

# **HUMAN RESOURCE MANAGEMENT IN CENTRAL EUROPE: LABOR MARKET SITUATION IN SLOVAKIA AND HUNGARY**

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## **Abstract**

Considering demography and utilization of human resources potential there are enormous differences on international level. The most serious problems in the EU have demographic character, where the root of the problem can be found in support of families. Human resources require more attention as they are one of the four basic pillars of entrepreneurship beside material, financial and information sources. The importance of mentioned sources can vary. Nowadays human resources are gaining more attention, as it is directly related to demographic conditions. Successful organization is characterized by employees, who are treated as an asset of the organisation. It is not enough to provide financial reward for employees, it is necessary to give them space for self-realization in private life as well as help them to utilize their work potential in their career. This is related to increasing the competencies and responsibilities of individual workers, contributing to the growth of their productivity and motivation. This paper is aimed at examining human resource management with a help of different demographic and socio-economic characteristics. The main objective of this paper is to analyse the international trends in human resource management and assess the development trends of regional disparities within the population of the European Union during the examined period.

**Key words:** Demography, European Union, Human Resources, Family support

**JEL Code:** E24, J13, O15,

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## **Introduction**

The examination of the field of human resources dates back to the period before Christ (BC) however, as a science it has been in existence for a few hundred years. The knowledge in the

field of human resources was vital in ancient times to build armies, determine motivation and goals (Sun Tzu, 2006). Different fields of life benefit from the research conducted in the field of human resources, as well as research results contribute to efficient operation of organizations.

Economics is the science that deals in depth with the issue of human resources. Statistical data will help the analysis of the business process and assess the diversity of human capital, their professional qualification, age etc. Data obtained by survey will help to formulate future predictions.

Small and medium-sized enterprises (SMEs) play an essential role in free market economies. The number of SMEs in Slovakia exceeds the number of 565 000, which means, 99,9% of all the business fall into the category of SMEs (Slovak Business Agency, 2014). Undoubtedly, we can declare their importance in economic development of the country as they can also be considered to be the pillar of employment.

The hypothesis, that skills and motivation of employees is an essential prerequisite of sustainable success, productivity and innovation of the business proves to be true more than ever. The lifelong learning, trainings (both for employers and employees) are necessary tools to remain competitive in the era of globalisation. Contrary to that, statistics show, that trainings and different learning facilities are less accessible for employees of SMEs than those employed by large companies.

The issue of human resources in business sector is no longer limited only to local and national criteria. The challenges of globalization increased the presence of businesses in international environment. If a company operates in international environment, the employees have to adapt to cultural aspects of the host country (Dúbravská, 2015).

## **Theoretical background to SMEs**

The European Union defines SMEs as business organizations employing less than 250 employees. Annual turnover of SMEs does not exceed EUR 50 million or their annual balance sheet cannot exceed EUR 43 million. According to their size, SMEs fall into three categories: micro-enterprises with less than 10 employees, small enterprises with 10-49 employees and the medium-sized enterprises employing 50-249 employees (Farvaque, Voss, 2009).

Micro-enterprises – many of which are craft businesses- are the backbone of the European economy. The majority of businesses (more than 90%) are micro-enterprises employing less than 10 people. These type of businesses employ more than one-third of the European workforce and produce 20% of economic value added. Self-employment accounts for 16% of the European employment (Farvaque, Voss, 2009).

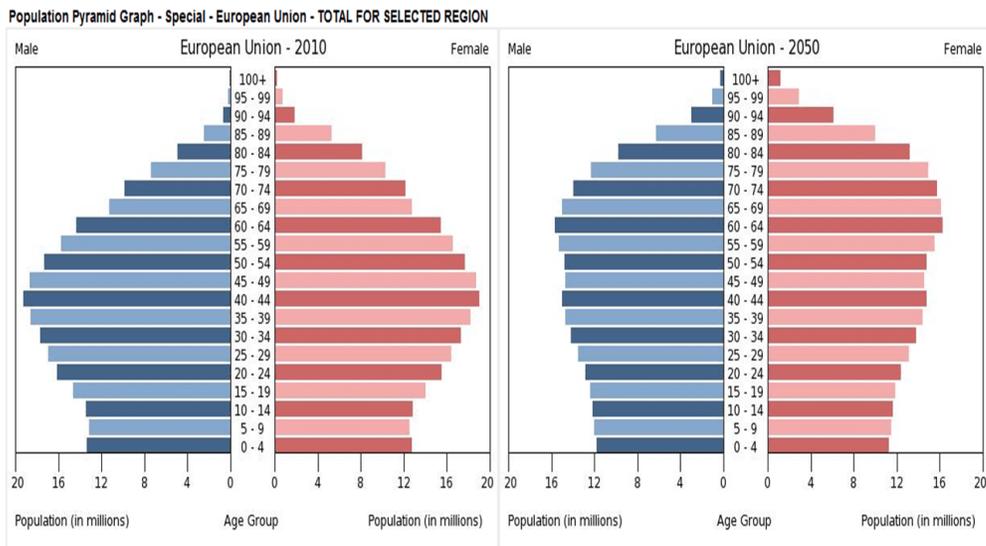
Small enterprises are the second biggest group of SMEs employing 10-49 people. In 2005 this group was made up of 1,3 million businesses (excluding agriculture, financial and public services) employing 26 million employees in Europe. These enterprises form 7% of businesses and employ one fifth of the European workforce. Medium-sized enterprises, employing 50-249 people form a bit more than 1% of businesses. They employ about 21 million people, which is 17% of the European employees employed in private sector (Farvaque, Voss, 2009)

The „Annual Report” about the European SMEs declares about 22 million SMEs operating in the EU in 2014. SMEs account for 99% of businesses in the EU and provide two thirds of workplaces in the private sector, producing 58% of the gross value added (Widuto, 2015)

## **Demography**

As it is shown by statistical data, there is continuous increase in the world’s population growth. According to the EU population census data (census is held in 10 years interval) the European population is ageing, becoming less productive, showing decreasing tendency of active workforce throughout the continent. Constant innovation led to redundancies in traditional production sectors and outstanding recruitment data is recognized in service sector, information processing and IT sector. The role of the education system is to tailor the study programmes to market expectations (Poór, 2009).

### **Figure 1: Population pyramid of the EU (2010 – 2050)**



Source: FDBETANCOR

The current political elite of the EU would like to solve the demographic problem of the continent with the influx of people living in war conflict in the Middle East. The leaders of V4 countries (Poland, Czech Republic, Slovakia and Hungary) represent a different opinion and propose different solution for demographic changes. Today Europe is in crisis situation as a result of political decisions on migration policy. The Government of Hungary is seeking the solution to tackle the population problem by supporting families. The long term plans of the Hungarian government to support families are realized in programmes, such as improved nursery system, which can help families with smaller children.

**Table 1: Total fertility rate in the EU member states, 2012**

Country	%
Portugal	1,28
Poland	1,3
Spain	1,32
Greece	1,34
Hungary	1,34
Slovakia	1,34
Germany	1,38
Cyprus	1,39

Malta	1,43
Italy	1,43
Austria	1,44
Latvia	1,44
<b>Czech Republic</b>	<b>1,45</b>
Bulgaria	1,5
Croatia	1,51
Romania	1,53
Estonia	1,56
Luxembourg	1,57
Slovenia	1,58
Lithuania	1,60
Netherlands	1,72
Denmark	1,73
Belgium	1,79
Finland	1,83
Sweden	1,91
UK	1,92
France	2,01
Ireland	2,01

Source: Eurostat

The biggest challenge SMEs face is the question of ownership as the owners of businesses reach the retirement age. Challenges resulting from demographical change arise not only in connection with the transfer of ownership, but also the transfer of ownership on younger generation hired by the company or selecting member from internal staff.

The other issue related to demographic change is the changing age structure of the population in Europe. Europe faces the problem of decreasing number of working-age population and the problem of ageing workforce. Although, the initiatives to increase the number

of female workforce and elderly employees in the workplaces is essential, further proactive steps are necessary e.g. integration of migrant workforce.

It is important to emphasize that SMEs are affected more adversely by these demographic changes than larger companies, because they find it more difficult to attract and retain skilled workforce. Therefore, SMEs need to face challenges in countries dominated by large enterprises and countries with lack of workforce. Many countries introduced systems and programmes to help enterprises tackle the problems connected with demographic change (Farvaque, Voss, 2009).

## **Human Resource Management**

Human Resource Management is one of those activities of the company which depends the most on demographic, geographical, social, cultural, political and legal factors different regions of the country are characterized by. These factors are important in short and long term as well, considering the tasks and potentials of human resource management (Dolobac, Mura, Svec, 2016). Contradictory trends regarding the world population and the world economy of recent decades brought challenges to face by HR managers and professionals. Many scholars and professionals are interested in the topic, Šimo-Mura (2015) also published scientific work in this field.

## **Research Objective and Methodology**

The main objective of this research is to analyse international trends and assess changes and development in the field of human resources. This research focuses on the economic situation, as well as regional differences between the EU members, Slovakia and Hungary during a certain period of time. To conduct a successful research we analysed data of public databases financed from the state budget as well as data providers funded from other sources.

GDP (Gross Domestic Product) is an indicator used to assess the economic and social trends of the country. The indicators, GDP per capita and GDP-per capita PPP (purchasing power parity) are used to measure the average living standard of people living in a particular country.

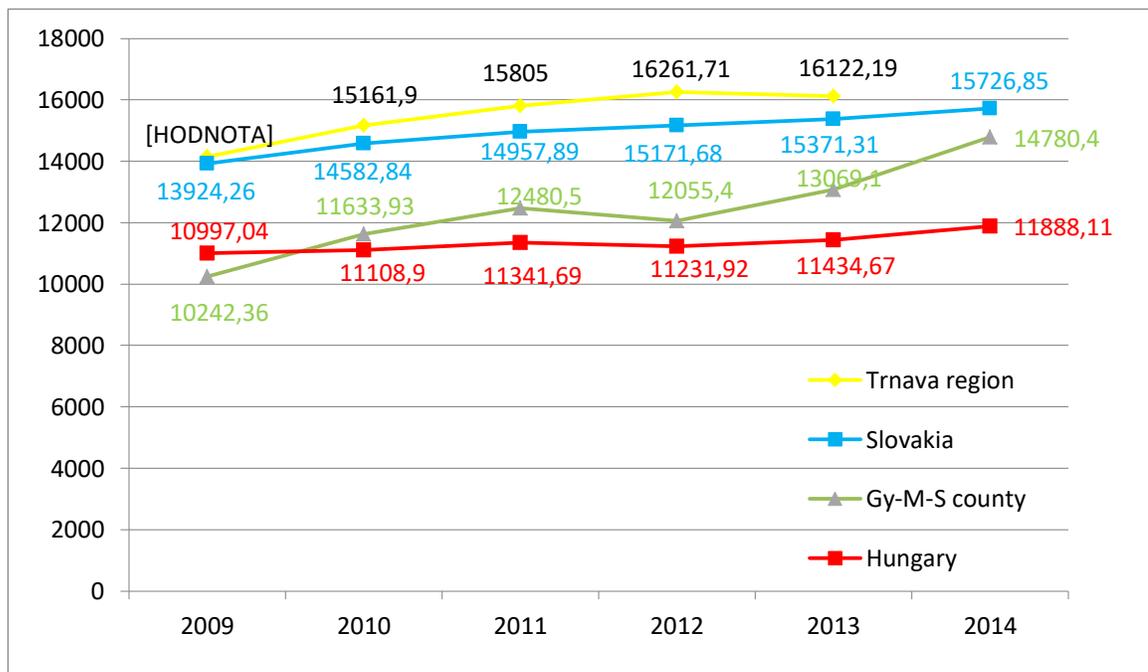
The Human Development Index (HDI) developed by the Pakistani economist Mahbub ul Haq in 1990, is also applied in this research. The HDI index is in correlation not only with the GDP, but different indicators of welfare as well.

As a result of the economic differences within the EU countries a new trend can be observed – citizens of Eastern European countries leave to other European countries with higher wage level. Vast majority of economic migrants from crisis zones also find western democracies more attractive than the Eastern European countries.

## The results of research

The analysis below shows that the GDP per capita in Slovakia (15 726,85 \$) exceeds the GDP per capita in Hungary (11 888,11 \$). There are big regional differences in both of the countries, the measures of capital cities and regions involved in research exceed the country's average.

**Figure 2: GDP per capita 2009- 2014 (\$)**



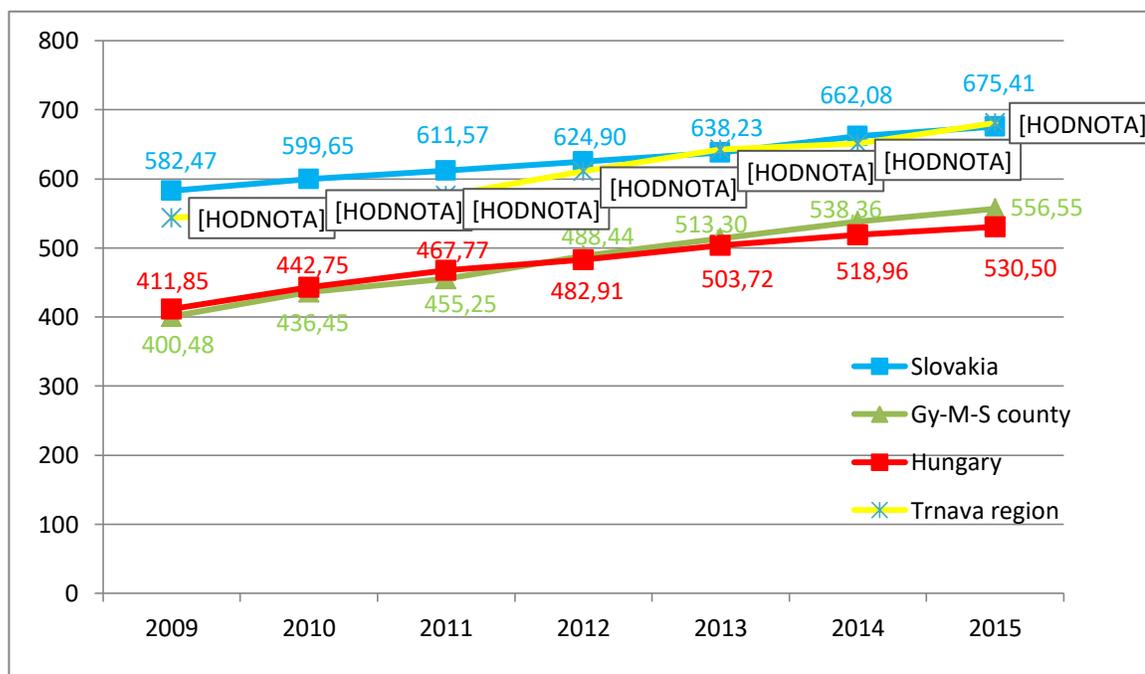
Source: own research, based on statistical data

The counties involved in research (Győr-Moson-Sopron county, Trnava region) perform above the country's average in GDP per capita. The GDP per capita in Trnava region is 16 122,19 \$ (14 791 €) accounts for 102,51% of the Slovak average, as well the analysis above

shows, that this figure is even higher than the neighbouring Hungarian county's GDP. The GDP per capita in Győr-Moson-Sopron county is 14 780,40\$ (13 560 €) and accounts for 124,3% of the Hungarian average. Slovakia also outperforms Hungary in GDP-per capita PPP (purchasing power parity), where the Slovak data is (26354,70 \$) in contrary to Hungarian data (23609,00 \$) (ŠÚ SR, 2015, KSH, 2015).

According to statistical data from 2015, the Slovak net average wage was 675,41 €, while the Central Statistics Office in Hungary registered the net average wage at 530,50 € (159 150 HUF) in the third quarter of 2015. The difference is 144,91 €.

**Figure 3: Net average wage 2009-2015 (€)**



Source: own research, based on statistical data

Figure 3 shows, that net wages of those, working on employment contract in Trnava region (district Dunajská Streda) in Slovakia is slightly higher than net wage of those in neighbouring Győr-Moson-Sopron county in Hungary. The difference is not significant; the total is 30,81 €.

The average net wage has changed in Győr-Moson-Sopron county in the period of time our research was conducted. The net average wage has increased in the county since 2012.

While conducting research in mentioned regions, we got different results compared to the country average. The net average wage in Trnava district was 681,02 €, which outperforms the Slovak average by 5,61 €. Beside the capital city of Hungary, the only county is Győr-Moson-Sopron, where the net average wage 556,55 € (166 965 HUF) is higher than the average of the country 530,50 € (159 150 HUF). The difference of the regional economic index is 26,05 € (7 815 HUF) compared to the net average wage of the country is 104,91%.

According to analysts the low net average wage in Hungary is due to high tax and insurance burden of employees. Considering the results, Hungarians are not the worst paid employees in the EU, because the net average wage in Bulgaria is 325,00 €, Romania stands at 346,00 €. While the Slovak net average wage (675,41 €) outperforms many EU countries it is far below the EU average of 2 063,00 € and does not reach the average of 28 EU member states, which is 1837,00 €. Slovakia is positioned behind the neighbouring EU countries in term of net average wage, Austria's net average wage stands at 2 320,00 €, Czech Republic 726,00 €, Croatia 711,00 € (Poštová Banka, 2015).

Studies on demographic change show an increase of female workforce presence on the labour market in majority of the countries. Women increasingly enter the labour market as well as changes in the society influence their position on the labour market. The problems of female workforce in the 20<sup>th</sup> century were emphasized by the feminist movements in North America and Europe. In the beginning of 1970s many did not believe in the work-life balance of women bringing up children. Nowadays it is accepted to build career. Significant decrease in population growth is a result of increasing career opportunity of younger generation, while establishing a family is lacking behind.

## **Conclusion**

Considering the discrepancies in the EU and countries included in research, we can assume that development of human resource management is vital both in Slovakia and Hungary. The key issue of HR in SMEs should be a comprehensive organizational process with a focus on change management and ensuring qualified workforce in workplaces. The business strategy goals and objectives of Human Resource Management should maintain competitiveness and success of the business in a competitive business environment. Our research results show, that the net average

wage of the Slovak and Hungarian employees does not motivate citizens to seek jobs in their country, rather leave to other European countries to find a job.

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