

# Human Resource Management in the Countries of the Former Yugoslavia

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## *Abstract*

*Human Resource Management (HR/HRM) is closely connected to the social and economic environment in which a given organization or company operates. On this basis it may be interesting for foreign potential investors to understand both the differences and similarities in the application of HRM methods in a group of countries which had lived for a long period of time in a federation which had finally disintegrated. Such investors usually come from different environments and backgrounds and have previous experience in the application of specific forms of HRM practice. In this paper the authors try to present the development and changes in the theories and practice of Human Resource Management in most of the countries established on the territory of the former Socialist Federal Republic of Yugoslavia: Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Slovenia.*

**Keywords:** *human resource management, economic environment, practices change, former Yugoslavia*

**JEL classification:** M10, M12

## **Background**

Generally speaking, HRM activity in most East European countries, - including the countries of the former Yugoslavia - prior to the changes that took place at the end of the 1980s, was very tightly controlled by the state. Personnel- (meaning management-) related issues were under the close control of the party and of heads of state, whilst the key positions in companies were closely monitored by the party and by the state bureaucracy. Management was not considered as a profession (Cakrt, 1993) and decisions regarding promotion were not based on performance assessment (Pearce, 1991). Differences may be observed between the levels of development in the HRM practices of different East European countries. These may be attributed to differences in traditions, to the level of economic development and to that of centralisation in the previous economic and political systems of various countries. In these countries, the characteristics of modern HRM within the framework of their previous systems were only present in traces. Typically, approaches similar to the school of scientific management (mentioned earlier) predominated.

More recently, researchers have documented evidence showing that the general trend of HRM in the nations of Eastern Europe can be summarised as “gradual Westernisation.” (Alas & Svetlik, 2004).

There is no extensive HR knowledge and overview of HR practice in ex-communist countries. The first EE region-wide comprehensive publications on HRM were issued by Morley et al. (2008). This knowledge-gap is even wider in respect of the countries of the former Yugoslavia - with the exception of Slovenia (Alas and Svetlik, 2004)

The basic question of this study are: What are similarities and differences in HR practices among these countries who are, in culture, language and history terms (at least to some extent) similar to each other. There is a lack of examples of comparative research on HRM in specific countries created on the territory of the former Socialist Federal Republic of Yugoslavia: Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Slovenia, and so our contribution will first provide an overview of the history of HR in the former Yugoslavia, following which the socio-economic situation and HR practices will be discussed by country.

### **The former Yugoslavia**

In the early post-war years of state socialism in Yugoslavia, personnel affairs played a very specific role. What was known as “personnel policy” comprised the simple functions of employing people, organising their payment and regularising their social standing. Everything was determined by the state and implemented by means of legislation. In state enterprises the personnel function had to recruit employees for key positions who were not only professionally but also politically suitable. Gasparovič (1981 in Zupan, 1999) writes that the mission of the personnel function at that time was to cleanse the enterprises of people who had collaborated

with the wartime occupation forces or who were considered politically incompatible in the sense that they could not work in socialist enterprises and could not train and develop workers for socialist-style production. The Personnel Director had to be politically acceptable, albeit with no specialised training in the field. He or she had to deal with personnel matters in a heavily bureaucratic way – maintaining employee records (including political affiliations) and setting salary levels.

With the implementation of the self-management system and what was termed social ownership, the management of individual enterprises was assumed to be shared between the state (represented by managers) and workers' collectives (represented by workers' assemblies and workers' councils. The important decisions, however, including those relating to personnel matters, were to be made by workers' councils. In practice, enterprises achieved a degree of independence from the one-party state, although autonomy in the personnel field was still relatively limited by legislation. Enterprises could, for example, decide how many persons they would employ, but the law determined employment procedures and remuneration. Gradually, personnel departments started to introduce some professional methods, such as job-design, job-assessment, personnel planning and staffing, the planning and organisation of training affairs (apprenticeships, probation, mentoring, scholarship awards and part-time education), promoting safety at work and organising social assistance for employees. However, the personnel function remained rather rudimentary compared to other business functions and played a subordinate role. There were no trained professionals in personnel affairs and Party representatives continued to make the key decisions.

Analyses dealing with the 1960s show that long-term personnel planning was bad, and, in consequence, the differences between the competencies desired and those actually achieved were high. This was one of the reasons why the first courses for personnel managers were organised in the late '50s, and, by the '60s, were offered at post-secondary level (Kamušič, 1972). In spite of this, the interest of workers in resolving personnel issues was low and there were not enough personnel professionals in the industries in question. This was one of the reasons for the development of the personnel function and for the proposals that all personnel tasks should be concentrated and centralised in personnel departments (Brekić, 1968 in Zupan, 1999). However, the personnel operation remained rather administrative by nature and policy stayed firmly in the hands of the state. According to Kavran (1976), the development of the function was even blocked in the middle of the '60s, part of the reason for which lay in the weak economic situation, in high inflation rates and increasing foreign debt.

1. The economic reform of 1965 provided no opportunity for the personnel operation to develop, although an increasing number of these departments were to be seen in the various organisations, along with the first courses for personnel managers who had graduated from a variety of disciplines, such as law, psychology and economics. One could say that the personnel function in this period became visible although, as yet, not professionalized. The main

players in the field were managers (who received some training but were still influenced politically to some degree), self-management bodies (such as boards for personnel and social issues in the major enterprises) and representatives of the Communist Party. Reviews of the literature from this period (Svetlik et al., 2007) show that authors were dealing a range of issues such as: the status and role of the personnel department, the basic personnel function, personnel policy, the recruitment and hiring of workers, leadership, efficiency, work objectives and the psychology of work.

As a consequence of the failed economic reform and of political unrest at the beginning of the '70s, Yugoslavia looked for new ways to organise economic and political life. A new constitution (1974) and the associated Labour Law (1976) marked new steps in the development of the self-management system. The right to work was one of constitutionally guaranteed rights, and so a full employment policy was one of the main features of the period, accompanied by the principles of equality and solidarity. Together with the concept of social property, such a system prevented enterprises from becoming bankrupt, but it also led to high inefficiency. Labour costs were largely disregarded, and downsizing was not allowed, even under difficult economic conditions or as a reaction to technological change. There was both low unemployment and low productivity, and the economy was regulated by social rather than by market principles. In addition, in the 1970's there was no appropriate response to the oil and environmental crises. Yugoslavia continued with its labour-intensive, technologically undemanding and industry-focused development model. In some parts of the country, such as Slovenia, a lack of labour developed and this was met by an increasing inflow of immigrants from the South.

In this period, questions concerning salaries, social standards and workers' rights were increasingly dealt with by works councils (or their committees). At macro-level, personnel policy was formally defined by so-called 'social agreements'. These were adopted by the 'self-managed communities of interest' organised at local, regional and state level as a form of stakeholder association aimed at the creation of a well-functioning employment system. Such social agreements regulated the areas (for example, employment, wages and salaries, scholarships and education) and social agreements also set common guidelines with the goal of establishing coordinated personnel and employment policies.

Since the new Constitution in 1974 delegated decisions concerning personnel matters to the organisations themselves, the question arose of a suitable organisational form for the personnel operation. In their search for improvement, some academics set up undergraduate programmes in Personnel Management. However, apart from the fact that, at republic level, Personnel Management Associations were established, research into personnel practice in that period was scarce. Kavran (1976) and Brekić (1983) indicated that the operation was still administrative in character, that the training and expertise of personnel officers were relatively low and that their role in decision-making on personnel matters was, in principle, minor. Svetlik and Tajnšek (1978) undertook research focused on

the personnel function, the roles and duties of those working in personnel departments and major personnel problems within the state companies. The results confirmed that the expertise of personnel officers was low and that the personnel department mostly dealt with job security, labour relations, selection, training and recruitment. On average, 0.6% of the total number of employees worked in the personnel department of a company. This was, most frequently, organised in a single department (together with legal affairs) and headed by lawyers, since the formal regulations relating to personnel matters were many and complex.

In short, one could say that, in this period, the awareness of the personnel function as one of the business activities which could contribute significantly to an organisation's success was totally undeveloped. The literature published at that time (Svetlik et al., 2007) dealt with the personnel operation, personnel development, personnel policy in the self-management environment, with people within organisations and different groups within enterprises (directors, managers, working groups), with changes in the organisation, the systematisation of work, work effectiveness and objectives. Other topics included performance appraisal, job satisfaction, work motivation, the psychological stress of work, health and safety at work, together with the comings and goings of staff and personnel planning. Professionalism in the field was growing due to the undergraduate programmes for personnel managers and their professional organisations - although graduates from many other fields, such as law, psychology, economics, sociology, organisation and the like often acted as personnel managers also. The influence of professionals was growing when compared to that of line-managers, with self-management bodies themselves and, especially, the Communist Party in the '80s relinquishing power in general.

Also in the 1980s, economic difficulties and political conflicts were deepening due to the inefficient "self-management" system and the lack of economic reform, and the country was facing its inability to repay foreign debts. Enterprises had to reduce their costs and many personnel activities were either abolished or restricted (especially new recruitment, in-company training and support for part-time study by employees). The personnel field remained highly regulated by law which defined employment, redeployment, payment and training of employees. Neither the legal system nor personnel managers were prepared for the redundancies which occurred in enterprises.

The economic and political crisis peaked at the end of the 1980s, and new political parties growing out of civic movements and organisations influenced the democratisation of the political space. Voices in favour of making the federal Yugoslav state a confederation and for giving the individual republics a greater say in political and economic decision-making became louder. However, since agreement on democratic reforms proved impossible, some republics, first of all Slovenia, in 1991, and then Croatia, declared independence.

## **Bosnia-Herzegovina**

### **The socio-economic situation in Bosnia-Herzegovina**

Bosnia and Herzegovina separated from Federal Yugoslavia in 1992. Before the outbreak of the Balkan War, based on the 1991 census, the country had a population of 4.3 million, although by 2007 this had decreased to 3.9 million. Bosnia is made up of three defining ethnic minorities: an estimated 40% of the inhabitants are Muslim, 31% Serbian and some 15% Croatian.

From 1995, and as a result of the Dayton-Paris Agreement, Bosnia and Herzegovina (BiH) is divided into two separate entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), covering 51% and 49% of the territory, respectively. Each entity has its own political structure and administration. There exists also the Brčko District, established following an arbitration process undertaken by the High Representative for BiH (1996). According to the General Framework Agreement for Peace in Bosnia and Herzegovina, the High Representative is the final authority in BiH regarding the interpretation of the implementation of the civilian aspects of the peace settlement.

The FBiH political structure consists of a Parliamentary Assembly, divided into a “House of Representatives” and a “House of the People”, and with an ethnically based rotating tripartite Presidency (Bosniaks, Croats and Serbs), and a Council of Ministers comprising nine ministries. The FBiH is politically organised on three levels: entity, canton and municipality. Each municipality has its own municipal council and administrative structure. The RS has simply entity and municipality administration structures.

Bosnia and Herzegovina is a potential candidate for EU Accession following the conclusions of the Thessaloniki European Council of 2003. In 2008 Bosnia and Herzegovina signed the Stabilisation and Association Agreement (SAA) which will enter into force once its ratification process has been completed. An Interim Agreement on Trade and Trade-related issues has been in force since 2008, and a new European partnership with Bosnia and Herzegovina was adopted by the Council on 18 February 2008.

The years of war in the 1990s had a drastic impact on the economy of Bosnia and Herzegovina. The GDP fell by 75%, while the destruction of the physical infrastructure caused immense trauma. Bosnia’s economy has faced serious problems, even after the end of the political turmoil. Between 2003 and 2004 the GDP per capita rose only by 10%, while the high rate of unemployment and foreign trade deficit still pose a huge problem. However, inflation was the lowest in the entire region and in 2004 it reached only 1.9%. The estimated GDP per capita for 2007 is US\$ 9,168. A significant share of GDP is derived from agriculture (about 10%), whilst external public debt, at the end of 2006, was around 21% of GDP.

According to the Global Competitiveness Report for 2006-07, the three most problematic factors for doing business with which Bosnia and Herzegovina is

faced with are inefficient government administration, policy instability and corruption.

Of the countries analysed, Bosnia and Herzegovina is the one with the lowest foreign capital input, but the value of FDI (foreign direct investment) is steadily increasing every year. In order to attract foreign investment, Bosnia and Herzegovina has tightened the professional requirements for trustees to be able to speed up bankruptcy procedures. Corporation Tax was reduced from 30% to 10% with effect from the beginning of 2008 and dividends are exempt from the tax. Property registration has been accelerated and, as a result, the time required for transferring title dropped by no less than 203 days and the time to obtain a building permit has been cut by 171 days.

In 1999 the value of FDI was €166 million, by 2004 €500 million, and in 2006 it stood at €556 million. In the first half of 2007 the value of FDI amounted to more than €1.2 billion, whilst between 1994 and 2007 €4.05 billion of foreign capital were invested in Bosnia. The most significant investments came from Austria, Serbia, Croatia, Slovenia, Switzerland, Germany and Italy. The majority of foreign investments were made in industry, but banking and commerce also benefited. Among the most notable foreign-owned companies are British American Tobacco, Coca Cola, Ericson, Volkswagen, and Siemens.

Since 2000, Bosnia and Herzegovina has been granted EU trade preference which increased exports to the EU and imports from the EU by 6.3% and 8.8% respectively. Exports represented approximately 15% of GDP, and imports 31% (2007 GDP estimated at € 11 billion). The main sources of export revenue are textiles, machinery, transport equipment, and raw materials. The EU is the main trading partner of the country and represents 63% of its total imports and 73% of its total exports.

Foreign direct investment (FDI) stocks amount to approximately € 4.5 billion, with the EU27 accounting for about 50% of total inflows.

### **HRM in Bosnia-Herzegovina**

Based on the sources available, the foreign-owned companies have greatly contributed to the appearance of professional HR practices. With the rise in the number of foreign-owned businesses and with the development of the locally-owned (which follow suit) we can assume that the practice of professional HR management will spread. In this way the prevailing view on employment policies should change and HRM will cease to be seen as a secondary, administrative function. Apart from the methods of recruitment, selection and evaluation, further development is especially recommended in the procedures of job analysis.

The Law on the Classification of Occupations (*Zakon o standardnoj klasifikaciji zanimanja*) published in the Bosnia and Herzegovina Official Bulletin, 22/04 (*Službene novine BiH 22/04*) was passed in 2004 and is based on the ISCO-88. Since January 1, 2005, all statistics have to be calculated according to this law and system.

The conflict in BiH in the 1990s and the (only recently ended) transition have, as a result, produced the exceptionally high unemployment rate of 29.6%. The structure of unemployment indicates that there are at least three groups of unemployed requiring immediate and effective intervention (women, young people and the long-term unemployed).

In respect of employment policy, there is a noticeable lack of transparent data on active employment policy measures. Although some policies and incentives for the employment of specific groups exist, there is no consistent employment strategy established which aims at fostering and promoting the activation of the unemployed and enhancing their employability. The persistent problem is the fact that two-thirds of the unemployed are uneducated, poorly educated, or they have obsolete knowledge and skills (especially the long-term unemployed). There are almost no active employment policy measures implemented

There is no single labour market in BiH which is divided into 13 local labour markets. This increases the complexity of setting up any active and working employment and labour market strategy. Due to a lack of consensus at state level, there is no single central decision-making body established to take care of labour and employment affairs.

Although the increase of employment and the modernisation of the labour market are recognised as among the most important tasks, the Federal Ministry of Civil Affairs (through its Labour, Employment, Social Protection and Pensions Department) plays merely a coordinating role and cannot enforce a common strategy regarding labour and employment policy. This hinders progress towards more effective employment policy objectives (employment strategy and employment action plans).

Employment and labour market reform processes are hindered also by the different speeds of implementing laws and regulations within the country and a lack of mechanisms for enforcing implementation (Lorencic 2008).

The difficulties which employers face in hiring and firing workers are shown below and rank BiH as 117th out of 181 countries worldwide.

### Rigidity of employing workers

**Exhibit 1**

Indicator	Bosnia and Herzegovina	Region	OECD
Difficulty of Hiring Index	67	36.4	25.7
Rigidity of Hours Index	40	48.0	42.2
Difficulty of Firing Index	30	32.4	26.3
Rigidity of Employment Index	46	38.9	31.4
Firing costs (weeks salary)	31	26.3	25.8

**Source:** Doing Business 2009, World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)

## Croatia

### The socio-economic situation in Croatia

According to the 2001 census, Croatia has 4.4 Million inhabitants with an average population density of 78.40 inhabitants per km<sup>2</sup>. The natural population growth rate is currently negative.

Croatia was a federal state of the Socialist Federal Republic of Yugoslavia until 1991. Following the first democratic elections, held in 1990, the new Constitution was passed and, Croatia declared independence in 1991. It was recognised by the UN and the EU in 1992. Between 1991 and 1995, the war and the occupation of almost one third of Croatian territory caused huge casualties, the large-scale devastation of the infrastructure, and economic and demographic decline.

After 1995, Croatia started its economic and social recovery and its legal and institutional adjustments for EU Accession. In 2004, Croatia was granted EU candidate country status and it is expected to join the EU in 2012. In 2009 it became a full member of NATO.

Croatia was one of the economically most developed republics of the former Yugoslavia, and at the end of the 1980s, an estimated 25% of the Yugoslavian GNP originated from Croatia. The drastic decrease in Croatia's economic success came with the outbreak of the war in which the social and economic infrastructure was heavily damaged or destroyed. The financial cost of war damage was estimated at more than US\$20bn with unemployment at a rate of 20%.

Currently, the Croatian economy is a stable functioning market economy. The strategic sectors include tourism, shipbuilding, transport, agriculture and the wood-processing industry.

Croatian GDP is US\$ 17,374 per capita in 2008 (IMF data). According to Eurostat, Croatian PPS (Purchasing Power Standard) GDP per capita stood at 57.8 % in 2008. Real GDP growth in 2008 was 5.7 %. In 2008 unemployment rate was about 11.8 % (ILO definition). According to 2008 data, 2.7 % of the workforce was employed in agriculture, 32.8 % by industry and 64.5 % in services. Tourism is a notable source of income generating revenue of over US\$ 10bn. According to the National Statistical Office, the "grey economy" is estimated at 10-15% of GDP.

Croatia has a well-established institutional and legal framework harmonised with EU standards. The state encourages foreign direct investment with investment models adapted to meet the interests of potential investors. Foreign investors have the same legal status, rights and obligations as local ones, but they are entitled to special tax exemptions depending on the nature of the investment and the activities they carry out in Croatia.

The privatisation of strategically state-owned assets was the main source of FDI, and from 1993 to 2008, the total value of FDI amounted to €20.7bn. The most significant investors come from Austria, the Netherlands, Germany, Hungary and France. The most attractive sectors are banking and financial intermediation, the chemical industry, telecommunications and the oil industry.

With its cultural and historical roots in Western Catholic Christianity, Croatia has experienced a long dominance of the collective approach over individual values, a situation reinforced in the communist era. The dependence on a hierarchy rather than rationality prevented the development of the entrepreneurial spirit in society.

In a re-analysis of the Hofstede model, the Croatian national culture dimensions are calculated as in Exhibit Two.

### Hofstede's indexes for Croatian national culture

Exhibit 2

Dimensions of national culture	Croatia
Power Distance (PDI)	73
Individualism (IDV)	33
Masculinity (MAS)	40
Uncertainty Avoidance (UAI)	80

**Source:** Hofstede, G. (2001). *Cultures Consequences, Comparing Values, Behaviors, Institutions and Organisations Across Nations*. Thousand Oaks: Sage Publication: 501.

The corporate governance structure in Croatia is affected by the social culture in the sense that the large power distance (PDI) and strong uncertainty avoidance (UAI) dimensions form a so-called pyramidal organisational model. All the countries of the Former Yugoslavia, together with France, the Czech Republic and Poland, share the same organisational model (Burcik – Kohun - Morris, 2007). The managerial style is analytical and directive (structuring and organising situations, dealing with complex situations, sorting things out in a logical way and solving complex problems in creative ways).

The power distance index (PDI) indicates that, in the Croatian economy, personal relationships, experience and judgment are of great importance. Despite the fact that Hofstede's research shows collectivistic values, the Croatians are more of an individualistic nation. Croatian culture is competitive, action-oriented and stresses self-actualisation. (Zabkar-Brencic, 2004)

However, in Croatia both formal and informal ways of sustaining business relationships bear greater resemblance to West European practice. Due to strong and fierce competition, business ethics are somewhat debatable, especially in terms of relationships with domestic business partners, employees and the government. This is caused by deficiencies in the legal system, the low credit-rating of the economy, a highly political background of economic decisions and the short-term strategies of some businesses.

### HRM in Croatia

Unemployment is one of most important issues in the Croatian economy. The enterprise restructuring and privatisation processes brought about a major increase in unemployment. The revival of economic activity over the last 10 years

was not followed by increasing employment, although the unemployment rate declined to 11.7%.

The employment rate among the population aged between 15 and 64 reached 54.7% in 2004. This is low in comparison to the EU-25 average of 63.3 %, but still higher than in Poland or Bulgaria. The female employment rate of 47.8% in 2004 is also lower than the EU-25 average of 55.7% although still higher than for example in Italy, Poland or Greece.

In terms of business regulation, the World Bank report “Doing Business 2009” ranked Croatia as 146 out of 181 economies in terms of regulations in employing workers. The difficulties that employers face in hiring and firing workers are shown in the table below.<sup>1</sup>

### Rigidity of employing workers

Exhibit 3

Indicator	Croatia	Region	OECD
Difficulty of Hiring Index	61	36.4	25.7
Rigidity of Hours Index	40	48.0	42.2
Difficulty of Firing Index	50	32.4	26.3
Rigidity of Employment Index	50	38.9	31.4
Firing costs (weeks salary)	39	26.3	25.8

Source: *Doing Business 2009*, World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)

The both, quantitative (human capital, turnover, absenteeism, performance appraisal, compensation and education) and qualitative, HRM indicators imply that the Croatian business community still does not recognise the importance of HRM development, although within the companies where HRM activities are practised, they are significantly correlated with organisational success (Pološki and Vokić, 2004).

In Croatia the National Classification of Occupations (*Nacionalna klasifikacija zanimanja*) based on ISCO – 88 and its European counterpart ISCO – 88 COM has been in force since 1998. The basic element of the classification system is the occupation defined by name, code and job and task description of the group to which the occupation belongs.

The system is built not only on data of the classification of occupations but also on their complexity. The complexity of occupations is generally defined by how complex is the task which the worker performs. The classification system takes into account the educational programme needed to perform the given occupation.

The Croatian compensation system is based on job evaluation and varies depending on the complexity of the job and the points allocated. Points are added

<sup>1</sup> Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

at a rate of 0.5% for every year of work. The basis for performance measurement is group performance, but the monetary value of points depends on the company's and the worker's monthly performance.

By applying an international system of compensations and benefits, foreign organisations operating on the Croatian market have greatly contributed to the widespread use of modern HRM practice.

Remuneration policy plays a crucial role in recruiting new employees. It is closely tied to local labour market conditions, even when an organisation takes an ethnocentric or geocentric approach. The level of remuneration and benefits is influenced by availability of qualified local people, prevailing wage rates, the use of expatriates, and local laws. (Treven, 2007)

Most companies apply a multi-step selection process in order to select the most suitable employee, and they have also introduced a concept of outsourcing HR functions, especially those concerning recruitment and selection, education and training.

## **Macedonia**

### **The socio-economic situation**

In 1993, after the disintegration of Yugoslavia, the Republic of Macedonia was admitted to the United Nations under the provisional reference of the Former Yugoslav Republic of Macedonia (FYROM), due to a dispute over the name with Greece. Macedonia was granted EU candidate country status in 2005.

Together with Montenegro, Bosnia and Herzegovina and Kosovo, Macedonia featured among the less-developed regions of the former Yugoslavia. The country suffered severe economic difficulties after achieving independence due to the collapse of the Yugoslav internal market, and in 1999, the country was seriously affected and destabilised by the aftermath of the Kosovo War.

According to the last population census (in 2002) the Republic of Macedonia has an estimated population of 2,055,915, with 58% of the population living in urban areas.

Macedonia has one of the lowest per capita GDPs in Europe, and for 2008 the estimated GDP (PPP-based) was \$9,000 per capita. The real GDP growth rate was 5.3% in 2008, while the inflation is estimated as being 8.3%. The country's economy is characterised by the exceptionally high unemployment rate of 38%, and, in addition, the grey market is estimated to be as large as 20% of GDP. The high unemployment rate, the importance of the grey market, corruption and a relatively ineffective legal system have caused a low growth rate and generate significant problems in the functioning of society.

In the period 2002-2006 the total amount of foreign investment in Macedonia counted some US\$ 765m, while FDI of \$356.4 m entered Macedonia in 2008. The biggest foreign investors are Austria (US\$ 290m), the Netherlands (US\$ 110 m), and Greece (US\$ 90m). The most attractive sectors for investment were the utilities (electricity, gas and water), manufacturing industry, transport and communication and the trade and repair sectors.

Hofstede (1980) provided a framework for analysing national cultural differences, and the Former Yugoslavia was the only socialist country included in his survey. The original data were re-examined in order to extract results for Croatia, Serbia and Slovenia, and, whilst Macedonia was not included in the survey, the data analysed illustrate marked similarities among the new countries, albeit with certain differences noticed.

Exhibit 4 comprises Hofstede's indices for Macedonia extracted from Avramaska (2007).

#### **Hofstede's indices for Macedonian national culture**

**Exhibit 4**

<b>Dimensions of national culture</b>	<b>Macedonia</b>
Power Distance (PDI)	27
Individualism (IDV)	72
Masculinity (MAS)	81
Uncertainty Avoidance (UAI)	53
Long Term Orientation LTO	49

**Source:** Avramaska, I. (2007). Cross-cultural comparison between students for Macedonia, Slovenia and Kosovo and cultural differences in relation to economic development. Ljubljana: University of Ljubljana, Faculty of economic, (Master thesis).

Macedonian national culture is characterised by high power distance (PDI) (much higher than Slovenia). Being a measure of anxiety, the stress component of the Uncertainty Avoidance Index (UAI) for Macedonia contributes strongly to its high value. The causes are a dramatic fall in living standards and the psychological consequences of having narrowly avoided the Balkan conflict. The Individualism Index (IDV) indicates a concern for social status and perspective (employment, security, economic situation). Highly masculine countries, such as Macedonia, show more clearly differentiated roles for men and women. This cultural dimension proved to be the most difficult to interpret. The original Yugoslav score of 21 stemmed from scores of 19 (Slovenia), 40 (Croatia) and 43 (Serbia). (Hofstede, 1996b). Assuming that Macedonia fundamentally resembles Serbia, a score of 43 could be inserted.

The heritage of Orthodox Christianity, the centralised authority and codified laws typically produce a high Power Distance Index and long-term orientation. Macedonia displays an extremely long-term orientation, comparable to that of Greece - a country with whom it has a shared history.

Macedonia lacks an entrepreneurial and business culture and there was very little done to promote the entrepreneurial spirit of Macedonians. Entrepreneurs in Macedonia pay little attention to training and additional education preparing them for running a more efficient business, but, despite this, in the World Bank Report "Doing Business 2008", Macedonia is ranked as the fourth-best reform state among 178 countries in providing good conditions for business start-up, for obtaining business licenses and for introducing tax reforms.

## HRM in Macedonia

According to the Statistical Office of the Republic of Macedonia, there are several systems of classification used in the area of HRM, but only employed persons are classified by industry, by occupation and by employment status, while both employed and unemployed people were classified by educational level.

The new *Classification of Occupations* has been adopted and adjusted according to *International Standard Classification of Occupations* (ISCO-88). Starting in 2003, the National Qualifications Framework project was implemented (NQF).

Domestic companies do not use an HRM approach in developing their HR potential, whilst foreign companies are introducing and promoting modern HRM concepts, especially emphasising the functions of staffing, training and HR development. In managing and staffing their Macedonian subsidiaries, foreign companies apply ethnocentric, polycentric and geocentric or global approaches. (Francesco, Gold, 1998). The type of approach depends on the size, origin and organisational culture of the foreign company.

Unemployment is one of severe economic and social problems Macedonian society is facing. Economic and political instability has resulted in delayed government reforms in a number of areas which are particularly relevant to the functioning of the labour market and social care. The laws on employment, unemployment, compensation, labour relations, social protection and others introduced post-1997 contain significant inconsistencies and measures not entirely relevant or useful for the development of the labour market (World Bank, 2004). The number of unemployed is exceptionally high, increasing with the privatisation and/or bankruptcy of large Macedonian companies. According to the Labour Force Survey, for 2008 the unemployment rate estimated was 33.8%.

Persons losing their jobs are entitled to monetary compensation for a limited time while unemployed, in addition to other entitlements. (*Law on Employment and Unemployment*, Official Gazette of RM, Skopje, No 37/1997).

There is little demand for workers in the formal sector, a fact which can be attributed, in part, to the high payroll taxes required to finance the social insurance system. The other factor is the excessive regulation of the hiring and firing process under the Law on Employment and Unemployment Insurance and the Labour Relations Law. In 1999, the government revised both laws to promote greater flexibility in the labour market by reducing the amount and duration of benefits for some unemployed persons, by encouraging shorter maternity leave, abolishing restrictions to and simplifying the processes of contract termination, and by improving the flexibility of collective bargaining to reduce rigidity in wage-setting.

The Macedonian Law on Labour Relations regulates the terms and manner of entering employment, the rights of employees, job positions, salaries and other forms of compensation. However, it is an extremely general and imprecise law. Collective bargaining agreements usually provide for an "*employment probationary period*" but the law itself does not differentiate between the rights of temporarily and permanently employed workers.

The Labour Relations Law was enacted to allow more flexible hiring and firing procedures, significantly cutting an employer's costs in terms of flexibility in the regulation of hiring, working hours and dismissal in a manner consistent with the conventions of the International Labour Organisation (ILO), Macedonia is ranked as 125 out of 181 countries for 2009. The Employing Workers indices are shown in Exhibit Five below.

### Employing workers in Macedonia

Exhibit 5

Indicator	Macedonia	Region	OECD
Difficulty of Hiring Index	50	36.4	25.7
Rigidity of Hours Index	60	48.0	42.2
Difficulty of Firing Index	30	32.4	26.3
Rigidity of Employment Index	47	38.9	31.4
Firing costs (weeks salary)	26	26.3	25.8

Source: *Doing Business 2009*, World Bank, [www.doingbusiness.org](http://www.doingbusiness.org)

Macedonian employers are encouraged to use the mechanism of early retirement for workers who otherwise might be identified as technologically redundant. Early retirement is an efficient instrument to solve the problem of under-employment and hidden unemployment. At the time, it is massively implemented in the state administration sector, following numerous examples in other transition countries.

## Serbia

### The socio-economic situation in Serbia

Serbia played a decisive economic and political role among the republics of former Yugoslavia. The country occupies a territory of 88,361 km<sup>2</sup>, which is inhabited by approximately 7.5 million people. The economic difficulties spreading across the region could be felt from the beginning of the 1980s, but, after Yugoslavia disintegrated, Serbia faced a deep political and economic crisis. Serbia truly started transition as late as in 2000. After the October 2000 changes, caused by the revolution of democratic forces, a new government was formed with the key task of radically changing the political, economic and social establishment. Configurations of key macroeconomic parameters were not favourable for the rapid transition both expected and hoped for. It was necessary to implement deep social and economic reforms in the country simply in order to achieve macroeconomic stability: a decrease in inflation, public debt and unemployment, and solving the problem of over-employment in state-controlled companies, completing the process of privatisation, price liberalisation, institutional reform etc<sup>1</sup>.

<sup>1</sup> More information about transition in Serbia can be found in Cerovic (2006), Babic et al (2007)

## HRM in Serbia

Before the economic and political changes in 2000, Serbian companies did not have HR departments in terms of contemporary HRM theory. Basically, personnel departments were responsible for most of the employee-related issues. Currently, however, HRM is experiencing considerable expansion in organisations in Serbia. Many parallel processes which have recently been strengthened in Serbia, have contributed to this, among which the most important are privatisation of domestic companies by foreign investors, restructuring of companies, new technologies, reform of the labour market and of the education system. Firstly, the development of HR in Serbia is linked to the activities of foreign multinational companies, banks and insurance organisations, which are bringing not only their production or services, but also modern management and HRM practices. Secondly, the process of organisational transformation and restructuring of Serbian companies pointed to the importance of HRM, not only as a business function, but as a strategic management tool also. Thirdly, with labour market reform, HRM has increased in significance. HRM departments in companies are working together with the National Employment Service on the different issues of managing people. Fourthly, in their own way, new technologies also influence the development of HRM practices in Serbia. New technologies influence the establishment of management information systems in HRM, electronic recruitment and selection. On their web-sites, many companies have electronic formats to be completed by those interested in a job. New technologies have started learning processes in companies, and HRM works intensively on organising training programmes to equip employees to use new technologies, as well as to develop skills and abilities such as interpersonal skills, team-building, leadership development, communication skills, emotional skills etc. Finally, the reform of the education system favourably influenced the position of HRM in Serbia. Through this reform of the education system, direct connections between educational institutions (their Career centres) and the labour market have been created in order to produce the necessary competencies needed by employers. This is reducing the traditional gap and the surplus of those employees with qualifications which are no longer relevant.

In 2008 Serbia first took part in the Cranet research project<sup>1</sup>. The actual HR situation in this country will be presented by the data obtained via this international research. Although the intention of the research was to cover all different groups, and the questionnaire was sent to more than 300 large and medium-sized companies and public institution, the response rate was low and only 50 questionnaires were completed and returned. This is why the data obtained cannot be considered as representative of all Serbian organisations, although they do indicate the general HR situation in this country. The most important

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<sup>1</sup> Cranet is a network of business schools around the world which conducts a survey of Human Resource Management approximately every four years. The Serbian partner of Cranet is the Faculty of Economics in Subotica, a part of University of Novi Sad.

methodological limitation of the sample is that there is a significant difference in behaviour of organisations depending on their ownership status. Multinational companies, foreign banks and insurance companies which came into the Serbian market are behaving like miniature replicas of their headquarters, applying the same HRM policies and practices. Large public companies and corporations are also interested in implementing these modern HRM policies and practices, and are making an effort to imitate the practice of foreign newcomers. Finally, small and medium-sized private companies mostly implement the most rudimentary HRM practices.

The research into HRM in Serbia shows that, despite favourable institutional and academic surroundings, HRM practice has not yet achieved its desired level. The majority of Serbian companies still do not have legitimate HR departments, in terms of contemporary HRM theory and practice, or, if they do, they have only administrative roles. Several plausible arguments could be given to explain factors which might have caused such an unsatisfactory situation, and among the most important are: the heritage of the recent past, the generation gap, and an inadequate supply of HRM professionals.

Organisational units responsible for HR within Serbian companies typically engage 3-4 employees. In those organisations which lack an HR department, the responsibilities for HR issues are held by the CEO or a General Manager. In organisations with a separate HR department, HR managers usually have a seat on the Board of Directors. Whilst 78.3 % of the organisations studied have written business strategies, only 44% have a written HR strategy. However, what is encouraging is that 37.8% of organisations have an unwritten HR strategy. 46.5% of the organisations examined report that an HR manager is involved in the development of business strategy from the beginning and 20.9% that they are further involved in subsequent consultations. Differences can be noticed in large companies, especially in the public sector, where a HR (Personnel) department is rarely overstaffed and usually plays an administrative role.

The role of HR managers and their responsibility for HR activities is mostly overshadowed by those of line-managers. Line managers have a stronger influence than HR professionals in all the important aspects of managing human resources – recruitment and selection issues, training and development, the reward system, industrial relations and workforce expansion and reduction.

### Industrial distribution of analysed companies

Exhibit 6

Industry	Ratio (%)
Agriculture, hunting, forestry, fishing	6.0
Energy and water	2.0
Chemical products: extraction and processing of non-energy minerals	6.0
Metal manufacturing; mechanical, electrical and instrument engineering	14.0
Other manufacturing	26.0
Building and civil engineering	6.0
Retail and distribution; hotels; catering; repairs	4.0
Transport and communication	10.0

Banking; finance; insurance; business services	8.0
Health services	6.0
Education	2.0
Public administration	6.0
Other	4.0

Results show that Serbian companies prefer an internal to an external job market, and are more used to rely on traditional, informal recruitment techniques in their search for eligible candidates. Internal recruitment and word-of-mouth communication (recommendations) are the most popular recruitment techniques. Modern techniques such as Internet recruitment or the use of employment agencies are not commonly used by small and medium-sized companies, whilst large public and private companies use these methods intensively.

#### Responsibilities for HR activities in analysed organisations

Exhibit 7

	Line manager	Line managers in consultations with the HR department	HR department in consultations with line managers	HR department
Pay and benefits	73%	21 %	4 %	2%
Recruitment and selection	52 %	33%	10%	4%
Training and development	50%	30%	15%	6%
Industrial relations	48%	30%	17%	6%
Workforce expansion and reduction	66 %	21%	11%	2%

The most commonly used selection technique both for managerial and non-managerial positions within Serbian companies is an individual (face-to-face) interview. References and application forms as methods of recruitment and selection are also used. Modern selection methods such as specific tests or assessment centres are rarely used in small and medium-sized companies, whilst large public and private companies do use these methods. This might be due to the difference in competences and experience of people dealing with HR questions in these companies. In small entrepreneurial companies in Serbia the HRM function is underdeveloped, and employers mostly recruit and select candidates themselves, rarely using the services of professional agencies. These companies generally have a high turnover rate and a high level of employee dissatisfaction (though covered).

#### Typical recruitment techniques in analysed organisations

Exhibit 8

Segments	Managers	Professionals	Clerical	Manual
Popular recruitment techniques	<ul style="list-style-type: none"> <li>▪ internal recruitment (84%)</li> <li>▪ word of mouth (73%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ word of mouth (85%)</li> <li>▪ advertising (74%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ word of mouth (77%)</li> <li>▪ internal recruitment (73%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ word of mouth (68%)</li> <li>▪ internal recruitment (55%)</li> </ul>

Employers in Serbia typically apply traditional working arrangements, and alternative arrangements popular in developed economies are not widely used. Working from home and flexibility in employment are not commonly found among Serbian employer (only 2% of the companies examined report some degree of working from home, only 13% part-time jobs and only 18% a flexible work scheme). The reason for this might be found in the system of values and habits among people in Serbia, who are used to doing certain things in a certain way - which can prove to be a key limitation to the successful implementation of new working models. As for the current situation, flexible employment was not recognized as a way to respond to changing market conditions, to avoid long-term contracts and permanent employment. However, we do consider that this will change - especially in the domain of public companies - which may benefit materially from flexibility in employment (Petkovic, Aleksic, 2006).

Formal appraisal systems are underdeveloped in Serbian companies, and, consequently, HR decisions evaluating work-results threaten to be reached without objective norms or standards being applied. In our research, a systematic evaluation of managerial positions occurs in 46% of the companies examined, while 60% of employers evaluate the performance of their professional staff, 46% that of clerical workers and 47% that of manual workers. In organisations where performance appraisal is already practised, employees' work is mainly evaluated by a direct supervisor (or by the latter's own immediate supervisor). Performance appraisal based on the opinion of subordinates, peers or customers is not common practice in Serbia. Companies with a performance appraisal system mostly use these data for making decisions on pay (91%), although they are also used for other HR activities: for decisions concerning training and development (79%), for career planning (71%) and for workforce planning (66%). Nevertheless, the situation is significantly different in branches of MNCs, in foreign banks and insurance companies, who replicate performance appraisal policies and practices.

Companies in Serbia spend from 2.6% (according to this research) to some 5% (Bogicevic, Janicijevic, Petkovic, 2008) of their payroll costs for training and development purposes. Not only is the training budget very modest, but the distribution of opportunities among different categories of employee also varies widely. On average, managers spend 11.5 days on training, professional staff 8.16 days, clerical staff 6.13, whilst manual workers spend only 1.76 days on training programmes. Career planning and formalised career development programmes are not widespread among Serbian organisations, and most companies do not have formal career planning. (Leković, Šušnjar, 2010) Succession plans, one of the most elementary methods of career planning, are almost never used (86%).

The majority of Serbian companies have no special programmes for handling diversity in the workforce. The National Employment Service has started several successful programmes to reduce unemployment among vulnerable groups (*The First Chance* - intended for the under-25s, and special changes to the Law which oblige employers to employ one disabled person for every 50 employees.

Leković and Šušnjar (2009) pointed out that compensation-related issues are usually centralised in Serbian companies. Together with the use of this traditional method, compensation packages for managerial positions are usually a matter of individual evaluation and negotiation (40-50 % of organisations). In most companies in Serbia, pay is related to the time spent on the job - number of working hours. Bonuses based on the achievements of individual and managerial goals are increasing in importance. Modern incentive techniques used in market economies – for example, employee share schemes, profit-sharing and stock-options are only in the initial phase of implementation and only 5-15 % of organisations use them. It has to be emphasized that incentives are more commonly used for stimulating managers than clerical or manual workers. Benefits are not widely used, and mainly refer to those compulsory by law, such as pension plans, health-care allowance, and maternity leave.

The self-organisation of employees through trade unions is more significant in public and state- owned companies than in the private sector. In almost 50% of those studied more than 75% of the employees are members of a trade union, but their influence is quite limited. The role of trade unions is most important in the process of collective bargaining (81% of the companies examined). We can, however, expect that, as Serbia progresses in the development of the market economy by the use of modern management philosophy and techniques, the influence of trade unions will decrease in all Serbian companies, and especially in the large, private ones.

Without doubt, HRM is becoming increasingly important on the Serbian market, and an Association of HR Managers has been formed with a significant role in education and HR professional development. The developmental forces in the field are certainly encouraging and give us grounds to conclude that the time when we will evaluate the development of HRM in Serbia as outstanding is not too far ahead.

## **Slovenia**

### **The socio-economic situation in Slovenia**

Slovenia, the smallest of the Former Yugoslav countries, became independent in 1991 and a member of the EU in 2004. Its GDP per capita is around US\$ 25,000. The distribution of the 920,000 in employment is: 56% in services, 40% in industry and under 5 % in agriculture. Slovenia has the most developed and stable economy of all of the states of the Former Yugoslavia and was the only Yugoslav republic with a positive net balance of trade with western economies.

### **HRM in Slovenia**

As in all economies of the world, the global recession in Slovenia has caused a reduction in national GDP, a decline in the economic growth rate, diminishing demand, instability in the financial markets, an increase in the unemployment rate etc. The economic environment is, at the moment, very

unfavourable for most businesses. Many companies have gone bankrupt or need to adjust to diminishing market demand. Some have achieved this through shorter working hours (from 40 to 36 hours per week), some employees are sent on (unpaid) vacation or the number of employees is cut.

At the end of February 2009 the Office for Employment in Slovenia (ZRSZ) reported that there were 77,182 registered unemployed persons - 4.4% higher than in the previous month. Such data, when compared with February 2008, show that the difference is significantly higher still – 15.2% more than in the same month last year. In February 2009, 8,157 people were newly registered as unemployed. Most of those applying to the ZRSZ had lost their jobs since their agreements had ended and had not been renewed. Others who applied had lost their jobs since their companies had had to downsize due to a weak order-book.

Comparing the numbers of registered unemployed in January and February 2009 with the same period in 2008, we can see a considerable increase of 83%. A closer examination of the second half of 2008 shows significant differences already visible between the third and fourth quarters of the year. In Q3 the unemployment rate (based on the ILO definition) was 4.1%, which rose to 4.3% in Q4. The number of unemployed women was noticeably higher than that of men - 4.7% as opposed to 4.0%.

In February 2009, according to ZRSZ, the number of women registered as unemployed was 49.9%. Of those who were permanently redundant and unemployed, 23% were the victims of bankruptcy, 14.7% were first-time job-seekers, 40.1% long-term unemployed (one year or more) and 40.7% of the unemployed had completed only the first and second levels of education. The majority of people made redundant are production workers.

Companies when dismissing employees do their best to retain the key employees who will help them preserve, adapt and reorganise the company in the face of reduced orders. They are aware of the importance of the human capital which they have in the company.

On the labour market there is a lack of job offers. Companies have announced noticeably fewer vacancies in the first two months of 2009 than in January and February 2008. The number of vacancies plunged by 42.4%. According to a survey carried out by ZRSZ looking towards the end of 2009, companies predict that they will have to reduce their number of employees by 5%.

Foreign businesses coming to Slovenia have done a great deal in terms of spreading modern HR practice. Undoubtedly, the views on HR practices which multinational companies have introduced have largely contributed to the fact that currently, in the majority of Slovenian businesses the HR function is now treated as being as important as it deserves to be. Since HR experts have become real partners to company managers, and HRM has been promoted into the inner circle of main corporate issues, the HR methodology widely used in market economies is expected to be widely used in Slovenia also. By following the practices of foreign companies, recruitment, selection, training, and performance evaluation methods are now commonly used, although, as the focal topic of this article, further development is expected in the fields of job analysis and evaluation processes.

Moreover, considering that Slovenian companies are important investors in other countries of the Former Yugoslavia, Slovenia is likely to contribute indirectly to the spread of highly developed HR practices in the entire region.

In Slovenia the Standard Classification System of Occupations was passed in February 2000 (*Standardna klasifikacija poklicev SKP-V2, Uradni list RS, št. 16/2000*).

### **Summary**

In the Former Yugoslavia, HR policy and practice were approached very much as discussed in our introduction. They were determined by the state and implemented through legislation. In Yugoslav companies, the personnel function was to recruit employees for key positions who were not only professionally but also politically suitable. A special characteristic of the personnel function was the self-management system, which had been introduced in the country in the '50s. The self-management system reached its peak in the middle of the '70s with the formal delegation of power to the workers. As in other East European countries, a certain degree of professionalism was introduced here also. The personnel function, however, was regarded as administrative and useless. Historically, economic transactions in this region had worked through bureaucracy and the various ministries rather than through markets. There was limited competition, and dysfunctional organisational 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.

Before these changes, the whole Yugoslav region had, from a cultural perspective, been treated by the Western world in a similar manner, with all nations considered to be "somewhere in the Balkans". We have to recognise that, within the new borders, there is a highly diversified environment, historically and culturally. Recognising the complexity of this increasing regional diversity, both perceived and real, is critical to an understanding of emerging remuneration practice.

The transition from socialism to capitalism is a rare event in the history of mankind. The difficult political and economic transition processes associated with this event were hindered by social unrest, war and a dramatic decrease in the performance of the region's economies. On the way back to capitalism during the 1990s the self-management system was abolished, and, in consequence, employees have been deprived of most of their direct influence on personnel issues and the principle of full employment was abolished.

The socio-economic development of the countries of the Former Yugoslavia is very different. On the one hand there are Bosnia-Herzegovina and Macedonia - faced with inefficient government administration, policy instability, and corruption. In these countries HR practices do exist - but only at a primitive stage. There are great differences between HR policies and practices of foreign-owned and locally owned companies. The former have contributed greatly to the emergence of professional HR practices. On the other hand, there is Slovenia. This

country is a member of the Euro-club and its standard of living is close to the average of the EU-15.

In war-shattered Serbia there is no doubt that HRM is becoming increasingly important.

Unemployment is one of most important issues in all countries, whether in those belonging to the most or least developed group. The enterprise restructuring and privatisation processes have caused an increase of unemployment among the workforce.

Multinational companies which introduce internationally accepted and standardised management methods into the Balkan regions will significantly improve the current situation of job classification and evaluation of the countries of the Former Yugoslavia. It is the task of managers and HR experts to enforce the national classification systems and to evaluate each job objectively and transparently; since this is a precondition of fair compensation policy and successful HR practice.

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