Impact of the recession on age management policies

Case study: Magyar Telekom Group, Hungary

Wyattville Road, Loughlinstown, Dublin 18, Ireland. - Tel: (+353 1) 204 31 00 - Fax: 282 42 09 / 282 64 56
email: information@eurofound.europa.eu - website: www.eurofound.europa.eu

Organisational background

Matáv Hungarian Telecommunications Company Ltd was established on 31 December 1991 as the successor to the telecommunications company that had previously been established when Hungarian Post (a state utility monopoly) was split into three units in December 1989. This came about as the Telecommunications Act entered into force, and MagyarCom, a consortium of two telecommunications companies, Deutsche Telekom (DT) and Ameritech International, acquired 30.1% ownership. In 1995, MagyarCom obtained majority ownership of Matáv Hungarian Telecommunications Company Ltd and DT and Ameritech increased their ownership share of MagyarCom to 67.3% for USD 852 million (about EUR 589 million at the time of writing). The privatisation of Matáv was both the largest privatisation in the Central and Eastern Europe region and the largest foreign investment in Hungary at that point in time. In 2000, DT's ownership share in Matáv further increased to 59.52%. The remaining 40.48% was held by the public, while the Golden Share was held by the Hungarian state. Matáv became an international telecommunications group in 2001 when the consortium acquired majority ownership in Macedonia's national telecommunications company, Makedonski Telekomunikacii (MakTel). After further consolidation of its management, Magyar Telekom acquired majority ownership in Telekom Montenegro in 2004.

Magyar Telekom Group's key areas of activity are fixed line and mobile communications residential services as well as corporate services provided to business customers. This is complemented by a host of secondary activities, mainly in the communications industry, including content provision and other non-access services (NACE Rev. 2 classification: 61.10, 61.20).

The largest unit of Magyar Telekom Group (MT) is Magyar Telekom Nyrt, a public limited company majority owned by Deutsche Telekom of Germany. HR strategy and recommendations apply to all the domestic member companies of the Group.

As of December 2010, Magyar Telekom Group had 10,258 employees, of which approximately 8,000 were in Hungary. The Group's turnover in 2010 was HUF 610 billion (or EUR 2.3 billion at the time of writing). This places it among the 10 largest companies in Hungary according to turnover.

Fifteen per cent of the workforce at Magyar Telekom Group is above 50 years of age (2008). In Hungary, the majority of workers are Hungarian (99.5%). The total number of employees has been decreasing since before the recession. The average age of workers has also been decreasing slightly, mostly as a result of hiring people younger than the average age at the company. The proportion of women is roughly constant among employees. There is some differentiation in particular areas of the company with a dominance of either men or women.

As required by Hungarian labour law of enterprises with more than 50 employees, an elected works council has the right of consultation with respect to decisions affecting the workforce. There is also direct cooperation, based on a written agreement with Távközlési Szakszervezet (Telecommunication Trade Union), which represents more than 30% of the employees.

Policies and practice in relation to age management

MT age management policies are viewed internally to be in line with trends among similar large companies in Hungary. Large companies, including MT, are generally characterised by a relatively secure position in the market. They are subsequently able to maintain a consistent HR policy towards employees.

Although there are no up-to-date tenure statistics for MT employees, there has been a decline in average years worked for MT since it was established. There is a secular shift from the tradition of life-long careers (the norm in state-owned socialist companies) in MT to a slightly more dynamic model. This means MT shows slightly higher turnover rates than before.

MT has an 8% annual turnover of employees in the workforce, mostly due to voluntary employee departures. Voluntary departures account for approximately 6% of the workforce turnover. The remaining 2% of employees departing leave for non-voluntary reasons. Our interviewees gave no specific statistics but noted that there is no clear age profile in terms of non-voluntary departures. However, voluntary departures often consist of older workers (50+) using the early retirement option. In general, there is a high degree of job security in MT, which is attractive to employees.

MT's HR strategy is in line with the overall business strategy. Implementation and local monitoring take place at appropriate levels in the company; the company HR division provides management and monitoring and ensures business departments apply the policies adequately.

More widely in the company, there is pressure across the group to implement majority owner DT's business policies. In HR, however, DT's policies, organised around the catchwords 'talent, team, tolerance and technology', are fairly general. Also, the competence of the MT HR division is accepted and recognised. As such, MT is independent in most internal HR issues, such as recruitment policy. Nevertheless, final decision-making authority rests with DT.

As related to us by our interviewee, a DT-wide survey of HR divisions in DT group members found the MT HR division to be the best in terms of employee and partner satisfaction.

MT maintains a relatively high degree of employee consultation and dialogue in HR decision-making. Frequent surveys among employees, group discussions among co-workers and assessments precede decision-making about actions. Decisions are usually made by the heads of HR. If the decision is expected to have strong consequences on general business, it is passed on to the MT Management Committee or even DT HR. Employee representation is usually taken into account in decision-making and it acts as an information channel towards employees. Though the engagement with employee representation remains largely consultative, there is some evidence that it can shape policies, for instance by insisting on a quota on in-house promotions. There are no special mechanisms for specific sub-groups of workers.

In agreement with the employee representation (works council), 70% of open positions in MT are filled by in-house promotion. Age-adjusted positions are also offered to older employees wherever possible. These jobs are discussed individually between local HR and individuals in line with the consultations with the works council. New wages in case of such redeployment vary.

Though MT seeks to support old-age employment through life course training and adjusts work where possible to meet workers' needs, early retirement, as outlined in the national report on Hungary, is an attractive option for most in Hungary and is still an important part of HR policy in MT. MT uses the early pension benefit (korengedményes nyugdíj), which allows retirement five years before the normal retirement age, with costs borne by the employer (see the accompanying national report on Hungary). Specifically, MT has tried to make the transition into retirement a more interesting option and has generously supported those retiring by supporting a five-year transition period whereby an employee could leave the organisation while still retaining full contribution rights in terms of pensions and social insurance, meaning the company pays the contribution to pension insurance.

Specific age management policies of concern to an ageing workforce include policies aimed at retired/retiring employees and policies concerning older employees.

Policies in place to support retired/retiring employees include:

- cooperation with worker representative institutions to transition workers into retirement;
- an employee assistance programme to look at options for retirement;
- MT funds its own health and pension fund (Dimenzió Csoport, http://www.dimenziocsoport.hu/), topping up members' own payments on a proportional basis;

- clubs for retired employees (which mostly provide socialising); and
- additional health services, e.g. health checks and health counselling.

In addition, MT has put provisions in place to support older employees remaining in work, including:

- special support for pre-retirement (rendelkezési állományba helyezés): as discussed above, five years before retirement age, workers are able to hold on to their full work rights (full pension) while reducing the number of hours worked at MT (in some cases, even taking another full-time position);
- commitment and support for all departing and dismissed employees, regardless of age, including financial help, aid in finding a new workplace and health and mental health support.

Changes in age management policies and practice post-2008

There were substantial drops in the company's financial turnover due to falling demand for telecommunications services in 2009 and 2010. Turnover compared to the previous year fell 4.3% and 5.3%, respectively.

The recession created challenges for MT but did not completely upset business plans. A challenge for MT was the need to adhere to the long-term employment agreements with the trade union and the works council while responding to the need for cost reduction. MT chose to meet this challenge through a number of 'soft' approaches affecting older workers:

- managing turnover to reduce costs associated with the workforce, for example hiring cheaper employees in place of retiring employees or employees leaving voluntarily with high salaries;
- requiring staff to go one year without any wage raise;
- paying out lower bonuses.

According to our interviewee, age management has become a strategic focus since 2008 for two main reasons. First, in a knowledge-based industry, optimal usage of human capital is crucial, and second, it was a response to internal tensions in the company due to the decrease of the average age of the workforce (i.e. as a result of the employment of younger workers coupled with older workers retiring or being made redundant). There was a perceived need to reset the balance between age groups to ensure an appropriate balance between relatively cheap, skilled young workers and more experienced and likely older employees with a potentially different attitude to work.

To address these concerns, age management policies have been specifically mentioned in the HR strategy for 2010 to 2014. Existing and planned age management actions are to be organised step by step and written down into a cohesive strategic framework. MT tackles the challenges of age management along with anti-discrimination issues (related to gender as well as age). Overall, a life course approach is applied. This is based on revealed and assumed needs and includes specific measures targeted to age groups.

There were no explicit changes with respect to overall age management policy because of the financial crisis between 2008 and 2010. Dismissing employees would have been rather costly for MT because of national regulations and the long-term labour agreements. However, there were some age-related changes, with the cuts in the training budget for older employees being the most severe. Other areas of HR affected by cost cuts were not directly age management related, involving measures which resulted in fewer parents with young children being rehired than planned and less money spent on overall training.

From 2008 to 2010, the previous trend of the average employee becoming younger continued, albeit at a slower pace. From the point of view of the company, changes in nationwide regulations at the time of the recession, such as the announcement of a higher retirement age, limited its options for managing costs amidst the financial crisis, for example limiting options for early retirement. MT also could not offset challenges by drawing on specific help, as outlined in the national report on Hungary, such as vocational training and job retention subsidies to employers that had been set aside in Hungary for companies in deep economic distress to retain jobs, as MT was not loss making. In general, government strategy did not seem to consider age management.

Summary

A tension developed in MT between age groups before the financial crisis: the older, more established employees remained an important source of knowledge and know-how, while an increasing number of younger workers were being hired to replace those leaving or retiring. The need for management to mitigate this tension contributed to age policy becoming a strategic priority. A complex set of age policy instruments were developed in partnership with the union, including making a costly but flexible semi-retirement scheme a viable option.

When the recession hit, the pressure to contain costs intensified. However, the dismissal of (older) employees in great numbers was ruled out as a solution. On the one hand, it would have entailed a high cost to the organisation, given regulations and generous severance agreements. On the other hand, there was an alternative cost-cutting option to freeze wages and cut bonuses available to management, given it had a relatively loyal workforce that valued the relative job security at MT. These measures were accepted by employees with little resistance. As such, beyond cancelling certain training provisions for older employees, MT's age policy seems to have survived the recession unscathed.

Following common practice in Hungary, early retirement remains an option to manage the workforce longer term and still prominently features in the HR policy. It could be that there will be further points at which the employment of older workers will be challenged. Nevertheless, MT has provided support for older workers through measures to address tensions associated with the decline in older workers and by continuing to maintain age management policies through the recession.

Contact persons

Beatrix Flegler, HR development manager, Magyar Telekom Ltd

Krisztina Tölösi, senior HR expert, Magyar Telekom Ltd

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Balasz Varadi, Budapest institute

EF/11/75/EN-17