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Human Resource Management in Transition in Hungary

Hungary experienced sweeping change during the decade of the 1990s, where the accompanying changes within business organizations necessitated the adoption of human resource policies and practices to meet the new challenges. Having made much progress, the question today concerns the degree to which the human resource function has come of age and what work remains to be done. This paper summarizes literature regarding the human resource function as a source of competitive advantage in business organizations, describes observations from ten years of research results regarding HR in Hungary, and shares overall conclusions about the state of human resource management in Hungary in the middle of the first decade in the new century.

Introduction

The “people function” within organizations cannot and should not be viewed as a functional specialty that resides in a single, organizational department (i.e., Human Resources). Much of the responsibility for effectively utilizing and managing people rests with the management team—an organization’s executives, managers, and supervisors at all levels—and getting results from workers is their most fundamental responsibility.

Because effective people management in a complex organization requires a high level of coordination and consistency, a human resource infrastructure consisting of HR systems, policies, and procedures is needed. In organizations with a fully mature HR function, a carefully thought out and articulated human resource strategy exists, where that strategy is carefully linked with and responsive to overall organizational strategy. Development and monitoring of HR strategy and HR systems, policies, and procedures is the responsibility of HR professionals. While HR professionals have a specific and vital role in the people management function of the organization, they share the overall responsibility for managing people with the rest of the organization’s management team.

Mathis and Jackson (2000) refer to this sharing of people management responsibility between HR specialists and line managers as the *HR interface*. Any review or study of HR effectiveness would be incomplete without taking into account the existing HR systems, policies, and practices, as well as the degree to which the HR infrastructure is supported and skillfully administered by the organization's management team.

The purpose of this paper is as follows:

1. To review the local context of HR in Hungary,
2. To share observations from ten years of research results regarding HR in Hungary, and
3. To draw overall conclusions about the state of human resource management in Hungary in the middle first decade in the new millennium.

The Background of Human Resource Management in Hungary

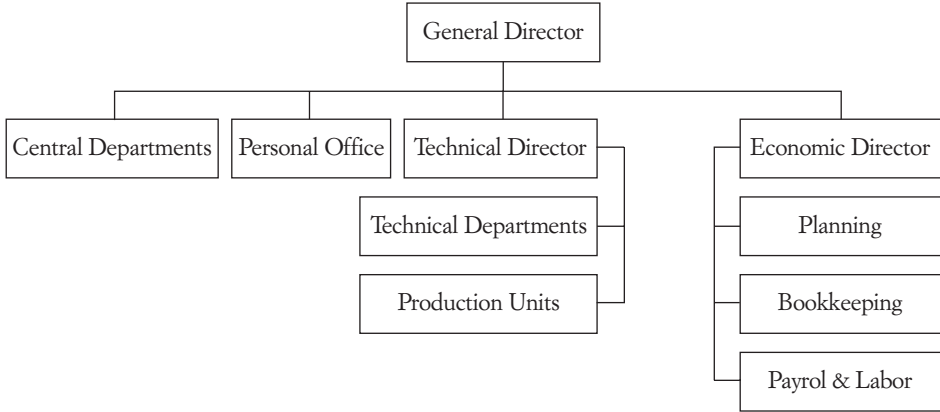
A series of reforms that began in Hungary in 1968 (Lauter, 1971) created an economic system that has been called "market socialism" (Kornai, 1992). The pace of experimentation and change—political, social, and economic—accelerated in the 1980s during what is commonly known as the period of "reform communism." By 1990 the Hungarian economy had a substantial private sector made up of small entrepreneurial companies. Hungary, much more than its communist neighbors, experienced economic and political changes that were more evolutionary than revolutionary.

Historically, economic transactions in Hungary worked through bureaucracy and the various state ministries rather than through markets. There was limited competition, while dysfunctional organizational politics were pervasive. Managers and employees were rewarded for conforming rather than for performing. Managers' efforts and skills were focused more on pleasing superiors than on profitability or customer service.

The traditional Personnel Department consisted of two separate systems—one for white-collar employees and one for blue-collar workers. The white-collar group reported to Personnel, while the blue-collar employees reported to the Director of Economic Affairs (Bangert and Poor, 1995). While it may seem odd to anyone from another economic system, the chief executives in each of the state-owned enterprises had no control over the wages that were paid to most of their employees and had little influence over non-wage benefits. (see Exhibit 2)

The traditional Hungarian human resource management philosophy followed an industrial, production economy bias (Kovari, 1995). Social goals focused on the production of industrial and consumer durable goods, applying bureaucratic processes of increasing specialization of labor. Consequently, broader job descriptions and higher personnel commitments were new to employees working in Western styled joint ventures.

Exhibit 2: Typical HR Infrastructure within State Owned Enterprises, before 1990



Source: Karoliny, M., Farkas, F., László, G. , and Poór, J. (Editors) (2003). *Human Resource Management*. (In Hungarian), 4th edition, Budapest: KJK–KERSZOV Publishing Co.

High levels of performance were rare and mediocrity was the conforming expectation. Pay-for-performance did not exist and egalitarian pay structures were a high priority. Employees who merely showed up for work kept their jobs and if supervisors wanted them to do any substantial work, the supervisor had to “pay” for such work in the form of a bonus. Such bonuses sometimes went as high as 200 percent of the employees’ base pay. Because these bonuses were individually negotiated, an atmosphere of suspicion and mistrust developed based on the fear that others were getting better deals.

Individual responsibility and accountability were avoided whenever possible (Pearce, 1991) and few managers took risks, even when it was appropriate to do so. Employees, supervisors, and managers seldom had sufficient information to make informed decisions and communication tended to flow in only one direction downward.

Trade unions existed under communism, but they were merely extensions of the government, where more than 90 percent of workers participated in trade unions. Since 1989 those numbers have been cut by more than half (KSH, 2003).

Four major trends were observed in Hungary and in other EE countries throughout the 1990s. First, a new labor law environment was created. Workers in countries such as Hungary, the Czech Republic, and Poland were given rights that had not existed under their previous governments. A total of 79 percent of the employed labor-force in Hungary—mostly in private sector—is employed under the Labor Code. Civil and public service employees (21%–22%) are employed under the Civil Servant Law and Public Servant Law. (see Exhibit 3)

Second, the era of job entitlement was over. Along with the right to change jobs came the difficulty many workers experienced in finding jobs as double-digit unemployment

Exhibit 3: Different employee categories in Hungary (2004)

No.	Sectors	Organizations	Employees		Laws	Implementation of laws (years)
			Headcount	%		
1	Private	Big companies (> 250 employees)	900,000	23.30	Labor Code	1992
		SMEs (250 < employees)	2,143,000	55.48	Labor Code	1992
2	Public	Local and central governments	100,000	2.59	Civil Servants' Law (ktv.)	1992
		Organizations employ special groups of civil servants (police, army, etc.)	100,000	2.59	8 special Civil Service Laws	Different years
		Health and educational institutes employ public employees	620,000	16.05	Public Employees' Law (kjt.)	1992
			3,863,000	100.00		

Sources: KSH (2002). *Major Labor Movement*, (in Hungarian), Hungarian Statistical Office (KSH), Budapest, and KSH (2002): *Hungarian Statistical Yearbook* (in Hungarian), Hungarian Statistical Office, (KSH) Budapest.

became typical in most of Central Europe. Third, the egalitarian pay structures that had been a priority during the early years of socialism had ended (Thurow, 1996). In those years the difference between the remuneration of blue-collar workers and administrative staff and that of their superiors was only three- or four-fold. Today, this difference can be ten- or even twenty-fold. However, this is a long way off from the differences of fifty- or a hundred-fold experienced in the United States; ten- or twenty-fold differences are more characteristic of the remuneration systems of Germany or the north European countries (Poór and Engle, 2005). (See Exhibit 4)

Exhibit 4: Rate of differences in remuneration of high and low paid employees

	U.S.	Germany	Hungary	Japan
Differences in remuneration	50–100×	20–25×	10–20×	8–10×

Source: Karoliny, M., Farkas, F., László, G., and Poór, J. (Editors) (2003), *Human Resource Management* (in Hungarian), 4th edition, KJK-KERSZOV Publishing Co., Budapest.

In Hungary, the first joint venture in foreign ownership was registered by the German Siemens corporation in 1973. Large multinationals appeared in larger numbers in that country starting with 1988. Since then foreign capital has gained a significant position in every fundamental sector of the economy. (See Exhibit 5)

Exhibit 5: Proportion of foreign-owned firms in Hungary (%)

		Ownership		Total
		Local	Foreign	
Firm size	SMEs	99.97%	0.03%	100.00%
	Big firms	18.24%	81.76%	100.00%

Source: KSH (2002): *Hungarian Statistical Handbook 2003* (in Hungarian), Hungarian Central Statistical Office (KSH), Budapest.

In fact, traditional investors looking for cheap labor have already started to relocate from the region, but knowledge-intensive industries and service-sector investments appear to be taking their place. According to our survey, many investors choose this area not only because of its cheap labor. The skilled, blue-collar workforce, engineers, technicians, and the perceived higher flexibility are also among the key motives. (See Exhibit 6)

Exhibit 6: Motives for relocating to Hungary (1988–2005)

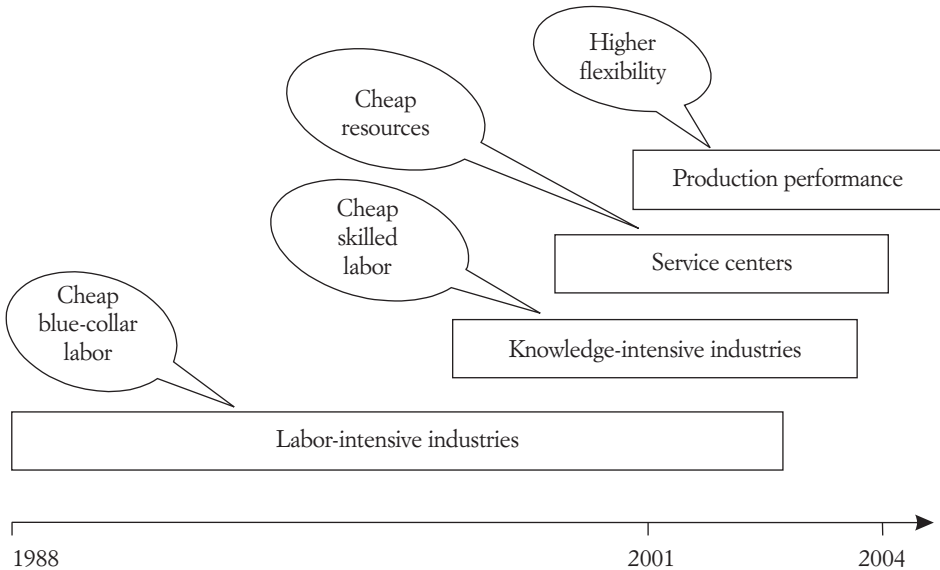
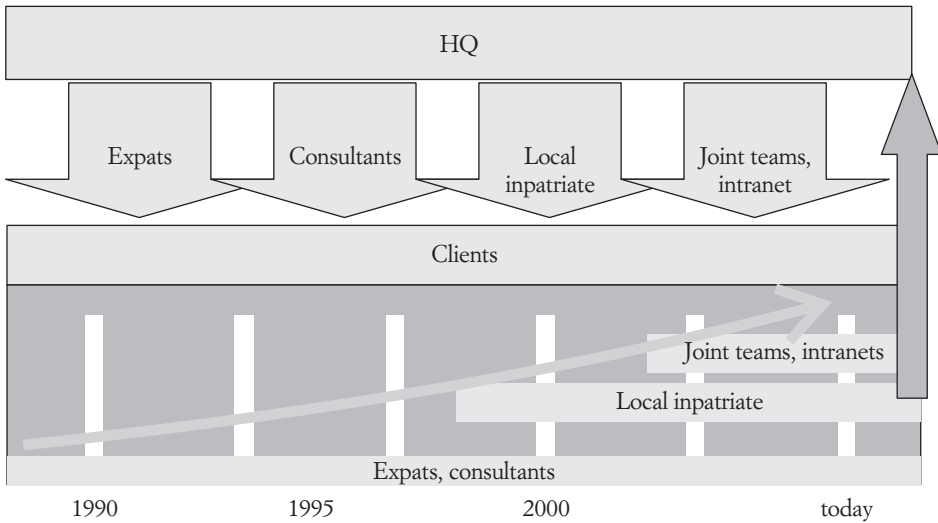


Exhibit 7: Changing patterns of knowledge-transfer in Hungarian companies

The process of knowledge-transfer in multinational companies in Hungary is illustrated in Exhibit 7. Hungarian experience shows that, at the beginning of the take-over—the “green-field” period—expatriates were the key knowledge-transmitters and their work was often supported by external and internal advisors. As the knowledge of local staff expands, as they gain general acceptance, their chances of being involved in the work of international teams or being given international assignments increase. (See Exhibit 7)

Besides investments in manufacturing and technology, foreign-owned companies have carried out significant restructuring in the incentive scheme management practices of the affiliates under their control. Foreign companies offer, on average, higher salaries than locally owned companies, even for comparable positions. Salaries for senior and middle managers, and for some special positions are significantly higher than for subordinates, even two- or three-fold differences are not uncommon. It is important to mention that salaries offered by banks are 20 to 30 percent higher (or even more) than those offered by manufacturing and service companies with foreign ownership.

Finally, the restructuring of the social welfare system placed a tax burden on both employers and employees. The relatively cheap labor force was made more costly by increasing payroll taxes for services which were once provided by the state. Employer social contributions for health care and pensions in Hungary could be as high as 40 to 55 percent of payroll (Cooper and Sharin, 1995).

Exhibit 8: Evolution of complexity in remuneration

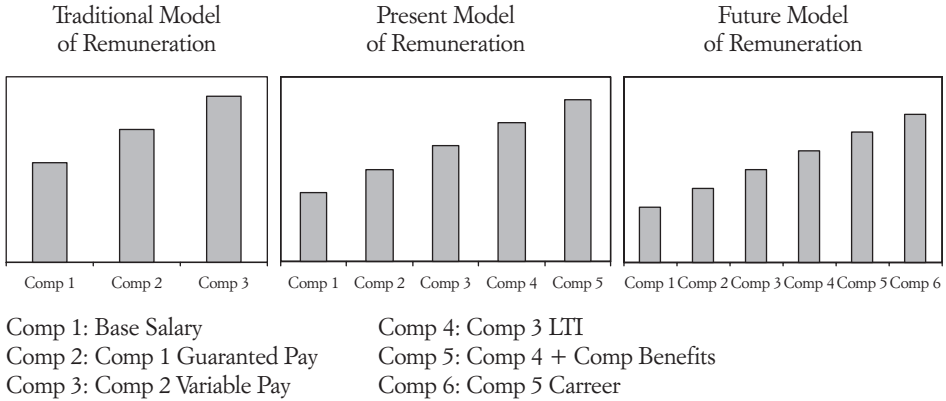
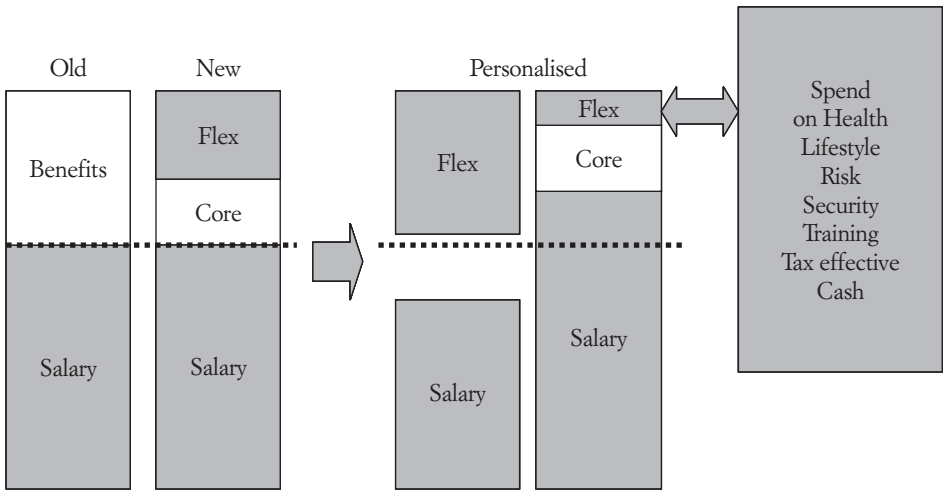


Exhibit 9: Model of flexible benefit solution



The wave of dramatic change in the political, legal, social, and economic systems of Hungary created many opportunities for businesses, but also posed many challenges. In order to meet those challenges, Hungarian businesses were required to adopt new methods, systems, policies, and expertise. Nowhere were these demands greater than in the management of the organizations’ human resources.

Due to these previous changes, one of the most sophisticated HR management tools is now total reward and flexible benefits. Today, compensation management increasingly uses the term “Total Reward” (or “Total Remuneration”). Traditionally, this referred to total cash payments, but recently an increasing number of companies have come to real-

ize that total cash remuneration and benefits should be addressed as one issue. “Career costs” are also often included in total remuneration (Milkovich–Newman, 2002). (See Exhibit 8)

The introduction of flexible benefits dates back to the 1970–80s in the United States, when employers were looking for solutions to lower their health insurance costs by introducing new forms of benefits. The concept appeared in Europe, primarily in the United Kingdom and Ireland, by the 1990s and as a result, employment costs have become easier to budget and share with the employee.

Flexible benefits became popular in Hungary in the mid–1990s. (Poór, 2007). Today, more than 1,000 companies or institutions use this method. (See Exhibit 9)

HR Effectiveness Research in Hungary: 1995 – 2005

In Hungary, many experts believe that traditional sources of competitiveness—including market protection, technologies, financial resources or economies of scale—are not sufficient to maintain competitive advantage any more. Representatives of various Hungarian HRM schools (Kövári, 1995; Gál, 1999; Gyökér, 1999; Bakacsi, et al., 2000; Klein, 2001; Poór, et al., 1999; Makó, et al., 2003; Karoliny, et al., 2003a) believe that human resources (knowledge, capabilities, and attitude) and their management are the key factors of long-term competitiveness.

Today’s HRM in Hungary is beginning to leave behind the instrumentalist, Taylorian scientific management approach and practice traditionally applied in Hungary. The Maslow needs and Herzberg bi-factor theories, the motivational research activities of McClelland, and the concepts of cognitive trends (expectations, objective, attitude selection, and market value) are becoming widely known for the representatives of Hungarian HRM and related sciences (Pléh, et al., 2003). Following the concept of Goleman (1998), Kindler (2002) states that emotions need rehabilitation and business has to be a source of fun. Hungarian HRM needs to recognize this new requirement, which at the same time creates new possibilities for working out practical solutions. (See Exhibit 10)

Empirical research aimed at determining and analyzing operation and management of organizations in Hungary has been conducted since the 1960s (Máriás, et al., 1981; and Schleicher, 1989). Within HR there were some large-scale empirical surveys, from the viewpoints of factory and work sociology (Héthy and Makó, 1972), company culture (Varga, 1983; Bakacsi, et al., 2002; Jarjabka, 2003), communication (Borgulya, 2004), and HR (Karoliny, et al., 2003b; Bokor, et al., 2005; HR–Portál, 2005).

Our research into Hungarian HR practices has been conducted for the past 15 years by surveying organizations, and these data and findings serve as the basis for the present paper. The first research studies were conducted at the beginning of the 1990s, the re-

Exhibit 10: Evolution of HR at leading Hungarian firms

Before 1990	1990–2000	Today
Industrial engineering based	HR based	HR and IHRM based
Task oriented job definition	Accountability driven job definition	Profile and competency driven job definition
IQ based people selection	Competency/EQ based people selection	Culture/CQ based people selection
Tayloristic motivation	MBO related performance evaluation	Mix (tangible and intangible) performance management
Centralized, government driven grading system	Point based grade system	Broad based grade system
Centralized, government based wage system	Total cash oriented reward system	Total reward with flexible solutions

sults were published together with Hungarian and foreign co-authors in Hungarian and foreign journals and proceedings.

Since 1997 the same questionnaire has been used time and again, permitting direct comparisons across years. Prior to 1997, a different set of questions was employed. In 2004, a different questionnaire (Cranfield European Human Resource Management Research Network) was used. During each survey, the usual respondent was the HR top manager of the company, or the HR expert designated by him or her. Once, we also asked for the opinion of the other side, that is the line management.

In our analysis—wherever it was possible—we tried to draw a comparison between the development of HR in Hungary and international practice. When we conducted our very first surveys, there was no real need for this type of information from the companies’ side. Now however, the situation has changed completely. Large Hungarian companies also show interest in practices conducted at their partner companies when they plan to restructure their system, or even as a consequence of the ever-increasing cost-efficiency requirements, many companies are not reluctant to use outsourcing any more. To provide a basis for this, benchmarking data showing Hungarian and international HR practices are indispensable. Between 1997 and 2004 we conducted surveys among Hungarian (large) companies several times, using a questionnaire. The methodology of this survey was characterized by the following:

- The questionnaire used between 1997 and 2002 was first tested in 1995. Over subsequent years, influential factors and explanatory variables of the questionnaire—company revenue, headcount, form of ownership, industrial sector—remained unchanged. However, the method of collecting opinions on HR practice was modified. On one occasion, not only the HR managers, but also managers of various departments of the participating

organizations responded to the distributed questionnaire. The survey in 2002 was conducted with assistance of questioners, while previously participants filled in the questionnaires by themselves.

- The last survey in 2004 was based on the questionnaire of the CRANET (Cranfield European Human Resource Management Research Network) program.
- Companies participating in the surveys were selected randomly from among these lists: Companies in the top 100 list of the Hungarian Business Week (Figyelő) in that given year and companies where the authors of this article performed any other type of research, survey and consulting work.

The characteristics of the answering companies are listed in Exhibit 11:

- A total of 409 companies participated in the seven surveys, among those 13 participated in each year.
- The number of participants varied between 27 and 112.
- The majority of those questioned, or responding was medium-sized and large companies.
- Among the participant companies, those in foreign ownership were in the majority.
- In the majority of the organizations participating in our surveys the wage cost was below 30% of the total revenue.
- In these seven surveys the proportion of industrial companies—compared to other sectors—was around 46%. In recent years, this number has decreased significantly, in line with the restructuring of the Hungarian economy.

Characteristics of HR in Hungary

Overall results from ten years of research have led to a number of observations. These are the characteristics that are noted regarding human resource management in Hungary in the middle of the first decade in the new millennium.

Private ownership. Since the change of regime, privatization has occurred and HR has developed significantly. Throughout the decade, for-profit organizations underwent several parallel change processes, including shifting mind-sets, restructuring critical core processes, and establishing core competence in missing disciplines like purchasing, finance, sales, marketing, and human resource management itself. The present HR practice of privately and publicly owned companies is much different than a decade ago (Dara and Szetei, 2000; Bakacsi, et al., 2000).

Increased competition. There has been increased competition over the past decade. With substantial foreign investment in Hungarian business, new competitive pressures have been brought to bear. Additionally, there has been increased competition among

Exhibit 11: Characteristics of companies participating in our research surveys (1997–2004)

Year	Number of enterprises participating	Form of ownership		Size of organization			Labor costs	
		Domestic	Foreign	Large <1 bn HUF and 250 persons	Large medium	medium <50 persons and 100 million HUF	30%<	>30%
2004	27	40.0	60.0	67.0	33.0	0.0	70.0	30.0
2002	112	35.0	65.0	45.0	47.0	8.0	0.0	0.0
2001	46	39.0	61.0	100.0	0.0	0.0	80.1	19.9
2000	54	34.0	76.0	98.0	2.0	0.0	86.9	13.1
1999	27	26.0	74.0	97.0	3.0	0.0	72.0	28.0
1998	71	25.6	74.5	87.0	13.0	0.0	90.0	10.0
1997	72	21.0	79.0	98.0	2.0	0.0	86.0	14.0
Average of 7 years	409	32	70	85	14	1	69	16
Weighted average of 7 years	58	31	70	75	20	2	61	12

Exhibit 11 (cont.): Characteristics of companies participating in our research surveys (1997–2004)

Year	Sector (in %)		HR strategy exists (in %)	Place of HR (%-ban)		Usage (in %)	
	Industry	Other sectors		First management level	2-3 level or lower	Outside consultant	Existence of HRM software
2004	34.0	66.0	60.0	59.0	41.0	63.0	100.0
2002	38.0	62.0	68.0	63.0	37.0	0.0	0.0
2001	42.4	57.6	75.6	46.1	54.9	88.6	100.0
2000	56.1	43.9	89.5	61.1	38.9	87.0	85.0
1999	44.0	56.0	81.5	65.4	34.6	85.2	96.8
1998	60.0	40.0	62.0	49.3	51.7	63.4	84.3
1997	50.0	50.0	65.0	61.0	39.0	60.0	80.0
Average of 7 years	46	54	72	58	42	64	91
Weighted average of 7 years	47	53	70	58	42	53	64

workers, and those individuals who perform well expect rewards for their work.

Improving economic performance. Despite the recent downturn in the economy, the overall economic trend over the past decade has been positive.

Integration with the global economy. In the prevailing global economy, firms in every nation are affected and Hungarian businesses are no exception. The interface of organizations in Hungary with the global marketplace has been facilitated by substantial foreign investment that has taken the form of wholly foreign owned enterprises and joint ventures between foreign and domestic firms.

Dominance of foreign ownership. As seen in the previous point, foreign investment has been substantial.

EU membership. Hungary became an EU member on May 1, 2004. The EU membership has had a profound impact on the political and economic practices of the country.

Key Factors Influencing HR in Hungary

Four factors have been found to play important roles in shaping the HR practices of Hungarian firms. These factors are discussed below.

Ownership. As mentioned previously, foreign investment in Hungary has become substantial. Foreign ownership has taken on several forms, including wholly-owned foreign companies, Hungarian subsidiaries of foreign companies, and joint venture enterprises between foreign and Hungarian companies. Even in the case of joint ventures, the foreign partner has most often been the dominant partner. The influence of these foreign owners has been great, providing a partial explanation for the rapid and dramatic development of the HR function in Hungary over the past decade.

Company size. As expected, an organization's size greatly impacts the degree to which the company has a well-developed human resource function. Firms with less than 100 employees seldom have a full-time HR professional on staff and their HR activities usually reflect a lack of coordination and development. Medium-sized and larger firms are much more likely to have a professional HR staff and to have developed systems and policies that are considered to make up a sound HR function.

Work culture. Over the last few years there has been a growing concern among executives and managers in all types of organization to "get the right culture" for future success. The term culture is defined as "the behaviors and activities that are rewarded, encouraged and supported."

The Changing Role of HR in Hungary

Since the importance of human resources has been acknowledged in the Western world, more and more companies make considerable efforts to improve the effectiveness of human resource management. It is widely believed that the *conventional* sources of competitiveness (including protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage on today's competitive markets. Many authors think that the human factor (knowledge, skills, and behavior) is the key to sustaining long-term competitiveness. Following a decade of privatizations and acquisitions, new owners and managers continue to ask the following questions: "How can I operate the staff and the organization as effectively possible? How can the available human resources contribute to building viable 21st Century organizations?"

There are an ever-increasing number of jointly or wholly owned foreign ventures in Hungary. They employ Western management philosophies, systems, and procedures. The application of accepted management practices and the proper management of human resources are important to these multinational corporations (MNCs). It should be noted, however, that the Hungarian economy continues to suffer from the values, habits, and business practices that were inherited from the former system. In particular, the egalitarianism, low respect for supervisors, and low work ethic and the party influences of the former economy, are still present and will require more time and effort to dismantle. Consequently, many multinational firms simply try to avoid these problems by hiring young people who are not overwhelmed or influenced by the factors described above.

The majority of companies in the competitive sphere in Hungarian economy finished their structural changes after privatization. They have the reconstruction of the different company functions behind them. With the intensification of competition, continuous renewal is being emphasized. In this situation, the role of human resources becomes particularly important. With the appearance of the new economy, knowledge becomes the motivating power of the economy.

During the early 1990s the focus within Hungarian companies was on assisting the organization in making the transitions associated with privatization. Organizational restructuring and establishing new human resource processes, policies, and practices were the order of the day. During the subsequent years, the focus has increasingly shifted toward a continuous improvement approach aimed at helping the organization develop and on assisting individual employees develop through coaching.

The Current State of HR in Hungary

HR Department. An analysis of our survey results indicates that HR is recognized as a first line management function at almost two-thirds of the participating organizations. Exhibit 6 shows this evolution. American (IBM–Towers–Perrin, 1991; Saratoga, 2002) and Western European (Wiley, 2002; Brewster, et al., 2004) research results are by 10 to 15 percent higher.

HR strategy. Results from the research indicate that a remarkable number of the firms surveyed have both organizational strategic plans and human resource strategic plans. While these findings do not answer the question of how effective these plans are, the mere fact that so many organizations recognize the need for strategic thinking and planning is noteworthy. Exhibit 5 shows the availability of written HR strategies at participating firms (72 percent). Saratoga (2002) HR benchmark research and another Hungarian research study (Karoliny, et al., 2003) show 79 and 47, 1 to 81, and 8 percent, respectively for the presence of a written HR strategy at participating firms.

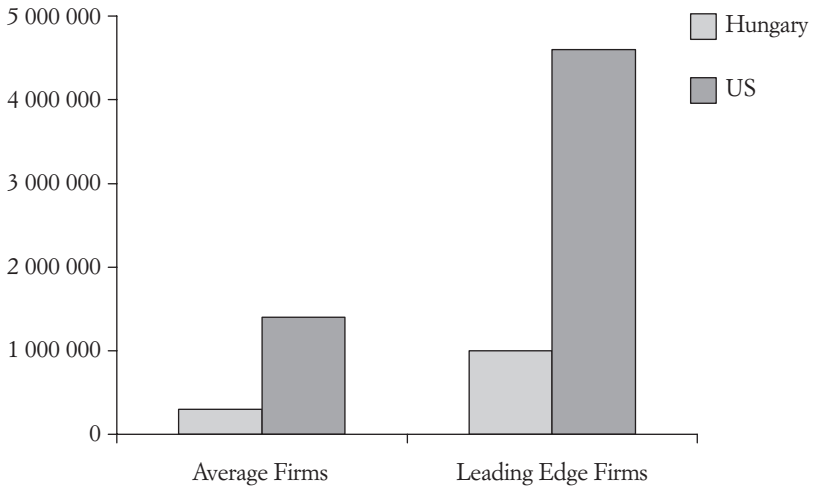
HR systems. A review of organizational survey results indicates that many of the companies surveyed have made dramatic progress in developing key HR systems, with the majority of firms indicating that they either have important HR systems in place at present or plan to develop or improve them in the near future. Once again, these results do not permit an objective analysis of how complete or effective these HR systems are, but future research may provide insights by comparing current HR practices in Hungary with benchmark companies from other parts of the world.

Training and Development. One HR system is worth noting in some detail—training and development. The training and development system within a company provides one measure of an organization's commitment to its human resources and the degree to which employee capabilities are being fully utilized. Training and development investments in Hungarian and United States firms are shown in Exhibit 12.

Results from the research show that the typical Hungarian company spends less on training and development per employee than is spent by the average company in the United States. (specifically, less than half the United States average). This finding is significant because studies reported by Bassi and Van Buren (1998) and the BNAC Communicator (1999) suggest that United States firms that spend substantially more than average on training and development outperform other firms on a number of organizational performance measures.

It appears that the typical Hungarian firm is spending substantially less on employee training and development than the best firms in the United States. Additional expenditures on improving the capability of employees through effective training and development could be expected to yield improved business results in many Hungarian firms. The

Exhibit 12: Training and Development Spending of Hungarian and United States Firms



latest results show a positive picture. The participating firms spend 3.5 percent of their annual payroll cost on training and development. This figure is a little bit above the Cranet latest figures (Brewster, et al., 2004).

Consultant involvement. Results from the research indicate that a remarkable number of the firms surveyed have used external HR consultants. This result is not surprising as two-third of participating firms were large and foreign companies. Makó, Ellingstad, and Kuci (1997) identified similar outcomes in their research. They found major differences between foreign and locally owned firms in using external consultants in Hungary.

When the Iron Curtain and Berlin Wall came tumbling down at the end of 1980s, the management consulting industry appeared in the CEE region relatively quickly. The local subsidiaries of MNCs offered management consultants an excellent marketing opportunity. (Gross, et al., 2004). In Hungary the use of management consultant services was found in 17, and 9 to 24 percent of firms surveyed, far beyond the United States or Western European average. This difference may stem from the fact that this region has no tradition of management training. As stated earlier, political stability was a long-standing substitute for managerial capability under the state socialist regime and now this profession seeks additional support (FEACO, 2003).

All respondents reported that they have used the services of management consulting firms, reflecting the special situation of different firms. In European consulting, revenue from professional services related to the HRM area reached 5, 4 to 10, and 8 percent in the past few years. (See Exhibit 13)

Exhibit 13: Proportion of HRM consulting in Europe and in Hungary (%)

Region – country	1999	2000	2001	2002	2003	2004
Europe – other consulting areas (strategy – OD, operations, IT, and outsourcing)	94	94.6	95.5	89.3	89.8	89.2
Hungary – other consulting areas	82	79	82.1	76	80	79
Europe – HR consulting	6	5.4	4.5	10.7	10.2	10.8
Hungary – HR consulting	18	21	17,9	24	20	21
Europe – total	100	100	100	100	100	100
Hungary – total	100	100	100	100	100	100

Source: FEACO (1999, 2000, 2001, 2002, 2003 and 2004). Survey of the European Management Consultancy Market: Federation European Associations Consulting Organizations, Brussels.

The most important findings in this area are as follows: (see Exhibit 9) (1) Consultants are most often used to assist staffing efforts. (2) The second area in which consultants were employed most frequently was personnel development and training. (3) Planning motivation, benefit systems and remuneration surveys came in at third place. (See Exhibit 14)

Exhibit 14: Changing Topical Utilization of External Consultants

Research Phase Importance	Transition-Learning (1997-2000)	Economic Slow-Down (2001-2002)	Today (2004)
1.	Staffing	Staffing	Staffing
2.	Salary surveys and salary management	Training and development	Training and development
3.	Training and development	Salary surveys and salary management	Organizational culture and internal communication
4.	Job and person profiling	HRIS	Salary surveys and salary management
5.	Organizational culture	Internal communication	HRIS

Source: Poór, J. (2004) *Trends and Tendencies in Management Consulting* (in Hungarian) Academy Publishing House, Budapest.

Trade Unions. In the majority of the exporting companies, which are providing the backbone of the Hungarian industry, the role of trade unions is either declining or not

significant among our survey participants. The presence of unionized employees is significant only in large corporations in Hungarian ownership, in specific industrial sectors (e.g. oil industry, pharmaceutical industry, etc.) and in the public sector.

Employee Communication. In comparison with international research results, the importance of employee communication is increasing in both in Hungary and in Western European countries (Brewster, 2004). The participating firms inform their employees about work related issues, but information on business strategy and finance is distributed only to managers. Usage of the Intranet and other electronically means is gaining in importance in this field.

Conclusions

Change in Hungary has been rapid and remarkable. Within a relatively short period of time—slightly over a decade—the country has seen sweeping changes in the political, legal, social, and economic systems. Accompanying those changes has been a surprisingly rapid development in human resource infrastructure within the Hungarian businesses that were surveyed during this period. Policies and systems were developed and/or updated, and in many firms the human resource function evolved from an underdeveloped set of activities to the role of strategic player within an astonishingly short period of time.

The increasing focus on HR systems and strategy suggests bright perspectives for HR in Hungary in future years. Both past actions and future plans are generally consistent with sound HR practices, and in fact many of the practices reported mirror or even surpass those found in a number of Western firms. Undoubtedly, strategy-oriented HRM gained ground in Hungary.

What is not known from the existing data is the degree to which there is any significant substance to Hungarian HR practices. Most of the basic HR systems (grading, performance evaluation, bonus, etc.) are introduced by the companies operating in Hungary. The Hungarian motivation system moved into the direction of United States practice, which tolerates larger differences in the competitive sphere. Specifically, the data show the presence of a variety of HR systems and activities, but they do not speak of the details of these HR components. Future research should focus on better documenting and understanding the details within these systems and on identifying areas for continued growth and continuous improvement.

HRM departments did not lose ground in Hungary either, and line management did not take over HR responsibilities. On the contrary, larger HR departments rather tend to rearrange and centralize decision-making and modification functions.

Observations are possible for two areas of HR and provide an example of the previous point. Training and development in Hungarian companies appears to be quite insuf-

ficient to meet the demands of the competitive, global marketplace. Additional investment in the knowledge and capability of employees is necessary and could be expected to yield improved business results (Poór, et al., 2006).

Performance management appears to represent another area for improvement. While many firms report having performance management systems, the small amount of money invested in training and development suggests that these performance management systems might not be complete at present. An effective performance management system depends on a great deal of expertise and business savvy by all managers and supervisors within the company, and such competency in performance management can be expected to require a substantial investment of time and money in training and developing for these officials to fully assume their roles as performance managers. No set of policies—regardless of how well crafted—can obscure the need for well-trained, skilled managers to manage the performance of their employees.

Pay and benefits continue to lag behind their Western counterparts. This practice could lead to a “brain drain” if it persists. Particularly with regard to strategically vital employees (at all levels), pay must become competitive with rates offered in other European countries to avoid loss of some key employees to organizations outside of Hungary.

Consulting is widely used in this area. The reason for this is that for several decades this field was kept very much in the background and today there is still a need for additional services in this profession (Gross, et al., 2003). Computer support and integration of Hungarian HRM is still lagging behind the practice of Western countries.

Outsourcing is still at an immature phase in Hungary, although it is rapidly gaining ground.

Comparative data which permit both qualitative and quantitative comparisons of the human resource functions in Hungary, through the European Cranet network, the United States, and other nations would be of particular interest in the future. In our global economy, no one nation or group of nations can be expected to have all the answers, and increasingly we must learn from one another across our different cultures and histories, and those organizations that do the best job of learning and adapting will be most successful in the highly competitive environment.

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