

New Human Resources Management and Direct Investment Inflows Build up the Knowledge-Based Society in the CEE Emerging Countries

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Abstract

Financial innovation is essential for the economic development and growth. Even more, practice proved that any sustainable economic development requires more than a “receptive” economy to financial inflows inputs. The bitter global competition changed the knowledge into the vital force of the economy. Therefore, in order to survive, companies of different sizes, have to allocate important financial resources in view of obtaining useful knowledge.

The importance of knowledge in the new world economy has been officially acknowledged across the EU once with the adopting of the Lisbon Agenda, that established as a priority for the member countries to build up the knowledge-based society in view of providing the competitiveness increase and a sustained economical development.

The financial factors contribution at the labour productivity increase in the CEE countries differed according to the level and structure of the foreign direct investment inflows, as well as the innovative capabilities and the existing human resources in the host economy.

Our main goal is to demonstrate that, supporting the research and development activities, Financial Investments and a New Human Resources Management in Central and Eastern European economies, had been playing an active role in increasing productivity, in the way towards a society based on knowledge.

Keywords: *financial factors, productivity, knowledge-based society, foreign direct investments, and labour force quality, human resource management.*

JEL classification: D83, F21, M12

Introduction

At the time of the liberalization of the access on the market of the foreign investors, the status of the Central and Eastern European countries is characterized by the lack of internal competence and a diversified demand, the allotment based

on non-economic criteria of the material and human resources and the existence of a mentality based on the lack of desire to collect information and the knowledge necessary for the individual and collective development within a competitive environment.

Not disposing of the mechanisms that ease the creation of the specialized production factors, the Central and Eastern European (CEE) countries drew benefit from the competitive advantage exclusively based on the production factors, located in certain activity areas.

In this context, due to the potential positive effects materialized in the economic restructuring and the development of the mechanisms specific to a competitive market, financial factors, especially, the foreign direct investments have been thought as “a new Marshall plan” for the Central and Eastern European countries.

The extent to which that plan seemed realistic, materialized in positive effects once applied, is given by the success of the CEE countries in strengthening their competitive advantages, namely improving the quality of the existing production factors and the developing several competitive advantages based on specialized factors.

In this respect, empirical data regarding the Global Competitiveness Index (GCI) emphasizes the fact that only few states, new members of European Union, registered notable successes in what concerns their economic competitiveness

In our opinion, the notable developments of Slovenia, Hungary and The Czech Republic related to productivity is partly due to the quality of the financial investment determined by the promotion policies applied and by the innovative capacity and the human resources quality.

Comparatively, Romania and Bulgaria registered big discrepancies not only with regards to the level of the labour productivity, but also in what concerns the innovative capabilities and the quality of the human capital. Therefore, in order to maximize the financial factors positive contributions, the quantity of the foreign direct investment inflows has to be compensated by their quality.

We believe that the potential role of the foreign direct investments, attracted for sustaining the development of some competitive advantages based on created production factors, significantly increases, in the case of applying (directed) active policies that target the foreign direct investments attraction towards the sectors that trigger competitive advantages due to the endowment with production factors and towards the upstream and downstream activities.

Most of the studies tackle this subject in an indirect manner, through the positive effects of foreign direct investments upon host economies, in terms of productivity and competitiveness.

Our main goal is to demonstrate that, supporting the development and research activities, financial investments in Central and Eastern European economies had been playing an active role in increasing productivity, in the way towards a society based on knowledge.

1. Financial factors and innovative research & development activities

Specialists agree that technological innovation is essential for the economic development and growth. Even more, practice proved that any sustainable economic development requires more than a “receptive” economy to technological inflows inputs.

Both the economical theory and practice showed that there is a set of determining factors that encourage the positive impact, namely:

- the R&D activity type (adaptive or innovative);
- the absorption capacity of the implanting economies;
- the innovating system of the host economy.

The more of foreign companies interact with the local companies and the research-development local institutions, the bigger the probability to express positive impact is.

As specialists agree to point out that innovation index reflects the attractiveness on any economy to localize R&D activities, we shall further on analyze, its evolution in respect of the CEE countries (chart 1).

The Innovation Capability Index (ICI) is calculated by United Nation Counsel for Trade and Development (UNCTAD) as simple average of the normalized value of the three variables: research-development (R&D) manpower, patents in the United States (United States Patent and Trademark Office) and scientific journal articles.

According to the data presented in chart 1, in most of the analyzed countries, namely Estonia, Slovenia, Hungary, Poland, Bulgaria and Romania the innovation index has known a decreasing trend, more severe in the last mentioned states (Poland, Bulgaria and Romania).

This tendency registers at a global level too, as it is the case of some powerfully industrialized and highly competitive countries, namely: Sweden is placed the first on top, but the index lowered from 0.981 to 0.976; USA and Japan lost the second and the third places as the innovation index level lowered from 0.963 to 0.948 for USA, respectively 0.949 to 0.935 for Japan.

Comparatively with the tendency registered at the regional (CEE) and global level, the Czech Republic and Slovakia benefits from a significant increase of this index level, with 0.083 points when related to the Czech Republic (from 0.597 in 1995 to 0.680 in 2001) and with 0.084 for Slovakia (from 0.504 in 1995 to 0.588 in 2001).

As for 2001, the Central European countries inside which the massive received foreign capital input gathered into significant stocks (Estonia, Hungary and the Czech Republic) place themselves among the first countries in the region (the second, the third and the fourth place after Slovenia) from the index level point of view, thing that represents the expression of a positive impact of transnational corporations activities upon the innovating and technological potential of those countries.

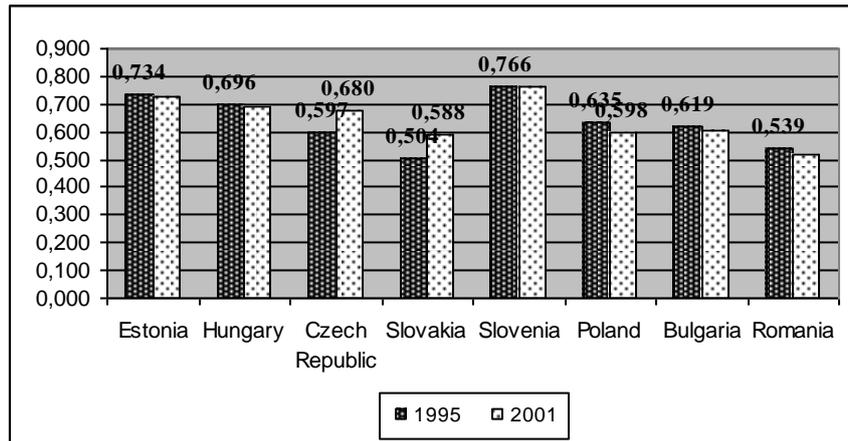


Chart 1- Innovation Capability Index for CEE countries (1995 and 2001)

Source: UNCTAD, *World Investment Report 2005*, p. 290

According to UNCTAD appreciations (WIR 2005), the R&D activities of the transnational corporations that have invested into the Czech Republic, Hungary and Poland are mostly related to the processing industry and mainly to the electronic and automobile industry.

The same regulating authority underlines that sometimes, the research-development activities relocated by the transnational corporations have not only an adaptive character (from the production process support to the alteration of the imported technologies), but also innovative (the development of some products and/or new fabric processes) aiming at the improvement of the competitiveness of the companies on the regional and global market.

We needed to underline that from the innovative capacity point of view, Romania ranks the last within the analyzed countries, with an index that reached the level of 0.522 during 2001. In these circumstances, financial factors, as the foreign direct investments directed towards the research-development activity could have a main role.

In this respect, a recent survey made by UNCTAD (WIR 2005) shows that Romania, next to the Czech Republic and Poland is placed among the CEE countries with the most attractive perspectives regarding the relocation of the research-development activities of the transnational companies during 2005-2009 (chart 2).

In the extent that these forecasts shall become true, positive effects of the technological progress upon the involved sectors competitiveness and productivity may take place in Romania too, by means of the R&D investments made by the foreign companies that relocate these activities.

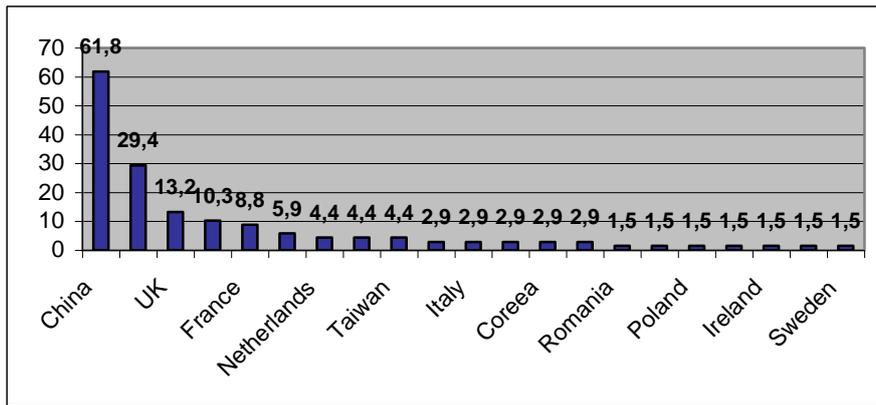


Chart 2 -The most attractive perspectives regarding the relocation of the research & development activities, 2005-2009

Source: UNCTAD, *World Investment Report 2005*, p. 26

2. Financial factors and New HR Management

Human Capital Index (HCI) emphasizes the quality-related aspects that concern the labour force, respectively the employees' level of skills and the role of the training.

Obviously, the index level increase from one period of time to another is due to the common influence of several factors, among which, the most significant are those related to the labour force demand that shall sooner or later influence the offer. In other words, within a highly competitive and strongly specialized economy, the unqualified or sub-qualified employees not only benefit from worth paid working places, but they are easily to replace by the employers, thing that represents a powerful stimulus for the continuous improvement of there professional qualification and motivation by the new Total Reward system implementation.

The empirical data concerning the evolution of the human capital index (HCI), during 2001 as compared to 1995, for the analyzed Central and Eastern European countries proves that the improvement of the labour force training level has been accomplished differently from one country to another, in this respect emphasizing only three states namely Poland, Slovenia and Hungary.

In the year 2001, the first positions in what concerns the level of HCI were occupied, in order, by Poland (0.867), Slovenia (0.838) and Estonia (0.820), followed up, at a certain distance, by Hungary (0.758).

In the same time, the presented empirical data emphasise the accentuated increase registered in Slovenia (10.26%), Poland (8.37%) and Hungary (6.31%), proving that foreign direct investments attracted in these countries has been playing a significant role in improving the quality of the labour force.

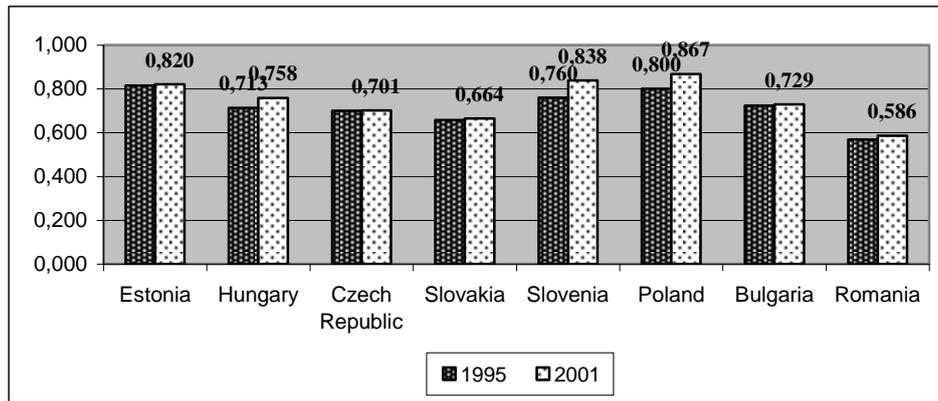


Chart 3 - Human Capital Index for CEE countries (1995 -2001)

Source: UNCTAD, *World Investment Report 2005*, p. 291

As a consequence, we appreciate that the foreign direct investments attracted by the CEE countries can impel the research & development activities with innovating character, thus supporting the Central and Eastern European economies on the way of increasing productivity and construction of the new society, based on knowledge.

The main factors for development the obviously, the Romanian business environment challenges are R&D Promotion and International Human Resource Management Approach.

Conclusions

The importance of knowledge in the new world economy has been officially acknowledged across the EU once with the adopting of the Lisbon Agenda, that established as a priority for the member countries to build up the knowledge-based society in view of providing the competitiveness increase and a sustained economical development based upon productivity growth.

Following the adoption of the Lisbon Strategy (2000), The European Commission monitors the progresses recorded by the member countries regarding the capabilities and the innovative performance. In this respect, a survey drafted based on the data supplied by EUROSTAT (The CE Office for Statistics) showed that, during 2002-2004, over 42% of the enterprises that work in the production and services sector within the 27 EU current member countries reported the development of some innovating activities (Eurostat news release, Feb. 2007).

Within the 27 EU countries, in a matter of productivity, one can notice severe disparities regarding the percentage of the enterprises that achieved innovative activities from the total of the enterprises. Thus, the highest values register in Germany (65% of the overall enterprises), Austria (53%), followed by Denmark, Ireland, Luxembourg (52%), Belgium (51%) and Sweden (50%). At the

opposite pole, are ranked the countries with the lowest rates, namely Bulgaria (16% of the overall enterprises), Latvia (18%), Romania (20%), Hungary and Malta (21%).

In what concerns the accomplishment of some partnerships between the public and the private sector, in view of developing the innovative activities it has been ascertained that they occur more frequent in countries like Finland, Slovenia, Slovakia, Latvia, and Lithuania and less frequent in Italy, Malta, Romania and Cyprus.

We underline that, the CEE countries placed on the first positions in what concerns the foreign direct investment inflows, namely the Czech Republic, Hungary, Estonia and Slovenia, still occupy top places regarding the innovative activities and the human capital.

Also, Romania and Bulgaria, ranking last within the CEE analysed countries in what concerns the foreign direct investments inflows are occupying the same low positions regarding the innovation capabilities, the Quality of the labour force and the new approach of International Human Resource Management.

Consequently, there is a correlation between foreign direct investments inflows and the positive evolutions recorded by some Central and East European countries (as for example Slovenia, Estonia, the Czech Republic and Hungary) in a matter of competitiveness and productivity, on the way of the construction of the knowledge-based economy.

In our opinion, the presented data suggest that in these countries, foreign direct investments and new Human Resource Management, as most important factors, contribute to the development of the enterprise innovative activities and the improvement of the human capital, which can increase productivity and competitiveness.

Therefore, learning from these countries' experience, Romania that register big discrepancies compared to the other Central and East-European economies that have joined the European Union, can maximize the financial positive contributions attracting more foreign direct investment inflows especially in those branches intensive in technology and knowledge. In this respect, it is imperative to improve the training level of the labour force and to develop the innovative skills and capabilities.

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