The Impact of the Economic and Financial Crisis on HRM and Knowledge-Management in Hungary and Slovakia - Empirical Research 2008-2009

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Abstract: According to Ervin László [1], a Hungarian member of the Club of Rome, crisis is a natural phenomenon in human society. The present crisis, however, is very different from earlier ones, in that it has spread very rapidly to all countries in the world and – he asserts – we are very close to a global collapse. This, in other words, is the first true global crisis. Our study aims to discover what action Hungarian companies plan to take in relation to human resource management and, concurrently, knowledge-management in this financial and economic crisis. With a brief review of the literature we demonstrate the role of knowledge and human capital in a period of depression and we then present the findings of empirical research which we undertook in Hungary from November 2008 to February 2009 and, in early March 2009, in Slovakia. We finally attempt to draw conclusions by means of a country comparison, at the same time highlighting both the limitations of our research and our future related plans.[1]

Keywords: Management, Human Resource Management, Economic and Financial Crisis, Hungary and Slovakia

[1] This study was submitted as part of a 78233 research assignment of National Scientific Research Found (OTKA).

1 Crisis Theories

1.1 A Brief History of Earlier Crises

If we are to understand better the present financial and economic crisis, it is necessary to look briefly at the basic characteristics and principles of crises in general and the history of earlier events. Béla Hamvas [2] wrote:

> *"Thus, before beginning to discuss the real nature of crisis, we should ask the following question: can we talk about a crisis? […] The world has always favoured thoughts that cause panic. People, especially masses, like to be in terror. […] But what is the reality in this? Is there a crisis at all? Isn't it a constantly existing thing? There is always a crisis."*

It is, of course, the case that the concept and appearance of crisis in public thinking are not new. An apocalyptic mood is frequently to be seen in ancient history – adopted, for example, by Lao-Zi, the Buddha and Heraclitus. The Old Testament prophecies of Joseph, when he forecast seven-year cycles of good and bad harvests for Egypt, are an early example. It is interesting that this observation reappears later in the 7-13-year medium-term cycles of Juglar. Is there really a specific regular change in socio-economic events?

The development of the capitalist system and the regular provision of data have allowed this question to be examined and rationalised also from an economic-statistical standpoint, and theories hold that certain systematic elements of various lengths are visible during crises. The most important economic theories in which periodicity are highlighted can, perhaps, be summarised as follows:

Kitchin [3] identified 3-5-year economic cycles mainly linked to company inventories - which cause fluctuations in economic performance. This research was based on statistical data published by the financial institutions of the USA and the United Kingdom between 1890 and 1922. Later, Joseph A. Schumpeter [4] used these results in his studies and it has been shown by analysing the Dow Jones Index that the Kitchin theories still apply.

The research by Juglar focuses our attention on longer periods. The theory, which mainly refers to sectors and is based on fixed investment cycles, defines 7-11 year periods in which the trough between waves is shown by overproduction and financial market crises. The periodicity of this cycle can be seen clearly in connection with the current collapse of stock market prices and also, for example, in similar movements during the earlier Russian financial crisis. Since the reappearance of major infrastructural investment by companies is visible within such periods, the Juglar cycles can be closely connected with Kuznets's theory on 15-20 year construction cycles.

One of the most popular theories is that of the Kondratiev [5] Long Wave Cycles. The Kondratiev theory, formalised in 1920 but neglected until the 1929 world crisis, identifies 45-60 year-long periods (see Exhibit 1). Both the up-slopes and down-slopes of the wave have their different repetitive characteristics. Before the up-slopes begin, significant changes can be observed in economic conditions: methods of production and exchange change radically, the use of technical innovation accelerates and new money transmission methods are introduced. At the improvement stage, the social shocks, wars and tensions increase in frequency. During down-slopes the price-gap between agricultural and industrial products increases and a prolonged agricultural depression appears.

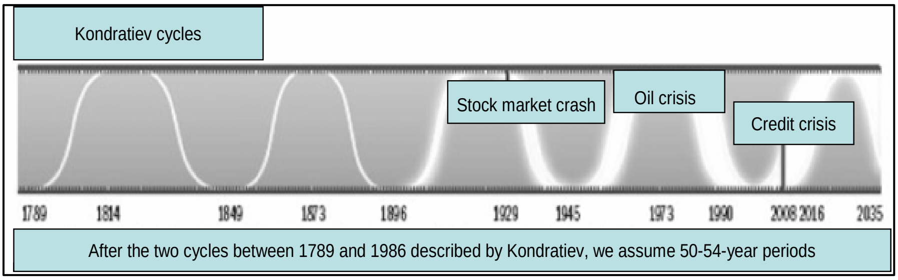


Exhibit 1
Kondratiev cycles
Source: Schweitzer, A. (2008). Economic cycles – is there a parallel with the 1929 crisis? HVG, Vol. 44

The so-called secular trend cycle spans an even longer period of time than does the Kondratiev cycle. These cycles, of varying lengths, can enhance or attenuate each other's effects – as can the wavelike motions known from physics – depending on whether the direction of the waves as they meet is the same or the opposite (see Exhibit 2). Kondratiev established in his original work that the medium-term cycles (Juglar) conform to the long-term. During the down-slope, periods of long and deep depression are seen in the Juglar cycles, whereas, in the up-slopes of the K-waves, an increasing proportion of the Juglar cycle shows both longer and stronger development.

After this brief review of the theoretical approaches, it will be useful to look at earlier crises. The effects of the different cycles always intensify in those cases when the two curves augment each other in the same direction. This was true in 1816-1817 when the peak of the Kondratiev-wave (the end of the war boom) met that of the upward secular trend which had started in 1740 [6]. This K-wave, negative trend ended around 1848 - at different times in different geographical locations. After 1873, the Juglar and Kondratiev cycles met in 1929 in the form of a global crisis.

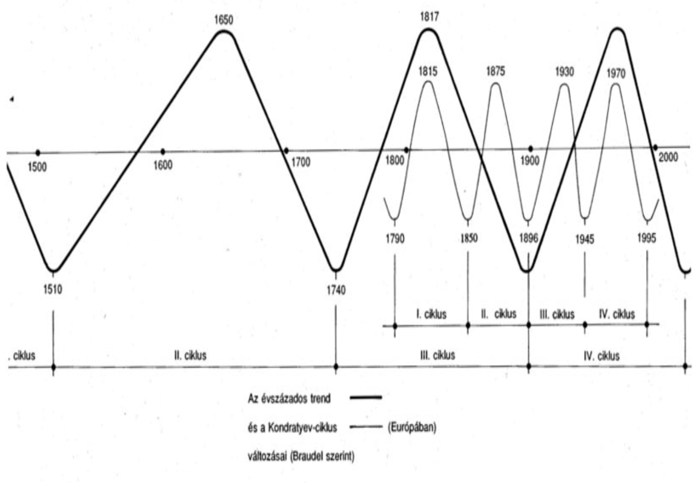


Exhibit 2
Constructive and destructive interference of the Kondratiev cycles and the secular trend

Source: Kehl, D., Sipos, B. (2009). The long-term tendencies of the producer price of leather and the different leather goods in the USA Part I. (In Hungarian) http://www.bimeo.hu/bor-cipo/2007/070101.html, 02-02

The overproduction and financial crisis spreading from America lasted for four years. US credit played an important role in the post-WW1 reconstruction of Europe and this was realised primarily in the form of the movement of capital. That is to say, American investors bought European government securities. However, this source of funds had diminished by 1929 since investors chose to invest on the stock market due to its higher returns. Liquidity problems then arose in Europe. Due to the earlier strong boom, domestic markets in North America had strengthened and new share-issues appeared increasing more and more rapidly due to the easy availability of funds – which produced opportunities for speculation. At the same time problems had arisen in the real American economy where car sales had dropped and labour was being laid off. Due to the rapid decline in returns from the stock market, banks were unable to satisfy the need for cash and liquidity problems arose. To deal with this situation, banks tried to withdraw credit but this led to deposits shrinking. This trend spread to the commodities market and governments were unable to solve the crisis by restoring bank liquidity by repurchasing government paper through their central banks. Bankruptcies spread from Europe, and the events of 1931 in Vienna caused new problems. Broadly speaking, we can say that the crisis which occurred in Europe displayed different features, and whilst we can talk specifically about money transmission and financial crisis in Western Europe, in Eastern Europe the crisis was concerned with agriculture and sales [7].

In Hungary, due to the new politico-geographic situation after World War I, dependence on the external market was high, internal demand was insufficient and the country as a whole depended heavily on a favourable international economic climate. The previous connections with Vienna were replaced by international loans; the country sank deeply into debt and was more and more entangled in financial markets in an increasingly complex way. The price gap between agricultural and industrial products gradually rose and returns deteriorated. Due to high production costs and to favouritism at national level, unsaleable goods and huge losses accumulated in agriculture as earlier exports collapsed. The high level of debt seriously handicapped the process of automation and modernisation which had already begun. In agriculture prices declined, whilst in industry it was production which declined. In three years the number of people employed in the industrial sector fell by 25% and the value of production by 35%. The boom caused by preparations for war was only a part solution, given the heavy dependence on Germany and the resultant bilateral contracts. State intervention (by customs-related action) was needed to protect the economy and agriculture received subsidies amounting to almost 650-700 million pengos[2] [8].

As the crisis showed different characteristics in different countries, the methods of dealing with it also differed. Central European countries typically introduced foreign exchange restrictions aimed at preventing an outflow of gold and foreign currency, and most countries began to protect their domestic markets by customs duties and import restrictions. In attempting to reduce imports, exports were stimulated by a (sometimes hidden) devaluation of the national currency due to overproduction, and agriculture was transformed by supporting investment. Clearly, what had been a totally free market was replaced by necessary government intervention, as, for example, with the New Deal.

The Oil Crisis of the 1970s may be still more interesting.

“Here not only did one of the Juglars overlap another, longer cycle, but also a Kondratiev and a secular period collided with each other.” [6]

2 The pengő (sometimes written as pengo or pengoe in English) was the currency of Hungary between 1 January 1927, when it replaced the korona, and 31 July 1946, when it was replaced by the forint.

2 The Current Situation

2.1 "Cash Cows" are Needed

Hugh Courtney [9], the Dean of the Robert H. Smith Business School at the University of Maryland, published a book which attracted considerable attention post-9/11 (i.e., September 11th, 2001): it was entitled "20/20 Foresight: Crafting Strategy in an Uncertain World". The author thinks that companies should prepare to scrutinise their financial situation from several points of view. He suggests that they should continually analyse their market opportunities and the steps taken by their competitors. According to the author, those companies which have a number of so-called "cash cow" products and services will be in a less difficult situation in the present uncertainty. If we look at companies in the developing world (China, India, Russia, etc.) those with a sound financial base and which are relatively cheap to finance will be in the best position. In his opinion, Tata (India) will be one of these, since its Western competitors will be forced to carry out significant company reconstruction or will even be forced to withdraw from certain areas. This company will probably be able to retain positions already gained and also to penetrate areas abandoned by its competitors.

2.2 Many Uncertain Outcomes

Bryan [10] thinks that the first important thing which the strategic analysts of every company should do is to pose two simple questions: *What do we know about the current situation?* and *What don't we know?* He offers his own answers:

- The whole world economy is affected by the fact that the financial sector has ceased to function normally.
- Various governments have been making remarkable efforts to mitigate the consequences of the crisis but the effects are not yet visible since a great deal of time has to pass before we can see the effects of government intervention at all clearly.
- It is also obvious that the global financial market has significantly weakened and lacks efficient coordination and monitoring mechanisms. Instead of global regulation, nationalism and pessimism will grow stronger among the major economic actors.
- Due to the increase in the role played by the government, taxes will probably rise and the regulatory function of the state will be increased.

- The era of cheap credit is about to end and so the main structure of many plans will need to be reviewed and previous concepts pruned where necessary.
- A new business model is needed in this situation, and, in the author's opinion, the era of corporate management which is inflexible or based on high gearing is about to end. Significant company reconstruction will become necessary. According to one of the most recent surveys, 54% of American companies plan to take such steps.

2.3 Possible Scenarios

The same author, Bryan, envisages four different scenarios for the future of the world economy. Several parts of the model described in Exhibit 3 are rather unrefined, but the model may still prove useful for strategy-makers. Based on the latest IMF forecasts [11], the Hungarian World Economy Research Institute has outlined three different scenarios. In these, the world economy has a better chance of early recovery than was forecast at the beginning of this year.

The present crisis is very different from earlier ones in that it has spread very rapidly to all countries and has brought the world close to global collapse. Company markets are shrinking and sales are decreasing, and for these reasons different solutions are proposed at international, national and company level. Many compare the present situation to the earlier Great Depression and the remedies then applied, but, in fact, serious changes have taken place since then. One of the most important differences has occurred in the structure of national economies. Compared to the earlier (e.g. 1929-33) crisis, the significance of the service sector has grown remarkably, while that of the agricultural and industrial sectors has decreased. This means that substantial strengthening has occurred where "the connection with material processes is secondary" even though the employment factor remains significant. Here productive capital can be found embedded into work, in the head of the employees [12]. We believe, therefore, that corporate methods of handling the crisis cannot follow previous patterns; the old recession scenarios cannot work. This results partly from the character of the crisis. This statement refers especially to those organisations where intangible assets play an important role and where production is connected to knowledge - as opposed to tangible assets – and this also includes the state sector [13].

Scenario 1: Remarkable improvement in the whole world economy ▪ Recession to turn into recovery in the short-term ▪ Effective regulatory regime ▪ Cost of capital renewal moderates ▪ Closely linked trust among economic actors	**Scenario 2: Moderate improvement in the world economy** ▪ Improvement expected in 1-1.5 years ▪ Moderately successful regulatory regime ▪ Significant improvement in some countries ▪ Increasing trust among economic actors
Scenario 4: Severe global recession in the world economy ▪ Recession to last at least 5 years ▪ Significant decline in all geographical locations ▪ Very strong defensive and nationalistic attitudes expected in all countries	**Scenario 3: Moderate global recession in the world economy** ▪ Recession to last 1-2 years ▪ Rigid regulatory regime ▪ Moderate defensive, nationalistic attitude characteristic of some countries

Exhibit 3

Possible scenarios for the future of the world economy

Source: Bryan, L. (2008): Leading through Uncertainty. The McKinsey Quarterly, December. *http://www.mckinseyquarterly.com*

3 The Role of Knowledge in Times of Crisis

3.1 Lay-Offs – Wealth Loss

The crisis management solutions of companies appear from time to time in the daily press [14]. This is mostly by means of news of reduced working time or of lay-offs. In most cases this is clearly necessary to avoid insolvency or bankruptcy. However, dismissing employees can bring long-term problems as well as offering short-term survival.

One of the basic assumptions of knowledge-management is that information and human capital play an increasing role on the input side. Much of the value of a company lies in its human capital - the knowledge latent in people’s heads - and this is a factor crucial for competitiveness and improved corporate performance.

In a crisis situation, however, companies pay insufficient attention to retaining knowledge (and its holders). They mostly use the “lawnmower principle” in cost reduction, attempting to economise on the highest cost component - wages. This, however, can only be effective to a limited extent. The rationale of Boda [15] helps us to understand the background. When we talk about costs, we sacrifice resources for the sake of profit, and whoever examines the utilisation of resources will try to reduce costs by any means possible. This approach, however, can be wrong. Costs occur in operating and not at the point of investment. We can divide costs into two categories: operational and capacity (maintaining and preserving the condition of the assets). Assets make profit and costs have to be assigned to their operation. In knowledge-based companies – totally knowledge-based companies exist, but totally non-knowledge-based do not – as discussed above, human capital is the most productive asset. Human resource is a particular good since its investment value is low (not needing to be purchased) but its operation is rather costly. “That cost management cannot be efficient which looks only at profits and costs (…) only those can manage costs efficiently who use the most effective assets and operate them in the most efficient way” [14:27]. In this sense, dismissing equals scrapping. This can only be effective if the “asset” cannot generate a profit which covers the cost of investment (which is, in the case of the human factor, almost zero) and exceeds operational costs. However, laying-off is in general not necessarily a good solution.

Rumelt [15:4] also draws attention to retaining employees and professional communities: “Focus on employees and communities which you will keep through the hard times. Good relations with people you have retained and helped will be repaid many times over when the good times return.”

We contend that an organisation can lose certain elements from its knowledge-base following crisis-driven lay-offs:

- Losses most of all in the fields of human capital, personal competencies, individual knowledge, employee proficiency and in the related synergies.
- Some part of the external structure (client capital) which stems from an individual’s network of connections. (The codified elements, such as trademarks, brand name and image, suffer a smaller loss)
- Losses are probably least in structural capital, since processes and structures are less connected to “heads” – that is, to human resources.

3.2 Knowledge-Management – Long Term Investment into Success

Knowledge and knowledge-sharing have become most important factors of organisational potential in this environment of rapid change and unpredictability, since it increases competitiveness. [17]

According to Salojärvi et al. [18], in the case of Finnish SMEs, the maturity of knowledge-management is positively correlated with long-term growth and sustainability. Companies with a more comprehensive and strategic approach to knowledge-management are growing more than those who lack this. Their study concludes that a conscious approach to knowledge-management is not enough in itself, since half of the companies in the sample did not show growth. In the rapidly developing Finnish SMEs, knowledge-management activities were carried out in a comprehensive and balanced way. The faster growth of knowledge companies was also indicated by Sveiby in his book published in 2001.

The McKinsey Management Consultant Company in advising on strategy also argues for organisational knowledge and innovation [19]. According to them, those companies which reduce R&D costs in a recession in order to economise are making a mistake. Of course, R&D produces no short-term revenue and profit, and so cutting costs in this area may appear to be an easy solution, with many clearly feeling that they can produce savings both simply and instantly. We are not thinking of “cash-cows” since, as Courtney [9] affirms, companies which have a number of so-called cash-cow products and services and which are cheap to finance will be in a much better situation – although it may still be difficult to find a way out of the crisis without raising question marks and without new, pioneering solutions.

General cost-cutting and reducing R&D costs also carry a serious negative message. The knowledge-workers, e.g., engineers, who represent the main non-material wealth of an organisation and ensure its innovativeness, are left with a negative impression of the company. Instead of cut-backs, organisations should take a more strategic approach to R&D costs and retain key employees. The crisis should be considered as some kind of opportunity. [19]

According to different empirical studies carried out both in and outside Hungary, headcount cutting is frequently used among lower-skilled workers at the beginning of a crisis [20]. Later this rationalisation tool may be extended to more highly educated employees and managers also.

Following Hewitt Associates’ benchmark study on Hungarian HR in time of crisis [21], companies can be grouped into four categories as follows:

- Traditional firms follow full-scale, cost-cutting strategies. They save costs in all types of HR operations and activities.
- A further group of traditional firms carry out differentiated cost-cutting strategies in different HR fields.
- A third group of firms are not strongly affected by the crisis. They concentrate on short-term financial solutions, introducing flexible HR solutions and outsourcing some HR activities.

- Finally, firms in a growth phase looking for optimal HR solutions implement total compensation and competency development systems.

An empirical analysis of HayGroup [22] shows that basic headcount cutting is not considered as a most frequently used HR Tool among international companies.

4 Results of our Empirical Research

4.1 Hungarian Samples

After our review of the literature we looked for empirical confirmation from the corporate sector. Do they think as the authors suggest - or do they have other preferences? Do they use the traditional tools or do they react proactively? To answer these questions we use the results of a questionnaire survey which we conducted in November 2008 and February 2009. We used a web-survey in Hungary, twice sending the questionnaires electronically to more than 3,000 companies, and we received a total of 253 valid responses relating to the expected impacts of the negative economic and financial events in the fields of company management, salaries and HRM.

4.1.1 Characteristics of the Hungarian Companies Surveyed

The sectoral classification of the respondents is shown in Exhibit 4.

Sectors	Percentage
1. Industry	28.9
2. Trade	26.9
3. FMCG	1.6
4. Financial sector	4.3
5. IT	3.2
6. Telecommunications	0.8
7. Transport	2.8
8. Energy	1.6
9. Economic services	30.0
Total	100.0

Exhibit 4

Sectoral classification of the companies surveyed

Source: Authors' own research

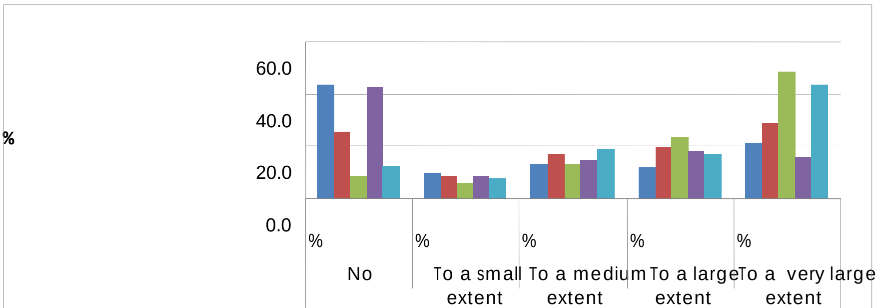
The great majority (81%) of the respondents have fewer than 100 employees, the proportion of those with more than 500 being 8.2%. In terms of annual turnover, 71.5% of the companies in the sample generated under 1 billion forints, 13.2% between 1 and 5 billion and the remaining 15% exceeded 5 billion. Private companies dominate (over 90%), and the ratio of foreign-to-Hungarian enterprises is 20:80. Most companies (78.9%) are based in Budapest. In general, we can say that, although the composition and size of the sample do not represent Hungarian enterprises in all respects, when we consider the list of respondents, the great majority of them showed the expected changes extremely clearly.

In our questionnaire we tried to extract answers to several groups of questions and we selected a number of topic areas for the purpose of this study:

- The likely impacts of the current negative economic and financial events
- The action(s) planned
- The planned rates (%) of salary increase for 2009 by job sector
- The planned changes in HRM and knowledge-management

4.1.2 Effects of the Current Negative Economic and Financial Events

Our respondents were clearly aware of the crisis and more than 75% stated that it had already reduced their growth. 80% expected it to have negative effects on their Hungarian markets and 40% expected the same on their EU markets. The majority assumed that inflation would be relatively low - below 7% (see Exhibit 5).



	% No	% To a small extent	% To a medium extent	% To a large extent	% To a very large extent
Decrease of credit supply	43.6	10.0	13.3	11.8	21.3
Increase in interest rates	25.6	8.5	17.1	19.9	28.9
Decreasing domestic demand	8.9	6.1	13.0	23.6	48.4
Decreaseof foreign demand	42.8	8.7	14.9	17.8	15.9
	12.3	7.9	18.9	17.1	43.9

Exhibit 5

Effects of the economic and financial crisis

Source: Authors' own research

4.1.3 Action Planned

68.2% agreed that action needed to be taken to avoid the negative impacts of the crisis and that it was not enough to continue to run the business in the old way.

Our questions can be grouped into two categories: The first (2-5) comprise a group of reactive, defensive steps, involving traditional, belt-tightening activities which basically face the (already evident) effects from a cost-cutting perspective. The second group (6-9) refer to possible proactive, offensive options. The answers here see solutions in finding new approaches, albeit adapting to change, by increasing sales, capturing new areas and markets, improving efficiency or creating new strategy (as opposed to maintaining old practices (Exhibits 6 and 7). Respondents were less willing to answer this question, and we received the fewest responses (176) to the “No action needed” option whilst most (240) companies looked towards the option of cost reduction.

It seems obvious that reducing costs has a clear priority for the companies, but opinions differ on the way this has to be done. Whilst the need to postpone investment is unequivocal, companies prove more cautious in connection with redundancies. Less than a third stated that it was vital to take this step. (Note: We should mention that the impact of part-employment (4+0 or 4+1) programmes already started may be included in these answers.) Companies, in fact, much prefer to freeze salaries. In respect of the latter, the most frequent answer was “Extremely typical” whilst in relation to redundancies it was “Not at all typical”. However, while the answers “Not at all typical” and “Not very typical” were dominated in respect of postponing investment and freezing salaries largely produced the other three answers. As Boda [15] stated, companies try to avoid “asset scrapping” and prefer to freeze salaries.

It would be unreasonable to examine such corporate behaviour merely from a knowledge-management point of view, and it is clear that social interactions, emotions and the social assessment of companies have a strong influence on decision-making. However, it cannot be deduced from the answers given that companies shy away from lay-offs on these grounds alone, and, even if we investigate this issue from the knowledge-management standpoint, it is not the case that it is practical for a company to retain all its employees. In the knowledge-era – as Sveiby [12] put it – it is reasonable to mechanise or outsource repetitive, mechanical tasks and keep expensive human resources for constantly changing tasks. On the contrary, however, our survey revealed that companies do not make such distinctions. It is also untrue that labour is handled differently in the more knowledge-intensive sectors. We cannot show any correlation between specific industries, lay-offs and the subsequent issue of redeveloping the labour force. We believe this to mean that even those companies which employ knowledge-workers and which rely heavily on intangible assets, are largely unaware of the importance of knowledge-management: they follow the traditional strategies of crisis management and do not make lay-off decisions based on knowledge-management factors. It is quite evident (independent of knowledge-management) that different industries are affected by the crisis to different extents.

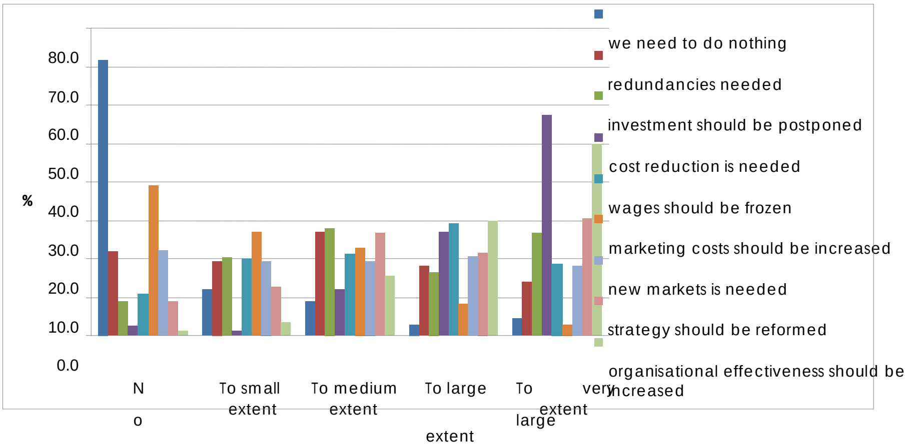


Exhibit 6
Action planned to reduce the effects of the crisis

Source: Authors' own research

4.1.4 Planned Changes in HR

With every question more than half of the respondents plan to take no steps in this field. A freeze on hiring received the highest percentage (44.2%) – not surprising, in the light of the foregoing – and lay-offs and changes to performance management were also mentioned frequently. The companies citing lay-offs roughly equal the number of respondents who classified redundancies as "Extremely typical" in question 5. A total of 18.6% plan changes in the field of knowledge-management, this suggests that companies see no relationship between this field and a solution to the crisis. The problem which appeared several times in the 2005-2006 KPMG surveys emerges again in this and in the previous question, namely that companies do not understand the advantages of knowledge-management and cannot grasp how this tool can benefit them. Although they have the appropriate IT background and their willingness to share knowledge is increasing, companies do not see a future in this method [23]

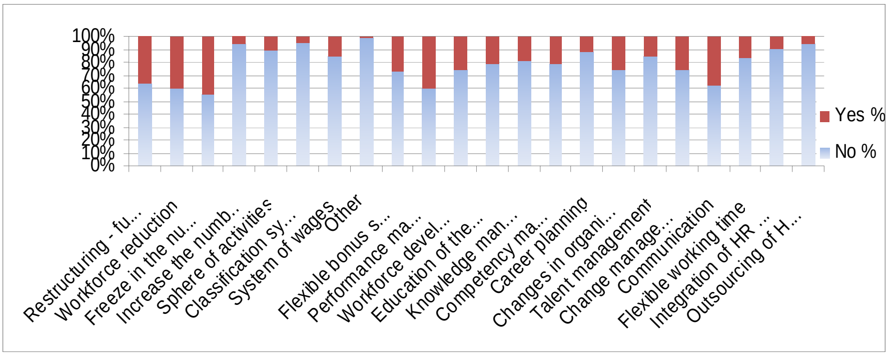


Exhibit 7

Planned changes in HRM

Source: Authors' own research

The change of performance management showed a significant correlation in respect of salary increases for sales personnel. This group was the best rewarded of the job categories, although the difference (on average, no more than 3%) was not especially high. It is evident that many companies try to solve their problems by increased sales – in other words, by selling more of the same products in the same way. In terms of both the action planned and changes in HRM, it is almost exclusively the old methods which are followed.

4.2 Characteristics of the Slovakian Companies Surveyed

In our research we had 107 respondents from Slovakia. The sectoral classification of the sample is shown in Exhibit 8. They were recruited through correspondence students at the Janos Selye University[3] from Southern and South-Eastern Slovakia. We used a hard-copy version of the web-survey questionnaire (discussed under Hungarian Companies Surveyed in this article) to question our respondents, most of whom were managers or owners of SMEs.

More than 75% of the companies are SMEs. 76.6% of them have fewer than 500 employees, 67.7% have an annual turnover below €50 million. The majority operate in the private sector (75.7%), and have Slovakian owners (64.8%). Compared with the Hungarian situation, the capital city does not dominate; most (78.3%) operate from Bratislava and from the provinces of South and South-Eastern Slovakia.

[3] This University is located in Komarno (Slovakia). Its students belong to the Hungarian minority but are bi-lingual, speaking both Hungarian and Slovak fluently.

Sectors	Valid Percent
Industry	27.1
Trade	22.4
FMCG	0.9
Finance	18.7
IT	0.9
Telecommunications	1.9
Transport	8.4
Energy	0.9
Business services	18.7
Total	100.0

Exhibit 8
Sectoral characteristics of the Slovakian firms

Source: Authors' own research

4.3 Sample Comparison

Comparing the two samples, we might say that Micro- or Very Small companies feature more strongly in the Hungarian group and Medium-sized companies (in terms of employee numbers) are 15% more frequently found in the Slovakian sample, although the broad SME sector dominates both. The financial sector is stronger, and the business services sector weaker in the Slovakian as opposed to the Hungarian. The ratio of ownership (public to private) is nearly the same in both cases.

4.4 Effects of the Negative Economic and Financial Events

Surprisingly, Slovakians seemed to be less committed regarding the crisis. Only 30% predicted that the crisis would cause a decrease in growth, 69% saying only that the current financial problems would place a heavy burden on growth. Slovakians were also more optimistic regarding markets. Compared to the Hungarians, 37.5% fewer Slovakian respondents thought that the crisis would have a significant effect on their domestic markets, and the same trend was evident for EU markets (30% fewer negative responses). There was no significant difference for overseas markets.

Exhibit: A. Country overview-socio-economic indicators

Hungary

Slovakia

Hungary		Slovakia	
Population:	10 050 000 people	Population:	5.445.0000 people
Territory:	93 030 km^2	Territory:	49.000 km^2
GDP per capita:	15800 Euro	GDP per capita:	18000 Euro
GDP growth (2008):	0,6%	GDP growth (2008):	6,4 %
Unemployment rate (2008):	7,8%	Unemployment rate (2008):	9,5%
Annual average inflation rate (2008):	6,0%	Annual average inflation rate (2008):	3,9%
EU membership:	2004	EU membership:	2004
NATO membership (year):	1999	NATO membership (year)	2004

Exhibit B: Country overview - Hofstede's indexes for Hungarian and Slovakian national cultures

Dimensions of national culture	Hungary	Slovakia
Power Distance (PDI)	46	104
Individualism (IDV)	80	52
Masculinity (MAS)	88	110
Uncertainty Avoidance (UAI)	85	51
Long-term Orientation (LO)	50	38

Source: Hofstede G. (2001). Cultures Consequences, Comparing Values, Behaviors, Institutions and Organizations Across Nations, Sage Publication, Thousand Oaks. and Jarjabka, A. (2009). Comparison of Eastern European Cultures. In: Poor J., Boday, P. and Kispal-Vitay, Zs.. Trends and Tendencies in HRM in Eastern European perspectives. Komarno (Slovakia): Janos Selye University.

Comments: However the indexes of Hofstede suggest sharp differences between the cultural attitudes of the Hungarians and the Slovakians, our research was asking entrepreneurs and firms mainly from south Slovakia where we were not assuming such differences. The long common history of Hungary and the Southern Slovakian part avoided to have basic cultural differences.

Exhibit 8

Country overview – Hungary and Slovakia

The cross-tabs analysis also showed a significant and medium-strong correlation between the expected growth rate of the companies and the nationality of the respondents. Hungarians expected significantly less growth in their companies than Slovakians.

	below 0%	1-3%	3-5%	5-10%	10-15%	15%	Total
Slovakia	28.6%	41.8%	19.8%	6.6%	3.3%	.0%	100.0%
Hungary	56.3%	20.6%	9.2%	6.3%	4.2%	3.4%	100.0%

Exhibit 9

The difference between Slovakian and Hungarian companies in the expected rate of growth of the company in 2009

Source: Authors' own research

Regarding action to be taken, most respondents in both countries agreed that the statement: “we have to do nothing to reduce the effect of the crisis” is either not true or true to only a limited extent. There are small differences between the countries regarding lay-offs. In general, we see that Hungarian firms are more willing to downsize, but only to a limited extent. However, in respect of the other reactive-type answers, there are notable differences between the two countries. Exhibit 9 shows that Hungarians tend to use reactive strategies more radically than do Slovakians. In the three reactive categories (postponement of investment, cost reduction and a wage freeze) the differences between the two countries all exceed 24% in the “very large extent” category.

Actions	Countries	No	To a small extent	To a medium extent	To a large extent	To a very large extent
1.Postponement of investment	Slovakia	13.9	25.7	29.7	24.8	5.9
	Hungary	16.1	13.9	22.0	17.5	30.5
	Difference	-2.3	11.8	7.7	7.3	-24.6
2. Cost reduction	Slovakia	7.8	13.6	34.0	30.1	14.6
	Hungary	3.3	3.8	17.1	23.3	52.5
	Difference	4.4	9.8	16.9	6.8	-37.9
3. Wage Freeze	Slovakia	39.8	21.4	17.3	14.3	7.1
	Hungary	17.4	10.1	20.2	20.6	31.7
	Difference	22.4	11.3	-2.8	-6.4	-24.5
4. Increased marketing expenditure	Slovakia	39.6	28.1	20.8	9.4	2.1
	Hungary	35.4	16.3	25.8	9.1	13.4
	Difference	4.2	11.9	-5.0	0.3	-11.3
5. New markets	Slovakia	30.5	31.6	23.2	14.7	0.0
	Hungary	19.4	12.2	24.3	19.4	24.8
	Difference	11.2	19.4	-1.2	-4.6	-24.8
6. Strategic reform	Slovakia	9.3	15.5	36.1	28.9	10.3
	Hungary	7.8	7.8	27.5	20.2	36.7
	Difference	1.5	7.7	8.6	8.7	-26.4
7. Organisational effectiveness improvement	Slovakia	5.1	16.3	35.7	31.6	11.2
	Hungary	8.8	3.9	21.9	24.1	41.2
	Difference	-3.7	12.4	13.8	7.5	-30.0

Exhibit 10

Chosen strategies to reduce the effects of the crisis (by country)

Source: Authors’ own research

The marked cells shows that Slovakian values are significantly higher (by over 10%) than the Hungarian. The related red marks distinguish the weaker categories, and, as red signs are only seen in the “no”, “small extent”, and “medium extent” categories, we can conclude that Slovakian firms are willing to use these strategic tools less. Options 4 to 7 show the proactive strategies which organisations might follow to reduce the effect of the crisis. The green and the red cells suggest the same trend as seen in the reactive categories. In the “very large extent” categories

Hungarian companies feature more strongly, since they accept the need to implement these strategies more radically. Slovakians are more moderate.

Regarding crisis-related plans for HRM, the difference is not as noticeable as for strategic action. We still see that, in each category, less than half of the respondent Slovakian companies are preparing to take HR action. In our cross-tab analysis Slovakian firms showed no significant differences from Hungarian organisations in respect of:

- Freezing staff numbers
- Increasing staff numbers
- Compensation system
- Workforce development
- Performance management
- Management training
- Knowledge-management
- Competency management
- Career planning
- Change in organisational culture
- Talent management
- Change management
- Communication
- Flexi-time
- HRM integration

In these categories Slovakian organisations tend to react to the crisis as Hungarians do. Surprisingly, in both countries talent- and knowledge-management attracted fewer than 20% positive answers, and so we conclude that companies do not realise the power embedded in intangible assets and in the improvement of the knowledge-capital of organisations. They do not believe that differentiated, quality employees could find a way out of the crisis through innovative solutions.

We have identified six categories where significant differences do exist in crisis-related HRM activities among the Hungarian and Slovakian companies. The results are shown in Exhibit 10. We see a different direction in these categories from that in the strategic plans. More Slovakian companies tend to use HR tools than Hungarian. The largest gap occurs in changing or implementing flexible bonus systems. For us it means that Slovakian firms are willing to emphasis more individual performance in countering negative trends in the company. The interesting point is the huge gap in the category concerning workforce reduction. Hungarians, however, were stronger in the strategic "dismissal" category, and in terms of HRM, Slovakians are more willing to dismiss employees.

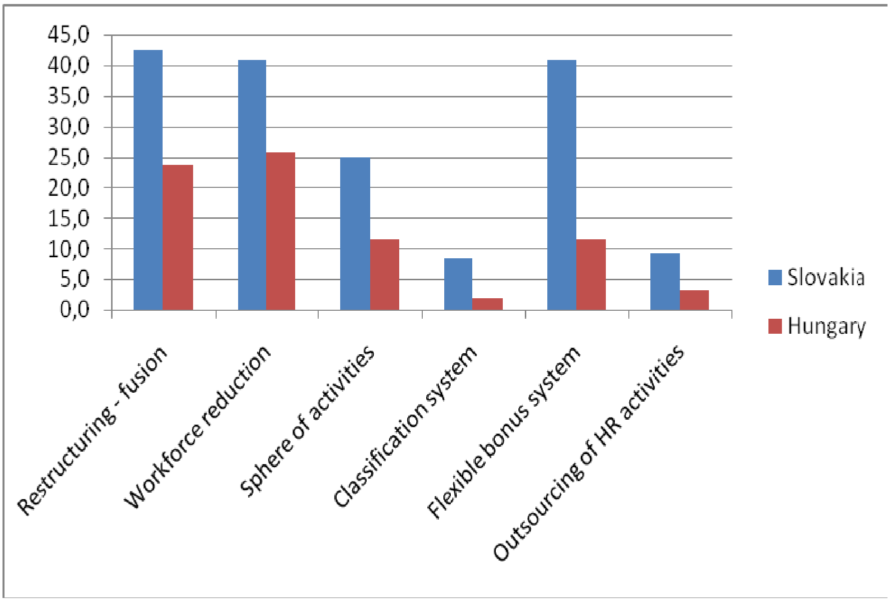


Exhibit 11

Significant differences in crisis-related, planned HR activities between Hungarian and Slovakian companies in 2009 (%)

Summary, conclusions

In times of crisis companies apply different methods to ride out the storm. The underlying reason is often short-term survival and to avoid the overhanging threat of bankruptcy. However, they put the future at risk in several ways by lay-offs and by the thoughtless handling of assets. By losing human capital they jeopardise the innovativeness which ensures flexibility and they lose the driving force of growth: their intangible assets. The comprehensive, strategic-level management of knowledge leads to faster growth and to recovery. Earlier crisis management solutions work with little success in the changed economic environment.

However, our questionnaire survey revealed that companies still tend to prefer old solutions, and, in terms of similarities, we were able to identify features common to both countries:

- They try to avoid lay-offs but the underlying reasons are social rather than knowledge-management related, since no difference could be detected between companies applying this method in different industries.

- The majority of companies are not planning to innovate in the HR field, since they do not believe this to be a solution. The underlying reason may be a lack of appreciation of the advantages of knowledge-management.
- Surprisingly, in both countries talent- and knowledge-management attracted fewer than 20% positive responses.

Certain divergences were, however, noticeable between Hungarian and Slovakian companies:

- Hungarians expected significantly less growth in their companies than Slovakians. At the beginning of 2009 this was, perhaps, not surprising since, for Slovakia, a stronger GDP forecast and the successful introduction of the Euro supported this confidence.
- Hungarians tend to use reactive strategies more radically than do Slovakians, a tendency which can be explained by the weaker financial and economic situation of Hungarian companies.

Limitations and directions for future research

Our results are based on two empirical research studies undertaken in Hungary and in Slovakia in 2008 and 2009. From these it is clear that any effort to generalise regarding this or any other region affected by the damaging effects of the global crisis would be premature. A further potential weakness is the choice of Hungary and Slovakia to represent the effects of the global crisis on HRM and knowledge-management. Our research processes and models were designed for use in both Hungary and in Slovakia (where slightly different cultural and economic factors would, no doubt, apply), but our respondents in Slovakia belonged to the Hungarian minority and were students at a Hungarian-Slovak university with the result that cultural differences were minimal. The major contribution of our primary questionnaires relates to meeting a stated need for the "deep, but narrow understanding of meaning and process that can be provided by detailed comparative case studies. . ." [24]

In terms of subsequent research, we have standardised our approach to conducting a similar survey in other countries of the region, and this project is now underway. We duplicated this research and conducted studies (consistent with our model and on parallel issues) in Romania and in Bulgaria in April 2009 and we are currently engaged in analysing and summarising our research results. We plan to complete a four-country-based comparison (Bulgaria, Hungary, Romania and Slovakia) in the last quarter of this year.

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