

## **Impact of Economic and Financial Crisis on Human Resource Function in Four Eastern-European Countries in Light of an Empirical Research in 2009**

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*Abstract: When the crisis broke out in October 2008, the four countries (Bulgaria, Hungary, Romania and Slovakia) examined were in different situations, and, consequently, the governments of these countries reacted at different times. They did so, however, in very similar ways. Nevertheless, it is particularly important to know how their companies reacted to the crisis, and our study aims to find out what actions companies from these selected countries plan to take concerning the field of Human Resource Management (HRM) in the present financial and economic crisis. With a brief review of the literature, we demonstrate the role of HR in a period of depression, and then we present the findings of our empirical research, which was conducted from November 2008 to February 2009.*

*Keywords: Keywords: Human Resource Management, Crisis, Bulgaria, Hungary, Romania and Slovakia.*

## **1 Research methodology**

### **1.1 Approach and questionnaire**

Our interest lay in micro-level reaction, and so we researched organisational responses. The selection of the research method was determined by the fact that data for the four countries of the survey could be collected most effectively by benchmarking. We applied the "sequential logic" of research planning (1: 623) in preparation for our questionnaire. After our review of the literature, we looked for empirical confirmation from the corporate sector. Did they think as the authors (2 and 3) suggest - or did they have other ideas? To answer these questions we use the results of a questionnaire survey that we conducted in November 2008 and March 2009. Participation in the survey was free and voluntary. A web-survey technique was used to fill out the survey in Hungary but paper was used in Romania, Slovakia and Bulgaria. The process took about 10 minutes and was based on a questionnaire comprising 9 groups of questions:

- Name of company and the address to which the report should be sent,
- Company profile,
- The possible effects of the spread of the economic and financial events,
- The measures planned to be taken for countering the effects of the crisis,
- The salary increases planned for 2009 (%) - separately for all fields,
- The likely effects in the countries over the next 12-24 months,
- Changes planned in HR areas,
- Any further recommendations and comments.

We examined the outcomes of the crisis in four countries – Bulgaria, Hungary, Romania and Slovakia. We also studied the responses from management and from HR in the organisations questioned (566 companies).

## 1.2 Hypothesis

For our research we laid down four hypotheses to evaluate the recommendations of the literature and to analyse the spatial, cultural and functional differences of the crisis.

- H1: There are no country-specific reactions to the crisis; the organisations of EE countries react similarly to the challenges set by the crisis.
- H2: Companies employing only a small number of people are less likely to lay-off employees as a solution to the crisis.
- H3: Reactions of companies to the crisis are not uniform.
- H4: Reactive companies judge the crisis and the characteristics of the crisis differently from proactive companies.

## 1.3 Characteristics of the sample analyzed

We received 577 valid answers from the four countries, the highest proportion coming from Hungary and accounting for 45.2% of the sample. Companies from each of the other three countries contributed roughly equally - by 18%.

Respondents are from different fields of business. Industry, commerce, business services and other categories dominate the sample. The proportion of industrial and commercial operators is low in Bulgarian and Romanian companies. However, at the same time, the proportion of IT companies and organisations working with FMCG (Fast Moving Consumer Goods (everyday low-price and low-risk products requiring little thought when purchasing) is more significant than in the other two countries.

With regard to the other two countries, Slovakia and Hungary, the number of business services companies is high, and the number of transportation and financial services companies in Slovakia and the number of companies providing business services in Hungary are higher than elsewhere.

In respect of the number of employees, companies with fewer than 100 people account for nearly 70% of the sample. Organisations employing more than 500 people, regarded as large companies, total 15%. Outliers (exceptions) can be found in Slovakia and Hungary within the “Below 100 people” category. The number of companies with a low number of employees is lower than average in Slovakia and higher in Hungary. Bulgarian and Slovakian companies employing 100-500 people are slightly overrepresented .

Exhibit 1  
Size of participating organisations

Number of employees	Countries				In % of total sample
	Bulgaria	Romania	Slovakia	Hungary	
Below 100 employees	65,7%	61,3%	51,9%	79,7%	68,6%
100 - 500 employees	23,5%	17,0%	24,1%	10,3%	16,5%
Above 500 employees	10,8%	21,7%	24,1%	10,0%	14,9%
Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: Primary research by the authors

In respect of the field of operation, private companies predominate. In the case of Slovakia, the proportion of public companies is significantly higher than the sample average

In respect of the registered office, we notice something unique in Slovakia, namely, that, while companies based in the respective capitals predominate in the other countries, the proportion in the provinces in Slovakia is 78.3%.

## 2 Results

In this chapter we focus on supporting and proving our hypotheses.

### 2.1 Country specific reactions on crisis

For the first of these, we examined differences in the reactions of companies linked to nationality. In the survey there were three types of question related to this theme: (a) measures planned for easing the effects of the crisis, (b) planned salary increases for 2009 (%) separately for all fields and (c) the planned changes in HR areas. Our first hypothesis said: *There are no country specific reactions on the crisis, the organisations of the EE countries act similarly against the challenges of the the crisis.*

We were searching for country-specific differences in the crisis-related, planned and already completed actions of the companies. Analysing the answers to the strategic actions question-category, we found several weak, but significant distinctions among the countries. However, in the planned HR actions, fewer crosstabs analyses were significant. In many cases, we could not identify any

differences, although we still found some areas where organisations from different nations had different solutions to the crisis. The ‘planned wage-rise’ values showed a remarkable result in terms of differences. We illustrated typical national wage-rise characteristics, and, in summary, we feel confident in our assertion that *the companies’ country of origin did influence many of the answers. We cannot, however, say that this is the only factor determining the result, as all of the significant results had weak correlations, but the origin of the firms certainly appears to have a noticeable bearing on their behaviour in a time of crisis. The hypothesis is agreed, at least in part.*

## 2.2 Impact of the organisation size

*The second hypothesis* examining another factor that might have an influence on the answers for the crisis. This factor is the number of employees in the organisations. From the literature we know the different characteristics, complexity of the SMEs and MNCs [4 and 5]. We assume that these characteristics have significant role in the process of adapting to the challenges. In this section, we did not focus on such a wide number of questions as in the first hypothesis, we concentrated only on the correlation between the lay-offs and the employees numbers. For this, we will more use the crosstabs analysis statistical tool.

In the first part of the survey, respondents could indicate - on a 1-5 scale - to what extent they were willing to use this tool. The crosstabs analysis of this question and the number of employees also supported the former statements. Companies with fewer than 100 employees answered ‘no’ more frequently than average, and fewer said that lay-offs were needed to a ‘medium’ or to a ‘large extent’. The opposite trend could be seen in companies with more than 500 employees.

Exhibit 2

The strength of dismissal willingness by the number of employees

			No	In small extent	In medium extent	In large extent	In very large extent	Total
Recorded Number of employees	below 100 employees	Count	126	86	65	28	36	341
		Expected Count	107	86,3	77,6	38,8	31,4	341
	100-500 employees	Count	19	29	24	13	6	91
		Expected Count	28,5	23	20,7	10,3	8,4	91

	above 500 employees	Count	15	14	27	17	5	78
		Expected Count	24,5	19,7	17,7	8,9	7,2	78
Total		Count	160	129	116	58	47	510
		Expected Count	160	129	116	58	47	510

Source: Primary research by the authors

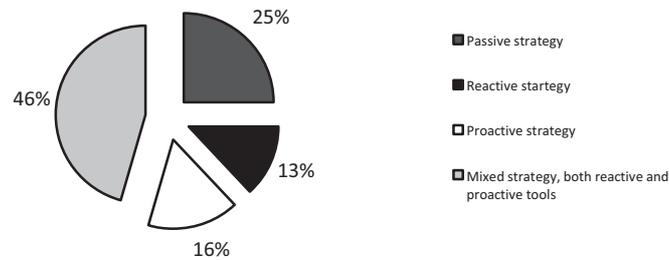
Our second hypothesis said: *Companies with small number of employees tend to use lay-offs less, as a solution for the crisis.* To summarise, we say both analyses proved our second hypothesis. In our sample, companies with fewer employees tend less to dismiss or lay people off than do the larger ones.

### 2.3 Strategic approach

After the first two hypotheses, we searched for behavioural distinctions of the companies in a more sophisticated way. *Our third hypothesis* assumed that reactions of the companies to the crisis are not uniform. During the earlier crosstabs and frequency analyses, it seemed that some strategic actions of the companies tended towards this same direction. To explore the connections we decided to use the factor analysis method. We have used principal component analysis and for rotation method the varimax rotation with Kaiser normalisation.

*Exhibit 3 has already supported our 3<sup>rd</sup> hypothesis.* Most of the companies followed a mixed strategy, both reactive and proactive solutions being selected, and no unique answer could be seen. Only 16% and 13% respectively were operating in a clearly reactive or proactive way. It is interesting that 25% of the respondents chose to stay passive.

To find new explanations for the different forms of behaviour, we continued to search the correlations with other factors also. Cluster analysis did not suggest any relevant result and we could not identify a specific group of respondents based on their different characteristics. Based on the crosstabs analysis, we concluded that the 'ownership of the company' has no correlation with crisis-related actions. Significant, but weak, relations were found in respect of the country of origin of the company, the number of employees and the operating sector.



SOURCE: Primary research by the authors

Exhibit 3

#### Rate of the chosen strategies in the sample.

Our third hypothesis said: *Reactions of the companies on the crisis are not uniform.* To sum up, we conclude that crisis-related actions could be grouped into new values, factors. However, passive, reactive and proactive types of action occurred in the factor analysis and, the frequency table showed the largest group of companies with mixed reactions; 45.6% used both proactive and reactive tools to reduce the effect of the crisis. Because mixed strategy does not have such clear and unique characteristics as the other three, we found our third hypothesis acceptable. With the characteristics of the companies and the strategies, clear clusters could not be created. This statement also suggests the uniqueness of responses. The crosstabs analysis identified weak, but significant relations between the chosen strategy and the size of the company, the country and the industry of the operation. It means that these are the factors influence the different strategies. The third hypothesis identified three clear and one mixed type of strategy that companies might follow to reduce the effect of the current economic crisis. Two of them, the 'reactive' and the 'proactive' strategies have quite different characteristics. Thus 'reactive' and 'proactive' companies could be separated easily and involve a possibility of analysing the attitudes and forecasts in connection with the turmoil.

The assumption of the fourth hypothesis is that reactive companies judge the crisis and the characteristics of the crisis differently from proactive companies. To prove this, we compared the means of the 'reactive' and the 'proactive' companies' answers in the question groups:

- 'the possible effects of the spread of economic and financial events,'
- 'the effects of this spread to the countries over the next 12-24 months.'

We have used the statistical method t-test to find significant differences. Of the 19 possible questions, we could identify six where significant differences could be found regarding the perception of the crisis. 'Proactive' companies were more pessimistic regarding the effect of the crisis on growth, than were the reactive.

To summarise, we say that only 1/3 of the potential crisis indicator answers showed significant differences between the proactive and the reactive-oriented companies. This means that the fourth hypothesis can be agreed in part. In those questions where significant difference were found, proactive firms were always more pessimistic. On the reverse side, this means that the companies in the sample forecasting lower growth, lower income, a longer recession, a stronger decrease in demand were planning more in a more future-oriented way and have seen the strategy for survival in changing the old structures and breaking the old paradigm.

### **Conclusions**

In almost all cases, the first hypothesis was partly true, suggesting that the country of origin influenced many of the answers. This result reinforces our fundamental belief that this is the only factor that determines the result, as all of the significant results had weak correlations, but the origin of the firms had a remarkable bearing on their behaviour in times of crisis. The hypothesis is partly agreed.

Exhibit 4

Summary of conclusions on hypotheses (H1, H2, H4 and H3)

	Hypotheses	Result
H1:	There are no country-specific reactions to the crisis; organisations in EE countries act similarly towards the challenges set by the crisis.	<b>Partly true</b>
H2:	Companies with a small number of employees tend to use lay-offs less as a solution to the crisis.	<b>True</b>
H3:	The reactions of companies to the crisis are not uniform.	<b>True</b>
H4:	Reactive companies judge the crisis and the parameters of the crisis differently from the proactive companies.	<b>Partly true</b>

In the majority of cases we found that our second hypothesis was true. This factor is the size of the companies, the number of employees in the organisations. Companies with fewer employees tend to lay people off less often than do the larger ones in our sample.

In almost all cases, our third hypothesis was true, suggesting that the reactions of the companies on the crises are not uniform.

The results of the research may be useful for Hungary and for other East European countries in identifying problems arising in HR practice as well as in extracting some guidance in respect of the best practice of company management for the solution of their problems in times of crisis. Overall, we can say that, whilst the sample may not be totally representative of the four countries concerning composition and number of elements, the list of significant companies participating should be sufficient evidence of the relevance of the findings and conclusions.

### **Limitations and further research**

Our research results are based on web-survey-based empirical research in four East European countries, and any efforts to generalise regarding this or any other region characterised by a great majority of respondents being from the SME sector are premature.

Our research has a benchmarking profile. Benchmarking is a constant and systematic process for measuring competitiveness, and also those best practices in which an organisation is most interested. This measurement – as described by Evans – analyses, "how the company analysed is doing (e.g., reward, employee satisfaction etc) and what others are also doing" (6:14.).

From a statistical perspective, the sample is large enough, although the sample stratification is disproportionate. This means that the numbers of respondents from the given countries in the whole sample are not proportionate to the population of the four countries.

As for subsequent research, we have standardised our research approach for the purpose of conducting a similar survey in several countries of the region. A similar project is now underway. Data collection with a similar questionnaire has now been implemented in Hungary, Slovakia and also in Romania.

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**P. Fodor, T. Kiss, J. Poór**

Impact of Economic and Financial Crisis on Human Resource Function in ...

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