

# THE IMPACT OF ECONOMIC UNCERTAINTY ON CORPORATE MANAGEMENT AND HR: IN LIGHT OF THE IMPACT OF COVID-19, PANDEMIC RECOVERY, AND THE WAR

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**Abstract:** Three major changes have influenced the management and HRM systems of businesses and organizations worldwide, including Hungary, over the last three years. Unlike previous crises and downturns, there was a need for unprecedented closures, which necessitated an unprecedented wave of actions. The pandemic hit Hungary's export-oriented economy hard, putting an end to a period of steady growth between 2016 and 2019. During this period, incomes were rising steadily, and unemployment had fallen to a 30-year low. However, not all businesses and organizations were equally affected by the global downturn. There were winners and losers alike. For instance, global tech and online trading businesses saw considerable profit increases in 2020, while the tourism and hospitality sectors suffered significant losses. In 2021, during the recovery from the pandemic, the Hungarian economy performed well, achieving a 7.1% GDP growth. This can also be attributed to the fact that a significant number of the Hungarian organizations surveyed saw the COVID-19 crisis not only as a problem but also as an opportunity. The era of an export-oriented economy with cheap labor has come to an end. Organizations now need new measures to survive and prioritize the physical and mental well-being of their employees. However, the first signs of recovery from COVID-19 are being overshadowed by a new crisis triggered by the Russo-Ukrainian War. The war in Europe has had a global economic impact over the past year, which is currently culminating in soaring inflation in Europe, as well as raw material shortages and increased uncertainty.

**Key words:** Difficult economic time, COVID-19, reopening, Russo-Ukrainian War, management and HR

## Introduction

A typical crisis consists of three phases: the “response phase”, during which companies address the immediate situation and strive to maintain continuity; the Recovery phase, where businesses learn and become stronger; and the Growth phase, where businesses prepare for and shape the next phase of normal operations (Deloitte 2020; McKinsey 2021b).

At the beginning of 2020, a new crisis caused by COVID-19 emerged, reminding managers of the vivid memories they had of the 2008 downturn and its impact on corporate operations. The short-term consequences were sudden and often severe: millions of people were laid off, and others had to quickly adapt to remote work as offices closed (PWC 2020). These trends continued to impact organizations and the labor market even into early 2022. The key socio-economic trends have been summarized in Table 1.

## Background, History, Review-of-Literature, Methodology of the research

The main features of our three research programs were as follows:

1. The first research program involved the KoronaHR surveys, which were initiated in June of the previous year. These surveys were conducted in collaboration with three sectoral NGOs, 15 universities, seven regional chambers of commerce, one municipality, one recruitment agency, and another research program. The research team has published separate research reports for each wave of the epidemic. A total of 1,785 respondents (including companies, institutions, and non-profit organizations) completed questionnaires during the three periods.
2. The second research program involved a survey conducted with the participation of ten universities in Hungary, one foreign university, and several Hungarian professional organizations. The primary research objective was to investigate the anticipated changes in management and business/organizational operations as a result of the recovery from the crisis in the previous year (2020). A total of 1,183 organizations participated in this survey.

3. Additionally, a survey was conducted between May 1 and June 25, 2022, aiming to explore the anticipated impacts on operation, management, and HR as organizations recover from the COVID-19 crisis over a two-year period and in light of the recent Russo-Ukrainian war. More than 1,000 organizations participated in this survey and completed the questionnaire.

**Table 1. GDP, unemployment and FDI figures during the previous waves of COVID-19 and today (2019-2022)**

GDP growth before COVID-19				Unemployment before COVID-19	
<ul style="list-style-type: none"> <li>• Developed world: 2%</li> <li>• Global: 3%</li> <li>• Eastern Europe 4%</li> <li>• Hungary 5%</li> <li>• Slovakia 2.5%</li> </ul>				<ul style="list-style-type: none"> <li>• Global 5.7% (ILO 2019)</li> <li>• Hungary 3.5% (2019)</li> </ul>	
GDP figures during COVID-19 and today				Unemployment during COVID-19 and today	
Regions	2020	2021	2022	<ul style="list-style-type: none"> <li>• Global: 8% of 3.5 billion on the labor market (ILO 2021)</li> <li>• Hungary 4.5% (today 3.5%)</li> </ul>	
Global	-4,80%	5,50%	3,60%		
USA	-4,20%	4,20%	3,10%		
China	2,60%	6,50%	3-3,7%		
EU-27	-7,50%	5%	2,70%		
EU-eurozone	-8%	5%	2,70%		
Hungary	-4.8%	7.1%	3,60%		
Slovakia	-4,80%	3%	2,30%		
Foreign Direct Investment (FDI)					
<ul style="list-style-type: none"> <li>• FDI: 1,500bn USD (Global - 2019)</li> </ul>				<ul style="list-style-type: none"> <li>• 837bn USD (Global, 2020)</li> <li>• 1,582bn USD (Global, 2021)</li> <li>• The growth rate in 2022 will likely to be lower than in 2021.</li> </ul>	

Source: Römisch 2020; IMF 2021; ILO 2021; UNCTAD 2019-2022; World Bank 2022, UPSVR 2022

## The impact of COVID-19

A significant portion of the respondents in the KoronaHR surveys were Hungarian private businesses (58.7%, 46.9%, and 51.7%). Approximately a quarter of them had foreign ownership or were in mixed ownership. In terms of headcount, the majority of responding organizations were small and medium-sized enterprises (SMEs), accounting for 72.1%, 63.6%, and 72.3% in the three research phases.

While a complete paradigm shift cannot be expected, the pandemic has necessitated the use of crisis management techniques, which will inevitably lead to partial changes in HR activities and methods. The KoronaHR surveys focused on mapping these anticipated HR tools and methods.

With the outbreak of the pandemic, organizations faced numerous challenges that required their management to directly address anomalies in their production processes. A key question was whether the pandemic was perceived as a problem, a challenge, or an opportunity. Based on our research findings, a significant proportion of businesses were unprepared for the changes during the first wave. However, as more knowledge about the virus and vaccines became available, the situation improved. Many businesses open to innovative solutions saw the crisis as an opportunity and identified market gaps and opportunities. Our research showed that 27.3% of organizations perceived the crisis as an opportunity during the first wave, followed by a significant drop in the second wave (16.4%), and a slight increase in the third survey period (18.2%). Internal communication systems saw the most significant development among all HR functions, with 56.3% of respondents indicating this in the first phase, 55.5% in the second phase, and 57.2% in the third phase. Occupational safety and health at the

workplace were also identified as areas requiring improvement. A significant proportion of organizations focused their HR strategy primarily on health and safety and prioritized these areas. Another positive outcome of the pandemic was that it highlighted critical HR points that needed strengthening. These challenges included improving internal communication, offering more training opportunities, and reducing employees' administrative burdens.

Key points to note are:

- HRM had to respond to the unexpected global health, social, and economic crisis of Covid-19.
- New HRM measures are necessary to ensure the survival of organizations and the physical and mental well-being of employees.
- Based on our research findings (2020-2021), organizations face similar problems to their global counterparts.
- HRM has become crucial in the crisis management process, particularly in terms of internal communication, atypical employment, and occupational safety measures.
- HR managers also need to develop new forward-looking measures for the post-Covid-19 period (Pató et al., 2021; Poór et al., 2022).

## Effects of the recovery

In the framework of the online questionnaire survey, we received valid and assessable responses from 1,183 organizations (businesses and institutions).

Before the pandemic, only a small percentage (0-5%) of employees in the responding organizations worked from home. However, during the pandemic, the number of employees working from home increased significantly. According to the survey, 35.2% of organizations had 0-5% of their employees working from home, while 21.8% had more than 50% of their staff in a home office setup. This raises the question of how prevalent remote work will become for jobs that are suitable for it and whether employees will be willing to embrace this form of work in the long term. In other words, the question is whether the pandemic has permanently facilitated the adoption of remote work.

## The impacts of the war

Researchers from the Hungarian University of Agriculture and Life Sciences (MATE) and from eight other Hungarian universities as well as from one Slovakian university, with a significant support from the Budapest Chamber of Commerce and Industry (BKIK) and in cooperation with several other sectoral organizations (National Association of Human Resource Professionals, Association of the Digital Economy, Hungarian Chamber of Agriculture, National Association of Change and Crisis Managers), conducted a survey between 1 May and 25 June 2022. The research aimed to find out what impacts our respondents (companies, institutions) were expecting in their operations, management and HR after recovering from the COVID-19 crisis for 2 years and due to the recent Russo-Ukrainian war. Over 1,000 organizations participated in the non-representative questionnaire survey. Our research focuses on how businesses and institutions adapt to crises in terms of their operations, management, and HR. In addition to the effects of the pandemic, our nationwide research team also examined the impact of the war. The key findings and conclusions of our research are summarized below.

## Discussion

In addition to teleworking, the pandemic has had a lasting impact on two areas that will significantly affect the labor force. The first area is the increased use of digital tools for transactions, consultations, and collaboration. The second area is the adoption of automation and AI technologies in the workplace. While these trends were already in motion before the pandemic, COVID-19 has accelerated and permanently transformed their development (McKinsey 2021).

The economic impact of the Russo-Ukrainian war on businesses operating in national economies not directly involved in the conflict is not necessarily negative. There may be an increase in demand for products from industries supporting the war effort. Competitors can also enter new markets to address the shortage of goods caused by the war, leading to higher revenues and market share. The trade and financial sectors may exploit the inflationary effect and volatile exchange rates during and after the conflict to maintain higher prices. Additionally, sectors facing labor shortages could potentially benefit from the availability of war refugees as a substantial and cost-effective labor force.

The surveyed organizations in Hungary anticipated a decline in sales during the first quarter of the Russo-Ukrainian war. As a result, most of them adopted cautious operating tactics without planning drastic measures. However, they sought ways to leverage the changes brought about by the war to a certain extent while maintaining ethical economic behavior (profiting from a crisis is not considered appropriate). Interestingly, 10% of respondents expect revenue growth this year.

Unfortunately, the initial signs of recovery from COVID-19 and the improvements achieved are being overshadowed by the impact of the Russo-Ukrainian War (Tooze 2022). This war in Europe has had a global economic impact, resulting in shrinking GDP growth and increasing inflation, as well as shortages of raw materials and heightened uncertainty both in Europe and globally.

## Conclusion

The Hungarian economy was experiencing strong performance before the COVID-19 pandemic, characterized by high GDP growth rates. Even during the recovery from the pandemic, prior to the Russo-Ukrainian war, the Hungarian economy continued to perform well. This can be attributed, in part, to the fact that a significant number of Hungarian organizations surveyed viewed the COVID-19 crisis as not just a problem, but also as an opportunity.

Throughout the pandemic, HR managers played a crucial role in crisis management and rapidly responding to maintain workforce productivity and adaptability, which were at risk due to the pandemic. Findings from the KoronaHR surveys indicated that respondents increasingly recognized the challenges posed by the pandemic, with nearly 57% reporting having an action plan during the third wave. The pandemic greatly accelerated digitalization, prompting businesses to develop innovative, adaptive, and secure solutions. Remote working, necessary to keep businesses operational, also made IT and information security a priority, requiring them to be strengthened.

Based on the findings of the three research programs, the following conclusions can be drawn:

- The chaotic and complex situation caused by the Covid-19 pandemic did not follow the course of the economic crisis, and it can be considered as a periodic economic downturn. Based on the responses, we concluded that human resource professionals initially focused on organizing healthcare, communication, and implementing remote work. In the second and third waves of the pandemic, job security and retention became increasingly important in the work of HR professionals.
- During the period of reopening and economic recovery, most economies did not achieve the expected Jánossy trend line due to factors such as inflation, material shortages, and a lack of spare parts.
- In the third quarter of 2022, amid the Russo-Ukrainian war, most organizations adopted a cautious business strategy and were not inclined to implement drastic change management measures. Nevertheless, they remained open to exploring opportunities presented by market changes resulting from the war.

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