

# Several Norms and Beliefs, Defining the Attitude to Human Resources in the Industrial Organizations

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**Summary:** The current article reveals: the role of three norms from the environment, in which the Bulgarian industrial enterprises operate; and the role of three beliefs, disseminated among the managers of these organizations. It is considered that their joint influence hampers the achievement of sustainable competitive advantage through human resources by the enterprises and may postpone the actual integration in the single European market after Bulgaria's accession to the European Union. Steps, mitigating the negative impact of these phenomena, are proposed.

**Key words:** human resource management, industrial enterprises, "employer – employee" relationship.

**JEL:** M12, M14.

This article aims to analyze certain phenomena and the justifying reasons that prevent a significant number of industrial organizations in Bulgaria from achieving sustainable competitive advantage through human resources and may delay their actual integration in the single European market. In this connection the following research tasks are defined:

- To reveal the role of some important norms, arising from the environment in which the Bulgarian industrial enterprises operate, and exercising a lasting and significant influence on the performance of these entities.
- To reveal the role of certain beliefs, disseminated among the managers of industrial organizations in relation to human resources, having a lasting and significant impact on the performance of the latter.
- To be proposed measures to mitigate the negative impact of these phenomena.

The traditional concept of the perception of human resources as an "expense" is widespread among managers of industrial organizations in Bulgaria – their representative organizations, which is confirmed by demonstrated treatment of their subordinates, standing their ground during the negotiations typical for industrial relations and their public appearance in the media. The above mentioned statement is confirmed by the results of several studies (L1-L7). Such understanding of the role of human resources in the organization by the managers creates a sense of demonstrations of hubris, excessive criticism, smoldering tensions and open expressions of opposition by the subordinates. Thus, the management teams of local industrial companies make inefficient use of staff – the main source of sustainable competitive advantage in today's economic conditions (see Figure 1).

It should be noted that these organizations operate in a more complex environment than their competitors from the elder member states of the European Union, namely (see Figure 2).

- *A transition economy*, characterized by high levels of corruption, nepotism, conflicts of interest, frequently changing laws and cumbersome judicial system;
- *Belonging to the high competitive single market of the European Union* and the resulting needs to achieve profitability by minimizing cost as well as by increasing growth, moderate (efficient) use or leadership in developing of new technology;
- *A strong dependence of creating high value added businesses from intellectual capital* against the backdrop of the ongoing process of brain drain as a result of the crisis in the national economy in the 1990s. Emigration of skilled people and the relocation of jobs (even whole organizations) to regions with attractive conditions

determine opportunities for accelerated economic growth of the last.

- *Inevitability of continuous change* with reference to the survival and development of industrial organizations, considering the limited investment opportunities of a large number of owners of privatized industrial enterprises and established private ones, and overcoming the contradictions in multicultural interaction and partnership among owners with different values, beliefs, religions, etc., predetermining behaviors, relations, attitudes and ways of making decisions.
- *Globalization* – in particular the origin of foreign investors and its impact on the state of the national economy. Low income per capita, the unsatisfactory level of development of clusters, subcontractors' chains and business networks in the national economy, diminishing number of population due to emigration and the aging economically active group of people forces most of the leading organizations from developed countries to refrain from the

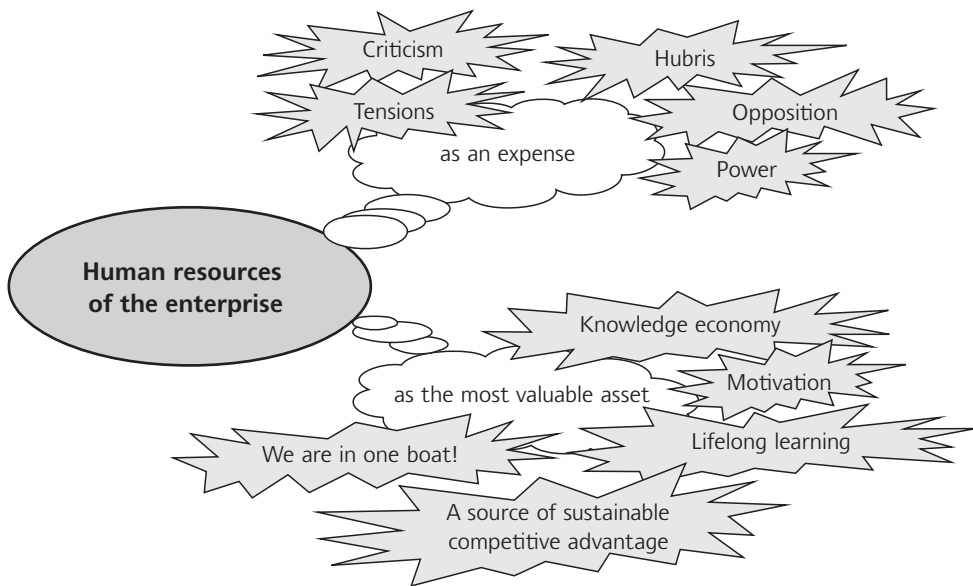


Figure 1. Two concepts of human resources perception in the industrial organizations

developing manufacturing activity in Bulgaria, or the established organization usually has very limited scale. High share of foreign investors are registered under the cover of different offshore zones. Another part of foreign investors registered in developed economies, in turn, prove to be owned by powerful organizations from other parts of the world, including other economies in transition. This structure of foreign investments in Bulgaria

may impede the spread of generating value added management practices, typical for the leading companies from the developed economies, slow the modernization of the country, respectively – the process of catching up with the standards of life in the elder member states of the European Union.

*All this requires taking joint and focused actions by management teams of industrial*

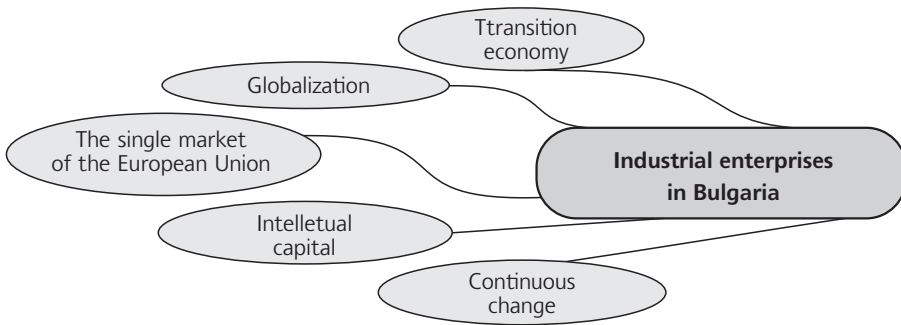


Figure 2. Factors from the environment, typical for the industrial enterprise

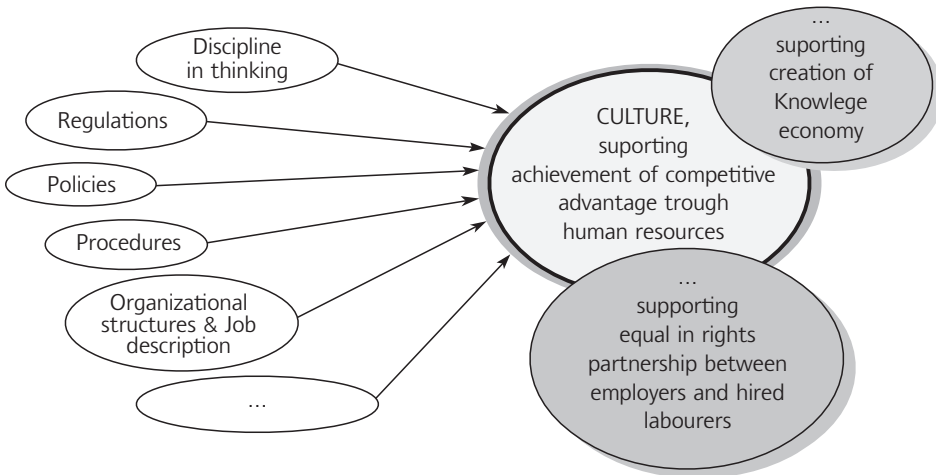


Figure 3. Intervention spheres for the managers in the industrial enterprises and in the public sector

organizations and the state to promote national culture, supported by many organizational cultures with different shades on the surface, but ultimately turned to achieving a competitive advantage through human resources, to building a knowledge economy, and equal in rights partnership between employers and hired labourers. In addition to discipline in thinking, these objectives can be achieved through changes in (or new) regulations, organizational structures and job descriptions, policies, procedures, and others (see Figure 3).

### **NORM – the Nominal Allocation of Social Insurance Benefits Between a Hired Worker and his/her Employer**

No matter how legislators change the ratio of social insurance contributions between employer and worker, the reality remains the same: *“The employer is interested in how exactly it is worth every single employee (salary, social benefits, and perks) and the total cost of remuneration for all the staff*

*of the organization”*. No matter how these social benefits are classified in the accounting system of the enterprise and are presented in the salary slips, provided to the workers, it remains clear that virtually all costs, related to the staff, shall be undertaken by the employer (a universal pension fund; state social insurance for persons, born after 1960, health insurance, etc.). This approach to calculating the statutory social benefits for workers, hired through a labor contract or a civil-law contract for personal services, resulted in displacement of their attention to the amount receivable (net salary). This is due to the manifestation of the survival instinct among workers in the country, leading to the formation and dominance of short-term orientation in respect of fees – a preference for cash instead of social benefits, insurance and savings to be used in the distant future. Such behavior is an inheritance from a prolonged economic crisis in our country in the nineties of the last century, and even now it is supported by the new higher prices of energy and food products. Additionally, because of the low wages, appears a certain negative attitude toward the amount of benefits and disparagement to the amount of

*Table 1. Presentation of different approaches to social benefits payment.*

	Current situation:	Calculation scheme		Recommendation ...	Calculation scheme
1	Base salary	(A)	1	Base salary	(A)
2	Other additions to the salary	(B)	2	Other additions to the salary	(B)
3	Gross salary	(C) = (A) + (B)	3	Gross salary	(C) = (A) + (B)
4	Personal social security payment on behalf of the worker	(D) = (C) * (X%)	4	Social security payment	(D) = (C) * (Z%)
5	Personal income tax	(E) = (C) * (Y%)	5	Personal income tax	(E) = (C) * (Y%)
6	Net salary	(F) = (C) – (D) – (E)	6	Net salary	(F) = (C) – (D) – (E)
7	Social security payment on behalf of the employer	(G) = (C) * (W%)	7	Total labor costs per employee	(H) = ( C )
8	Total labor costs per employee	(H) = (C) + (G)			

gross salary. It seems as if the social benefits at the expense of the employer remain unnoticed by the persons who are their future users. On the other hand, in the mind of the employer sets the notion of human resources as a cost, namely due to accrual of benefits at the expense of the employer and their summing with the value of the gross salary of each employee in order to be obtained a more accurate idea of the actual labor costs for the employer. The proposal to include the government with a share in the formation of the total social benefits sum for the employed person further confirms the above notion. Thus, a negative attitude to the contributions on behalf of the employer is formed in the employer's mind, which partially explains the continued practice of providing a part of the remuneration unofficially, "by hand" in certain sectors, despite consistently followed a policy of low tax and social security burden in our country.

*Overcoming of this problem* requires the legislature to repeal the nominal allocation of benefits between the hired worker and his/her employer (see Table 1, "X%" and "W%"), by including the full amount of social insurance required as a uniform component of the gross salary (see Table 1, "Z%"). Different parts of this amount (D) can be allocated electronically to certain institutions – pension funds, health insurance funds, etc. So, one of the main principles of modern management will be fulfilled – simplifying procedures, and this will lead to increased productivity. Additionally, some negative feelings among wage laborers and employers, relating to the paid remuneration, may be partially soothed. Of course, this act could not replace the acute need for equalization of income in Bulgaria with the European Union, especially against the background of the established price levels of many goods and services on the domestic market.

## **BELIEF – According to Managers Labor Costs are of Paramount Importance During the Restructuring of the Industrial Enterprise**

This management approach is due to the fact that it is easier to compare labor rates, paid by many companies. On the other hand, the reduction of wages (salaries) consumes less means, time and efforts by managers than reengineering of a manufacturing process, making desired changes in corporate culture or in product characteristics in terms of economy in transition (emerging market). Research confirmed that the creation of advantage in labor costs is not the best way to compete.

Such behavior of managers in industrial organizations is supported by media interviews by many politicians at the beginning of the transition process, stating that Bulgaria has a highly qualified and cheap labor force and that low pay is a competitive advantage of the national economy.

These attitude, widespread among managers, is supported by some administrative views, dominated the process of transition to market economy in Bulgaria like:

- Determination of employees salaries as a company secret, presumably to hide drastic differences in pay between different categories of personnel in an organization or between employees of different enterprises. Thereby the employee sense of internal and external fairness is undermined and employee career selfmanagement efforts are hampered, so far as these efforts were within the employee powers in conditions of continuous, deep, economic crisis.
- A higher payment of heavy, harmful or hazardous labor, which reduces the rate of return on taken actions to acquire a higher degree and

additional training and may hamper economic growth in the country by impeding the progress of knowledge economy in the country.

- Defining low organizational status of supervisors who are frequently not allowed to recruit, select, appoint, fire, assess, etc. their subordinates. The unenviable position of the supervisors is aggravated further by their low economic status. It is not a rare phenomenon when a manager receives up to tenfold lower salary compared to his/her subordinate employee – a foreigner from an economically developed country.

Consulting companies in the sphere of remuneration management promote their services as the only way of improving the performance of their client organizations, although any undertaken change in the system of payment in an organization, at least initially, creates difficulties and issues.

A man with a rational behavior or “ a free rider” who has all the information available at a time and seeks to maximize his/her own benefit, even through avoidance of taxes and other obligations, is defined “modern” by the contemporary economical theories. In the field of human resource management this situation provokes employees and employers to pursue different goals, to show a tendency to distort

information and to divert resources for their own benefit, to intimidate and to break their promises.

The micro- and macro-level economic analysis of the term “labor productivity” is incorrectly mixed and the meanings of terms as “labor rate” and “labor costs” remain blurred in media discussions which leads participants to plausible sounding, but essentially erroneous conclusions and the latter in turn influence the formation of opinions among the managers of industrial organizations.

*Overcoming of this problem* requires first to recall and clarify the meanings of these basic economic terms. Labor rate represents the payment rate per unit of time (an hour, a shift), and labor costs are a function of labor rate and productivity. Reducing labor costs requires an analysis of rates and performance in a specific organization. One-sided approach may even cause an increase in labor costs. And not always labor costs are a significant part of the total cost of the company. On the other hand, managers should take into account that the salaries in the particular company are not the result of the level of gross domestic product but directly depend on firm’s successful performance. Therefore, the level of labor productivity in our country should not be used as justification for paying low wages

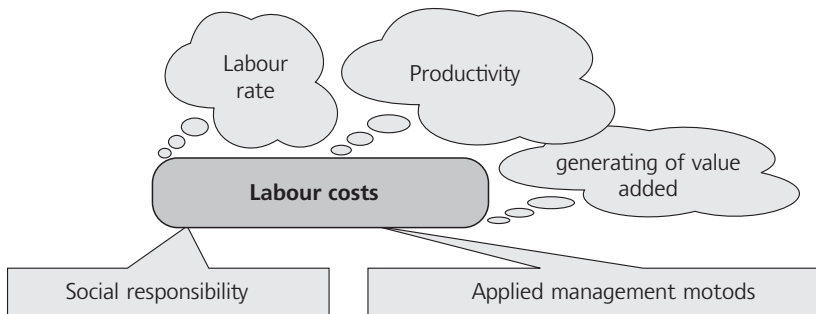


Figure 4. Factors in labour costs analysis in the enterprise

in all sectors of the economy. Employers should accept the fact that "they are in one boat" with the employed workers and they ensure to the hired laborers an acceptable quality of life (the financial ability to purchase a property and periodically to renew their car during one's professional life). This requires employers to target businesses that generate higher added value, to apply modern economic and social-psychological methods of management, to take active steps, demonstrating firm's social responsibility (see Figure 4).

### NORM – Providing Extra Payment for Work Experience

While it is mandatory by law, this kind of financial reward constitutes a form of age discrimination as it poses a disadvantage to:

- Young people in wage labor who receive lower wages than their older colleagues, although perform the same job.
- Older hired laborers who are more expensive to their employers, and this is the reason for the high percentage of unemployment in pre-retirement age here.

No doubt the experience is a prerequisite for achieving lasting success of any incumbent in any job, but it is acquired relatively rapidly (several months) on the majority of the positions in the organizations, and it is not sufficient because a person needs education and training. The history of developed economies shows that high growth rate combined with high living standards is achieved through the sustainable successful performance of innovative companies which leading managers<sup>1</sup> believe that one of the fundamental rules for achieving business success is to give a greater burden on the intelligence of the applicant for a vacant position than on experience (see Figure 5).

In our country the nationally represented employer organizations offered the elimination of this extra payment, but refused to compensate the working people, potentially affected by this decision. That is why the trade unions showed a strong resistance to changes in the current state of law.

*Overcoming of this problem* requires from the employers to increase salaries of all employees to the payment levels for the incumbents who are to retire.

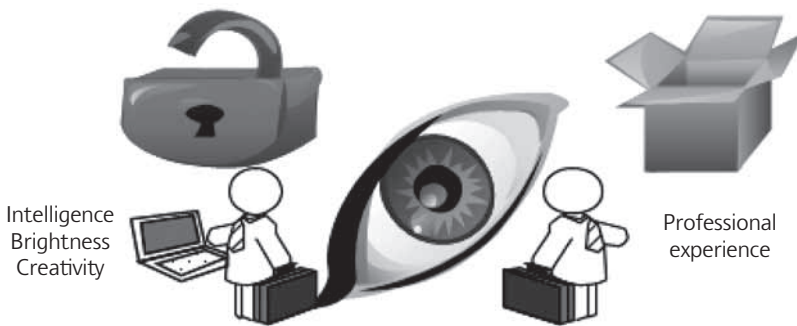


Figure 5. Managers' views of business success achievement through human resources

<sup>1</sup> Opinion of Ms Marissa Mayer – a talent hunter and Vice President of GOOGLE search engine in the sphere of supplied products and users' preferences and moods (L8).

## BELIEF – According to Managers the Role of Dividend Policy is Negligible, Despite the Employee Stock Ownership Schemes, Implemented in Many Enterprises

The implemented privatization model with all its changes transformed the people, employed in former state-owned enterprises, into owners of shares, provided to them at lower prices at the moment of a cash sale, during mass privatization or through management-employee companies. New major owners' lack of financial capacity and the absence of pressure from a developed stock market contributed to the subsequent abstinence from paying dividends in the privatized enterprises. This awoke discontent among the staff that in combination with low levels of remuneration in the country can become (in some organizations has already become) a source of conflict between employer and employees. And as a generally held view states, the interaction between the worker and his manager has diverse shades: excellent / satisfactory / acceptable / mediocre performance of an assigned task, and passive or active resistance to managers' regulations. Therefore, the accumulation of additional tension in the relationship between employees (shareholders)

and the employer may affect negatively the performance of the company, its customers, suppliers, local community etc.

*Changing of this unfavorable situation requires appropriate regulation of the relationship between shareholders and management – mutual responsibility and free exchange of information (see Figure 6).*

The management of the company should generate a flow of information to shareholders, such as clear (detailed) financial statements and any member of the managerial board should bear personal responsibility to shareholders. So that the directors must know what the shareholders want and vice versa. Information, on how each director voted during a decision-making session, must be spread beyond the narrow group of participants in the meeting of the board. All shareholders should have the legal right to be informed whether chosen directors have defended their interests. Shareholders (especially the small ones) should actually be given the rights successfully to state their preferences for (on) boards, given the very rare meetings between them (only during an official assembly), that really restrict their rights, granted by the law (for example: to vote or re-elected members of boards). In fact on these assembly

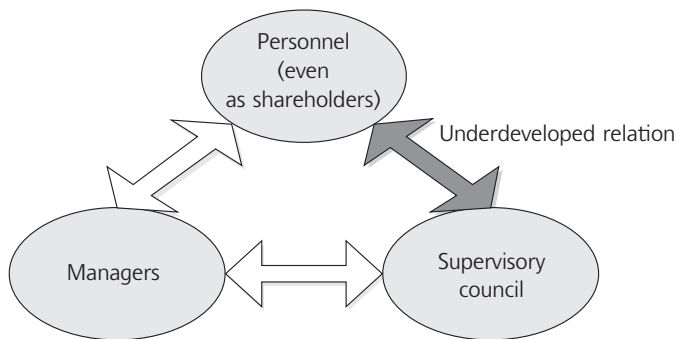


Figure 6. The three parties, setting the power balance in the enterprise



meetings the shareholders are usually put in a fait accompli, i.e. a list of nominated candidates (often one candidate for one post), proposed by the nominating committee, appointed by the General Director. Therefore, it seems necessary to carry out periodic performance evaluation of the board of directors as a whole, the performance of the individual directors and the General Director and the received appraisal data should be given in advance to the shareholders.

### **NORM - Providing a Retirement Benefit of Six-Months Compensation to Employees with a Long Length of Service in the Organization**

The guaranteed by the law benefit of gross salaries for six months in the retirement

of an employee who has worked in the same organization for ten years or more, constitute a desirable value for any man/woman on the verge of leaving his/her active professional life. But on the other hand, this amount represents a burden for the last employer of this individual. That is the reason for the widespread practice among local businesses to exempt workers immediately (or several months) before the retirement date. And at the end of their careers hired people once again confirm their impression that worker and employer are not "in one boat", but hold deeply conflicting interests. Given that the individual's recent career memories are the most durable for the rest of his/her life, it is not surprising that bad employers' image is transmitted between generations as the experience of mature people in the form of advice on proper behavior to the heads of young hired labourers. And this in turn contributes to the lasting dominance of hostility

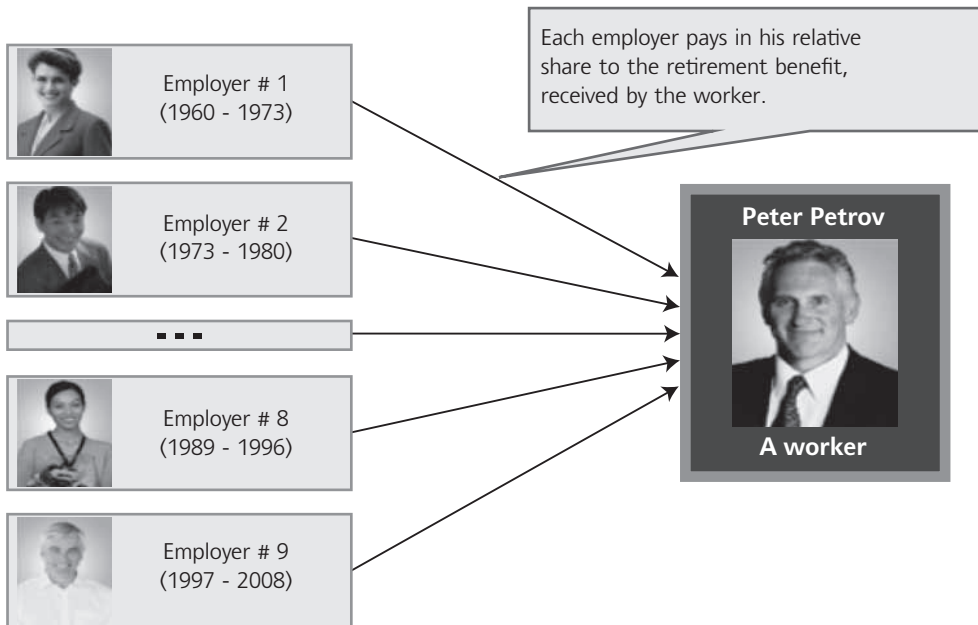


Figure 7. Accumulation mechanism of the sum of the retirement benefit

and conflict in relations between management and staff in any company. The continuation of this practice may become a major cause of failures in future interventions or undertaken organizational changes to increase organizational competitiveness through human resources.

Changing this negative situation requires transformation of this social benefit, i.e. the burden of contributions has to be distributed proportionately among all worker's employers during the whole period of his/her active, professional life. And for hired labourers of the existing situation the country could take part in the accumulation of this due benefit and thus alleviate financially their employers. In this way people of wage labor can avoid unpleasant experiences at the end of their working life.

### **BELIEF – Training Staff is not Responsibility of Employers**

It is sufficient to review the advertisements in media and in internet for vacant jobs in order to conclude that the majority of employers in our country pose excessive burden on work experience in the selection process of new employees for their organizations. Public announcements of representatives of employer organizations confirm this. All these even create the impression that the employer expects each new recruit at the office or the workshop immediately after signing his/her labor contract to start working as a machine at the required level of performance. But this is impossible, due to the specific requirements of different (unique) jobs in each company, reflecting accepted ways to perform certain tasks, decision-making styles, established ways of communication, possessed and used patents, licenses, know-how and others. Thus, employers form unrealistic, unachievable expectations, concerning hired people. The young employees are perhaps the most

affected in this respect, because their lack of (or inadequate) experience can be a barrier to starting and developing careers. This explains the employers' negative attitude to specialized secondary schools and universities, because they consider that these institutions failed in preparing people, fully meeting all the specific business requirements. This attitude provides a negative impact on the strength of the relationship between business and research organizations in our country and can impede further establishment of a knowledge economy.

Changing this unfavorable situation can be achieved by adopting anti-discrimination laws in the selection and career development spheres for hired people, it is advisable to allow fast ending law-suits, and workers, whose rights are violated, be entitled to receive compensation by the offending employer. In my opinion, this requires creation of legislation in knowledge spheres that currently are considered as themes in the specialized literature on human resource management, reflecting the best practices of leading companies from developed countries – such as permissible methods of recruitment and selection of staff, orientation of new employees in the organization, performance management, etc.

The entrepreneurial nature of modern economy predetermined the rapid obsolescence of acquired knowledge and skills of employees, and the dynamics of creation and destruction of wealth does not guarantee the longevity of most companies. Therefore, employers can no longer win the loyalty of their employees with impossible promises of job security and can only assist them in acquiring new (or maintaining) certain knowledge and skills, which increase employees' value for the company and maintain employees' marketability in the future. Ultimately, employers need to accept in a calm way that personnel training is a shared responsibility among them,

educational institutions and hired labourers, and that the largest expenditures on personnel training belong to them because the employers are the most benefiting people by these activities, in terms of increased competitiveness of their enterprises.

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