors		X			
HRM manager involved in developing business strategy right from the start	X		Bulgaria, Estonia	X	
Written HRM strategy in place		X			
Strategic function					
Written corporate strategy in place		X			
Written mission statement in place	X		Bulgaria, Slovenia	X	
Line manager's role					
Main responsibility for staff recruitment and selection – Line manager + HRM	X			X	
Main responsibility for staff training and development – HRM + Line manager	X		Bulgaria, Hungary	X	
Main responsibility for remuneration and compensation – Line manager	X		Hungary, Czech Republic	X	
Main responsibility for industrial relations		X			
Main responsibility for workforce increase/cut down – Line manager + HRM department	X			X	
Staff patterns					
Flexible work schemes					
Shift working	X		Hungary	X	
Annualized hours		X			
Part-time working	X		Bulgaria	X	
Temporary working		X			
Term-time working	X		Bulgaria, Hungary	X	
Home working		X			

Teleworking		X			
Performance appraisal					
Formal appraisal system in place		X			
Line manager responsible for performance appraisal		X			
Performance appraisal used in assessing remuneration	X		Bulgaria, Slovenia		X
Remuneration and compensation				X	
Assessed primarily on individual level	X				
Employee stock options for all staff levels	X		Hungary	X	
Employee participation in profit distribution		X			
Communications and industrial relations				X	
More democratic models	X				
Reduced influence of trade unions	X			X	

From the point of view of globalization (mobility, international cooperation, etc.), convergence in the following areas is of particular importance for the integration of the countries within European HRM: strengthening the strategic role of the function, improving the applicability of flexible work schemes, expanding the scope of performance appraisal and democratization of business communications. Positive tendencies are also observed in increasing the shared responsibility of HRM departments and Line managers. Common tendencies become obvious regarding employee stock option schemes.

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