

# Slovak labour still attractive

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FOREIGN investors attracted by low labour costs in Slovakia, weak mobility of Slovak labour and groups of long term unemployed - those are some of the current issues of Slovakia's human resources market.

The Slovak Spectator asked HR experts their opinion of how to tackle these issues. The questions were answered by Miroslav Poliak and Igor Šulík, partners of Amrop Jenewein Group, Mariana Turanová, managing consultant of Target SK, and Dana Blechová, senior consultant and head of office at Iventa Slovakia Management Consulting.

**The Slovak Spectator (TSS): Slovakia has been attractive for foreign investors for its cheap labour. However, this trend is likely to change since other eastern European countries have already started luring away some large investments by offering even cheaper labour costs than Slovakia. How will this development influence the Slovak labour market?**

**Miroslav Poliak (MP):** We have to view this topic from a much wider perspective in order to understand the market dynamics. It has not only been the cheap cost of labour in Slovakia that was important for investors. Slovakia's location in the middle of Europe, a highly skilled, knowledgeable and motivated workforce with good foreign language skills have all been factors. These factors have also combined with other factors within the Slovak economy since 1998, such as our membership in NATO, EU and the flat tax system to contribute to this positive result.

We were aware from the beginning, as were the investors, that there will be a benefit from low labour costs for maybe the next 10 years. But what will come next? The investors will remain only if they will find sufficient financial reasons to stay - for example, high profitability and return on their investment coming from efficiency, productivity and an ever more qualified workforce that will also combine with lower logistics costs, thanks to Slovakia's location in the heart of Europe and a continued reasonable business environment. We can already see it is possible for investments to be highly profitable, just compare the quality of the production of Volkswagen in Bratislava and other Volkswagen sites around the world - Slovaks are even more productive than workers at the main production plant in Wolfsburg.

We also have to make note of the wide variations in labour costs in different Slovak regions. So far, the regions of Slovakia with the most expensive labour force are also the most interesting regions for investors. In the near future, we should be able to benefit from the lower costs of these other regions. In general, the cost of labour in Slovakia will increase, however, it will take a couple of years until we approach the EU average.

**Igor Šulík (IŠ):** I do not believe that cheap labour is the only factor that has attracted foreign investors to Slovakia. The decisions are always more complex and the investors take into account a broad spectrum of factors in their investment decisions (e.g. tax system, educated workforce, state aid, stability of the country). Labour costs are expected to grow

over the next few years and unless the new government finds ways of lowering the costs for social and health insurance, the cost of labour will grow even higher.

**Mariana Turanová (MT):** This trend is natural and expected. On one hand, some investors might seek even cheaper labour costs but there are several who came to Slovakia with a long-term view, bought the land here, built their own factories and heavily invested in our people. It will be a big challenge for the new government to promote Slovakia further and attract investors in more sophisticated fields where the cost of labour will be important but not as important as the specialization and knowledge of the workforce.

**Dana Blechová (DB):** First of all Slovakia offers an advantage of being an EU-member state and at the same time a cheap labour market. Wages in western Slovakia are already quite high while wages in central and eastern Slovakia are still attractive and relatively low. We expect a rise in salaries also at the blue collar level but believe that Slovakia, particularly in central and eastern Slovakia, will remain an attractive and inexpensive country in which to invest for some years.

On the other hand, there is a shortage of qualified candidates on a managerial level in eastern and central Slovakia. In many cases, in order to attract candidates, companies have to also offer a western Slovak pay package in eastern Slovakia. Even in such cases, the interest on the part of the candidates to move to eastern Slovakia is not tremendous. To conclude, we see a moderate salary rise at the workers level and maybe a more dynamic salary rise for the top positions in eastern Slovakia.

**TSS: Though Slovakia has a flexible workforce, labour mobility remains low. Is the Slovak workforce likely to become more mobile?**

**MP:** The mobility remains low and is very much connected with the people who were quite flexible several years ago and relocated from east to west Slovakia in order to get better jobs with a higher salary.

The new investors also started locating their plants in other parts of Slovakia than the west - such as in the southern and eastern regions. People coming from other regions and working in the western part of Slovakia for the last several years are now waiting for the right job opportunity in their hometown to return to their family. This fact also causes another problem - people are less ready for daily commuting, because they wait until the right employer comes to their hometown. Although they were previously ready to commute daily even 80 kilometres, now they do not want to commute even 20 km. In general, if the housing situation, especially for young people will not get better for example in the area of rental houses/apartments, the mobility situation can not improve.

**IŠ:** I see a positive trend in labour mobility. It is becoming more common for people to move to locations where the jobs are. The move to the west of Slovakia, and especially Bratislava, is easier than to make a move from this area to other regions of Slovakia. However, if there is an attractive professional opportunity, the region where a candidate lives is not the most important determining factor and a move is possible.

**MT:** There are two ways to look at Slovak labour mobility. Firstly, there are the people who commute

weekly to the Czech Republic or to Bratislava. They leave families behind and work in jobs enabling them to earn a living. Many of them give up after some years of such commuting and move to Bratislava. However, would people such as experienced managers and specialists move from Bratislava to smaller towns where investors need them? No. This is another way of seeing Slovak mobility or better to say immobility.

Mobility could be improved along with an improved standard of living. In other words if - a comfortable living standard, infrastructure and all other required amenities were also available in smaller towns then the situation could change. However, social ties are still very strong and prevent people from moving from town to town where companies need them. I don't see this reality changing very quickly, at least not in the next 5 - 10 years.

**DB:** We are not experiencing an improvement in labour mobility from west to east Slovakia. Even if you consider big investments and job opportunities in these regions, candidates are reluctant to move.

**TSS: How do you evaluate strategies of the Labour Ministry to reduce unemployment and increase the employment possibilities of the long-term unemployed and underemployed groups (unskilled, manual labour)?**

**MP:** It is not ideal, but just look at the statistics before 1998 and then we can see big differences. Reforms were only started after 1998 and it was very positive that the government had the courage to also realize that some painful and sensitive steps needed to be taken. That strategy seems to have been the right approach and it is now important to continue the reform process.

There is still a big problem with infrastructure development and regional disparities that will have to be addressed during this next period to get a better balance all over Slovakia. Maybe, if the educational system produced a differently educated labour force, more relevant to the needs of employers that require different qualification with more added value potential, we could then attract investors better and change the numbers as well as the structure of employed people in Slovakia.

**IŠ:** The former government has tried to tackle this issue. We also appreciate that the system of social support was changed in order to motivate these groups to become more active in searching for a job. What is needed is to develop a more systematic approach to this issue through forward looking guidance that would enable people to be trained for the future needs of the labour market and allowing them to be ready for a job when an opportunity presents itself.

**MT:** I am not an expert and do not know the government policies by heart but what I see in real life leads me to say that the policies are weak. Sometimes a good programme starts, people are motivated to join a programme but after a few months everyone becomes less motivated and the programme slowly dies out. There is no continuity, no systematic feedback and I dare say, ministerial clerks might know all the regulations and programmes of the EU by heart but simply are not able to make them real because they lack entrepreneurial thinking. I also see a big gap for municipalities who are

closer to citizens and who can act more promptly and with more understanding of real life needs.

**TSS: In the past, large companies had the tendency to hire foreigners for top positions of leading companies. Gradually, more Slovak names appear in the top-management listings of these companies. What are the recent developments in executive search? Is Slovakia now producing enough top-quality managers? Is there a tendency to hire Slovak managers from abroad?**

**MP:** Yes, in this area the situation has completely changed. In the early years as foreign companies entered the Slovak market they could not find enough qualified local managers. Therefore, they filled managerial and specialized positions with expatriates, who have transferred the know-how of the mother company, implemented the processes and corporate standards and trained the local staff.

Now we have qualified top managers as well as specialists in Slovakia, so that it is quite usual to use the local management and specialists from the beginning even for green field projects. In some cases, Slovaks are managing new projects in other countries and work for the mother companies at various projects on an international level. We also have to realize that the Slovak managers and specialists are usually still cheaper than those coming from other countries.

**IŠ:** We see the positive trend that gradually Slovak managers are replacing foreigners in top management positions. Now the focus of many executive search mandates are on finding local managers who can take over the responsibility of leading companies either in Slovakia or in the central and eastern European region. They are able to combine the unique local knowledge and experience with good management and leadership skills. It is good that one can find top-quality Slovak managers not only in Slovakia but also in other countries and regions.

**MT:** This is correct and I am happy to see our managers replacing foreigners and even being required to work abroad in company headquarters. I can say Slovakia has enough skilled, specialised and educated top managers who are trained to lead companies according to international rules. What is more, our people "have heart" and often consider a company they work for as their own and work diligently to make them successful. They simply take their jobs seriously and want to succeed.

**DB:** It is true that more and more companies tend to exchange their foreign top-management for Slovak managers. The reason is, on one hand, the companies have already built a stable position with strong potential in the market and, on the other hand, companies want to avoid big expatriate pay packages for foreign management. Slovakia has become a mature and stable market economy and there is simply no longer a specific need to employ expatriates. This is particularly true for the banking industry.

We experience situations when clients want us to search for Slovak managers abroad, particularly in the Czech Republic, for positions here in Slovakia. Our experience is that there are more and more qualified and experienced top-managers but still not enough to cover the entire Slovak market. Slovak managers still however need to improve their leadership and management skills.

## BUSINESS *in short*

### Government to halt privatisations

THE NEW government led by Robert Fico will not revive the outgoing government's plan to sell state stakes in strategic energy and railway companies.

In addition to the railway cargo transportation firm ZSSK Cargo Slovakia, the Dzurinda government had started to privatise Slovakia's six biggest heating companies and had laid the groundwork for the sale of three energy distribution firms.

Just these sales were expected to earn around Sk45 billion (€1.19 million) for the state budget, an amount the Fico government would have to find some way to replace.

Analysts have noted, however, that the state budget will not be the only victim of the halted privatisations.

According to ING Bank's Ján Tóth, foreign investors are going to find their options increasingly limited in Slovakia and the path to investment for the companies most in need will be complicated, *Pravda* wrote.

### New cabinet given reins of healthy economy

THE OUTGOING cabinet of PM Mikuláš Dzurinda handed over control of Slovakia's relatively healthy economy to new PM Robert Fico this week.

The country has been hailed throughout Europe for economic prosperity that includes GDP growth of more than 6 percent last year and wages that continue to grow faster than prices.

Unemployment remains a serious problem, despite decreasing to below 15 percent in March for the first time since 1999, *SME* wrote. Another problem is inflation, which hit 4.8 percent in May.

Slovakia's gross national debt was Sk524 billion (€13.85 million) at the end of March, which is around 35 percent of GDP. In 1998, when Dzurinda was elected to his first term, the debt was Sk272 billion. Although half the current level, the proportion of debt to GDP was similar to the current 35 percent.

"The starting position of the future PM is very good. He inherited an adequately indebted economy that has good prospects for the next four years," said Pavol Kárász, an economic analyst with the Slovak Academy of Sciences.

### SE likely not to pay dividends until 2010

SLOVAKIA's dominant power producer Slovenské elektrárne (SE) probably will not pay out dividends from 2006 until 2010, according to material from the Economy Ministry that was based on negotiations with the National Property Fund (FNM) and the Italian firm Enel, SE's majority shareholder.

"The SE investment strategy plan is not accounting for dividends between 2006 and 2010 in order to secure sufficient funding for investments it needs to build new power generating capacities," the Economy Ministry stated.

Dividends will be paid only if real revenues exceed those projected in the company's new investment plan, which calls for €2 billion to be invested by 2010.

The investment will complete the third and fourth reactors of the Mochovce nuclear power plant, increase output of existing nuclear power stations, install the FK2 boiler in the Nováky thermal power station, build small hydropower plants and research ways to better utilise wind energy.

"This investment plan will rank SE among the most competitive energy producers in Eastern Europe," the Economy Ministry continued.

Enel became SE's majority shareholder in late April. The remaining 34 percent of shares are controlled by FNM, SITA wrote.

### Serial production launched in PSA

SERIAL production has already been launched in PSA Peugeot Citroen's newly built car assembly plant in Trnava, western Slovakia.

The plant manufactured 1,000 cars in June to be supplied throughout Europe. Its director general, Alain Baldeyrou, said coordination with the company's factories in Poissy and Madrid should ensure reliable and smooth production, but pointed out there's more to the equation.

"A smooth production process requires that all suppliers be able to deliver orders to the Trnava plant in time," he said.

Baldeyrou also said that all key Slovak professionals who will manage production in Trnava underwent training in French companies.

PSA currently employs over 2,400 people. The plant should employ more than 3,000 people by the end of August when it starts two-shift operation.

*Compiled by Spectator staff from press reports*



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