

# **Focus on the Impact of the Economic and Financial Crisis on the Human Resource Function – Four Eastern European Countries in the Light of Empirical Research in 2009**

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*Abstract: When the crisis broke out in October 2008, the economies of Bulgaria, Hungary, Romania and Slovakia were in different situations, but the governments of these countries took very similar action to eliminate the negative impacts. It is extremely important to know how their companies reacted to the crisis, and our study aims to uncover what actions companies from the selected four countries plan to take concerning the field of human resource management in the present financial and economic crisis. With a brief review of the literature we demonstrate the role of Human Resources in this critical period before presenting the findings of our empirical research conducted from November 2008 to February 2009.*

*Keywords: Human Resource Management; Crisis; Crisis theories; Bulgaria; Hungary; Romania; Slovakia*

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## **1 Introduction**

The present crisis is very different from earlier ones in that it has spread very rapidly to all countries and has brought the world close to global collapse (Lámfalussy, 2008, Mellár 2009 and Szentes, 2009) Company markets are shrinking and sales are decreasing, and, for these reasons, different solutions are proposed at the international, national and company level. Many compare the present situation to the earlier Great Depression and the remedies then applied, but, in fact, serious changes have taken place since then (Hamvas, 1983). One of

the most important of these lies in the structure of national economies. Compared to the earlier (e.g. 1929-33) crisis, the significance of the service sector has grown remarkably, while that of the agricultural and industrial sectors has decreased (Kehl and Sipos, 2007). This means that substantial strengthening has occurred where “the connection with material processes is secondary” even though the employment factor remains significant. Here productive capital can be found embedded into work, in the head of the employees (Sveiby, 2001). We believe, therefore, that corporate methods of handling the crisis cannot follow previous patterns; the recession scenarios cannot work. This statement refers especially to those organisations where intangible assets play an important role and where production is connected to knowledge – as opposed to tangible assets – and this also includes the state sector (Vajkai-Fodor, 2008).

## 2 Crisis Theories

The credit crisis spreading from the US and UK economic sectors has almost destroyed the world economy. The IMF calculated that world growth has fallen from the 5% reached in 2007 to 1.4% to which the developed world contributed by 2.6% and the emerging countries by +1.0%.

The number of unemployed has risen by 5 million, the same figure regarding the OECD countries has reached 20 million (KSH; 2010). Generally as Bryan (2008) points out, we might summarise the problems by simply saying that the whole world economy is affected by the fact that the financial sector has ceased to function normally.

- Various governments have been making remarkable efforts to mitigate the consequences of the crisis. These actions were mainly cost-reducing and had a significant effect on the budgets of public institutions. LaRocco (2010) also declares that the role of bureaucrats and governments has increased.
- It is also obvious that the global financial market has significantly weakened and lacks efficient coordination and monitoring mechanisms.
- Due to the increase in the role played by governments, taxes will probably rise and the regulatory function of the state will be increased.
- The era of cheap credit is about to end and so the main structure of many plans will need to be reviewed – and previous concepts pruned where necessary. The former growth potential has decreased.

Due to the crisis, government budgets came under pressure both at state and regional levels. Deficits needed to be decreased and incomes increased. Therefore, most governments reduced their expenditure and laid an extra burden on organisations, on citizens and on economies in the form of taxes. The credit supply from banks has fallen dramatically, resulting in liquidity problems for credit-dependent industries (e.g. construction) and their suppliers. The slowdown has

reached almost every industry. Companies tend to reduce their expenditure as income falls short of that planned.

Before we enter into a detailed discussion of our empirical research, we should take an overview of what different authors propose to ensure recovery from economic and financial turmoil as soon as possible.

### **General Recommendations<sup>1</sup>**

Korten (2009) writes in his new book that the world will not be able to recover from the recent crisis as long as real wealth is not preferred. The author considers it important to abandon the phantom economy (e.g. inflated stock prices or overvalued real estate portfolios) that has pushed the world into crisis. The author envisages a world order based on local economies rather than alchemy. Similarly, Speth (2008) states that there is no way out of the crisis as long as world politicians concentrate only on growth.

An Eastern European expert, Csaba (2009, 186) thinks, after Lucas (1976), that “while countries have to adapt as well their conjunctural policies to the deterioration of the international environment, the way out is through regaining trust instead of pumping money into the economy”.

Hungarian-born Mihály Csikszentmihályi, developer of the flow theory, thinks that performing local tasks have to be in focus. First, small evolutionary cells have to be created that can be characterised by solidarity and supporting each other rather than by the fatal pursuit of money. He says that initiatives like this can be the basis for the development of a human society building a more humanitarian future (Székely, 2009).

### **Recommendations to Companies**

Hugh Courtney (2001), the Dean of the Robert H. Smith Business School at the University of Maryland, published a book which attracted considerable attention post-9/11 (i.e., September 11<sup>th</sup> 2001): it was entitled “20/20 Foresight: Crafting Strategy in an Uncertain World”. The author thinks that companies should prepare to scrutinise their financial situation from several points of view. He suggests that they should continually examine their market opportunities and the steps taken by their competitors. According to the author, those companies with a number of so-called “cash cow” products and services will be in a less difficult situation in the present uncertainty. If we look at companies in the developing world (China, India, Russia, etc.), those with a sound financial base and which are relatively cheap to finance will be in the best position. In his opinion, the advantage of the Indian Tata company becomes obvious as its Western competitors will be forced to carry out significant company reconstruction or will even be forced to withdraw

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<sup>1</sup> This article doesn't discuss the different cycle theories (e.g. Kondratiev, Kitchin and Keynes, etc.).

from certain areas. This company will probably be able to retain positions already gained and also to penetrate areas abandoned by its competitors.

Meyer (2009) makes the following strategic recommendations regarding recovery:

- 1 The quoted author considers it most important that companies have to stabilise their cash flow situations.
- 2 Market prospects are especially good in the low-cost industries but fierce competition is expected from companies in the emerging countries.
- 3 It is advisable in a number of industries to transform the product portfolios. This transformation should be realised by increasing the efficiency of production processes and rationalisation rather than by innovation.
- 4 A significant decline can be observed regarding the purchase of non-basic services in the business-to-business field. Consultants are concerned by the biggest decline.
- 5 It is advisable to prepare for the opportunities offered by the new economy, in particular, green energy, the health sector, nutrition, the entertainment sector and education in special knowledge industries.

The cost of labour is usually a significant part of a company's budget. Due to this, and as we will see later, a typical reaction of firms is to reduce this cost in different ways. As the GKI Research Institute (Bank, 2008) declares, there are different ways, such as by reducing working hours, holding back on temporary work, increasing the number of part-time employees, lay-offs, reducing wages and salaries and freezing recruitment. Almost all of these – especially lay-offs – can cause serious problems for long-term operations as we believe that employees are the most valuable asset of knowledge-focused companies (Dobrai and Farkas, 2009).

It seems that earlier strategies are inappropriate for the current circumstances. If a company is not able to keep a talented, hard-working, career-oriented workforce, one of the motivation factors which ensure a permanent stimulus at every level of the organisation will be missed and a time-bomb will be ticking within the organisation. Frozen recruitment and layoffs will also harm the corporate culture in that the basic beliefs, norms and rules will be damaged. The lack of junior staff that can be generously loaded means that even more routine tasks will remain for senior employees. There will not be enough subordinates to “carry the piano”. The fear of losing one's job will lead to less knowledge-transfer and delegation. The departure of colleagues also means a massive loss of partner-relationships (external knowledge capital) and an increase in the number of competitors. As we found in the literature and in interviews, to avoid the catastrophe, leaders have to play a key role. One of the most important steps is to revive a healthy and vibrant corporate culture. Managers or partners should lead by example. They must bring expectations into effect first. Clear and consistent communication should accompany actions and changes in the organisation. Leaders should invest in key

knowledge-workers, since they will be the source of recovery. In their cases creative or long term compensation is also possible. In addition to the current problems, companies need to focus on the future and to set clear new aims and goals. If employees understand the message and see their role in the new setting, their commitment and motivation will recover (CMA Management, 2009). Cappelli (2009) also adds, and respondents have confirmed, two other major factors for success in maintaining commitment: the first is related to communication. He points out that management should address perceptions about the downturn in the organisation's fortunes, since explanations can be worse – and more dangerous – than reality. In communication, managers should give clear reasons why the remaining employees have survived, and how they fit into the new perspectives (Cappelli, 2009). Haberleitner et al. also (2010) support the ideas of clear communication and gives impressions and suggestions about the characteristics of honest, thoughtful leadership in times of crisis.

In our research, we will, in various ways, touch on the practicalities of these recommendations in our research overview.

## 2.1 Methodology

At the very beginning of this article, we mentioned that the studied countries had reacted similarly to the crisis. The question is rightly asked: What do companies actually plan to do? How do they see the crisis? What influences their reactions? In the following part of our article we try to find the answers to these questions.

We were interested in the micro-level reaction, and so we undertook to research the organisations' responses. The selection of the research method was determined by the fact that data for the four countries in the survey could be collected most effectively by benchmarking. We applied the "sequential logic" of research planning (Hellriegel, et al., 1998: 623), and in preparing the questionnaire. After our review of the literature, we looked for empirical confirmation from the corporate sector. Do they think as the previously-cited authors (Courtney, 2008 and Meyer, 2009) suggest, or do they have other preferences? To answer these questions, we use the results of a questionnaire survey conducted in November 2008 and March 2009. Participation in the survey was voluntary and free. A web-survey technique was used to fill out the survey in Hungary and paper copies were used in Romania, Slovakia and Bulgaria. Filling in the questionnaire took some 20-30 minutes. The research was based on a survey including 8 question-groups, and the questionnaire is made up as follows.

- name of the company and the address to which the report should be sent,
- specific features of the company,
- the possible effects of the economic and financial events now spreading,
- planned measures to be taken for easing the effects of the crisis,
- planned salary increases for 2009 (%) – separately and for all fields,

- the effects of the economic and financial events as they spread in the countries over the next 12-24 months,
- planned changes in HR areas,
- further recommendations and comments.

We received answers from a total of 566 companies in the four countries – Bulgaria, Hungary, Romania and Slovakia. In the survey, we also examined the answers given by management and HR given in respect of the recession.

## 2.2 The Four Countries Examined

From the point of view of our topic, it is worth taking an overview of the socio-economic characteristics and crisis management actions in the countries examined. If we compare the four based on economic performance, we can conclude that:

- Of the four, Romania is the biggest in terms of both population and territory. Bulgaria and Hungary are roughly the same size. Bulgaria is larger in terms of territory, whilst Hungary has a larger population. Slovakia is the smallest in terms of both territory and population.
- With regard to GDP per capita – based on 2008 World Bank data – the ranking of the countries is: 33: Slovakia (\$17,565 per capita), 37: Hungary (\$15,408), 51: Romania (\$9,300) and 64: Bulgaria (\$6,546).
- In recent years, including 2008 (the basis of the comparison) the Bulgarian, Romanian and Slovakian GDPs increased significantly more than Hungary's.
- Inflation was lowest in Slovakia (4.6%). The Bulgarian, Hungarian and Romanian inflation data were approximately the same for 2008, around 6.2 and 7.8%.
- Probably due to the high number – 3-3.5 million, according to certain estimates – of Romanian guest workers, the unemployment rate there is 4.5%, well below the EU average. Bulgarian, Hungarian and Slovakian rates approximated to the EU average, at around 6.2 and 8.7%.
- With regard to culture, following the dimensions set up by Hofstede and Hofstede (2005), we can affirm that power distance is greatest in Slovakia (104) and Romania (90) and lowest in Hungary (19). Hungarians are the least collectivist (11), whilst this indicator in the other countries varies between 30 and 52. Hungarians are the least (17) and Slovaks the most masculine (110) while the same indicator in Romania and Bulgaria is 40 and 42. Slovaks have the lowest uncertainty avoidance index.

It can be seen that all four countries differ in territorial, economic, and cultural aspects. However, the crisis had reached all by the end of 2008 and governments were forced to respond to the challenges. Most responses were similar, although a few minor differences could be seen due to the above variations.

### 3 Hypotheses

For our research we proposed four hypotheses to evaluate the recommendations of the literature and to analyze the spatial, cultural and functional differences of the crisis.

***H1: There are no country-specific reactions to the crisis; the organisations of the Central and Eastern European (CEE) countries react similarly to the challenges generated by the crisis.***

In order to test the first hypothesis, the differences among company reactions were examined in respect of nationality. The current turmoil faces the companies and the economies with similar challenges. As discussed earlier, most governments use the same methods to eliminate the effects of the crisis. However, there are significant differences among national cultures. The typical business goals of companies can also be characterized by the national culture where the firm is operating (Hofstede and Hofstede, 2005). One of the most important messages of cultural differences is that a group of people react differently to the same challenges and problems. According to our assumption, answers should be sought not only from the cultural perspective, but in a more complex set of factors. We think that reactions are not only influenced by national culture, but by the sector, the size of company and also by ownership. To prove this, we tried to show that nationality is not the only influencing factor.

***H2: Companies with few employees tend less to dismiss staff as a solution to the crisis.***

The second hypothesis is an extension of the first, focusing on a special crisis-reaction. A rise in unemployment has been one of the symptoms of the downturn starting in 2008. We assume that small companies contribute less to the trend. This hypothesis was based on the logic that: the speciality of SMEs in Eastern Europe – especially of micro- and small enterprises – is the low level of capital, profitability and the return on investment. (Némethné et al., 2008 and Poór et al., 2007). Usually, management tasks and responsibilities are not defined clearly in the leadership, and, in our opinion, these companies would quickly reach their operating boundaries in respect of dismissals, and so they use this weapon last.

***H3: Company reactions to the crisis are not uniform.***

Our third hypothesis examines other independent variables that were not analyzed in the first hypothesis. We examine the power of influence of these characteristics on the reactions of the companies. The aim of this is to prove that companies' answers depend on a set of variables and not on one single factor.

***H4: Reactive companies judge the crisis and the characteristics of the crisis differently than proactive companies.***

Companies may be categorised in four groups according to their actions to eliminate the effect of the crisis. The first type is *passive*, when companies believe that nothing needs to be done. The second *reactive*, where companies tend to use more cost-reducing, belt-tightening arrangements. The third is *proactive*, focusing more on corporate reorganisation and renewal. The fourth is mixed *strategy*, where both reactive and proactive tools are used. Of these categories, the reactive and proactive firms differ sharply from each other. For this hypothesis, we used a different approach to that for the former. We assumed that economic players have other information regarding the crisis and judge the symptoms differently, and so we measured this assumption in our survey. Now we examine the connection between the perception of the crisis and answers given among the reactive and proactive companies (Balázs-Veress, 2009).

## 4 Characteristics of the Sample Analyzed

We received 566 valid answers from the four countries. The highest proportion of questionnaires was returned from Hungary and account for 45.2% of the sample. Companies from the other three countries contributed to the survey approximately equally at around 18%.

Table 1  
Sectoral distribution of participating organizations

Sectors	Countries				In % of the whole sample
	Bulgaria	Romania	Slovakia	Hungary	
Industry	14.7%	9.6%	27.1%	28.9%	22.4%
Trade	14.7%	13.5%	22.4%	26.9%	21.4%
FMCG	3.9%	4.8%	.9%	1.6%	2.5%
Financial services	4.9%	11.5%	18.7%	4.3%	8.5%
Information technology (IT)	10.8%	8.7%	.9%	3.2%	5.1%
Telecommunication	4.9%	3.8%	1.9%	.8%	2.3%
Transport	3.9%	2.9%	8.4%	2.8%	4.1%
Energy	2.9%	1.9%	.9%	1.6%	1.8%
Business services and others	39.2%	43.3%	18.7%	30.0%	32.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

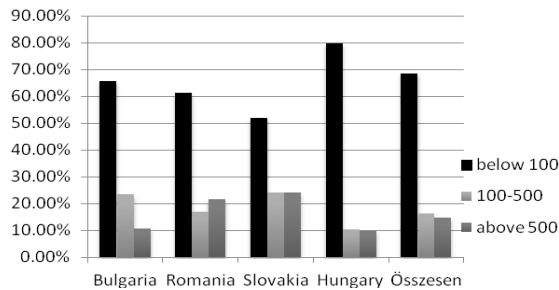
SOURCE: Primary research by the authors

Respondents are from different fields of business, although manufacturing, commerce and business services predominate within the whole sample. The incidence of manufacturing and commercial operators is low in Bulgarian and Romanian companies, as opposed to their levels of IT companies and organisations working with FMCG (Fast Moving Consumer Goods). The latter are usually every-day, low-priced and low-risk products which require very little thought when purchasing) and feature more significantly here than in the two other countries.



The number of transportation and financial services companies in Slovakia and the number of companies providing business services in Hungary are higher than in the other countries.

In respect of the number of employees, companies with fewer than 100 people account for nearly 70% of the sample. Organizations employing more than 500 people, therefore considered as large companies, amount to 15%. Outliers can be found in respect of Slovakia and Hungary in the “Below 100 people” category. The number of companies with the least employees is below average in Slovakia and higher in Hungary. Bulgarian and Slovakian companies employing 100-500 people are slightly over-represented.



Picture 1

Size of participating organisations

*SOURCE: Primary research by the authors*

With regard to the field of operation, private companies predominate. In the case of Slovakia, the proportion of public companies is significantly higher than the sample average.

In respect of the registered office, we noticed a unique factor in Slovakia, namely, that, while companies in the capital predominate in the other countries, the proportion of provincial companies in Slovakia in the sample is 78.3%.

## 5 Results

### Country-related Differences

In this chapter, we focus on supporting and proving our hypotheses. **In the first hypothesis**, we examine differences in the reactions of the companies regarding their nationalities. In the survey there were three types of question related to this theme and indicating their reactions: (a) the planned measures to be taken for easing the effects of the crisis, (b) the planned salary increases for 2009 (as %) separately for all fields of work, and (c) the planned changes in HR areas. First by cross-tabulation (crosstabs hereafter) analysis, we looked for connections between the countries and the reactions of the respondents.

In the first group examined, we analyzed the strategic answers of the companies. Ten categories were offered, with answers on a scale from 1-5 (one to five) where 1 meant “no” and 5 meant “to a very large extent”). Univariate statistics are shown in Table 2.

Table 2  
Average of strategic action to be taken to eliminate the effect of the crisis

	cost reduction	org. efficiency to be increased	adjusting strategies	postponing investment	wage freezing	entering new markets	other	dismissal	Incr. marketing costs	we need to do nothing
N	548	533	520	525	519	520	146	510	509	455
Mean	3.91	3.85	3.37	3.13	3.05	2.99	2.45	2.41	2.34	1.52
Median	4	4	3	3	3	3	3	2	2	1
Mode	5	5	3	3	1	3	1	1	1	1

SOURCE: Primary research by the authors

It seems that organisations see the way out in reducing costs, increasing efficiency and, of course, in adjusting their strategies. The ‘we do not need to do anything’ option reached the lowest mean and median values. Companies agreed least on using this method to eliminate the effect of the crisis. The ‘Cost reduction is needed’ category was the question where the highest mean, mode, and median were calculated. It is clear that cost-reduction has priority among companies. Nevertheless, there were different opinions about how this aim should be accomplished. ‘Postponement of investments’ was more appropriate for organisations than the ‘dismissal’ option. Firms were more cautious about reducing the number of employees. Barely one fifth of companies declared this possibility necessary ‘to a very large extent’ or ‘to a large extent’.

When we looked for *country-related differences* we found some weak but significant results in the crosstabs analysis. The most visible feature was that Hungarian companies tended to use or reject actions more radically than those in the other three countries.

In all categories *Hungarian* answers showed a higher number in the “very large extent” category, and usually in the “no” category. Interestingly, Hungarian organisations appeared to be quite passive in a ‘medium’, ‘large’ or ‘very large’ extent more than the average (to eliminate the effect of the crisis).

The other feature noticed was that *Bulgarian* companies differ least from overall averages. Regarding the categories ‘cost reduction’, ‘wage freezing’, ‘reform of strategies’, ‘doing nothing’ and ‘increasing organisational efficiency’, Bulgarians did not differ from the average. When we said that Hungarians tended to be more radical in the operations, we should note that Bulgarian, Romanian and Slovakian firms had more sophisticated and more varied answers. Fewer companies rejected postponing investment and increasing the marketing costs in Bulgaria, but they are willing to use this opportunity more moderately way than the average. The only category where Bulgarian organisations showed action stronger than the average was in ‘planning to enter new markets’ to eliminate the effect of the crisis. With *Romania*, we could not paint a general picture. We see that, as with Bulgarian

companies, Romanians agreed less with being passive than the average. They were more moderate or dismissive in ‘firing employees’, ‘freezing wages’ and in ‘adjusting strategies’ also. With ‘postponing investment’, ‘cost reduction’, and ‘entering new markets’ we found no trend in the Romanian answers. Companies from this country were the closest to the average in selecting the option increasing marketing costs.

In *Slovakian companies*, we saw two major tendencies. The first is that middle values (from “small extent” to “large extent” categories) suited them better; extremes were chosen less than average. This was the case in respect of ‘dismissal’, ‘postponing investment’, ‘adjusting strategies’ and ‘organisational efficiency’ actions. The other characteristic was the ‘weaker than average’ answers of Slovakian companies in some categories. ‘Cost reduction’, ‘wage freezing’, ‘increasing marketing costs’ and ‘entering new markets’ were in this category.

Regarding the first hypothesis, the *second group of questions analyzed was that of HR-related actions*. The survey contained 21 HR strategy-related questions where respondents could mark those options where they were planning to take action due to the crisis. They did not have the chance to choose from a scale; a simple dummy value was offered (0= no; 1= yes).

Most companies are not planning to carry out changes in HR areas. More answered ‘No’ to each question than ‘Yes’ on this issue. The highest value was the ‘Freeze in the number of staff’ (36%), which is certainly not surprising after the known earlier results. ‘Flexible working time’ was also an answer often given. The rate of people giving a positive answer to ‘workforce reduction’ was higher than of those who agreed “to a very large extent” with the former ‘dismissal’ question in the above analysis. ‘Flexible bonus system’, ‘workforce development’, ‘performance management’ and ‘communication’ were agreed by more than 30% of respondents.

Although we have seen the overall average values of the whole group, for our first hypothesis, *Country-related differences* are more important. Here we again used crosstabs analysis. The first and most important statement regarding HR actions was that, in some categories, we could not find significant differences between the countries. The ‘increase the number of staff’, ‘communication’ and ‘outsourcing HR activities’ answers were not significant (at a 5% significance level) when we used the crosstabs analysis with the country values. There were a couple of questions where the statistics showed significant results, but none of the countries had an interpretable pattern of answers. These were ‘change management’, ‘flexible working time’, ‘integration of the HR systems’, ‘talent management’, ‘restructuring and fusion’, ‘flexible bonus system’, ‘communication’, ‘performance management’ and ‘education of the management’ categories. In the remaining categories, we had significant but weak correlations between planned HR activities and the countries.

Table 3  
Comparison of the Hungarian HR answers with the total sample

	Total	Hungary
Workforce development	27%	18%
Sphere of activities	25%	11%
Knowledge management	24%	16%
Changes in organisational culture	23%	15%
Competency management	20%	11%
Classification system	16%	2%
Career planning	12%	5%
Workforce reduction	34%	26%
Freeze in the number of staff	36%	37%
System of wages	30%	11%

*SOURCE: Primary research by the authors*

In the significant HR categories, Table 3 shows the difference between the Hungarian and the overall sample's accepted HR solutions. It seems that Hungarian companies wanted to make HR changes at the lowest rate. In the categories, all Hungarian positive answers were below average except the 'freeze in number of staff' category, where the result was almost the same (Table 3).

Romanian firms were very much in contrast and were the other extreme group of respondents. Here we found more 'yes' answers than expected in all significant and interpretable categories, except for the 'freeze in the number of staff' category (Table 4). In respect of 7 "tools", Romanian companies showed double the rate of the other countries.

Table 4  
Comparison of the Romanian HR answers with the Total sample

	Total	Romania
Workforce development	27%	51%
Sphere of activities	25%	61%
Knowledge management	24%	55%
Changes in organisational culture	23%	45%
Competency management	20%	40%
Classification system	16%	55%
Career planning	12%	25%
Workforce reduction	34%	50%
Freeze in the number of staff	36%	26%
System of wages	30%	46%

*SOURCE: Primary research by the authors*

The other two countries were Bulgaria and Slovakia. Although Bulgarian companies were willing to change the 'organisational culture', use 'competency management', 'freeze staff numbers' and change the 'wages system' more than the overall average, Slovakian firms see the way out of the crisis less in 'knowledge management', in the 'change of organisational culture', in 'competency management', and in 'changing the classification systems' than the average (Table 5).

Table 5  
Comparison of the Bulgarian and Slovakian companies' HR answers with the total sample

	Total	Bulgaria	Slovakia
Workforce development	27%	27%	25%
Sphere of activities	25%	23%	25%
Knowledge management	24%	25%	12%
Changes in organisational culture	23%	33%	9%
Competency management	20%	40%	5%
Classification system	16%	18%	8%
Career planning	12%	20%	9%
Workforce reduction	34%	30%	41%
Freeze in the number of staff	36%	49%	30%
System of wages	30%	47%	41%

SOURCE: Primary research by the authors

Regarding the *first hypothesis*, the last analyzed group of questions was the 'planned wage rise in the different levels of the organisations' questions. The crosstabs analysis showed weak, but significant correlations in all categories. In the survey, we separated seven organisational levels from the top management to the blue-collar workers. In all categories, respondents could set the percentage of the increase in wages that they planned to give to that specific group of colleagues. We were also interested to learn the general rate of increase for the whole organisation. The whole sample showed quite similar means and modes in almost all categories (Table 6).

Table 6  
Planned wage rise for the different level of employees in 2009, in %

	All employees	C.E.O.	middle-level managers	sales employees	technical experts	administrative employees	blue-collar-workers
Valid N	516	454	435	424	426	443	422
Mean	2.8	2.8	3.0	3.1	2.9	2.5	2.6
Median	2.0	0.0	1.0	2.0	1.5	0.0	1.0
Mode	0.0	0.0	0.0	0.0	0.0	0.0	0.0

SOURCE: Primary research by the authors

We have already mentioned in previous headings that companies prefer a wage-freeze to, for example, dismissing colleagues. The most common item, the mode was 0%. That means wage-freezing is the most frequent choice of the respondents. 46.9% of the companies questioned had decided to freeze the wages of all employees. There is also a high rate of 0% wage-increase in other organisational levels. Regarding the median of the categories, chief executive officers and administrative employees will suffer most, whilst sales staff will have the highest (but still quite low) wage-increases. (This is, nevertheless, still lower than expected inflation figures.) It is important to mention in connection with top management that, except in a few countries, top managers tended to receive higher salary increases (Mercer, 2005). The present survey has also confirmed that this organizational level should also take a higher share of the consequences of the recession caused by the crisis.

In order to support the first hypothesis we analyzed the differences between wage increases by country. First, we categorized the different answers into three new categories (0%; from 1% to 4%; and above 4%). Regarding the crosstabs analysis, we found significant but mainly weak country-related signs in each category. The first statement is that Bulgarian companies seemed to be the most gentle towards their employees (except the administrative workers category). Here the above 4% category was reached by a significantly higher value than expected. Fewer Bulgarian firms had chosen the '0% wage-rise' category than the average, and Romanian companies selected more extreme values. They used '0%' and 'above 4%' categories significantly more often than average in each related question (except for the administrative workers category). In contrast, Slovakian organisations took the middle road. The number of respondents choosing the '1-4%' category was significantly higher than the average. Hungarian organisations did not show as clear a picture as seen in the former three cases, and it seems that Hungarians would tend to give a lower-than-average wage rise, but it is not true in all categories. We can confirm this in respect of 'C.E.O.', 'middle managers', 'technical workers' and 'administrative workers'. The 'sales employee' category was around average for Hungarian companies. In the 'blue-collar' category the '1-4%' value was stronger than expected.

We were searching for country-specific differences in the crisis-related, planned and already undertaken actions of the companies. Analyzing the answers on the strategic actions question-category we have found several weak, but significant distinctions between the countries. However, in respect of planned HR action, crosstabs analysis became less significant, and in many cases we could not identify differences, although we still found some areas where organisations from different nations have other solutions. The 'planned wage-rise' values showed remarkable results in terms of differences. *To sum up, we say that the national origin of the companies influenced many of the answers. We do not say that this is the only factor determining the result, as all significant results had weak correlations, but the origin of the firms had a visible effect on their behaviour in times of crisis. The hypothesis is partly agreed.*

### **Organisation Size – Number of Employees**

**The second hypothesis** involved examining another factor that might have an influence on the responses to the crisis. This is the number of employees in an organisation. From the literature, we know the different characteristics of complexity of the SMEs and MNCs (Hiltrop, 1991 and Wimmer and Zalayné, 2009). We assume that these characteristics play a significant role in the process of adaptation to the challenges. Here, we do not focus on such a wide number of questions as in the first hypothesis; we concentrate only on the correlation between dismissals and the number of employees. For this purpose we will again use crosstabs analysis as a statistical tool.

As seen in Table 7, the count rows differ from the expected values. However, in Table 5 only 34% of the companies said that workforce reduction is an appropriate way out of the crisis; even fewer (26% or 104 respondents) voted for this solution among companies with under 100 employees. This is more than 51% of the companies employing more than 500 people.

Table 7  
The willingness to dismiss of companies by employee numbers

			Workforce reduction	
			No	Yes
Number of employees	below 100 employees	Count	291	104
		Expected Count	262.0	133.0
	100-500 employees	Count	49	46
		Expected Count	63.0	32.0
	above 500 employees	Count	42	44
		Expected Count	57.0	29.0
Total		Count	382	194
		Expected Count	382.0	194.0

*SOURCE: Primary research by the authors*

In the first part of the survey, respondents could indicate (on a 1-5 scale) how willing they were to use this tool. The crosstabs analysis of this question and the number of employees also supported the former statements. Companies with under 100 employees answered 'no' in higher-than-average numbers, and fewer said that dismissal is needed 'to a medium extent' or 'to a large extent'. The opposite trend is seen in companies with more than 500 employees.

Table 8  
The strength of a company's willingness to dismiss by employee numbers

			Not at all	Small extent	Medium extent	Large extent	Very large extent	Total
Recorded number of employees	below 100 employees	Count	126	86	65	28	36	341
		Expected Count	107	86.3	77.6	38.8	31.4	341
	100-500 employees	Count	19	29	24	13	6	91
		Expected Count	28.5	23	20.7	10.3	8.4	91
	above 500 employees	Count	15	14	27	17	5	78
		Expected Count	24.5	19.7	17.7	8.9	7.2	78
Total		Count	160	129	116	58	47	510
		Expected Count	160	129	116	58	47	510

*SOURCE: Primary research by the authors*

*To sum up, we can say that both analyses proved our second hypothesis. In our sample, companies with fewer employees tend to dismiss people less often than do larger companies.*

## Reactions to the Crisis – Behavioural Distinctions

After the first two hypotheses we searched for behavioural distinctions of the companies in a more sophisticated way. **Our third hypothesis** assumed that reactions of the companies to the crisis are not uniform. During the former crosstabs analyses, and the frequency analyses it seemed that some strategic actions by the companies tend in the same direction. To discover the connections we decided to use factor analysis. And we did, in fact, use principal component analysis and (for the rotation method) the varimax rotation with Kaiser normalization. As shown in Table 9, three factors were selected.

Table 9  
Factor analysis of the strategic answers

Rotated Component Matrix				
		Factor		
		1	2	3
1	We do not need to do anything			-.837
2	Dismissals are needed	.792		
3	Postponement of the investment is needed	.720		
4	Cost reduction is needed	.717		
5	A wage-freeze is needed	.786		
6	increased marketing costs are needed		.750	
7	Entering new markets is needed		.801	
8	Adjustment of strategies is needed	.498	.427	
9	Organisational efficiency should be increased		.428	.503

SOURCE: Primary research by the authors

The most obvious interpretation was found at the first factor which consists of Questions 2-5 in Table 9. These were the typical belt-tightening questions, such as dismissal or cost reduction. *Therefore, we called this factor the “reactive responses”*. We had more trouble with grouping the questions into the remaining two factors. The first identified factor, the “reactive responses” factor led to the thought *that a proactive category should also exist*. The first two questions (6 and 7) of the second factor met this assumption perfectly, but we had some interpretation problems with question 8 and 9. Due to our logic, we pre-classified the ‘increase organisational efficiency’ and ‘adjustment of the strategies’ into the proactive category, but factor analysis showed that they do not have this obvious correlation. In our interpretation the ‘adjustment of strategies’ might have a dual meaning, depending on the direction of the change in strategy. It could belong to both the reactive and proactive categories, but from the literature review we felt this category relates more to the proactive. Based on factor analysis, ‘organisational efficiency’ has a stronger relationship with the third factor than with the second. Some researchers say that company reorganisation belongs more to the non-active phase of the life cycle of the organisations. It is more a reshaping



of the company in order to fulfil the requirements of earlier growth. Opinions such as these hold that this restructuring is not a true market activity. On the contrary, we think that increasing organisational efficiency is more proactive than non-active, as both internal and external actions should be seen as activities. Therefore, we included this question in the second factor. The name of this second factor became the “proactive responses” factor. This left only one question for the third factor, and it seemed that the “we do not need to do anything” question belongs to the third, so-called “passive” factor.

After establishing these new factors, we recoded the strategic type of question and answer into one new value (‘type of crisis-related organisational strategy’). First, we calculate averages from the answers to the question groups belonging to the ‘reactive’ and ‘proactive’ types of question. Next, we excluded those few respondents who had accepted the passive strategy to a ‘large’ or ‘very large extent’ and who, in the meantime, had had a larger average than 2.5 in certain cases, since staying passive and taking action at the same time is a logical misinterpretation of the survey. The respondents who only had a higher average than 2.5 in one of the groups of questions became reactive or proactive companies. There were companies where both groups reached a average higher than 2.5 and these respondents became the companies with mixed crisis-strategy. This type, the ‘mixed responses’, contained those companies willing to take both reactive and proactive actions.



Picture 2

Incidence of the chosen strategies in the sample

SOURCE: Primary research by the authors

Picture 2 already supports our 3<sup>rd</sup> hypothesis. Most companies followed a mixed strategy, and both reactive and proactive solutions were selected. In only 16% and 13% respectively were clear reactive or proactive actions in operation. It is interesting that 25% of respondents chose to stay passive.

To find new explanations for the different forms of behaviour, we continued searching the correlations with other factors. A cluster analysis did not suggest any relevant result, and we cannot identify a specific group of respondents based on their different characteristics. From the crosstabs analysis, we conclude that that field of activity, the ownership of the company, and the region of the operations has no correlation with the crisis-related action. Significant, but weak relations were found regarding the country of the company, the number of employees and the operating sector of the firm.

Table 10  
Different strategies by the nationality of the company

			Country				Total
			Bulgaria	Romania	Slovakia	Hungary	
The strategy that the companies will use to reduce the effect of the crisis	Passive strategy	Count	18	11	14	101	144
		Expected Count	25.5	26.5	27.0	65.1	144.0
	Reactive strategy	Count	21		8		75
		Expected Count	13.3		14.0		75.0
	Proactive strategy	Count		23	9		95
		Expected Count		17.5	17.8		95.0
	Mixed strategy	Count		58	77	79	263
		Expected Count		48.3	49.2	119.0	263.0
	Total	Count	102	106	108	261	577
		Expected Count	102.0	106.0	108.0	261.0	577.0

*SOURCE: Primary research by the authors*

In Table 10 we have only reported the data where relevant differences from the average results were found. We conclude that fewer Bulgarian companies found the passive strategy to be appropriate in crisis times, but more found reactive actions to be better suited to circumstances than did the average. Romanian organisations agreed with the ‘passive’ solution less than the average, and indulged in stronger engagement with the ‘proactive’ and ‘mixed’ categories. There were significantly more companies in Slovakia where ‘mixed’ responses were agreed. In all of the mentioned three countries, the ‘passive’ category was a weaker-than-expected choice, but in Hungary, 101 companies – 55% more than expected – said that this was the right method to survive the current turmoil. In the same country the number of companies following the ‘mixed’ strategy was below average.

The nexus between strategy and company size is shown in Table 11. Companies with fewer than 100 employees tended to be ‘passive’ or ‘reactive’ and agreed less with the ‘mixed’ actions. The values of ‘passive’ strategy were lower than expected in the two remaining categories. The higher the number of employees, the more did firms tend to be ‘proactive’ or to agree with ‘mixed’ strategy more than the average.

The relation of the sector and the companies’ used strategy suggested some interesting results. Companies in the ‘manufacturing’ and ‘business service’ sectors were more oriented towards ‘passive’ behaviour than the average. On the other hand, the ‘energy’, ‘financial’ and ‘transport’ sectors selected ‘passive’ strategy more than expected. In the ‘finance’ and the ‘manufacturing’ sectors, we found fewer companies in the ‘reactive’ line. Companies working in the ‘commercial’ sector tend to be more ‘reactive’ than the average. The ‘proactive’ strategy and the working fields showed no differences of any note. ‘Finance’, ‘transport’, ‘energy’ and ‘business services’ were the activities where ‘mixed strategy’ occurred more than had been expected.

Table 11  
Crisis-related strategies by the employee numbers

			Number of employees			Total
			below 100 employees	100-500 employees	above 500 employees	
The strategy that the companies will use to reduce the effect of the crisis	Passive strategy	Count	111	14	19	144
		Expected Count	98.8	23.7	21.5	144.0
	Reactive strategy	Count	59	9	7	75
		Expected Count	51.5	12.3	11.2	75.0
	Proactive strategy	Count	59	17	19	95
		Expected Count	65.2	15.6	14.2	95.0
	Mixed strategy	Count	167	55	41	263
		Expected Count	180.5	43.3	39.2	263.0
	Total	Count	396	95	86	577
		Expected Count	396.0	95.0	86.0	577.0

SOURCE: Primary research by the authors

To summarise, we conclude that crisis-related actions could be grouped into new value or factors. Although passive, reactive and proactive types of action occurred in the factor analysis, the frequency table showed that the largest group of companies mix their reactions. 45.6% of these used both proactive and reactive tools to reduce the effect of the crisis. Since mixed strategy does not have such clear and unique characteristics as do the other three, we found our third hypothesis acceptable. With the characteristics of the companies and the strategies, clear clusters could not be created. This statement also suggests the uniqueness of the responses. The crosstabs analysis identified weak, but significant, relations between the chosen strategy and the size of the company, the country and the industry of the operations. It means that these are the factors that influence the different strategies.

### The Value Judgement of Reactive and Proactive Respondents

The third hypothesis identified three clear and one mixed type of strategy that companies might follow to reduce the impact of the current economic crisis. Two of them, the 'reactive' and the only 'proactive' strategies have quite different characteristics. Thus, 'reactive' and 'proactive' companies could be separated easily and include a possibility to analyze the attitudes and forecasts in connection with the turmoil.

The assumption of the fourth hypothesis is that reactive firms judge the crisis and the characteristics of the crisis differently than do proactive companies. To prove this, we compared the means of the 'reactive' and the 'proactive' companies' answers in the question groups:

- 'the possible effects of the spread of the economic and financial events,'
- 'the effects of these over the next 12-24 months.'

We used the statistical method t-test to find significant differences. From the 19 possible questions, we could identify six where significant differences could be

found regarding the perception of the crisis. ‘Proactive’ companies were more pessimistic regarding the effect of the crisis on growth than reactive ones. In this question respondents could mark three different answers; decrease (value 0); not remarkable (value 1); and increase (value 2). As can be seen in Table 12 the means of ‘reactive’ companies were higher by almost 0.5 than ‘proactive’ company answers. The next significant category was the ‘company’s expected rate of growth in 2009’. The range of possible answers was: ‘0%’ (value 0); ‘1-3%’ (value 1); ‘3-5%’ (value 2); ‘5-10%’ value 3); ‘10-15%’ (value 4) and ‘above 15%’ (value 5). We see that both ‘reactive’ and ‘proactive’ companies have a relatively low mean, but ‘reactive’ firms expected more in the way of increase, - or a smaller decrease - than ‘proactive’ forms. The survey offered an opportunity for companies to forecast the duration of the recession (higher values meaning a longer period). In this question the former statement was encouraged. Organisations with a more ‘proactive’ attitude predict a longer recession than do their ‘reactive’ counterparts. Domestic consumption is one of the major markets for most of the SMEs analyzed in our research. The other source of income could be foreign purchases. With regard to markets, we asked the companies to estimate the increase in these two types. The tendency continued: ‘Proactive’ companies had higher values – which meant that they expect the effect to a greater extent than do reactive companies.

Table 12  
Differences in perception of the crisis between reactive and proactive companies

		Mean	t-value	Sig.
The effect of the crisis on growth	Reactive strategy	<b>.6515</b>	4.399	0.00
	Proactive strategy	<b>.1889</b>		
Expected rate of growth in return of a company in 2009	Reactive strategy	<b>1.2568</b>	2.838	0.00
	Proactive strategy	<b>.6404</b>		
Expected period of recession	Reactive strategy	<b>1.5797</b>	-3.122	0.00
	Proactive strategy	<b>2.2151</b>		
Decrease in domestic demand	Reactive strategy	<b>3.3514</b>	-3.506	0.00
	Proactive strategy	<b>4.0745</b>		
Decrease in foreign demand	Reactive strategy	<b>2.2857</b>	-2.863	0.00
	Proactive strategy	<b>2.9659</b>		
Weakening exchange rate	Reactive strategy	<b>3.1370</b>	-2.296	0.00
	Proactive strategy	<b>3.6374</b>		

SOURCE: Primary research by the authors

*To summarise, we would say that only 1/3 of the potential crisis indicator answers showed significant differences between the proactive and the reactive tools-oriented companies. This means that the fourth hypothesis could be at least in part agreed. In those questions where significant differences were found, proactive firms were always more pessimistic. On the other hand, it also means that the companies in the sample forecasting lower growth, lower income, a longer recession and a stronger decrease in demand were planning in a more future-oriented way and have seen their strategy for survival in changing the former structures and breaking the mould.*

## Conclusions

The literature contains different statements regarding the characteristics and the formation of the crisis. It assumes differences between reactions to the crisis, based on sector, size and country (culture). We examined these observations in our empirical research based on answers from 566 Eastern European organisations.

Table 13  
Summary of conclusions on hypotheses (H1, H2, H4 and H3)

	Hypotheses	Result
H1:	There are no country-specific reactions to the crisis; organisations in EE countries react similarly to the challenges set by the crisis.	Partly true
H2:	Companies with a small number of employees tend to use dismissal as a solution to the crisis less.	True
H3:	Reactions of companies to the crisis are not uniform.	True
H4:	Reactive companies judge the crisis and the parameters of the crisis than the proactive companies.	Partly true

*In almost all cases the first hypothesis was partly true, suggesting that the country concerned was influencing many of the answers. As the answers did not show a correlation with the country factor in every case and also since the significant results had only weak correlations, we can say that the country is not the only factor that determines the result, although the origin of the companies had a remarkable effect on their behaviour in times of crisis. The hypothesis is partly agreed.*

*In the majority of cases, we found that our second hypothesis was true. Here the main factor examined was the size of the company, the number of employees in the organisations. Companies with fewer employees tend to dismiss people less readily than do the larger ones in our sample.*

*In almost all cases our third hypothesis was true, suggesting that reactions of companies to crises are not uniform.*

*In our fourth hypothesis we concluded that the companies forecasting lower growth, lower income, a longer recession and a stronger decrease in demand were planning more future oriented, have seen the survival strategy in changing the former structures and breaking the mould.*

*The results of our research may be useful for Hungary and for other Eastern European countries in identifying problems arising in HR practice as well as in drawing inspiration from the best practice of company management to the solution of their problems in times of crisis.*

## Limitations and Further Research

Our research results are based on web-survey-based empirical research in four Eastern European countries. Any efforts to draw general conclusions on this region or on any other globalizing region characterised by a great majority of respondents from the SME sector are premature.

Our research has a benchmarking profile. Benchmarking is a constant and systematic process for measuring competitiveness, and also those best practices in which an organization is most interested. This measurement – as described by Evans – analyzes, "how the company analyzed is doing (e.g., reward, employee satisfaction) what others are also doing" (Evans, 1977:14).

From the statistical aspect, the sample is big enough, although the sample stratification is disproportionate. This means that the numbers of respondents from the given countries in the whole sample are not equal to the proportions of the population of these countries. All things considered, however, we must concede that the sample is not totally representative of the four countries concerning its composition and the number of elements. Nevertheless, if we examine the list of companies participating in the survey, we can also understand that the companies taking part in the survey were so significant, that prospective changes will be relevant.

As for subsequent research, we have standardised our research approach for conducting a similar survey in several countries of the region, and a similar project is now underway. Data collection using a similar questionnaire has been initiated in Hungary, Slovakia and Romania also.

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