MACROENVIRONMENTAL FACTORS AFFECTING HUMAN RESOURCE MANAGEMENT – CASE OF SLOVAK REPUBLIC

Natália LETKOVÁ

Abstract

Today’s companies operate under the conditions of many factors of micro and macro environment and every mistake can cost them a market position. More than ever, their success depends on the human resource management (HRM) and the quality of their managerial decisions. Such factors as the shifts in the economy, globalization and technological development have created new demands for organizations and propelled the HRM field in some new directions. These challenges also create numerous opportunities for HRM. The primary objective of the paper is to identify factors of macro environment currently most affecting human resources management in enterprises operating in Slovak Republic. Paper provides integrated review of theoretical background with an attempt to offer modern sophisticated methods for dealing with the impact of these factors and, also empirical insight of the researched issue. The awareness of the importance of human capital, the necessity to apply modern technologies not only in the production of products and services, but also in all activities related to HRM, and last but not least, the quality of HRM are essential for companies to succeed in competitive struggle.

Key words

human resource management, macro factors, managerial decisions, personnel management

JEL Classification: O10, J20, M20

Introduction

„Take my machines but leave me my people.” Tomáš Baťa

Globalization, rapid technological progress and highly competitive environment do not give companies much room for error making. But what Tomáš Baťa understood hundred years ago is still valid. People are the most valuable capital the company has. To succeed, companies must manage human capital more efficiently and more sophisticatedly then their competitors in terms of getting it to the highest possible performance, engagement, creativity and loyalty.

We believe that the main task facing managers today is not to choose between a man and a machine, but to understand the areas in which people are irreplaceable and create the ideal conditions for them to get their highest performance, and on the other hand understand the areas in which it is more efficient to replace human by a machine (in the current context - machines, robots, software, artificial intelligence). The desired state is the perfect synergy between these two factors. If we talk about irreplaceable human capital, we also talk about managers, the quality of their attitudes and decisions, the way they manage human resources and their ability to understand development trends are what the success of the company depends on. As companies operate in a dynamic, constantly changing environment where the only certainty is permanent change, managers need to constantly monitor the factors of environment and adapt their actions to its changes. For HR managers to make good decisions, it is necessary to know all the factors influencing the HRM. As the factors of micro environment have recently been described in the scientific works (e.g. Mura et al., 2017), the author has decided to monitor macroenvironmental factors that currently have the higher impact on the HRM.

Paper also offers suggestions for how to effectively deal with these factors. In order to verify the correctness of authors findings and complete the whole picture of the situation, the HR managers of two companies operating in Slovak Republic (SR) were asked to respond to the question of which macro factors currently most adversely affect the HRM in these companies and how the companies are dealing with these effects, which gave us an important empirical preview of the researched issue.

Goal and Methodology

The aim of the paper was to reveal and summarize the factors of macro environment which currently affect most the process of HRM. The work focuses mainly on the situation in SR, but we believe that, as a result of globalization, the findings may be valid also in other countries. Firstly, we used the method of
integrative review, which is considered a form of research that reviews, critiques, and synthesizes representative literature on a topic in an integrated way such that new frameworks and perspectives on the topic are generated. To verify the correctness of authors' findings and complete the whole picture of the situation, we have also carried out diagnostic research.

It is descriptive research, following the partial characteristics of the problem under consideration, often used as a pre-research of larger research. The first information on the studied phenomenon is obtained, with a smaller number of respondents, aiming to monitor the intensity of the phenomenon. In the questionnaire, we put partially structured questions where the last alternative was the free option and open questions allowing respondents to offer a complex description of their situation. We consider this method of research to be appropriate for understanding the conditions in which HR managers make their decisions and to facilitate the formulation of objectives for further extensive research. We addressed the HR managers of two companies operating in SR to respond to our questionnaire focused on revealing macro factors which currently most adversely (negatively) affect the management of human resources in these companies and how the companies are dealing with these effects. The criteria for selecting the companies were as follows - a medium company with more than 100 employees and a large company with more than 500 employees operating in SR for at least ten years. Based on past research, we believe that larger companies with a larger number of employees suffer from the effects of macro environment more than small businesses (Letková et al., 2018), therefore, we decided not to conduct research in a small or micro company. We also took the assumption that the HR managers of companies long-time operating in the country will take into account the long-term context, so responses will provide more valid answers than with a company that only faces the environment for a short time.

1. Macroeconomic factors affecting human resource management

According to Noe et al. (2016): “The challenges organizations face today can be grouped into four categories: the new economy challenge, the global challenge, the challenge of meeting stakeholders’ needs and the high-performance work systems challenge.” In the context of the objective of this paper, we note that the first and fourth challenge are related to the factors of technological environment, the second challenge is related to the influence of economic factors, the third challenge is out of our focus, as it concerns the microenvironment of the enterprise. The authors of the cited publication, in agreement with the author of this paper, describe three of the four factors of the macro environment to which this article is concerned. However, we believe that the significant factor the authors have forgotten is the demographic environment, which is currently another major challenge for HR managers.

1.1. Economic factors

Understanding how economic factors affect business is essential to making good managerial decisions. And since decision-making about personnel is one of the core management activities, from which the company’s overall success depends to a large extent, it is necessary to understand the impact of economic factors on it. The most important economic factors influencing the overall success of a company include interest rates, exchange rates, inflation, taxes, the supply / demand ratio, but above all the state of the economy and the phase of the economic cycle in the country where company operates. There is a general opinion that companies face threats, especially in times of recession and crisis. The economic recession period is associated with a number of HRM-related phenomena, such as layoffs, wage payment suspensions or wage cuts and many other.

At present, however, the Slovak economy is in the phase of expansion, the labor market reaches the historical maximum, employment has risen to a record level, the number of employed climbed almost to 2.4 million in 2017. Estimates indicate that in 2017, 8.2% of economically active people were unemployed (Statistical Office), which is the lowest percentage since 1993. But behind these positive figures, there is a big problem hiding - the shortage of skilled labour force. Since our work is not focused on finding possible solutions at government level, but to derive recommendations for HR managers, a few solutions are now available - replacing the missing labour force with disadvantaged groups on the labour market, - employing workforce from abroad, - robotizing, - increasing the attractiveness of the employer, - the transformation of the inadequate labour force into satisfactory through its development and education.

We deal with the possible difficulties associated with the employment of disadvantaged labour force groups, the employment of labour from abroad and the substitution of HR through robotics in other parts of this work, so we will discuss the last two options - increasing the attractiveness of the employer and improving the quality of labour force. As an effective solution to increase the attractiveness of the employer
we consider the implementation of personnel marketing methods.

Personnel marketing (PM) represents the use of marketing methods in HRM. In PM (Poláková, Häuser, 2003) a potential employee becomes a "client" and company management through marketing tools does everything to gain and maintain employees in the company. PM helps to identify the needs and desires of employees, both existing and potential, which can bring competitive advantage over other organizations. Aim of PM is the planning and implementation of activities that promote business attractiveness in the labour market. An important part of PM is the analysis and survey of factors in the labour market that influence the formation and existence of the workforce in the organization. The aim of such personnel research is to optimally implement own internal and external personnel policy and strategy. From this point of view, each organization must monitor the overall labour market situation, especially the demographic, economic, legislative, political and socio-cultural factors as well as the degree of openness of national economies to entry of investment and other capital (Vojtovič, Krajňáková, 2014).

PM originates in the 60s of the 20th century, therefore, it is clear that its application at present is in a different form and, in particular, uses different instruments. To communicate with target groups, today's successful businesses use online communication channels and cloud-based databases using sophisticated software (Letková et al., 2018). We consider career management and talent management further effective methods of dealing with labour shortages. Although at present only limited consensus exists as to the definition of talent and talent management and the appropriate methods to study these constructs, and research on talent management can be categorized as rather phenomenon-driven, then theory-driven (Gallardo-Gallardo et al., 2015), the academic literature on theme of talent management is noticeably expanding from year to year (Thunnissen et al., 2013).

Talent management is usually presented as a tool to improve the performance of employees (mainly job performance) with the ultimate goal of improving organizational performance, for example, in terms of productivity, quality and profitability. The talent management approaches mainly represent a classic top-to-bottom managerialist approach with little leeway for employee involvement or employee agency.

According to Stahl et al. (2007), companies must see their recruits as customers and apply sophisticated marketing models and tools for the recruitment of talents. At this point, we may argue that the authors mislead talent management with personnel marketing, but we rather say that by incorporating personnel marketing and talent management concepts into the HRM process and their mutual alignment to achieve a synergistic effect, the company can eliminate negative phenomena associated with deficiency of skilled labour force. Concept of career is important not only from the individual’s point of view but from the function of HRM as well. Company must retain reliable employees without interrupting a plan of succession and replacement. Succession and replacement plans request that the organization identifies and monitors key employees with high potential for the organization. These are employees who, according to the organization, have abilities as well as interest in having strategic positions. Succession and replacement plans demand two forms of efforts from the organization: - identification and development of potential employees, - record of formal replacement tables (Šajbidorová et al., 2017).

1.2. Legislative factors

Important factors influencing the company's human resources also include legislative factors. Every company, including its HR management, must respect the country's legislation in its activities. In the case of SR, these are laws relating to employment, minimum wage, taxes, levies, and safety at work. Since SR has been part of the European Union since 2004, its regulations are also binding on it. As regards the nationally defined minimum wage, SR belongs to countries that have a statutory minimum wage, as well as another 20 EU countries. An important reason why living wage is not more widely applied is that there is neither a generally accepted definition of what a living wage is, nor is there a generally agreed methodology on how to measure a living wage (Anker, 2011).

As of 1 January 2018, the minimum wage in SR is EUR 480 per month for employees paid monthly or EUR 2.759 for each hour worked by the employee (Eurostat) and is seventh lowest in EU (Eurostat). With their views on the effects of the minimum wage on HRM, we can divide authors into two groups - a minimum wage defenders highlighting its role in protecting the living standards of workers with lowest qualifications and those trying to prove that (higher) minimum wage forces employers to replace the category of low-paid workers by another labour force – modern technologies or a higher-skilled workforce, which increases the number of unemployed low-skilled workforce.

Our recommendation for this case is not to replace low-skilled labour force by others, but to create a skilled labour force by developing the capabilities of an existing unskilled labour force. Another legislative
factor currently affecting companies with long-term labour shortages is the amendment to the Employment Services Act, according to which the employer in SR can employ third-country workers to a maximum of 30% of the total number of their employees. This amendment does not concern certain categories of employees, such as researchers or educators, but represents a serious problem for large manufacturing companies that address labour shortages in particular by employing labour force from countries such as Serbia or Ukraine. It is not easy to offer a quick and effective solution to this problem, but since statistics show that there is still an unused labour supply in SR, the solution could again be to increase the attractiveness of the employer, to identify (with the use of marketing research) the needs and expectations of this workforce and adapt job offers to their needs.

1.3. Demographic factors

The problem of demographic development and its connection with the labour market is currently the main theme of an increasing number of authors who confirm this to be a globally dangerous phenomenon. According to Škrovánková et al. (2017): “An increase in the number of post-productive population from the total population will cause a significant drop in the labour force accompanied by an increase in average age, resulting in a sharp increase in the economic burden on the population. Thus, an economically active resident will be increasingly economically inactive. A major problem will also be the increase in the number and share of older people in the economically active population.” Labour markets have already changed since the golden age of industrial economies. We are at the beginning of the period of rapid aging of the workforce an of the population as a whole. Making employment systems and social protection systems mutually supportive is, thus, one of the main challenges for the policy-makers and politicians of our time (Sarfati, Bonoli, 2017).

In the case of SR, demographic changes are reflected mainly in the aging of the population, which puts HR managers in front of the question of employing the older age group, and increasing educational level of the population, which is reflected in a number of young graduates without sufficient experience but with high, especially financial expectations. Another problem also manifested in the conditions of the SR is the brain drain, the withdrawal of a highly qualified labour force, especially from the healthcare and IT field abroad. To expect that such major societal problems will be resolved by company managers would be obviously naive, but employers should be aware that it is also their responsibility to put a pressure on the government to stop a nonsensical anti-immigration policy which doesn’t allow them to solve the labour shortages by employing labour force from third countries. But there are other steps that HR managers can try to deal with unfavourable demographic trends. One solution is to start employing the older age group, focus on the benefits this category brings and eliminate its minuses through education, training, active management of generations in the company. The solution for companies to attract highly qualified professionals back from foreign is simple and difficult at the same time - it is necessary to identify where they are located, to reach out to them by suitably chosen communication channels and to attract them by a range of working conditions that must be more attractive than those they have abroad.

This requires not only the capability of the HR manager but, in particular, the top management of the company must realize and quantify the potential benefits of experts and, depending on the outcome of such an analysis, invest in them. In case of a good choice, the investment should be returned and bring company a competitive advantage. Similarly, as in the case of older people, even in the category of young employees with no practice, investment in the development of the necessary skills is the solution. However, it is very important for both HR manager and line managers to identify talented workers to maximize the chance that investments will be returned. Equally important is to realize that a good organizational culture and working climate is essential to keep the employees motivated, to strengthen their identification with the company values and thus to prevent turn-over.

1.4. Technological factors

Technological factors can have more effect on business operation and success globally than ever before. The technological environment of business has changed the way in which businesses function. Advancements in information technology have almost taken over every department of the organization. This also applies to the HRM field where we can currently see three main trends and potential problematic areas: a) increased demands on the labour force and its technical skills; b) pressure on the use of new technologies in human resource management; c) computerization and gradual replacement of labour force by modern technologies (Stone et al., 2015).

a) Increased demands on the labour force and its technical skills.

At a times of shortage of qualified labour force, employers are forced to employ a less attractive groups of labour force: older workers, long-term unemployed, or women after longer (or cumulative)
maternity leave. What makes these groups unattractive to employers is, in addition to the potential loss of work habits, in particular the lack of knowledge of modern technologies. The latest study conducted in March 2018 in SR showed that the adaptation of the population to IT is starting to stagnate, while digital literacy is still very low for some groups of the population. The most important reasons for this stagnation are, in particular, a reluctance to learning and adaptation, as technology is increasingly complex for people (26%) and the inability to reach a computer or internet (25%). Every tenth respondent says to be not motivated for being satisfied with what he already knows and does not feel the pressure of the environment. Significant arguments, at least in some weaker social groups include lack of finances and absence of assistance from others (Velšic, M., 2018).

There are more parties that should participate in solving this problem. Firstly, individuals, who should permanently work on improving their own employability through self-education, attending training courses, etc. But recognizing own share of responsibility is problematic, particularly in the category of people with low education. Governments are another engaged party developing and fulfilling programs and strategies for the mitigation of negative labour market conditions. We can mention Europe 2020, a 10-year strategy for advancement of the economy of the EU aiming at "smart, sustainable, inclusive growth (Europe 2020). Since this paper focuses on HRM, we are more interested in tasks on the employers’ side. We find it essential for companies to have implemented strategic plan for HR development, which requires choosing the right learning content and the right learning methods – training, experience, further education, mentoring, coaching (and also deciding which of these activities will company cover by its own resources and which will ensure through outsourcing). Some companies still hesitate to invest in HR development and consider it risky and ineffective. We disagree with such attitude. The stronger the labour force, the better educated the population, the more opportunity the companies will have to hire people who will meet their needs and requirements.

b) Pressure on the use of new technologies in HRM

In the emerging digital economy, the technology has transformed the way HR processes are currently managed, mainly in terms of how organizations collect, store, use and disseminate information about applicants and employees. But not every company has yet understood the wide reach of the digitalization megatrend. Consequently, SMEs turned out to be unwilling to invest in IT significantly and do not see immediate pressure for action (Stein, 2015). At present, we see these areas (goals) of HRM where technological innovations can be used to improve performance:

- attracting a talented workforce (passive, one-way technologies, e.g. web-based job ads, job boards, interactive techniques such as virtual job fairs, e-recruiting),
- selecting talented employees - term e-selection refers to various forms of technology to assess the degree to which applicants’ knowledge, skills, and abilities fit with the job requirements, e.g., web-based job applications, tests, and interviews),
- increasing the knowledge, skills, and abilities of employees. A variety of technologies have been adopted by organizations in an attempt to more effectively deliver and manage the training process. These “e-learning” or “e-training” initiatives range from merely providing training materials online, to using a variety of technologies to deliver course content and support trainee communication (e.g., videoconferencing, virtual simulations),
- managing and enhancing employee performance, which is one of the most critical goals for HRM and includes assessing current performance, identifying high and low performers, and providing feedback to employees. There are two primary areas where technology has been used to support the performance management process: performance measurement, and performance feedback (Cardy, Miller, 2005).
- motivating and retaining talented employees. Organizations typically use technology to support three major areas of compensation - automation of payroll systems, design of compensation systems, and communication and administration of compensation and benefits (Stone et al., 2015).

c) Computerization

According to Piazza (2016): “In 2008, approximately half of the 7.55 million jobs that disappeared in Europe were mid-wage positions. A society without work (and thus an earned income) will continue to drive down the median income, as it has been for the past 16 years by approximately three percent.” Is the situation that serious? Are these changes only negative or are there any positive aspects? Views may vary, but most would probably agree that the skill set needed to survive in the Fourth Industrial Revolution will be different from the past. Complex skills such as problem solving, creativity, and social skills are likely to be needed (Fetherstonhaugh, 2017). This trend will significantly impact many employees, particularly those individuals currently employed in low-skilled jobs (WEF, 2016).

We believe that in a situation of shortage of qualified employees, no one can blame employers for
seeking ways to replace labour force by modern technologies. Another option for employers is to improve the quality of labour force by means of employing the individuals who do not fully meet their requirements and invest in them focusing on developing and/or improving desirable qualities and skills. It is also necessary to realize which main qualities distinguish people from robots and focus on these qualities. This is the task for: - individuals (who can increase their own employability), - employers (because in human resources can be their major competitive advantage) and - governments (responsible for adapting the education system to the needs of changing times).

2. Empirical research

In order to confirm the validity of the theoretical findings and to illustrate the current situation regarding the factors of macro-environment influencing HRM in SR, we conducted diagnostical research in May 2018. We have chosen one large manufacturing company operating in SR for 25 years, and one medium company operating in food industry for more than 20 years. Both belong to the largest employers in the region (Trenčín). In the questionnaire, we have put five questions to the HR managers of these companies (Table 1). Used method provided enough space for detailed answers. We consider this form of research and the results obtained to be very beneficial, because they provided an insight into the current problems of HR managers of medium and large companies which can also be used in further extensive research.

### Table 1. Questionnaire - questions

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<tr>
<th>Questions</th>
<th>Instructions</th>
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<tbody>
<tr>
<td>1. Does your organization suffer from any of these HRM issues? a) Lack of employees b) Lack of job seekers c) Low quality of job seekers d) High turn-over of employees e) Other</td>
<td>Please indicate which points relate to your organization and describe how these issues are reflected.</td>
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<tr>
<td>2. Which of these macro-environment factors have a (negative) impact on the HRM process in your organization? a) Economic factors b) Demographic factors c) Technological factors d) Legislative factors</td>
<td>Please indicate which points relate to your organization and describe how these issues are reflected.</td>
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<tr>
<td>3. How do you deal with the negative impacts of the factors described in question 2?</td>
<td>Describe how you address these impacts.</td>
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<td>4. Does it represent a problem for your organization to employ older people (age 55+)?</td>
<td>Describe how these problems arise and how you deal with them.</td>
</tr>
<tr>
<td>5. Does it represent a problem for your organization to employ young people (graduates)?</td>
<td>Describe how these problems arise and how you deal with them.</td>
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Source: own research

### Table 2. Questionnaire - answers

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<th>Answers – medium company</th>
<th>Answers – large company</th>
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<tr>
<td>1. b) Lack of job seekers c) Low quality of job seekers At present, we have problems with filling these positions: shop-assistant for short-time, truck drivers and operators of forklift trucks. It is reflected in a higher proportion of over-time work and overloading workers.</td>
<td>a) Lack of employees b) Lack of job seekers c) Low quality of job seekers d) High turn-over of employees e) Other - Inconsistency between the focus and output of education system and our needs. Education in SR does not produce graduates with appropriate knowledge, habits and qualifications. Appropriate graduates are few, a large part of the workforce is leaving abroad. The available workforce is of a great interest from competitive employers, so it is extremely difficult to motivate them, which causes turnover of employees. Due to legislative quotas for...</td>
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non-EU employees, the situation can not be addressed satisfactorily even in this way.

b) Demographic factors
d) Legislative factors
e) Other -
e) Other -business environment
Economic factors have a strong positive impact, so they put pressure on the increase in production. The business environment is enormously burdened by regulations, bureaucracy and state mismatch (education, ...)

2. a) Economic factors
d) Legislative factors
The company must respond to the external environment with an emphasis on adherence to legislation. We need to rethink wage policy and look for room for wage growth, which also requires the maximum efficiency of employees and their flexibility wherever it is possible, they have to manage more professions. Alternatively, we are considering solving some activities by outsourcing.

b) Demographic factors
d) Legislative factors
e) Other -
Economic factors have a strong positive impact, so they put pressure on the increase in production. The business environment is enormously burdened by regulations, bureaucracy and state mismatch (education, ...)

3. The company is forced to re-evaluate labour costs and look for efficiency limits deciding between modernization, process automation and labour costs. This factor is difficult to evaluate in terms of return on investment because it has a long-term aspect.

We strive to use all available HRM capabilities, including internship, collaboration with schools, job fairs, motivation programs, and so on.

4. No, we do not recognize the disadvantages associated with employing older people as this generation already controls technology at the required level and we do not even record health issues. Absence associated with health is more likely occurring at parents with children, but these are all solvable problems that we count on.

We are glad to hire anyone who is suitable for the position.

5. We are always pleased to be able to hire a graduate who stays in the job for a long time and returns the initial investment we have put into him/her. Finding such a person sometimes presents a longer-term problem, but we do not often experience it. Fluctuation in our company is below 10%. We pay particular attention to a stable core of key employees.

Young people often come with inappropriate qualifications, without the necessary knowledge and habits, and especially with unrealistic expectations. This often results in problems with working ethics and fluctuations.

Source: own research

Conclusion

Organizations work in an environment of constant changes, some appear quickly, others come slower, but it is clear that the only way organizations can succeed in a competitive struggle is to keep up with trends, eliminate their negative effects, and try to harness them in their favour. The increasing variability of the conditions under which businesses operate creates an increased need for flexibility and preparedness for change, and as it depends on flexibility and readiness for change of its employees, the emphasis is increasingly on their education and development. In the paper we have summarized the four most important macro-factors that currently influence the management of human resources. We have described their current impact on HRM in the conditions of the SR and offered possible solutions to problems caused by them. Since the impacts of factors are mutually intertwined and the most resonant problem is the shortage of qualified labour force, the methods for solving these impacts have similar foundations.

The awareness of the importance of human capital, the necessity to apply modern technologies not only in the production of products and services, but also in all activities related to HRM, and last but not least, the quality of HRM are essential for companies to succeed in competitive struggle. It is important for companies to understand that it is the HR manager who can through his / her skills, attitudes, experience, creativity and quality judgment and by using modern technologies and modern concepts such as personnel marketing, talent management, or career management change inadequate or non-existent labour force to quality and loyal employees.
References


Študentská 3, 911 50 Trnávská 3, 911 50 Trenčín, Slovensko e-mail: natalia.letkova@tnuni.sk


Contact

Ing. Natália Letková,
Department of Management and Development of Human Resources
Faculty of Social and Economic Relations
Alexander Dubček University in Trenčín
Študentská 3, 911 50 Trenčín, Slovensko
e-mail: natalia.letkova@tnuni.sk