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# Crisis will test human capital

## State set to preserve jobs; HR firms to innovate

Since the beginning of 2009, Slovakia has been operating in what the finance minister has described as 'crisis mode'. The tsunami-like economic crisis which rolled across the Atlantic and began to swamp Western Europe last year has hit Slovakia harder than market watchers and state officials had been expecting. The wave washed away rosy predictions and there is now broad consensus that the country's economy will grow at a considerably slower pace than the government had assumed in late November 2008.

Several big businesses have modified their working hours and cut shifts and some, in a much bleaker scenario for their employees, have started announcing layoffs or decided to shut up shop completely.

Slovakia's labour authority estimates that up to 16,000 people could lose jobs through major cutbacks. Some human capital professionals suggest that a worst-case scenario might add as many as 50,000 people to the country's army of unemployed.

Prime Minister Robert Fico said that the goal of his government will be to preserve employment at any expense and by mid February three crisis packages had been drafted by the Fico team, designed in part to keep businesses afloat.

Finance Minister Ján Počiatek admitted that the packages might end up inflating the government deficit.

"We are entering crisis mode, in which everything can be modified," Počiatek said, as quoted by the Sme daily.

Slovakia's economy will grow at 2.4 percent in 2009, the Finance Ministry said on February 4, trimming its previous 4.6 percent GDP growth forecast made in late November 2008. The revision came a couple of weeks after the European Commission (EC) scaled back its own 2009 GDP growth prediction for Slovakia, which it originally made in autumn 2008, from 4.9 percent to 2.7 percent.

### NEW TRIALS FOR HUMAN CAPITAL

The downturn has created a completely new environment, posing tough challenges not only for businesses economy-wide, but also for human capital firms which now find that tried and tested methods can in many cases no longer be applied.

One quarter of companies in central Europe and 37 percent of companies in the eastern European region are now dealing with a decline in orders while a little over half of managers are predicting further falls in the future, according to a January 13 statement by executive search firm Anderson Willinger.

"The first changes in companies will address cost reductions, which will be reflected in human resources," said Lucie Teisler of Anderson Willinger.

In more than three quarters of organisations operating in Slovakia, human resources managers expect the current situation in the world economy to affect them to some degree, according to a recent survey by global executive search company Amrop Hever.

The impact of the economic crisis on human capital is so far being felt least by firms in the pharmaceutical and energy sectors. By contrast, personnel managers at automotive firms are the most affected, the survey suggested.

Businesses, including HR firms, have found themselves in a situation that neither Slovakia nor anyone else in the world has experienced before, Martin Krekáč, co-founder of the Jenewein Group global consultancy firm, told The Slovak Spectator.

### WHAT DO BUSINESSES EXPECT?

Human resources specialists are offering no rosy scenarios and admit that the market they operate in will be tested harshly, and that a number of HR firms might simply disappear. Employers are likely to be more careful and to start seeking simpler ways of managing their approach to employment.

The impact of the crisis on the Slovak labour market will be massive, even if problems as huge as in the Czech Republic or Hungary are not expected, said the chairman of the board of directors of Trenkwalder, Luboš Sirota.

"Currently, HR is a sector under heavy stress," Sirota told The Slovak Spectator. "The worst-case scenario assumes that about 50,000 people might lose their jobs as a consequence of the crisis."

According to Mariana Turanová, managing partner at executive search company Target, the market is already experiencing a 'hiring freeze'.

"We haven't been in this situation for many years," Turanová told The Slovak Spectator. "Actually, looking back at the 10-year history of my company in Slovakia, this has never happened before."

What human resources specialists must solve now, according to Sirota, is principally the question of how to use the current crisis in the long term.

"This year will certainly witness a big decrease in the number of HR service providers who have been performing poorly," Gerard Koolen, managing partner at HR management


Foto: TASR

Prime Minister Robert Fico


Foto: TASR

The government has started meeting regularly with advisers to discuss anti-crisis measures.

company Lugera & Makler, told The Slovak Spectator.

Due to changing market conditions and changed demands from customers only those HR service providers showing a flexible and creative attitude will be able to survive, and to keep or even gain market share, Koolen added.

Branislav Hunčík, senior manager in human resource services at PricewaterhouseCoopers, agrees with Koolen that HR consulting firms will survive only if they change significantly.

Indeed tougher times in the market will push the human capital firms to undergo innovations that they have been delaying for a while.

"You cannot succeed with traditional processes, which is why innovation and creativity are needed," said Krekáč. "Indeed, the need for innovation has been here for a longer time, perhaps five years, but firms kept using the same know-how that was left behind by other countries. The crisis now makes innovation inevitable."

**The Finance Ministry has marked down its GDP growth forecast for 2009 and some observers are predicting up to 50,000 job losses.**

"Today's businesses require HR skills that are different from those that were necessary in the last few years," Hunčík told The Slovak Spectator.

An HR consultant will be appreciated only if he comes up with a solution to short-term problems without destroying long-term goals. Basically, it is about cutting costs while maintaining competitive human capital, according to Hunčík.

According to Krekáč, by cutting work hours or laying off employees, which are precisely the old practices used, for example, during the first economic crisis in the United States, firms achieve only one-off savings and delay solving their problems.

"If, when you make savings, you do not innovate, it is all in vain," Krekáč added.

## LOYALTY VERSUS JOBLESSNESS?

However, human resources managers in Slovakia also see in the crisis some opportunities for the human resources sector. Managers link this assumption to the fact that their companies might be able to take advantage of the unfavourable situation faced by other firms - for example, by using the freed up human capital in Slovakia or abroad - according to the Amrop Hever survey.

Human resources professionals also assume that employees will lower their wage expectations and become more loyal to their current employers.

"The impacts on the human resources sector will have different dimensions," Boris Lukáč, country manager at human capital consulting firm Hudson, told The Slovak Spectator. "One of them is stronger loyalty towards the employer and a weaker tendency to change jobs in general."

Employees will need stronger and more significant reasons for change said Lukáč, adding that another positive aspect could be a more significant differentiation of top-performers

within firms in order to retain these people and create new value.

Dana Blechová, country manager at executive search company Iventa, agrees with Lukáč, suggesting that employees will value their work more and consider carefully any employment change.

"They will certainly be more careful with their choices, especially if they have a good job," Blechová told The Slovak Spectator.

While on the one hand recruitment firms and HR departments will get a larger number of job applications, on the other hand they will face more difficulty persuading potential candidates to make a career change, Blechová added.

Andrea Horvathová, senior consultant with executive search company Arthur Hunt, predicts that the crisis will improve the quality of people employed by firms.

"Firms will not only eliminate over-employment, which has been tolerated because of the economic boom, but will also focus on strengthening their teams with the most effective people," Horvathová told The Slovak Spectator.

Hunčík suggests that voluntary employee turnover has already gone down.

"Pressure on wage costs will be significantly lower and absenteeism costs will go down," Hunčík said. "Now employers have a clear reason for changing the entire remuneration system to establish true performance-based remuneration, and pay bonuses only for real performance."

According to Hunčík, talent will always be scarce, and very few companies have started a talent retention programme in response to this crisis.

"So, for brave and savvy companies, this is an excellent time to hire some key talent at a reasonable price," Hunčík said.

Hunčík said that employer brands face a testing time.

"Over the last few years, many companies have come up with HR marketing campaigns, communicating their values and brand as an employer," Hunčík said. "Now, we will see whether these were real values or only marketing values. And talent will be the decision-maker on this issue, by taking action and leaving those brands with no true values."

Although, before the crisis, some companies were talking about talent management but doing nothing, more companies will be forced to establish a system by the time this crisis ends, said Hunčík.

For recruiters, Hunčík suggests that they re-qualify as outplacement specialists, or change their businesses to interim executive-outsourcing companies.

According to a December 2008 report by the consulting department of Deloitte, the current financial crisis will further strengthen the state's role in national economies. These developments will place further pressures on the human capital within public administration.

Another example of the do-more-with-less challenge that characterises the global financial crisis will be to attract talent to work for the public sector because it will offer more challenges with fewer guaranteed comforts, according to Greg Pellegrino, global public sector leader at Deloitte Touche Tohmatsu. This will make public sector recruitment a transformative opportunity, he added.

"Governments across the globe may emerge from this shift with a new generation of public servants at the helm, people who come to the profession with plans and expectations that differ from those of their predecessors," said Pellegrino in an official release by Deloitte.

## CRISIS MAKES GOVERNMENT MORE OPEN TO LABOUR MARKET FLEXIBILITY

The government of Robert Fico has now produced three packages aimed at keeping businesses afloat, helping employers maintain jobs and giving a boost to the slowing economy.

The Fico team, which shortly after taking power in 2006 revised the Labour Code to make it kinder to employees and stricter towards employers, has been working on new changes to labour market legislation in Slovakia.

The crisis has been pushing up the jobless rate in Slovakia. At the end of December 2008, almost 219,000 Slovaks were unemployed and ready to take a job, 15,490 more than the previous month. Slovakia posted an unemployment rate of 8.39 percent in December, up from November's 7.80 percent, and the highest rate since April 2007, the National Labour, Social Affairs and Family Office (ÚPSVAR) announced on January 20.

The country's labour ministry proposed seven special amendments to the law on employment services to support the sustainability of current employment, the creation of new jobs, as well as support for the unemployed to launch their own businesses.

Viera Tomanová's Labour Ministry in early February announced its ambition to support existing jobs and to help create about 63,000 more in 2009, and the same number the following year. The labour-boosting measures are expected to consume €141.4 million in 2009 and €175.4 million in 2010 from the state budget.

The state will help employers who are experiencing serious operational problems to cover compulsory health and social insurance payments for their employees during periods when the employees receive only 60 percent of their salaries. The average annual assistance to such employers is projected to be €677 per employee.

The government also plans to allocate a total of €5.3 million to subsidise new jobs. An average monthly contribution from the state of €212 for each new job is proposed and the state hopes that this will help create 2,500 new jobs.

The state will also support the founding of so-called 'social firms' which could provide as many as 10,000 jobs for the unemployed.

"The social firms are public services that use low-qualified labour and people who are disadvantaged in the labour market," said Tomanová, as quoted by the TASR newswire.

The state also proposed support for unemployed people who become self-employed. Those who start their own business can get support from the state to cover their compulsory health and social insurance payments for up to two years.

Through another measure, the government wants to motivate the jobless to be more active in searching for new jobs. Those who have been jobless for at least three months can receive an average monthly state contribution of €153 if they find a new job on their own and their gross monthly wage does not exceed 1.7 times the subsistence level, which is currently set at €3,435 per year in Slovakia. This measure is projected to help 7,000 people find jobs and would cost the state €10.8 million.

The government has also made changes to the country's tax laws in order to help businesses save costs if they maintain jobs. While observers give the government some credit for the changes, they also suggest that cutting payroll taxes would be a more effective way to help suffering businesses.

The revision to the law on investment assistance, which parliament passed in a second reading on February 11, should free the government to provide financial injections to more businesses between April 1, 2009 and December 31, 2010.

The government has also proposed a bill cutting the period for VAT refunds from 60 to 30 days, along with an amendment to the income tax law which increases the non-taxable portion of incomes of the lowest earners from €3,435 per annum to €4,026.

Self-employed people whose annual income is under €170,000 and who do not have any employees could be exempted from book keeping duties, under the revision, the SITA newswire reported.

The government will also extend the so-called employee bonus, which makes minimum wage earners eligible for negative tax, paid annually starting in 2009.

"We still think that cutting payroll taxes would help the Slovak labour market more," said Richard Ďurana, director of INESS, the Institute of Economic and Social Studies, an economic think tank.

According to Ďurana, cutting payroll taxes would be a flat and non-discriminatory measure, which would help all businesses in all regions of Slovakia, both established and new, foreign and domestic.

The measure would immediately boost their finances and employers would immediately see their labour costs fall and would thus be able to keep more jobs, said Ďurana; it might even inspire the creation of new positions, he added.

"This measure would also be immune to abuse and cronyism," Ďurana told The Slovak Spectator. "It is a good tool to eliminate the impact of the strong euro, which is making Slovak labour relatively more expensive when compared to neighbouring countries, the currencies of which have weakened against the euro."

The National Union of Employers (RÚZ), which represents two-thirds of the employers in

Slovakia, welcomed the government moves.

"We see the proposals as quite positive, even though we would certainly welcome the measures more if they were more systemic, for example by bringing a cut in payroll taxes, reducing red tape, and making labour legislation more flexible," Martin Hošták of RÚZ told The Slovak Spectator.

RÚZ gave the government credit for its measures to preserve existing jobs, motivate the long-term unemployed to find jobs, and create better conditions for people to start their own businesses.

Hošták was more sceptical about measure to support social firms, suggesting that these might not have the desired effects. The costs of such measures could be relatively high and their final effects are questionable, Hošták said.

The fact that the government is dealing with the problem by preparing such packages is indeed positive, said Jozef Uhrík, President of the Slovak Industry Association.

"Many of the measures that the government adopted were in fact responses to requirements that we had submitted," Uhrík told The Slovak Spectator.

Uhrík was particularly positive about the reduction in the time taken to refund VAT payments to some companies.

Uhrík also praised measures which will help companies to keep employing more people than current production levels, currently much reduced, would otherwise justify.

"As far as other measures are concerned, we could produce a long list of what else could be adopted, but we understand that the state budget has its limitations and we want to respect the priorities which have been defined as an effort to preserve employment at any price," Uhrík concluded.

Robert Kičina, the executive director of the Slovak Business Alliance (PAS), said that though the measures are intended to ease the impacts of the crisis, they do not have the drive to lift the economy. Kičina also suggested that the implementation of these measures will have to be closely watched.

"What I see as negative is that all these measures might lead to speculation and deformed business decisions and it will be difficult to control their implementation," Kičina told The Slovak Spectator.

Similarly to Hošták of RÚZ, for Kičina the most doubtful decision is the support for the establishment of social companies, which was included in the first crisis package.

"On the one hand, [social companies] deform competition and, on the other, assistance will go to a very narrow group of people," Kičina said. "Assistance for the self-employed who are just starting their businesses could easily be abused and might lead to massive cancellations of self-employed status and then re-registration as newly self-employed after three months."

Kičina said that the least negative aspect of the plan is the intention to subsidise jobs so that companies do not lay people off.

"The good thing is that every businessman should be able to access the assistance after meeting the given conditions," he said. "Also, this measure would support good companies which are thereby not forced to lay people off during the year."

According to Kičina, in times of crisis it is normal for companies to lay off redundant people so that they can survive, and later expand production again and re-hire employees. He added that the vast majority of businesses, including members of PAS, are experiencing serious negative effects from the crisis.

"This is why we will very carefully watch how the government distributes the money that everybody has collected through paying taxes," Kičina said. "It is precisely cuts in taxes and payroll taxes that I see as being more appropriate assistance [since] businesses will feel an immediate effect."

If not permanently, taxes could be cut at least for a limited time so that the financial burden on companies was eased during the crisis, he said. Kičina said he would welcome unambiguous information about where and how many cuts are to be made to the operation of the public administration. ■