

Human Resource Management in the Hungarian Public Sector

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Abstract: This paper seeks to address the gap by reporting the results of consulting and research work of the author on the Hungarian civil service. Empirical evidence shows that the decentralized approach of the Hungarian civil service needs certain modification towards more efficient and less politics driven practice. Many external and internal organizational forces such as workforce demographics, technology, and privatization, as well as eroding trust in government institutions have drastically altered the environment of the Hungarian civil service. Accordingly, traditional human resource (HR) management approaches no longer work. HR should contribute to the successful transformation of the Hungarian civil service practice.

Keywords: Public sector, civil service, human resource management; Hungary, Eastern-Europe, modernization of HR

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1 Key Assumptions for Civil Service Modernization

We assume that modern management HR approaches can effectively contribute to the success of civil service modernization in Hungary on the basis of the following assumptions:

1.1 Modernization of Legal Environment

The government decision 1026/ 1992 is considered as a basic document on the modernization of the Hungarian civil service which reinforced the realization of two important matters:

Issue separate laws on status of civil and public servants as well. Establish educational and promotional requirements for civil servants. Both laws (Hungary, 1992a and b) were adopted in the same year. The National Public Service Institute – established in 1969 and reorganized in 1989 due to the requirements of the regime changes - was commissioned to coordinate on a national level training and educational programs for government and non-government institutions. Two institutions were mandated with institutional development, including HR matters. The Ministry of Interior became the centre of local government regarding this matter. The Prime Minister Office has been charged to deal with central government bodies.

Different government coalitions issued their government decisions on public sector reforms, including no. 1100/1996, no. 1052/1999, no. 1057/2001 and no. 1113/2003 as well. Regardless the details of the previous mentioned government decision have drastically influenced the framework of civil service HR.

The new social-liberal coalition government has introduced a drastic public sector reform in June 2006. This reform program has several items – see under different points of this article – which would influence the framework and management of government HR function on central and local level in Hungary and in short or midterm.

1.2 Recognize Differences between Public versus Private Sector

The traditional values of the organizations of the private- and public sectors are fundamentally different (Daley, 2002), which, in consequence, results in the difference of substance of the organization, management, and management environment of human resources. Broad research has shown the influence of ownership on HRM policies and practices (Hiltrop, 1991; Budhwar and Boyne, 2004). Even those reforms which are driven by radical structural changes, privatization of certain government functions or adaptation of new management technologies haven't eliminated the most important distinguishing features of both sectors.

1.3 Centralization vs. Decentralisation

The organizations and offices in the civil service must provide increasingly complex services demanded by residents and businesses, and at an increasingly higher level, throughout the world, and they must also do this within increasingly tight budgetary limits. It is, therefore, of key importance to ensure the availability of employees with appropriate knowledge, skills and behavior in good time and in the right position for carrying out these duties. Prudent, professional work is required to achieve this, and HR strategy has to be harmonized with the overall strategy of the organization. It is equally important that the jobs should be compatible with the demands and qualities of those filling them. Job-analysis and job evaluation, the remuneration system, performance management and personnel development and the furtherance of career-building all require attention. These have to be supported by HR, and in this way efficiency can be enhanced and, in the labor market, the public sector can become competitive with the organizations of the private sector.

To promote this approach many nations in Eastern Europe (e.g. Slovenia-1990, Poland-1988, Romania-1999 and Macedonia-2000) set up a special body of the central public administration with legal entity, subordinated to the Ministry of Administration and Interior or similar Ministry. In principle in Hungary (1992) and in some other countries of the region (e.g. Slovakia-1998), HR in the public service is fully decentralized. Responsibility is given to statutory heads of organizations, who have a great deal of real freedom in this area. Ministers are responsible for personnel management in ministries as central authorities.

Due to objectives of the state reform program (Hungary, 2006b), it has established a National Civil Service HR and Educational Secretariat in the Prime Minister Office, managed by a secretary of state from 1st of January 2007. This central body is charged to coordinate all HR activities on central and local government levels. The National Civil Service HR and Educational Secretariat shall have the following major attributes:

- formulates the policies and strategies concerning the management of the civil servants
- drafts and proposes concerning public management methods and tools;
- drafts joint regulations, applicable to all public authorities and institutions, concerning quality management;
- drafts and elaborates the concept of the National Personal Service Center
- sets the criteria for the evaluation of the civil servants' activity;
- supervises civil servants' certification training program on professional and executive level,
- etc.

2 Evolution of Civil Service HR Function

2.1 Transformation of HR Roles and Function

According to the UK Presidency of EU Report on Human Resource Management (further HR) (2004) we can emphasize that there is widespread acceptance among EU Member States that a major role for HR function is to supply advice on strategic organizational development. Many EU wide researches (Demmke, et al., 2006) made a distinction between the HR roles at a central level and a local level. The roles and services that are included under the term of civil service HR are widely different. However, civil service HR practice is following a decentralized approach and it should be framed within centrally agreed regulations and policies.

Today's HRM in Hungary is beginning to leave behind the instrumentalist, Taylorian scientific management approach and practice traditionally applied in Hungary (Kővári, 1995). The Maslow needs and Herzberg bi-factor theories, the motivational research activities of McClelland and the concepts of cognitive trends (expectations, objective, attitude selection and market value) are becoming widely known for the representatives of Hungarian HRM and related sciences (Pléh et al., 2003). Following the concept of Goleman (1998), Kindler (2002) states that emotions need rehabilitation and business has to be a source of fun. Hungarian HRM needs to recognize this new requirement, which at the same time creates new possibilities for working out in practice.

2.2 Job Design; Job Definition

In traditional organisations – no matter whether a company or an administrative authority - one of the hinges of effective management is to design and define as accurately as possible jobs which are essential to fulfil the objectives of the organization. The characteristic and complexity of task-performance may influence how detailed the job-descriptions are (Horváth, 2002). Job-descriptions are fundamental instruments for clarifying job-expectations.

There is no sophisticated-type general system of job description and job evaluation and in the Hungarian public sector, and there is no legal requirement for such a system. The respective ministries or organisations prepare internal schemes in this respect. What does exist is the catalogue of job classification, which contains the qualification requirements in terms of education and the characteristics of the working activities of state administration employees (mainly for remuneration purposes).

In the current system applying to the public sector, some 2,100 jobs are distinguished by law in 17 different sectoral fields. This includes many

overlapping jobs, by which we mean that, in different branches the same jobs have different names, although the content of the jobs does not show significant differences (Pál, 2002).

Although the idea of the 'job-family' has also appeared in the public sector, here it is referred to as the 'career model'. According to widespread opinion in the public sector, the employment of the 'career model' principle in the different job categories would greatly promote:

- accountability,
- the potential for pre-planning,
- sound foundations for professional requirements and
- drawing up a career-image.

Unfortunately, initial enthusiasm was not followed by implementation, and so the elaboration of the career model has never been fully realized. In terms of job requirements concerning individuals – that is, filling the position – the main factors are knowledge, expertise, a range of competencies and ethics (Poór-Engle, 2005). Whilst in the public sector the most important rules are accorded to knowledge and expertise – whose elements are stipulated by law – in the private sector it is personal characteristics, social roles or values, self-image and the identification of personality which are of increasing importance.

2.3 Recruitment and Selection

Effective staff recruitment is deemed by many to be crucial to the success of an organization, in the sense that this is the one way for organisations to assemble high-quality staff – employees who are satisfied with their work and, as a consequence, contribute to the improvement of organizational efficiency.

The picture that emerges from different studies is that elements of the HR systems, e.g. on recruitment & selection, in the civil service are controlled centrally, but the majority of Member States devolve responsibility for operational aspects of HR transactions to the ministries, agencies and local governments. These ministries, agencies and local institutions may choose to devolve these responsibilities further to line managers (Demmke, et al., 2006)

System used by Hungarian national and local government for hiring and promoting governmental employees to civil service positions is on the basis of competence. The merit system uses educational and occupational qualifications, testing, and job performance as criteria for selecting, hiring, and promoting civil servants. Conditions for entry into the public service are generally the same as in all other branches of the national economy. The selection and recruitment of public servants is fully decentralized.

Civil servant status may be given to a Hungarian citizen with a clean record who meets the educational requirements. Civil servant status usually is given for an indefinite time, and the civil servant may resign at any time.

Ways of entering / competitive examinations: To enter office at the first level of the career system, with some exceptions, the civil servant must pass a basic administrative examination. A further advanced administrative examination must be passed by those who are to be appointed to executive positions. The established career system fixes grades based on individual qualifications and years of experience. Competitive examination for filling positions is legally possible, but not compulsory.

The recruitment practice in the Hungarian civil service follows the decentralized approach. The local and central government institutions can fill vacant or newly approved positions in different ways: internal job posting, announcement in public places or personal channels.

2.4 Manpower Planning: Civil Service Workforce

The Hungarian public sector employs one-fourth (21,23%) of employed labor-force in the Hungarian economy. They can be classified into two major categories: civil servants (köztisztviselő) (2,59%) and public employees (közalkalmazott) (18,64%), and work in a variety of fields such as teaching, sanitation, health care, management, and administration for the state, or local government. This figure is between the headcount numbers of different nations in the EU and in the U.S. The number of civil servants includes all employees of central and local government bodies with civil servant engagement. Besides civil servants, the central and local government bodies can employ persons in non civil servant status.

2.5 Performance Appraisal (PA)

By means of performance appraisal, Act No. 36 of 2001 amending Ktv.(the Act on Public Officers) was targeted at promoting responsible, professional administration, continuous preparation and its improvement, together with performance-based pay. It was hoped from the new legal institution, that, in the long-term, it would become the means for: conscious personnel development, career-planning, improvement of cooperation between manager and subordinate and achieving high-priority objectives. In addition, it was also hoped that it would contribute to the more effective motivation of public officers, to the establishment of a more differentiated, performance-based salary system, and to a better-established assessment procedure. Consequently, the creators and supporters of performance appraisal (PA), introduced in 2001 in the public sector, expected to achieve all the potential objectives and positive consequences of performance appraisal (Vargane, 2001).

In Hungarian civil service, the majority of *PA has ended with very good or excellent results*. In addition, the results of PA are hardly used in Training Needs Analysis and Design.

The most up to date changes aiming at altering the civil servant's and public servant's laws are effective as of the 1st of January, 2007. The newly established National HR and Education Commission (NHREC) expect from these changes that they will renew the system of performance appraisal launched in 2001. At the beginning the new system will apply to the executives of the central government, but later it will be extended to the whole civil service. According to the executive of NHREC those performing at a normal level will be rewarded by a bonus of 3-14% while the bonus of those providing an excellent performance can even reach 50 or 60% of their annual pay. It is worth thinking over how right the state expectations are in light of the PA literature.

2.6 Training

Training courses are mandatory in the Hungarian civil service. There is *no difference* now between different civil servants' ranking *in defining the target groups*. Typical training needs within the Hungarian civil service are driven by the following factors:

- Certification requirement with a civil service exam on executive and professional levels. Since 1993 the civil service certification program on executive level is available and the professional one was introduced in 1998.
- Since 1998 it is available as a 30 hour of post certification civil service training program. It is provided for such civil servants who successfully passed the basic exam for civil servants.
- New legislation (e.g. accounting system, acquisition regulation etc.);
- A minimum number of training days is not required but high and middle ranking civil servants have to make a civil servant examination every three year.
- Introduction of new management systems (e.g. ISO, CAF etc.)
- Offers of different training providers

All training is coordinated by the Hungarian National Public Sector Institute, universities and other private providers. The selection of training providers is not free, and there is an obligatory regulation for using accredited training providers by Hungarian National Public Sector Institute.

The authors hope that it will be widely recognized within the Hungarian civil service how useful would be the results of the annual performance assessment in shaping the individual training needs.

2.7 Compensation and Benefit Management

The fundamental objective of pay management is to elaborate and use incentive policies, strategies and systems which assist the given organization to achieve its objectives through motivating its employees. (Milkovich-Newman, 2002)

There is a unified pay scheme throughout the civil service administration. There is a different scheme for civil servants working in non-governmental public agencies (i.e. the State Audit Office of the Hungarian Parliament). Local governments have the right to raise the basic salary of civil servants that is determined by law. Other regulations are in place for agencies created by special statute and for the judiciary.

The basic scope of the systems currently in place which ensure the promotion and remuneration of civil servants and public officials are determined by laws and budgetary provisions, which together produce a rather complicated structure.

Grading system, pay scales and allowances are considered as two major influencing factors of the civil servants' salary system (Hámori, 1998)

The basic pay is regulated/determined yearly by the state budget law by taking into account the position taken up during the civil service's reconciliation of interests and its amount can not be lower than the former year's basic pay. Multipliers belonging to different pay grades increase relatively fast in the initial phase of the career in each salary class which results in a more dynamic increase of the basic pay for those starting their career. It is reasonable in order to make the civil service attractive for the youth, to speed up their adaptation to the new working environment and to stabilize their financial position.

Civil servants are eligible for the following allowances and benefits:

- Extra pay (managers, extra assignments, specific working environment, foreign language, specific knowledge and skills, specific working schedule etc.
- 13th month salary
- Motivational pay (between –20% and +30%)
- Holiday (25 days +)
- Sabbatical (after 10 civil service years max. 6 months)
- Service year bonus (25, 30, 35 and 40 years)

In the former political system the difference between the remuneration of government and company employee was minimal. Today, this difference can be four or even six fold.

The fundamental dilemma for incentive policy and strategy in the public sector is, on the one hand, that it must respond to the challenges of the institution and HR Management within a much tighter legal and budgetary constraints than that of the private sector, and the responses must be adequate, adjusting themselves to practical, organizational circumstances. It may sound paradoxical, but it is, nevertheless, true that, in terms of the proportion of restrictions, the efforts of HRM must be increased towards finding flexible and effective solutions, since the judgment of the external environment does not take these restrictions into account.

2.8 Unionization

The proportion of trade-union employees varies greatly in the different regions of the world. The level to which trade unions are formed depends upon traditions, legal and political institutions, and upon the level of development of trade unions. Whilst in some industries of the former communist countries, the proportion of employees in trade unions is still rather high in state-owned companies, public-sector and in some private companies – as high, in fact, as 80-90% – the number of employees belonging to trade unions has declined dramatically in foreign owned companies

According to the Labor Force Survey, in 2003 (KSH, 2003) union density was 16.9%, a 2.8 percentage point drop compared with 2001 – see Exhibit 10 below. In absolute terms this means that in 2004 there were 550,000 trade union members. Prior to Hungary's political transition in 1990, the National Office's data indicates that 3.9 million – 83% of the 4.8 million employees – paid union dues. The highest union density is in public and civil service institutions.

2.9 HR Share Service Centers

HR outsourcing involves handing over non-core business functions — generally, IT-intensive transactional processes, and increasingly services are being outsourced as well — to an outside provider. In the world of major international companies, it is a long-recognized fact that, similarly to production activities, administration should be merged and made more economical. (CB, 2004; HRO, 2006) Shared Service Centers which provide global or regional outsourcing are springing up like mushrooms — even within international companies. With regard to these centers, one has to know that their establishment and operations require no small effort. This process has also started in the public sector in Hungary where the greatest progress in this area has been made in outsourcing security, admission and pay-roll accounting tasks. New research in Hungary shows that public-sector buying of outsourcing is concentrated more on IT outsourcing than business processes. The fact that, according to the latest plans, the government intends to establish a centralized HR service is clear evidence of this trend.

Conclusion

In this study, one can understand the importance of the challenge faced by public sector manager, and specialized HR advisors. These embrace the following: how to assess the situation whilst making the series of decisions which will build up a new complex system; how to combine the techniques of the private sector which they have adapted whilst retaining the conventional values of the public sector and improving the commitment in such a way that, simultaneously, they promote the continuous renewal and improvement in efficiency of both the organisations and the sector by exploiting the possibilities inherent in HR.

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