

# REPRODUCTION OF THE HUMAN CAPITAL: CASE STUDY FROM SLOVAKIA

Lucia Rafajová – Martin Pafčo – Michal Mazák

---

## Abstract

The entrepreneurial activity has been vivid in Slovakia for a quarter of a century. Many private enterprises have been established or replaced state-owned enterprises and cooperatives. During this period these enterprises have stabilized their activities and strengthened their profile, while weaker ones were withdrawn from the market. Nowadays businesses are facing problems that act as a milestone in their lifecycle. Both business owners and entrepreneurs themselves have to face the need for a new generation to manage and operate businesses and take over the ownership of the business. The generational exchange figures as a complex issue and must be approached from different angles. The present study is focusing on the issue of human resources and the reproduction of human capital in the SME sector. Compared to small and medium-sized enterprises, large companies are systematically addressing the need for generational exchange of the human capital. The sample of our primary research conducted in the SME sector in Slovakia shows the absence of systematic approach towards the generational exchange in businesses. This problem acts as an obstacle to further development of business activities in the SME sector.

**Key words:** Reproduction of the human capital, generational exchange, human resources, small and medium enterprises

**JEL Code:** J24, M12, O15

---

## Introduction

The human capital can be defined as a kind of capital that determines the direction and functioning of the business entity in which the capital is present. Every organization, enterprise or other form of organizational unit needs human capital to ensure its day-to-day activity. The scientific and technological progress, introduction of new IT technologies, free internet access, the globalisation tendencies, and many other factors have dominantly influenced the existence and role of the human capital. Even though we are witnessing a gradual reduction of human presence in different work processes that is replaced by

technological development, human capital is still considered to have an irreplaceable role. They possess knowledge and skills, as well as communicate with their environment. Increasing innovation and application of innovation management provide possibility to use progressive technologies at the expense of human capital (Brečka, Korauš, 2016). On the other hand, it is necessary to mention that companies which want to succeed on the market must respond flexibly to the needs and desires of customers, reminds Benda-Prokeínová, Dobeš, Mura and Buleca (2017). It is the only opportunity to survive on competitive and globalized markets. Today it is not enough to satisfy the average customer (Švec, Olšovská and Mura, 2015), but companies should attract the widest possible range of customers which is impossible without an introduction of innovations and new technologies (quite often it is impossible without replacement of human capital to certain extent).

The problem of getting the younger generation to replace the older is an increasingly important issue in many sectors of the national economy; however, Slovakia is not the only country facing this problem. Berber and Slavic (2016) have evaluated human resources as a major business factor in many member countries of the European Union. It turns out that getting qualified, loyal workforce providing quality work is difficult to hire in most of the European regions. The authors, Poór, Kontra-Capo (2013) made a closer insight into the issue of human resources in transit countries. According to their findings, the young generation can often meet their expectations on the western markets, and it is a problem to ensure a new generation to enter the domestic market. According to the authors, transnational companies find it easier to cope with this problem than small and medium-sized businesses. In those regions, where it is difficult to create workplaces and employ people, the economic, social and other problems are worsening, as well as there is an increase in regional disparity (Stehlíková and Pauhofová, 2015).

While it might sound that planning was a characteristic feature of the planned economy, the importance of planning is not lost even in the market economy. In the field of human resources long-term planning is essential, especially ensuring the intergenerational exchange. The importance of human resource planning is highlighted by Moravčíková, Lančarič, Ubrežiová, Savov and Kozáková (2014).

The choice of motivation tools applied to work with human resources is different for large enterprises, multinational companies and small and medium-sized enterprises. An analysis of motivation tools in SME sector was conducted by Vlacseková and Mura (2017). Lorincová, Hitka, Cambel, Szabo and Javorčíková (2016) focused on motivation tools applied by top executives. It can be said, that the intensity of motivation directly correlated with the

quality of work done by subordinates. The importance to choose the most appropriate motivation tool is emphasized by Karácsony and Machová (2015) According to their findings, the young generation can only be motivated to take over the business from the older generation if they have a strong support by an adequate group of motivators.

The problem of generational exchange as a tool to secure the reproduction of human capital is a major problem for most of the enterprises. Závadský, Hitka and Potkány (2015) emphasize the change in the system of motivation of the young generation in the Slovak companies. Even more complicated is the situation in the subcategory of family businesses. The development of small and medium-sized enterprises has been limited recently by lack of interest of the young generation to take over/continue the business activity (Tóth and Mura, 2014). Also, according to Strážovská (2015), family businesses in Slovakia have entered the stage where it is necessary to deal with the problem of generational exchange, because the generation is absent that ensures the continuity of the entrepreneurial activity. The analysis of intergenerational exchange on the example of Romania was conducted by Dabija, Babut, Dinu and Lugojan (2017).

## **1 Material and Methods**

The material we use in this article is based on two fundamental sources: secondary sources are made up of already published work of professionals and scientists in scientific journals. Another source of material for writing this article is formed by primary data. The primary data we use is based on our research assignments, and it is connected to dissertation theses. The content of this article was constructed as a part of dissertation theses of individual authors.

- 1) From methodological point of view, we chose the following chronological process:  
setting the objective,
- 2) concentrating on relevant literature,
- 3) selecting literature,
- 4) selecting the appropriate literary sources,
- 5) processing literary sources,
- 6) acquiring primary data,

- 7) proposing a methodological procedure,
- 8) selecting the appropriate methods of analysis,
- 9) analysing the acquired data,
- 10) conclusions and recommendations.

The main objective of this article is to evaluate the current situation in the field of generational exchange as a form of reproduction of the human capital in the SME sector with a focus on family businesses. This evaluation is based on a research sample of 128 business entities. The business entities involved in our research represent two regions: Bratislava and Trenčín. For this reason, we can talk about the case study that may indicate the current situation in the regions surveyed. It is not an objective to address this issue in details or use detailed statistical data. The methods we have applied are the following: questionnaire, interviews and descriptive statistics. At the same time we applied logical methods. We selected partial results of our findings as the text content of the paper is limited.

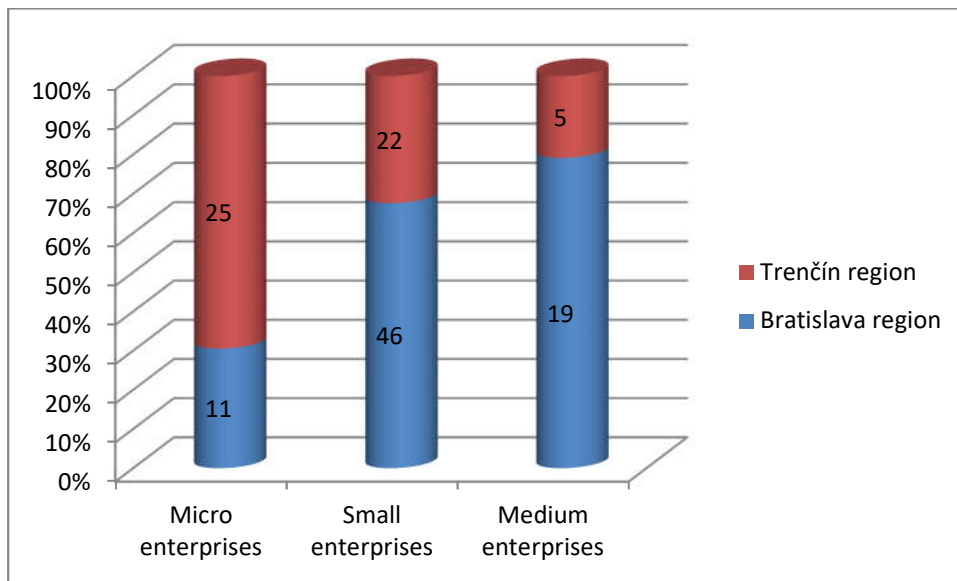
## **2 Results and Discussion**

The second part of this article discusses our research findings. These findings are based on primary research and completed by own experience of the authors, who are members of the family running the business. The theoretical background is based on scientific literature resources.

Our research was conducted in the self-governing regions of Bratislava and Trenčín, as the authors of the article are residents of the mentioned regions. A pilot research by the authors was conducted as a part of their dissertation theses. To remain objective we also introduce the results obtained in the case study, as it is not a statistically representative sample. The presented research sample can indicate trends in business practice connected to the issue. Figure 1 presents the size and location of family businesses involved in the research. As we can see, a bit more family businesses participated in the survey from Bratislava region and these enterprises were predominantly small or medium-sized enterprises. The representation of micro-enterprises was less. On the contrary, micro and small businesses dominated Trenčín region, while representation of large and medium-sized businesses was rather rare.

During our research we asked respondents the question, which phase of lifecycle their business is going through, whether the issue of human capital reproduction is up-to-date, and how they plan to address the situation. Our results are presented on Fig.2. We presented our results taking into consideration the phase of lifecycle the business is experiencing, and which region do they operate in.

**Fig. 1: Participation of family businesses in research by size and location**

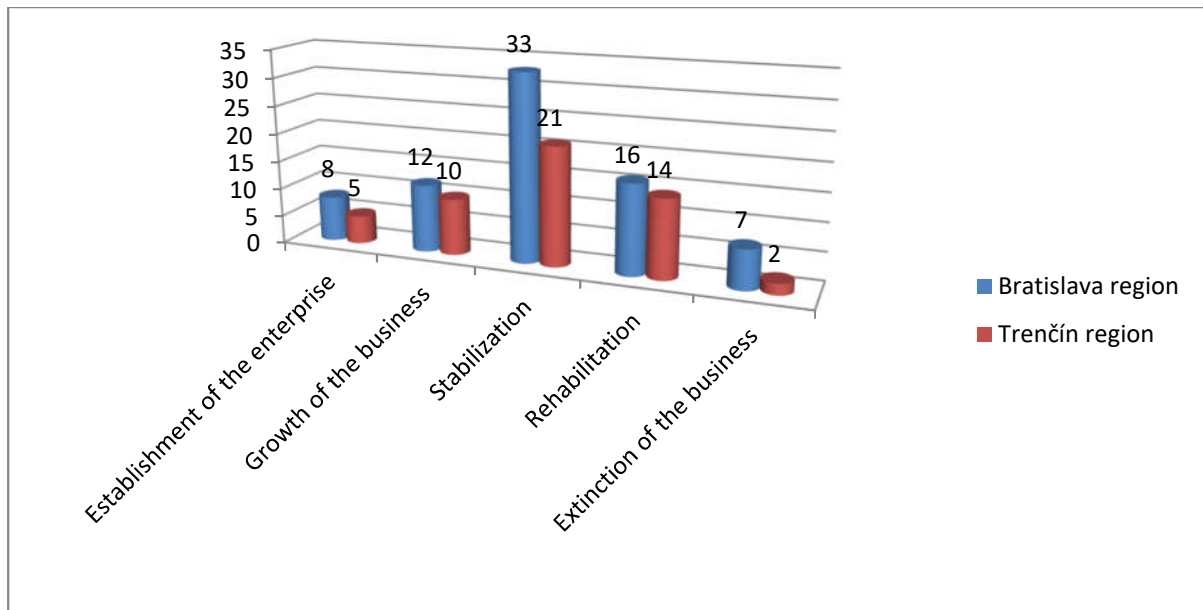


Source: based on data processing of primary research

Figure 2 shows that businesses in Bratislava region are in the middle of their lifecycle (stabilization and rehabilitation phase) where it is necessary to address actively the issue of reproduction of human resources in order to ensure and secure the continuity of the business. The businesses in Trenčín region are also found in the middle of their business cycle, and therefore the need to deal with the issue to take over the business and manage its everyday operation is a vital question.

In our research we asked the owners of businesses, what stage of ensuring continuity of business they are in, and how do they plan to solve the issue of succession. The interviews revealed that part of the enterprises take the question of succession seriously, and had already started the preparation of the next generation to take over the business and ensure the continuity. Unfortunately, this response occurred in 18,75% of the cases (24 companies) out of a total of 128 businesses involved in the survey.

**Fig. 2: The stages of the lifecycle**



Source: based on data processing of primary research

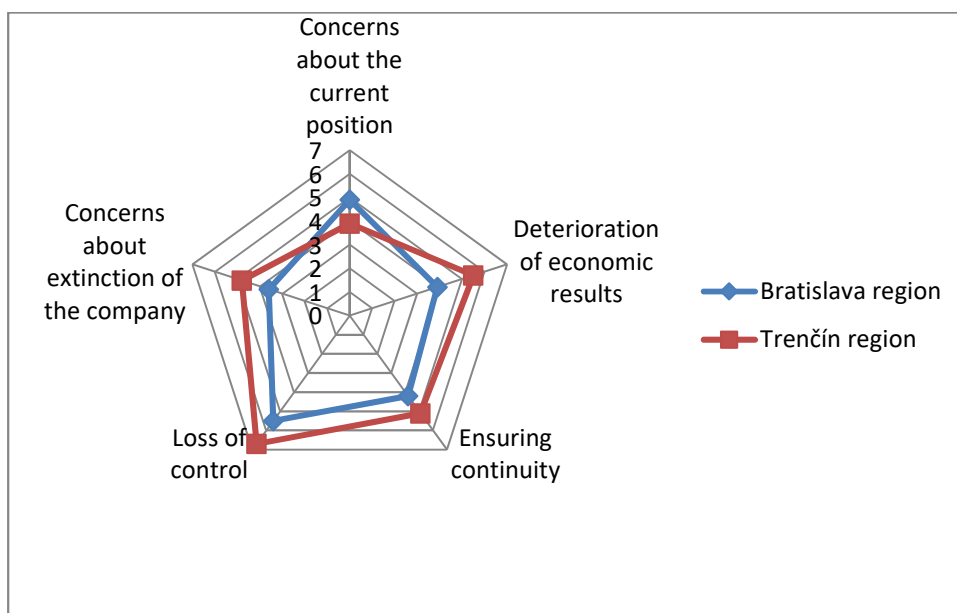
The following practices are applied during the phase of the targeted preparation for taking over the business: regular visit of the owner's business since childhood and explanation of business activities, regarding the age and intellectual maturity of the young person; being engaged in routine operations of the business; participation in simple activities with gradual increase of responsibility for the performed tasks; participation on presentations, where the young generation has an opportunity to contribute to build the image of the company; establishing an opportunity for creativity in the field of innovation and marketing; providing a possibility to be engaged in activities that the young generation is the most interested in. These activities provide a possibility to reveal the strengths and weaknesses of the generation before the generational change is realized.

This figure is quite low if we take into consideration, that fifth of the businesses functioning as family-owned enterprises have not created circumstances to ensure the human capital to continue the business. Up to 25,78% (33 business entities) of the businesses in our survey answered, that despite the attempt to involve the younger generation in business activity, it is impossible to ensure the generational exchange and maintain the character of the business. A total of 17 enterprises (13,28%) said, that generational exchange is not an issue to be discussed, because the current generation in the company is not thinking about it. An additional 18 businesses answered, if the current generation is unable to continue the business activity, the business will be ceased, because they cannot ensure the next generation to maintain the family business. In 6 companies (4,68% of the businesses) the situation is

critical. The current owner resp. owners have reached the retirement age (over 70 in two companies). They could not manage to find a person neither in family, nor a non-family member to continue the business, but they do not plan to quit their business activity.

From the point of view of successful management of generational exchange, it is necessary to recognize several aspects. This is the only way how to increase the chance of success. As it is indicated in the results of our case study, targeted preparation of generational exchange is missing in most of the companies in Slovakia. Ensuring the human capital to continue the business activity is a key factor. Through gradual engagement and preparation of the new generation, a positive and loyal attitude can be achieved towards the family business. This person, beside the motivating factor of self-realization and ensuring well-being will have greater interest in the continuity of the business. The generational exchange itself is the most sensitive part of the entire process in family business. The generation leaving the position, insist on continuing the business based on their own principles, while the young have different opinion and ideas about the key issues how to run the business. An important characteristic of this stage is to manage the psychological stress. The last stage is about the activities aimed at securing business continuity, gradual implementation of innovations and communication with current and new business partners. We can talk about the so called adaptive phase, when each unit of the business is sensitive to change.

**Fig. 3: Score of negative factors in the process of human capital reproduction**



Source: based on data processing of primary research

We have also examined the factors that have negative impact on the process of human capital reproduction in the SME sector, especially in case of family businesses. The results are presented on Figure 3. According to respondents, the most negative factors are the following: worsening economic results, loss of control, ensuring continuity of the business activity and concerns about the market position of the business.

## **Conclusion**

Small and medium-sized businesses represent the most important part of the business base, not only in Slovakia, but also in Europe and the world economy. About 95% to 98% of businesses fall into the category of SMEs. Family businesses deserve a particular attention. There is no precise definition of what family business is, but there are different approaches to describe it. The common problem of these types of businesses is the reproduction of the human capital in form of generational exchange.

Generations that would like to pass on the business activity to younger members of the family face a serious challenge to ensure the continuity of the business activity. Many young family members have either a completely different idea about running the company, or they show no interest to continue the business activity. This article is trying to outline and evaluate the current situation of generational exchange in the Slovak family-owned businesses. Based on the study of scientific literature and sources, as well as the results of our research, we have reached the following conclusion and recommendations:

- 1) finding a solution for generational exchange and ensuring the young generation to continue the business should be in the focus of business owners, especially family-owned enterprises,
- 2) it would be desirable to address the issue of generational exchange in long-term basis and not undervalue the individual stages of the process,
- 3) step-by-step engagement of the young to achieve higher level of loyalty and trust to continue the business,
- 4) In our research sample these companies are positioned in the middle of their business cycle, when they have to find solution for generational exchange and it is often too late,
- 5) ensuring rotation in different positions to achieve cross-sectional knowledge and ensuring the younger generation to run the business is more effective.



## References

- Benda-Prokeinová, R., Dobeš, K., Mura, L., Buleca, J. 2017. Engel's Approach as a tool for estimating consumer behaviour. In: E & M Ekonomie a Management, Vol. 20 , Issue 2, pp. 15 - 29 ISSN 1212-3609
- Berber, N., Slavic, A. 2016. Human Resource (HR) Outsourcing in European Compensation Management in the Light of CRANET Research. In: Acta Polytechnica Hungarica, Vol. 13, No. 3, pp. 207-225. ISSN 1785-8860
- Brečka, S., Korauš, A. 2016. Innovation and innovation management in the tourism industry in the context of globalization. In: Globalization and its socio-economic consequences, 16th International scientific conference proceedings, PTS I-V , pp. 261-269. ISBN 978-80-8154-191-9
- Dabija, DC, Babut, R., Dinu, V., Lugojan, MI. 2017. Cross-generational analysis of information searching based on social media in Romania. In: Transformations in Business & Economics, Vol. 16, Issue: 2, pp. 248-270. ISSN 1648-4460
- Karacsony, P., Machova, R. 2015. Comparison of the Employee Motivational Tools in Industrial Companies. CERS 2014: 5th Central european conference in regional science, international conference proceedings, pp. 346-350. ISBN 978-80-553-2015-1
- Lorincova, S., Hitka, M., Cambal, M., Szabo, P., Javorcikova, J. 2016. Motivational Factors Influencing Senior Managers in the Forestry and Wood-Processing Sector in Slovakia. In: Bioresources, Vol. 11, No. 4, pp. 10339-10348. ISSN 1930-2126
- Moravcikova, K., Lancaric, D., Ubreziova, I., Savov, R., Kozakova, J. 2014. Is Human Resources Planning Influenced by Foreign Ownership? Evidence from the Slovak Republic. In: *Proceedings of the 2nd International Conference on European Integration 2014 (ICEI 2014)*, pp. 492-498. ISBN 978-80-248-3388-0
- Tóth, Z., Mura, L. 2014. Support for small and medium enterprises in the economic crisis in selected EU countries. Hradec Economic Days 2014: Economic Development and Management of Regions, PT V, 424-429
- Poor, J., Kontra-Capo, D. 2013. Human resource management in transitiv. In: 2. Medunarodni znanstveni simpozij gospodarstvo istocne hrvatske - jucer, danas, sutra. Book Series: Medunarodni Znanstveni Simpozij Gospodarstvo Istocne Hrvatske-Jucer Danas Sutra pp. 131-137. ISSN 1848-9559
- Stehlíková, B., Pauhofová, I. 2015. Identifikácia problému nezamestnanosti v regiónoch SR = Identifying of unemployment problem in Slovak regions. In: Paradigmy budúcich zmien v 21. storočí. Adaptačné procesy - budúcnosť Európy a Slovenska. Bratislava: Ekonomický ústav SAV, 2015, pp. 188-200. ISBN 978-80-7144-248-6

Strazovska, E. 2015. Family business in the Slovak republic. In: Globalization and its socio-economic consequences, PTS I and II, pp. 716-722. ISBN 978-80-8154-145-2

Svec, M., Olsovska, A., Mura, L. 2015. Protection of an "Average Consumer" in the Digital Society - European Context. In: *International Scientific Conference on Marketing Identity. Marketing Identity: Digital Life, Pt II Book Series: Marketing Identity*, pp. 273-282, 2015. ISBN 978-80-8105-780-9 ISSN 1339-5726

Vlacseková, D., Mura, L. 2017. Effect of motivational tools on employee satisfaction in small and medium enterprises. In: *Oeconomia Copernicana*, Vol. 8, Issue: 1, pp. 111-130. ISSN 2083-1277

Závadský, J., Hitka, M., Potkány, M. 2015. Changes of employee motivation of slovak enterprises due to global economic crisis. In: *E & M Ekonomie a Management*, Vol. 18, Issue: 1, pp. 56-66. ISSN 1212-3609

### **Contact**

Lucia Rafajová, Ing.

Pan-European University in Bratislava, Faculty of Economics and Business,  
Tematínska 10, 851 05 Bratislava  
rafajova.lucia@gmail.com

Martin Pafčo, Ing.

Pan-European University in Bratislava, Faculty of Economics and Business,  
Tematínska 10, 851 05 Bratislava  
martinpafco@hotmail.com

Michal Mazák, JUDr., Ing.

Pan-European University in Bratislava, Faculty of Economics and Business,  
Tematínska 10, 851 05 Bratislava  
mazak@lxt.sk