

THE IMPACT OF ECONOMIC FLUCTUATIONS ON HRM PRACTISES IN ENTERPRISES: A STUDY OF SLOVAKIA

Natália Letková

Abstract

The business environment is subject to constant change, the most striking changes are now mainly related to the technological and demographic environment. Employers' war for a skilled workforce is on the rise, and a highly competitive environment forces enterprises to look for new ways to increase efficiency and performance, requiring HR managers to implement new, sophisticated approaches to managing human resources.

Is it possible to use universal, long-term valid HRM practices in this dynamically changing environment? The paper focuses on the study of a phenomenon that, unlike other environmental factors, has a cyclical character, and its behavioural patterns can be predicted as they were scientifically researched and documented. This phenomenon is the economic cycle and is examined in the context of its impact on HRM practices. The study examines whether it is possible to include in the HR management practices a formula reflecting the individual phases of the economic cycle. When asked whether there are individual practices or sets of practices that HR managers should apply at specific phases of the economic cycle, the author analyses behaviour of selected macroeconomic factors in three successive economic cycles and define their impact on applied HRM practices.

Key words: Economic fluctuations, Human Resources Management, HRM practises

JEL Code: M12, M5

Introduction

The reason why HRM theoreticians and practitioners have long sought to find the best human resources management practices is that many studies have shown that there is a relationship between the quality of human resources management and the performance of the organization, or sustainability of the organization, as the concept of sustainability in the present theories replaces the concept of performance (e.g. Sojka 2016; Vojtovič, 2016; Boudreau, 2003; Krajňáková et al., 2016). This study has shifted its focus to the relationship between the business cycle and human resources management practices. In order to recommend the use of certain consistent human resources management practices in periods between which there are several

years of time, it is essential that the same trends at certain macro-environment factors occur during these periods, especially at those factors that have demonstrably direct relation to applied HRM practices. This study therefore aimed at identifying macroeconomic factors affecting human resources management practices, tracking the behaviour of these factors in three periods - in three successive economic cycles running in the Slovak Republic, and draw out generally valid recommendations.

1 Theoretical background

For a market economy, it is natural that it does not develop equally but cyclically. It takes the form of waves with growth phases and declines in economic performance, with a growing tendency in the long run. Economic fluctuations can be caused by various factors, including price fluctuations, demand and supply trends, oil shocks, or the transformation of the economy. Price development has gone through many changes over the last decades and not only the nature of price fluctuations changed, also the factors that have caused them. As the SR (Slovak Republic) is part of the European Union, inflation is regulated by the ECB's monetary policy measures aimed at maintaining price stability, which means keeping inflation at a level below but close to 2% over the medium term. This supports the EU's general economic policy towards full employment and economic growth. In the economic literature, the economic cycle is understood to be fluctuations in the real gross domestic product around the long-term trend of potential product development, the potential product being considered as the maximum level of output in the economy, which does not yet produce negative inflationary pressures (Habánik, Ivanová, Masárová, Janský, 2011). The economic cycle, more recently replaced by term macroeconomic fluctuations, has been at the forefront of economic research, especially in the 20s and 40s of the 20th century, due to the instability of the economy and the ensuing great economic crisis in the 1930s. In the 50s and 60s, the interest in this phenomenon has fallen and was revived by oil crises in the 1970s and, in particular, the global financial crisis, which has been fully apparent in the conditions of the Slovak Republic economy since 2009, and the negative effects of which have not been solved by some companies till today. The economic cycle consists of four phases: a recession is usually considered in the literature as the first phase of the cycle, characterized by a decline in GDP and a reduction in the level of activity of the entire macroeconomic system. It is necessary to distinguish the recession, a slight decline in the performance of the economy, which usually has only short-term duration and depression, which is a serious problem in the economy, GDP decline is more pronounced and usually longer. The trough is the phase between recession and expansion and represents the lowest level of gross

domestic product in the economic cycle. At this stage, the economy is mobilizing its forces for further growth. During the expansion phase, GDP growth is rising again, and the use of production capacities is increasing, which gradually leads to overheating of the economy. How fast the expansion is going to overheat the economy is individual and depends on the specific conditions in the economy. The last phase of the economic cycle is the peak, also called the upper turn. In this period, the indicators gain maximum values, and then the cycle again returns to the recession phase. Depending on the phase of economic cycle, there is a distinct development of basic macroeconomic indicators such as GDP, inflation, government deficit, balance of payments or the development of the domestic currency. Some indicators are pro-cyclical, other anti-cyclical (e.g. development of employment rate versus unemployment rate), some indicators occur in advance, at the same time with the cycle phase or with delays (Dugasová, Frenáková, 2011). From the point of view of human resources management, we are most interested in the changes in the economic cycle that affect the labour market. These are mainly indicators such as the number of employed and unemployed people, average wage in the country and selected sectors. Since the peak and trough of economic cycle are essentially the turning points of a long going trends, in the analytical part of this study we are focusing on phases of expansion and recession as carriers of certain developmental changes and notable trends influencing human resources management practices.

2 Aim and research methodology

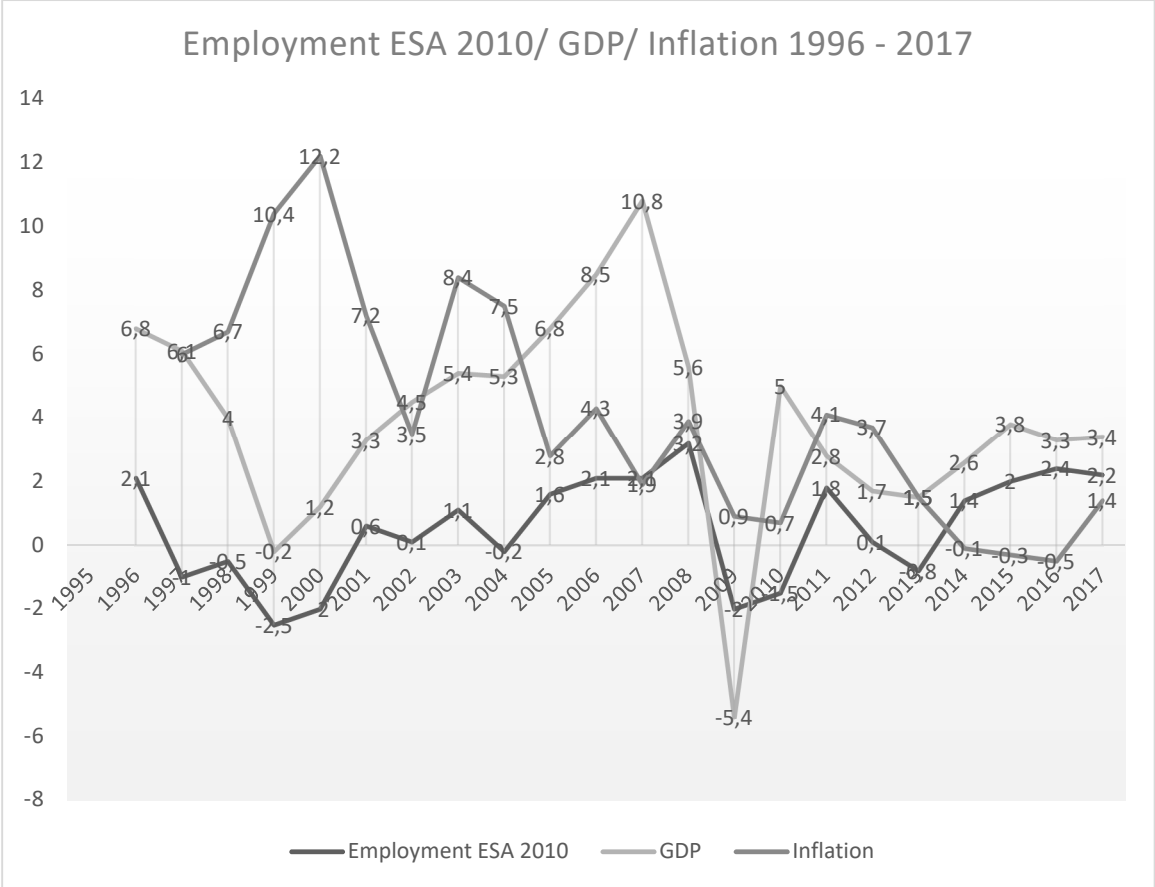
The aim of the study was to investigate the impact of economic fluctuations on human resource management practices and to discover whether it is possible to find individual practices or sets of practices universally valid for the same phases of the economic cycle. In order to select appropriate human resource management practices, we have explored the current literature and scientific articles of authors dealing with this issue. Thru logical and comparative analysis of literature and the methods of synthesis and deduction we came to conclusions. Also the development of macroeconomic indicators related to the management of human resources was analysed in three consecutive economic cycles in the conditions of Slovak Republic. As the monitored period, we chose the years 1996-2017, during which Slovak economy experienced three economic cycles.

3 The impact of economic fluctuations on HRM practises in enterprises

The fluctuations in economic cycles cause changes in the economy of a different nature both at the macro level and at the enterprise level. Generally, the upward phase of the economic

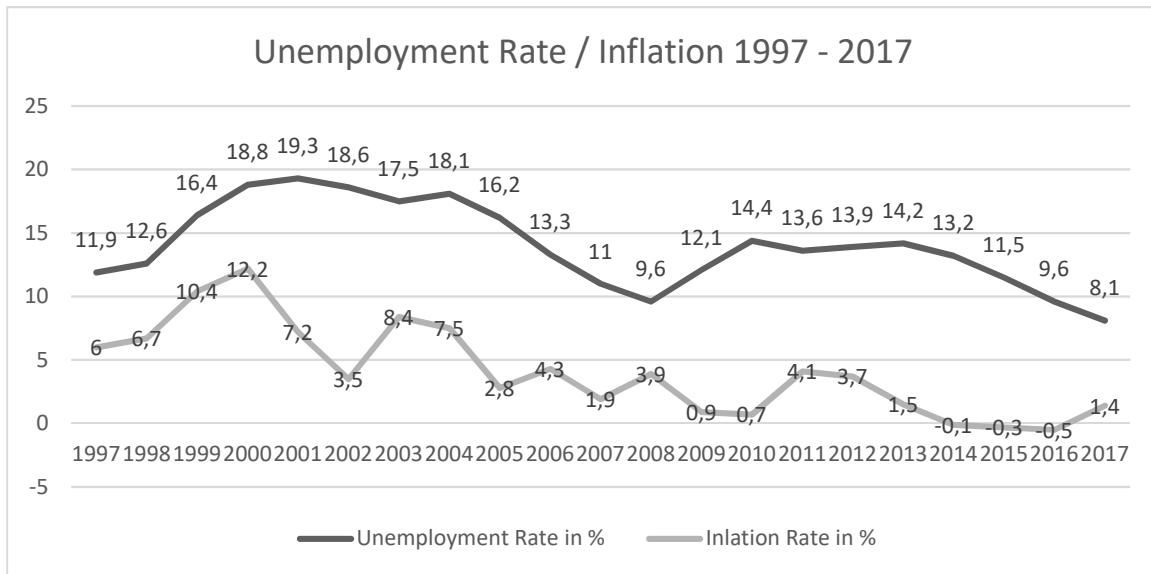
cycle is seen as a positive phenomenon, but it is important to understand that both expansion and recession are a natural part of the cycle and each brings both positive and challenging impacts on individual businesses. To be able to determine how economic fluctuations affect HRM practices in enterprises, it is necessary to define these practices and assign them to the individual macroeconomic indicators of the economic cycle. From the macroeconomic indicators of the economic cycle, as defined by Frenđáková (2011), we focused mainly on the real GDP growth rate, the employment rate according to the ESA 2010 methodology, the inflation rate and the registered unemployment rate (graph 1, 2) as these are indicators with the most significant impact on human resources management.

Graph 1: Employment ESA 2010 – year on year change in %/ GDP (year on year change in %)/ Inflation (year on year change in %) in Slovak Republic



Source: own processing according to Eurostat and Statistical Office

Graph 2: Unemployment Rate in %/ Inflation (year on year change in %) in Slovak Republic



Source: own processing according to Eurostat and Statistical Office

As can be seen from the data and is also evident from the visual representation in the form of graphs the indicators have cyclical character, but the dynamics of the onset of their developmental changes and the degree of change are not exactly the same. This behaviour of macroeconomic indicators is generally known and, for example, using the composite leading indicators of the economic cycle (OECD), it is possible to predict precisely from the reversal of one indicator how another indicator will behave and the timing of the change. However, from the point of view of human resources management, we are interested in how this will affect HRM.

Pfeffer initially defined 16 areas where the organization can generate profits through people, then reduced them in his work (1999) to the following seven dimensions: a) employment security, b) selective hiring of new personnel, c) self-managed teams and decentralization of decision making as the basic principles of organizational design, d) comparatively high compensation contingent on organizational performance, e) extensive training, f) reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels, g) extensive sharing of financial and performance information throughout the organization. His results, despite earlier date, we consider still valid and not replaced by better concept. To each of the defined dimensions we further added individual practices and sets of practices that we have assigned to the relevant macroeconomic indicator in the table (Table 1, table 2), based on the findings of other authors that have been recently dealing with this issue (e.g. DeGeest, 2017, Namazie, 2007; Long, Kowang, Chin, 2017; Navickas, Kontautien, 2013).

Vojtovič in his research (2016), carried out a large-scale expert survey among the HR managers of 236 companies, which aimed to find out what management decisions they made in times of recession and what they were in the expansion period. Results of this survey were also incorporated into the following table.

Tab. 1: Selected macroeconomic indicators of the expansion phase, related HRM dimensions and HRM practices

<i>Expansion Phase - Macroeconomic Indicators</i>	<i>Related HRM Dimensions</i>	<i>Related HRM Practises</i>
GDP Growth		
Employment growth and the decline in unemployment	<ul style="list-style-type: none"> - employment security - comparatively high compensation contingent on organizational performance - reduced status distinctions and barriers 	Increasing the number of employees, recruitment, investing in the personnel marketing, strengthening corporate culture and affiliation of employees to corporate values
Growth in price level	<ul style="list-style-type: none"> - comparatively high compensation contingent on organizational performance 	Employee benefits system, wage raising
Growth of wages and disposable income	<ul style="list-style-type: none"> - self-managed teams and decentralization of decision making - extensive sharing of financial and performance information throughout the organization. - extensive training 	Raising wages, increasing employee efficiency, employee training, Talent management, Career management, reducing staff
Growth in consumption	<ul style="list-style-type: none"> - selective hiring of new personnel 	Increasing the number of employees, recruitment
Growth in government revenues and a decline in the state budget deficit, growth in exports, growth in investment, positive balance of payments developments, appreciation of domestic currency, confidence in financial institutions, growth in short-term interest rates, relative stability in financial markets.	<ul style="list-style-type: none"> - selective hiring of new personnel 	Increasing the number of employees, recruitment

Source: own processing based on research

Tab. 2: Selected macroeconomic indicators of the recession phase, related HRM dimensions and HRM practices

<i>Recession Phase - Macroeconomic Indicators</i>	<i>Related HRM Dimensions</i>	<i>Related HRM Practises</i>
Decline in GDP		
Unemployment growth and decline in employment	<ul style="list-style-type: none"> - selective hiring of new personnel - self-managed teams and decentralization of decision making - extensive sharing of financial and performance information throughout the organization. 	Staff reducing, relocation of employees, Employee Quality Assessment
Decline in price levels	<ul style="list-style-type: none"> - selective hiring of new personnel 	Increasing the number of employees, recruitment
Decline in wages and disposable income	<ul style="list-style-type: none"> - comparatively high compensation contingent on organizational performance - extensive training - extensive sharing of financial and performance information throughout the organization. 	Wage reducing, employee retention, employee motivation
Decline in consumption	<ul style="list-style-type: none"> - selective hiring of new personnel 	Working time shortening, alternative / flexible forms of employment, relocation of employees,
Government revenue cuts and government budget expenditure growth, export decline, decline in investment, negative balance of payments developments, depreciation of domestic currency, decline in short-term interest rates, growth of distrust in the financial markets	<ul style="list-style-type: none"> - selective hiring of new personnel 	Staff reducing

Source: own processing based on research

GDP development is the basic indicator that determines the phase of the economic cycle, so it only plays the role of a starting point in the tables. In tables no. 1 and 2 based on the results of analysis of current literature and empirical studies we pointed out that for individual

macroeconomic indicators within one phase of the economic cycle may be suggested different and sometimes contradictory HRM practices, and it is therefore necessary to monitor not only the economic cycle phase as such, but also the development of the individual indicators for which the practice is suggested. Current knowledge in the field of macroeconomics allow us to predict the future development of individual macroeconomic indicators, for example by using composite leading indicators (OECD), so it is possible to plan changes in applied human resources management practices.

4 Conclusion and discussion

It may seem that cyclical expansion is something clearly positive, in contrast to the contraction of economic activity that is costly for society. However, as defined in this study even in the expansion phase encounters certain problems, which human resources managers must respond to in a timely manner and through appropriate human resources management practices. If the economy goes upstairs, it is usually accompanied by rising employment, rising wages, increasing consumption, increasing consumer and investment interest, and, of course, GDP. However, as the economy is on the rise, it is increasingly hard for businesses to find and recruit new employees, which may vary in different professions. Businesses are forced to increase offered wages for potential employees during the expansion period and to invest in personnel marketing with the aim to increase their attractiveness in the eyes of their target employees, which will be reflected in increased business costs and hence in price increases of their products. Similarly, as the cost of acquiring production factors increases, and the closer the expansion of economic activity is to its peak, each additional unit of products and services in the economy is more expensive.

The results of the study have shown that when looking for appropriate HRM practices, it is not possible to look at the stages of the economic cycle as at homogeneous entities because their individual accompanying indicators may require conflicting HRM practices. For instance, in the expansion phase, the growth of exports can bring new markets for the company and the associated need to hire new employees. On the other hand wage increases that fit into the same phase of the business cycle may push some organizations to reduce the number of employees. We therefore consider it necessary for companies to take into account individual macroeconomic indicators and adapt their applied human resources management practices to their expected development but also to consider other circumstances such as sectoral specifics, seasonal fluctuations, particularly in the service sector, geographical specificities, or

phenomena that can interfere with the natural development of the economic cycle. We recommend that companies take this principle into account at the planning stage of the HR strategy and implement it to overall corporate strategic planning.

References

- Boudreau, J. W. (2003). *Sustainability and the talentship paradigm: Strategic human resource management beyond the bottom line*. Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies. [online]. [cit. 2018-09-27]. Available on: <http://digitalcommons.ilr.cornell.edu/cahrswp/40>
- DeGeest, D. S.; Follmer, E. H.; Walter, S. L.; O'Boyle, E. H. (2017). RETRACTED: The Benefits of Benefits: A Dynamic Approach to Motivation-Enhancing Human Resource Practices and Entrepreneurial Survival. In: *Journal of Management*. Vol. 43, Iss. 7, pp. 2303-2332.
- Dugasová, V., Frendáková, A. 2011. Hospodársky cyklus Slovenska s dôrazom na trh práce. In: *International Scientific Conference YOUNG SCIENTISTS 2011*. ISBN 978-80-553-0760-2. pp. 91-107.
- Eurostat. Yearly statistical documents on Labour force 1996– 1997. [online]. [cit. 2018-09-27]. Available on: <https://eurostat.eu/>
- Frendáková, A. 2011. Príčiny a dôsledky hospodárskych cyklov. In: *Transfer inovácií 21/2011*. ISSN 1337-7094. pp.89-95.
- Habánik, J.; Ivanová, E.; Masárová, J.; Janský, B. (2011). *Makroekonómia*. -1.vyd. -Trenčín: TnUAD, 2011. 272 s. ISBN 978-80-8075-509-6.
- Krajňáková, E.; Navikaite, A.; Navickas, V. 2016. Paradigm Shift of Small and Medium-Sized Enterprises Competitive Advantage to Management of Customer Satisfaction. In: *Inzinerine ekonomika – Engeneering Economics*. Vol.26, No.3. ISSN 1392-2785. pp.327-332.
- Long, C.S.; Kowang, T.O.; Chin, T.A. 2017. HR Practises and Employee's Turnover Intention: A proposed Framework. In: *The Social Sciences* 12(5). ISSN 1818-5800. pp. 826-830.
- Namazie, P. 2003. Factors affecting the transferability of HRM practices in joint ventures based in Iran. In: *Career Development International*, Vol. 8 Iss. 7. ISSN 1362-0436. pp.357-366.
- National Bank of Slovakia. Selected economic and monetary indicators of the Slovak Republic. [online]. [cit. 2018-09-27]. Available on: <https://www.nbs.sk>

Navickas, V., Kontautiene, R. 2013. The interaction between corporate social responsibility and competitiveness during the economic downturn. In: *Economics and Management*, 18 (1). ISSN 2029-9338. pp. 58-67.

OECD. Composite Leading Indicator (CLI). [online]. [cit. 2018-09-27]. Available on: <https://data.oecd.org/leadind/composite-leading-indicator-cli.htm>

Pfeffer, J. 1999. Seven Practises of Successful Organizations. In: *California Management Review*, vol. 40, No. 2. ISSN 2162-8554. pp. 96-124.

Sojka, L. 2016. Analýza praktík riadenia ľudských zdrojov na výkonnosť organizácie. In: *Vplyv praktík riadenia ľudských zdrojov na výkonnosť organizácie. Nekonferenčný recenzovaný zborník vedeckých prác*. ISBN 978-80-555-1591-5. pp. 42-58.

Statistical Office of the Slovak Republic. Yearly statistical documents on Labour force 1998 – 2017. [online]. [cit. 2018-09-27]. Available on: <https://slovak.statistics.sk/>

Vojtovič, S. (2016). Managerial decision-making process in the times of economic volatility. In: *Proceedings of the 1st international conference contemporary issues in theory and practice of management: CITPM 2016*. -Czestochowa: Wydawnictwo Wydziału Zarządzania Politechniki Czestochowskiej. ISBN 978-83-65179-43-2. pp. 459-464.

Contact

Ing. Natália Letková

Alexander Dubček University of Trenčín

Študentská 3, 911 50 Trenčín

natalia.letkova@tnuni.sk