

**ACTUAL TASKS OF HRM IN EU MEMBERSHIP  
CANDIDATE COUNTRIES**

*(The Example of Bulgaria, the Czech Republic, Estonia and Cyprus)*

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**Introduction**

The opening of the national markets of the EU member countries and the expansion of their accessibility were determined as main objectives of the EU at the Stockholm Congress in 2001. According to the new strategy the European markets should become open and accessible for everyone no later than 2005. Following this strategic direction for development the EU candidate countries gradually increase their participation on the commodity and financial markets as well as on the labour markets.

This paper studies the status and development of the **strategic human resources management as an important instrument for the formation of the labour market parameters**. The countries analysed are Bulgaria, the Czech Republic, Estonia and Cyprus – (the two countries from the "second wave", also called the "Helsinki Group" of candidates). They were part of 2 successive Cranfield Project surveys in 1995-1996 and in 1999. The selection of the survey subjects makes it possible to follow the dynamics of adjustment to the common European labour and social space of states with different starting positions and political history. An analysis is made of measurable indices of the HRM practice in the organisation that form a specially structured "system of adaptation indicators". It consists of representative measurers for each of the HRM fields examined with the common European Price Waterhouse – Cranfield methodology. This methodology allows us to trace the alteration of their values in the time. Due to the rich database it is also possible to compare the indices of the EU organisations with those of the candidate countries. The rapidity with which the HRM practice of the four countries reaches the convergent HRM fields in the developed EU countries or recedes from them is examined. Common problem fields are outlined and priority measures for restricting their scope are specified.

### **Various starting positions**

The economic and political conditions in which the four countries have been developing during the last decade are obviously different. Bulgaria, the Czech Republic and Estonia are countries in the process of transition from a centralised planned economy to market economy. They were members of the Council for Mutual Economic Assistance (CMEA) until its close-down. Politically and economically these countries were strongly dependent on the former Soviet Union. The overcoming of this dependence during the current decade is accompanied by reinforcement of the collaboration with the developed European countries. During the same decade Cyprus made developed steadily on its way to market economy by strengthening its economic co-operation with the 15 most prosperous European states. The comparison of the most important economic indices between the three ex-socialist states clearly shows the leading position of the Czech Republic. It is the country with highest Gross Domestic Product (see Table 1). For the 1990 – 1998 period the average monthly wage increased more than twice, reaching 362.8 USD, while in Estonia it was 293.1 USD, and in Bulgaria only 118.2 USD (See Table 2). The amount of foreign direct investment in the Czech Republic is the largest and amounts to 2540 million USD in 1998, while in Estonia it was 565 million USD, and in Bulgaria – 270 million (See Table 3). The flow of foreign investment to the countries developing their market economy needs special attention because it creates prerequisites for:

- developing country specific capabilities;
- restructuring existing companies;
- creating new working places;
- increasing the volume of the production and services;
- intensifying the exchange of successful managerial experience;
- capitalising on cross-country synergies.

**Table 1 Key Economic Statistics**

Country	Population 1999 (m)	Nominal GDP 1999 (US\$bn)	Average GDP % change 1995-1999	Nominal GDP per capita	GDP PPP 1999 (US\$)	GDP per capita PPP 1999, (US\$)
Bulgaria	8.2	12.0	- 1.6	1463.4	42.8	5218.0
Czech Republic	10.3	53.5	1.4	5194.2	137.8	13374.0
Estonia	1.5	5.3	5.1	3533.3	8.2	5455.8

Source: Kozminski, A., Yip, G. (ed) (2000) Strategies for Central and Eastern Europe, p.2

**Table 2 Average Monthly Wage (USD)**

Year Country	1990	91	92	93	94	95	96	97	98	99	2000
Bulgaria	157.5	55.0	87.7	117.9	91.4	113.1	75.5	82.1	118.2	ni	ni
Czech Republic	182.6	128.5	164.3	199.6	239.5	307.8	356.4	333.4	362.8	ni	ni
Estonia	n.i	n.i	n.i	n.i	130.7	186.2	234.3	256.9	293.1	ni	ni

Source: Kozminski, A., Yip, G. (ed) (2000) Strategies for Central and Eastern Europe, p.19

**Table 3 Foreign Direct Investment flow (US \$ millions)**

Year Country	1990	91	92	93	94	95	96	97	98	99	2000
Bulgaria	n.i.	56	42	40	105	82	100	497	270	n.i	n.i
Czech Republic	n.i	n.i	100	600	700	2500	1400	1300	2540	n.i	n.i
Estonia	n.i	n.i	n.i	157	215	199	111	130	565	n.i	n.i

Source: Kozminski, A., Yip, G. (ed) (2000) Strategies for Central and Eastern Europe, p. 14

**Table 4 Unemployment rates**

Year	1990	91	92	93	94	95	96	97	98	99	2000
Country											
Bulgaria	1.7	11.1	15.3	16.4	12.8	11.1	12.5	13.7	12.2	16.0	17.9
Czech Republic	0.8	4.1	2.6	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.8
Estonia	n.i	n.i	n.i	n.i	4.4	4.1	4.4	4.0	3.7	5.1	5.9

Source: www.bcemag.com

As a whole the level of the main macroeconomic indices, as well as their dynamics in the three countries, differs considerably which presupposes different impact of the macro-factors on the human resources management. From this point of view a common problem for all the countries is the constantly increasing unemployment in the last ten years. The differences in the levels of this important index can be seen in Table 4.

From a macroeconomic point of view Cyprus is in a considerably more favourable position than Bulgaria, the Czech Republic and Estonia. The Gross domestic product per capita in Cyprus for 2000 amounts to 13000 USD (11), and in this respect Cyprus is even ahead of some of the EU member states. The average annual rate of growth in the past five years was about 3,8. The functioning of the Stock Exchange has a positive impact on the economic activity. During the last five years the unemployment rate has been about 3.1- 3.4% and as a result the country needs external labour force. The inflation stood at 2,9% over this period.

#### **The European labour markets and establishment of conditions for participation of the EU candidate countries in them**

Research shows that the main indices illustrating the EU labour markets are more unfavourable than those in the USA and Japan and significantly better than those in the new European democracies. Though varying in the different countries, they can be characterised with:

1. unemployment managed by a system of active measures;
2. high level of the average hourly remuneration;
3. increasing mobility of the labour power;
4. increasing range and forms of flexible staffing;
5. quick reduction of the employment in the primary and secondary sector and increase in tertiary sector;
6. high level of social security;
7. constantly improving conditions for the integration of people with reduced working capability;
8. reduction of sex and ethnic discrimination.

At the same time, despite the more and more active regulatory influence, there still are some negative phenomena on the labour markets:

1. worsened demographic parameters and increased «work-load» of the employed;
2. high unemployment among young people;
3. residual sex and age discrimination in hiring, promotion and payment;
4. increased shortage of labour force in the fields: high technologies, construction, medical services and tourism.

One of the results of the globalisation process, as well as of the abovementioned problems, is the increasing mobility of the labour force. Although it is increasing, the mobility within the EU is lower compared to that between the different states in the US, and that from the EU to the USA. The overall annual migration in the EU is about 0,75% of the population. After the start of the democratic changes in Central and Eastern Europe the labour force flows from these countries to the EU increased but so did certain categories of professionals to the new democracies. Similar to the migration processes from the EU to the USA, it is mostly young people and highly qualified professionals who move to the developed European states. The influx of specialists from the EU to the Central and Eastern European countries mainly consists of high- and average rank managers. A weak tendency for their long-term settlement after termination of their contracts is noticeable in all countries.

Undoubtedly the process of accession of new states to the European labour markets will be long and difficult. There are a number of external barriers which the European markets place in front of the free movement of people. They can be summarised in the following groups:

1. Social, cultural and linguistic;
2. Economic;
3. Recognition of education and qualification;
4. Accessibility and transparency of the economic and social information.

The so-called «strategic drivers» of the European labour markets assist the overcoming of these barriers. Some of them are: the globalisation, the integration of the European commodity and financial markets, the development of technologies and services, the social and demographic changes.

**Strategic human resources management as a key instrument for the formation of labour market parameters**

The first theoretic frame of the study is the perception of the labour market as an «economic space», «a combination of legislative norms, principles, rules, requirements, procedures, institutions and organisations providing the preferred labour power, as well as the desired paid occupation» (3, p. 34).

The second theoretic frame is the perception of the contextual approach to human resources management which unlike the universal one examines the nature of human resources management and strategic human resources management more broadly. It includes national institutional and cultural elements – professional trade unions, national legislation and labour markets not only as external factors, but also as intricate for this management, applicable on all levels – international, regional, national, local and organisational. According to the Chris Bruster's model (13, p.6) human resources strategies are an inseparable component of the business strategy, not one externally attached to it. Between them there is mutual interaction. The business strategy, the human resources strategies and practices are part of the external environment as an element of the national culture, power system, legislation, education, market, etc. The organisation and its human resources on their part interact with this environment and are part of it.

The practical frame of the study is the identification (though not in a definitive way) of a group of micro-level symptoms which at this stage would serve as reference points for determining the «distance» between the organisations in the candidate countries and those in the EU member countries in the field of human resources management. They are taken from the approaches, methods, functions, activities and structures established in the HRM practice in the developed European countries. The stable tendencies observed in the developed countries in the last five years are taken into account when developing the adaptation indicators in the two successive European comparative surveys. This system of indicators can be utilised to determine the rate of development of the strategic HRM. It consists of representative indices for each of the studied fields of HRM as per the common European Price Waterhouse – Cranfield methodology. This methodology allows us to trace the alteration of their values in the time. Due to the rich database it is also possible to compare the indices of the EU organisations and of other candidate countries. The «velocity» with which the candidate countries HRM practice approaches the convergent fields of HRM in the developed European countries or recedes from them is examined.

**The system consists of the following main groups of adaptation indicators:**

**First group:** Particularity, functional and structural rationality of the HRM subject/unit in the organisation.

**Second group:** Participation of the HR managers in the elaboration of organisational strategies and the realisation of their sustainability in the personnel strategies and policies.

**Third group:** Availability of organisational strategy and the HR strategy resulting from it specified in policies and programs.

**Forth group:** Formation of the staff through utilisation of classical as well as modern, established and scientifically justified methods for personnel recruitment and selection.

**Fifth group:** Functioning of the system for performance appraisal.

**Sixth group:** Application of a systematic approach to staff training and development.

**Seventh group:** Democratisation of the organisational communications.

**Eighth group:** Validation and level of development of the remuneration system for the personnel employed in the organisation.

**Ninth group:** Utilisation of flexible staffing as a means for granting the organisational adaptability.

**Tenth group:** Inadmissibility of sex, age or ethnic discrimination and establishment of conditions for social and labour integration of people with reduced working capability.

The proposed system for evaluation of the adaptivity has its disadvantages. It should be subject to a critical analysis both from a theoretic and a practical point of view. At this stage one of the restricting conditions of its structure is the utilisation of a common measurement system and a common database for the European countries.

The dynamics of part of the main indices in the four examined countries can be traced in the attached illustrative material (comparison of the values of the different indices). The dynamics of the average values of the same indices in organisations<sup>1</sup> from the 15 countries<sup>2</sup> in which the last two stages of the study were carried out<sup>3</sup>

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<sup>1</sup> In 1996 their number was 4828, and in 1999 - 4115

<sup>2</sup> Belgium, Great Britain, Germany (Eastern provinces), Germany (Western provinces), Greece, Denmark, Ireland, Spain, Italy, Norway, Finland, France, Holland, Sweden and Switzerland.

<sup>3</sup> In the calculation of the averaged indexes are not included Austria, Estonia, Poland, Portugal, Northern Ireland, Hungary, Czech Republic, Cyprus and Turkey, which are used in the comparative analyses. Austria, Portugal and Northern Ireland have participated in one of the last two stages.

allows the identification of the convergent and divergent fields between the organisations from the two groups of countries. The summarised results from the comparison between the HRM practices in the EU member states and the Central and Eastern European countries<sup>4</sup>, based on the 1996 survey can be used in the analysis (Fig. 1). The most important problematic fields in these countries appear to be the following: weak strategic orientation, insufficient development of the flexible staffing, lack of working systems for evaluation of the company training needs and its effectiveness, old models of internal company communications.

The data from the new survey do not confirm all the expectations for improvement of the activities of the organisations in this direction. Some retrograde tendencies are observed too.

#### **Is there a HR department to rely on?**

The first group of indicators «Particularity, functional and structural rationality of the HRM department/manager» to a great extent predetermines the level of the overall management of this activity and the prerequisites for the gradual replacement of the administrative functions by the strategic HR management. This circumstance is highly evaluated in the developed European countries which support and develop the HRM departments. For the two studied periods the relative share of the EU organisations which have an HRM department or position remains constant (Fig. 2). In accordance with this tendency are the Czech organisations which in 1999 in 99% of the examined cases have particular HRM subjects, followed with a slight difference by the Estonian ones. The situation in Bulgaria and Cyprus is different. In 1996 the survey results show that the Bulgarian and Cypriot organisations fall behind regarding the establishment of HRM subjects compared to the EU member countries. Unlike the Czech organisations the two abovementioned countries increase the relative share of enterprises in which such departments do not function, developing a divergent tendency. That could be explained with the reduction of the number of people employed in the organisations which in Bulgaria, for example, is a result mainly of the restructuring of the economy and the ongoing privatisation.

The second group of indicators «Participation of the HR managers in the elaboration of organisational strategies and the realisation of their succession in the personnel strategies and policies» concerns the nature of modern HRM – the execution of strategic functions within the organisation. It becomes more and more topical in the light of the accelerating structural changes in the transitional economies, in which the survival of the organisations is in direct relation to the successful adaptation of the personnel to the new

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<sup>4</sup> Bulgaria, Poland, Czech republic and Hungary



requirements of the market relations. The representation of the senior HR manager in the Board of Directors or in the equivalent management bodies has decreased by 10 points only in Bulgaria (Fig. 3). The Czech Republic turned the good positions into more stable ones, Cyprus also made a positive change, while at the same time in the EU this index remained at the same level (in 57% of the organisations the HRM function is represented at the highest level.). For comparison during the same period in British companies this representation remained unchanged, but as a tendency observed since 1992 the direction towards an increase.

The participation of the HRM department in the strategic management in the developed countries remains stable – in half of the organisations it starts from the very beginning of the development of strategies, in one quarter of them – on the consultations stage, and 11% of the HRM departments are engaged only with the realisation of these strategies. Only Bulgaria, being behind from the general tendency, makes some positive progress in this aspect.

### **Improved strategic orientation**

The third group of indicators «Availability of organisational strategy and the HR strategy resulting from it specified in policies and programs » characterises the whole strategic orientation of the companies and the integration of HRM strategies in it, examined by three indices.

The study of the strategic management in the organisations from the candidate countries in 1996<sup>5</sup> shows lack of progress compared to its situation in the developed European countries (Fig. 5). According to the results of the new (1999) survey the popularity of the written corporative strategies in all candidate countries augments. Evident is the tendency for overcoming the divergence. The dynamics is considerable, as the Czech Republic and Estonia are already in the zone of values of the member countries for this index. The popularity of the HRM strategies in the Czech Republic is the highest (Fig. 4) and for the two examined periods it is the highest in Cyprus. Bulgaria has made a step back from the good positions in the past. As a whole it could be affirmed that there is a positive tendency towards improvement of the strategic orientation in the company management.

#### **Training and development – the pivotal activity**

The sixth group of indicators « Application of a system approach for personnel training and development» has a critical

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<sup>5</sup> All data, cited in the article is from the verified in 1996 and 1999 surveys of the HRM situation in 22 countries in the world, held on the single methodology of Price WaterHouse – Cranfield and the survey realized annually in the framework of the international net «Cranet-E».

importance for the acceleration of the integration processes in the field of labour. The accumulated deformations in the training structure of the labour market in the countries in transition and the deepening disparity between the supplied and demanded qualification define the priority of this group as highest.

During the last 10 years the opinion that personnel training and development is a major competitive advantage of the modern organisations is becoming more and more popular. Undoubted is the tendency to increasing the investments in training, to a dynamic development of new forms and methods for qualification and pre-qualification of personnel, to improvement of the organisation of these processes. The importance of the effective company training and personnel development is highly evaluated in all studied countries. It is expressed in an unprecedented synchronised augmentation of the popularity of the systematic training needs analysis as well as of the measurement of the effect from it in the four compared countries. The reasons for this typically convergent tendency could be different – the increase of investments in training, the advanced requirements to the personnel in the conditions of more active international collaboration demanded by the management bodies of the multinational companies, the sudden shortening of the lifecycle of the modern professions and many others. In all cases the companies should be encouraged to support and develop this necessary practice.

#### **Modernisation of communications – another critical point**

One of the biggest challenges in front of the countries in transition is the democratisation of the management, respectively of the business communications in the organisations. The overwhelming of the authoritarian management style inherited from the centralised plan management is a difficult and time-consuming process.

The 1996 survey shows that the popularity of the organisational communication policies in Bulgaria, the Czech Republic and Cyprus is similar to that of the organisations in the member countries (See Fig.8). The written policies are dominant as in this respect only the Czech Republic makes an exception with a bigger number of organisations, declaring their willingness for the elaboration of non-written policies. The augmentation of the diversity and range of the approaches for organisational communications is a common tendency. Examined in dynamics, however, the processes for change of the communicational models appear to be slow and not convincing enough. The facts show that:

- In the developed European countries every second organisation during both survey periods has increased the range of oral direct communications between managers and staff – in the

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four countries the change direction is the same, excluding Cyprus, but twice less organisations are involved in this type of change;

➤ The same tendency is valid for the change in the utilisation of representative bodies, computers and electronic mail systems;

➤ Contrary to the prevailing European tendency, in the four countries an augmentation of the popularity of the direct written communications is noticed except for Bulgaria;

➤ The use of team briefings is also in conformity with the tendency of the EU member countries as their popularity grows the fastest in Estonia, while only Bulgaria marks a reduction in their utilisation;

➤ The picture describing the change in the information flows from the staff to the management is different – here the positive dynamics is more clearly expressed. Bulgaria is an exception –we can definitely conclude that it has made a step back from the attained positions in attracting personnel to the management by listening to their opinion and recommendations. In this respect Cyprus takes the leading position compared to the other three countries.

### **Conclusions and recommendations**

The countries applying for membership in the EU make great efforts for changes in the field of human resources management. The transformation processes are complicated and contradictory, strongly influenced by the economic development of the countries. To facilitate their adaptation to the implemented progressive practices in the developed countries they should stress on the following activities:

1. Joint HRM projects.
2. Joint training programs.
3. Exchange of practical experience.
4. Reinforcement of the collaboration in the field of labour market development.

**Fig 1 Main convergence and divergence trends in the European human resource management**

Field of study	European convergence	European divergence	Common practice in CEE countries
1	2	3	4
<b>PERSONNEL FUNCTION</b> HRM department/manager	x		
Decreased number of staff in personnel functions	x		x
Higher proportion of women in human resource function		x	x
Decreased number of professional staff	x		x
Place of HR Manager on the board		x	x
Systematically evaluated performance	x		
Use of external consultants		x	x
Increased role of line management	x		x
Involvement of the HR Manager in corporate strategies	x		
<b>STRATEGIC ORIENTATION</b> <b>Corporate strategies and missions elaborated</b>		x	x
HR strategies elaborated		x	x
Strategies, translated into work programs	x		
<b>STAFFING PRACTICES</b> Using external staffing consultants		x	x
Popularity of one to one interview	x		
Flexible staffing		x	x
<b>TRAINING</b> Training needs analysis		x	x
Effectiveness of training evaluated		x	x
Using internal training staff	x		x
Increased on the job training	x		x
<b>COMPENSATIONS</b> Increased share of variable pay	x		x
<b>COMMUNICATIONS</b> More democratic models		x	x

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Fig.2. Percentage of organizations having a personnel or HRM department/ manager

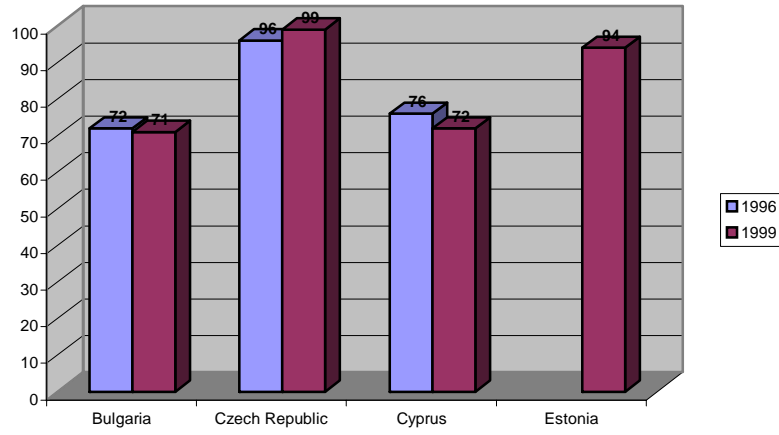


Fig.3. Percentage of organizations where the head of personnel /HR function has a place on the main Board

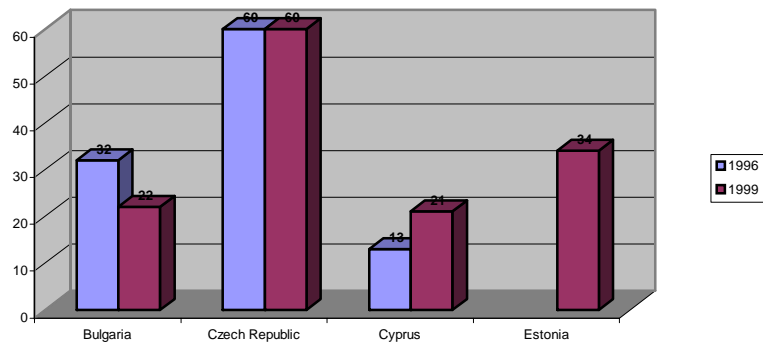


Fig.4. Percentage of organizations with Human resource management strategy

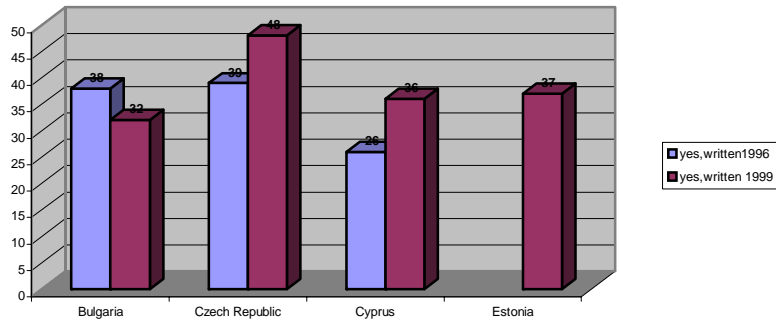


Fig.5. Percentage of organization with a Corporate strategy

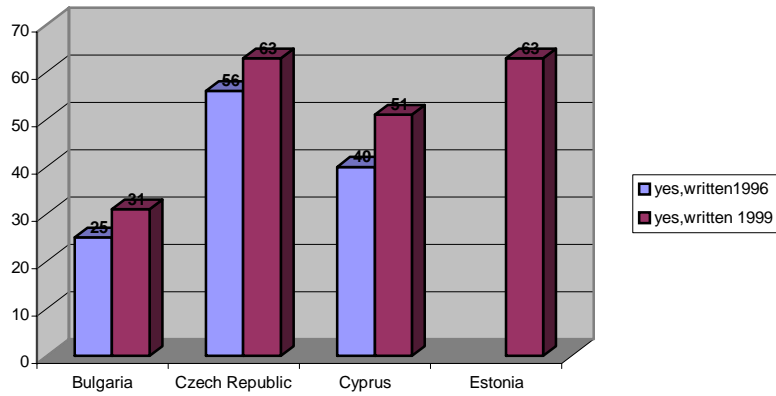


Fig.6. Percentage of organizations systematically analysing employee training needs

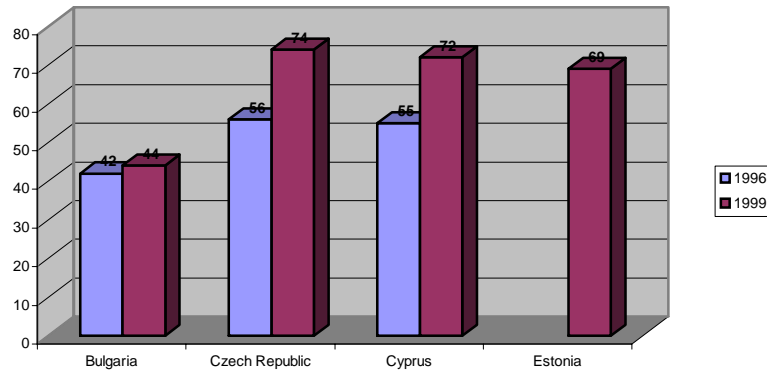


Fig.7. Percentage of organizations monitoring the effectiveness of their training

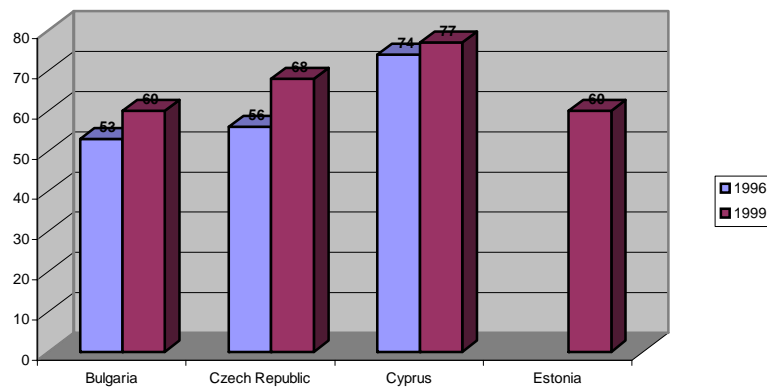
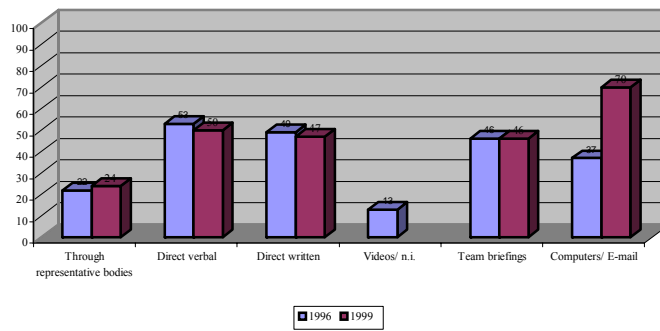


Fig. 8 Relative share of organisations in EU+, in which the following ways of communication with the staff on important problems has increased (%)



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