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## INSTITUTIONAL CHANGES IN INTERNATIONAL LABOR MARKET AND HUMAN RESOURCE MANAGEMENT

**ABSTRACT.** *The object of the article is to assess the influence of economic and political institutions on the situation of international labor market in European countries. In recent years, the focus shifted towards institutional solutions of economic processes, including the situation of international labor market. The analysis shows that the institutional structure has a great impact on the labor market.*

*The problem is the balancing of the global trends in human resource management with the influence of national culture because many aspects of human resource management (HRM) are affected by differences in national culture. The article analyses the major challenges arising from international labor market and affecting human resource management practices in the 21st century in European countries.*

*The existence of efficient and well-managed institutions help to reduce distortions in the allocation of the labor force as well as creating demand for labor.*

**KEY WORDS:** international labor market, human resource management, cultural differences, labor market institutions; transformation; unemployment.

## **Introduction**

The formation of a functional state institution is one of the main objectives of the transformation of the system in European countries. This process, however, is not easy, as it involves dismantling of economic and social structures inherited from a previous regime. Also, it requires the creation of a new set of values that would be acceptable for public. It is worth underlining, that at the turn of the 80s and 90s, those countries faced a number of difficult challenges. At the same time they tried to create market economies with social aspects as well as democratic rule. For this to be successful, time is needed for the adoption of adequate institutional solutions.

In today's global economy, the extent to which HRM activities are successful across cultures will largely depend on the manager's abilities to understand and balance other cultures values and practice as regards such things as the importance of work, how power and status are conferred, the perceived value and other fundamental differences in how people from different cultures view the world.

## **The goal of the article**

The general aim of the article is to analyze the problem of balancing seemingly opposing forces (international labor market and the influence of national culture) and to identify trends in HRM across European countries.

## **Research methods**

The following research methods have been used: system, logic and comparative analysis of scientific conceptions. Also, empirical studies carried out in different countries are presented. The primary data from companies were collected. Other data were derived from printed papers, books and statistics.

## **Outcomes of research**

The institutions of European countries are faced with new geopolitical conditions; at the same time, they are undergoing the effects of three major macroeconomic processes: transformation, globalization and total integration to the EU together with an access to Eurozone. These countries are dealing with many problems, mainly political and economic. Other aspects such as cultural, tradition or national identity issues should be overlooked either.

Labor market instability, as shown by relatively high unemployment rates, is one of the most pressing issues of European markets. Among many determinants of such situation is the institutional environment of the labor market. Therefore, the question arises whether labor market institutions affect upon the situation in the labor market. We will try to answer this question in the analysis of the

relation between the levels of the minimum wage and the escalation of the unemployment rate in the countries.

First of all, a country must be ensured to function in conditions of strong multi-aspect differentiation, and especially in the environment of massive financial inequalities. The main line of division between people runs between the rich and the poor, who account for over 80 per cent of the world population. Another major problem that a country encounters is the process of progressive devaluation of the notion of national state, as a consequence of stronger international corporations and capital owners, whose only aim is the optimization of economic indicators and the maximization of profit.

Globalization requires attention to «more than conducting business across national borders but also entails expanding competition for almost every type of organization presenting management with the challenge to operate in diverse cultural settings» (Edwards, 2006). O'Keeffe contends that the advent of the global economy has brought a realization that the only lasting competitive advantage is an organization's ability to effectively exploit human resources. HRM has become a significant factor in the management for organizational success. The multinational companies (MNCs) and other international organizations face the challenge: what kind of a new form of «glue» helps to manage HR worldwide? The idea emerging from organizational behavior literature in recent years will help to find the answer. It comes from the work of Paul Evans and Yves Doz from INSEAD business school in France.

Evans and Doz have described the managerial challenge in complex international organizations in terms of balancing the opposing dualities (Evans and Doz, 1999).

The whole challenge of managing across cultures is about balancing the seemingly opposing values and practices in such a ways as to create advantages from them.

The research of Evans and Doz is particularly relevant to all areas of strategic HR across cultures. In addition to recognizing that dualities exist and must be balanced, it is clear that HRM requirements become less a matter of having the right people at the right place at the right time, but more a matter of integrating selection, reward and appraisal practices within organizational values which will allow a balanced outcome under a range of cultural conditions.

The key role of labor, and thus HRM, in modern organizations is emphasized by Sparrow (1999). He concludes that getting the people issues right is critical. This perspective is reflected in the increased professionalism of the HRM function in the UK. HRM practices in the

UK are influenced by increasing levels of regulation arising both from the UK government and from membership in the EU.

The establishment of more employee supportive legislation is found in the introduction of the minimum wage. Nevertheless, much of current UK employment legislation remains restrictive and controlling labor. Policies emanating from the EU have worked in the opposite direction and seek to emphasize employee welfare, involvement and commitment.

The monitoring of equal opportunities on the basis of sex, race and disability remains a high priority for HRM professionals.

The continued move towards increased use of performance-related pay presents a particular challenge to the HRM professional, since the systems, while motivating those receiving the payments, can have a considerable negative effect on the commitment and motivation of those who do not receive them. No matter how the system appears to be, it is unlikely that an organization has sufficient resources to reward all those meeting their targets, and in the longer term such schemes may be problematical as there will be strong upward pressures in salary costs.

Also, international organizations, such as The World Bank (Gelb A., Gray C., 1991), had similar views and stressed the necessity of a radical institutional conversion through privatization, dismantling of monopolies, restructurization, the formation of institutions on the labor market, the capital market, the banking system, and a reform of the property law. The state also had a role in restructuring mining, steel industries and other heavy industries. However, in many sectors of the economy, such as the labor market, the institutional solutions are still very conservative or are inexistent. Some economists highlighted the importance of a careful study of the institutional basis for the new system before embarking on the path of major economic reform, especially as far as reforming property laws is concerned. (Wilkin, 1995). According to Peter Murell (1992) and Mancur Olson (1992), institutions in well-developed economic systems, though often regarded as insufficient, are not a symbol of the underdevelopment of the political system, but rather are an indicator of progress and democracy. Despite that, governments of developed countries are always searching for the optimal institutional structure. The analysis carried out by Murell and Olson reflects well how important institutional aspects are for governments in order to achieve macroeconomic stability and microeconomic efficiency.

The issue of the impact of the state on the shape of the institutional environment in the economic sphere actually comes down to the

evaluation of the level of the development of institutions on the labor market, financial institutions, the budget, as we assess the role of the institutional environment for the economic growth.

New phenomena that appeared on the labor markets in many countries prompted economists to look at the issue of the institutional environment. In many studies carried out on this subject, a complete set of institutional factors was taken into consideration. It caused numerous deformations on the labor market in the form of an increase in long-term unemployment and a decrease in the economic activity of the society.

However, we must also take into account other important elements such as: very complex problems inherited from the past, lack-of visibility of this market and low mobility.

The current French HRM practices are the result of several constraints such as strong and specific regulations, demography unique in Europe, the acceleration of internationalization of large organizations, and sociological upheaval. These practices are converging with those of other countries under pressure from similar factors. French HR managers are striving to adapt French organizations to their environment by relying on unique practices or practices similar to those implemented in other countries. The demographic and political environment is particularly characterized by the importance of the baby boomers and the second by the relationship between the State and the social partners. The French birth-rate remains consistently higher than in the main bordering countries (Germany, the UK, Italy and Spain). France displays an age structure characterized by its relative youth. Indeed, in 2006, 19.4 percent of the population was under the age of 20 compared with a 17.8 percent European average. Another characteristic is the low number of those between 54 and 65. The potential to infuse young blood into an organization is high. Moreover, net migration was considerably lower in comparison with the UK: minus 1407,000 persons in 1998 and 90879,000 persons in 2004 (Eurostat, 2008).

However, the HR function, which took over the task of innovation in the reforms of working hours, and negotiation and implementation of the new measures, gained more influence. The HR function took over measurement and financial tools in order to optimize choices and control the costs related to the 35-hour workweek.

In France, career management is often based on the division of employees, especially between those who have and those who do not have the status of «cadre». Human resource managers pay great attention to the careers of the first category, among them the high

potential employees, since qualitative flexibility is expected from them because they make up the central core of the organization as defined by the model of the flexible firm.

The use of the Internet as a recruitment tool is on the rise in France, particularly for large companies. Generalist and institutional Web sites stream the recruitment market out. The most common screening process remains the traditional employment interview. On average, the recruitment process requires three interviews, and the final hiring decision is made by the manager who will be responsible for the new employee's performance. French labor laws strongly impact the training practices in France. French organizations with ten or more people on the payroll face a mandatory financial contribution of 1.5 percent of the wage bill for training or face financial penalties. With fewer employees, the contribution is 0.15 percent of the wage bill. On average, organizations spend more than the legal minimum required, with a training contribution of around 3 percent of the wage bill. The access rate to training, i.e. the percentage of employees who participate in training programs during one year, is on average 38 percent and is over 60 percent for large organizations. This rate also varies with the level of qualification, from 10 percent for unskilled workers to 60 percent for technicians and executive. The trend in training is for organizations to tailor their programs to their direct needs.

The French are champions of the individualization of compensation. Recognition of competencies constitutes an essential determinant of individualization. Nevertheless, an increasing individualization may give rise to a diminishing interest in the aims of the organization as a whole. Variable compensation concerns both collective and individual performance. At the collective level, gain sharing is on the rise. At the individual level, the widespread use of bonuses and exceptional premiums enables organizations to reward individual performance, yet keep a security margin in case the economy deteriorates. Nevertheless, as the variable part of compensation increases, this raises security and equity issues for the employee. The emphasis on individualization turns equity into a key issue. Trying to achieve equity furthers the expansion of flexible compensation through cafeteria plans which increase employee satisfaction regarding the benefits offered by the organization.

To sum it up, HRM is more than ever dedicated to the necessity of productivity within both the HR function and the organization as a whole. In order to make an impact, add value, and create a competitive advantage for the organization, HR professionals and line managers can no longer overlook the differing values of the employees.

The most important institutions of the labor market: the level of minimum wage. In this analysis, seven countries of Europe were compared: Bulgaria, The Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary. Variations in the minimum wage were shown in relation to the level of the unemployment rate, whereby the analysis was carried out assuming that we will convert the minimum wage from national currency to EURO according to the purchasing power parity (PPP) and the exchange rate.

The data in terms of minimum wage in EURO according to the purchasing power parity (PPP) and the exchange rate, for the ten countries, is presented in table 1.

Among European countries, big differences in the level of minimum wage both according to the purchasing power parity (PPP), and also according to the exchange rate, are visible. The highest level of minimum wage according to the purchasing power parity (PPP) amounts to 679,1 EURO in 2006 in Slovenia, whereas the lowest level in the same period of time, was noted in Romania — 164,3 EURO (table 1). This difference was quite significant, as the wage was over four times higher in Slovenia than in Romania.

Even higher was the difference in terms of minimum wage according to the exchange rate. The lowest level was noted in Bulgaria in 2006, — 92 Euros, while the highest level was noted in Slovenia — 521.8 Euros. Taking into consideration the purchasing power, all these countries raised the level of minimum wage between 2001 and 2006, but this level was considerably different.

*Table 1*

**THE LEVEL OF MINIMUM WAGE IN EURO ACCORDING TO THE PURCHASING POWER PARITY (PPP) IN EUROPEAN COUNTRIES, BETWEEN 2001 AND 2006**

Country	Years						Change between 2001 and 2006 (in %)
	2001	2002	2003	2004	2005	2006	
<b>Bulgaria</b>	112,9	123,3	132,4	142,9	177,4	182,7	61,8
<b>Czech Republic</b>	—	338,1	350,8	381,9	417,7	456,6	35,0
<b>Poland</b>	329,0	331,4	340,8	347,3	354,2	371,6	12,9
<b>Romania</b>	—	135,9	160,4	159,9	161,3	164,3	20,9
<b>Slovakia</b>	—	292,5	266,1	276,8	292,4	317,9	8,7
<b>Slovenia</b>	529,2	595,6	569,0	615,1	642,4	679,1	28,3
<b>Hungary</b>	—	361,8	334,1	340,1	361,2	394,1	8,9

The strongest increase in the wage was observed in Bulgaria (by 61,8 %), whereas the weakest increase was observed in Slovakia (by 8,7 %) and in Hungary (by 8,9 %).

### **Conclusions**

The institutional environment shows a definite influence on the labor market situation, as proven by the correlation between the minimum wage and the unemployment rate in European countries.

In European countries, there is a negative relation between unemployment rates and the level of the minimum wage. In other words, when the unemployment rate decreases, there is an increase in the lowest levels of remuneration for work in the economy both in terms of relative value of these wages according to the purchasing power parity (PPP) and the exchange rate. It confirms an impact of a higher (lower) unemployment rate on a decrease (increase) in the level of the minimum wage.

Firms are likely to continue experimenting with variable compensation and high performance work systems to enhance productivity.

A stronger relation between the level of unemployment and the level of the minimum wage was noted in case of the minimum wage according to the purchasing power parity (PPP) than the minimum wage according to the exchange rate.

The general context within which HRM changes have taken place in the UK is a reflection, primarily, of changing regulation arising both from the UK government and from membership in the EU, globalization and strong pressures to drive costs downwards.

The current French HRM practices are the result of several constraints such as strong and specific state regulations, a demography unique in Europe, the acceleration of internationalization of large organizations, and sociological upheaval.

The modification of institutional environment is worth underlining during the period of changes in political, social and economic conditions.

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## **ИНСТИТУЦИОНАЛЬНЫЕ КОНТУРЫ РАСПРЕДЕЛЕНИЯ ДОХОДОВ ДОМОХОЗЯЙСТВА**

**АННОТАЦИЯ.** В статье показано, что функции потребления и сбережения домохозяйств носят нелинейный характер. На величину уровня потребления как снизу, так и сверху оказывают влияние институциональные ограничения. Адекватная оценка эффективности распределения доходов по отдельным направлениям возможна через рыночный механизм. Принятие решений домашним хозяйством в условиях неопределенности внешней среды, множественности и подвижности ее параметров требует обращения к специальным экспертным органам, а реализация хозяйственных решений предполагает наличие специализированных институтов. Оптимизация распределительных решений домохозяйств возможна только при достаточном развитии соответствующей рыночной инфраструктуры.

**КЛЮЧЕВЫЕ СЛОВА.** Домохозяйство, доход, потребление, сбережение, экономические институты, человеческий капитал

Потребительский выбор и структура распределения получаемых доходов домохозяйств определяется целым спектром различных факторов. Сегодня многие из них исследованы достаточно глубоко экономистами, социологами, демографами, отслеживаются статистическими органами<sup>1</sup>. Школа маржинализма заложила основы теории потребительского выбора на базе анализа

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<sup>1</sup> Указанным проблемам посвящены труды Т. Алимовой, В. Бугаева, П. Вакурова [1], М. Байгереева [2], А. Баланды [3], Е. Балацкого [4], С. Ю. Барсуковой [5], А. Г. Батраковой [6], С. А. Белозерова [7, 8, 9], И. Бобуха [10], М.М. Ватаманюка [11], А. Вдовиченко [12], А. В. Верникова [13], материалы статистических органов [14, 17, 18].