

# Employee Benefits a Slovak-Hungarian Comparison

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*Abstract: The aim of this study is to compare Hungary and the Slovak Republic in terms of employee benefits in practice. The study provides a brief introduction to both the fixed and flexible forms of employee benefit systems as well as to their legal environment. Our empirical conclusions are based on the results of a survey conducted among 420 Hungarian and 126 Slovakian employers in the year 2013. In the course of our investigation we studied the practice of fixed and flexible benefits in compared countries, as well as the organisational specifics of cafeteria system usage. Topical issue of the study is the way of operating a cafeteria system at today's rapidly changing environment and that's impact to the financial framework of cafeteria systems. Above all we've investigated the probable future of benefit systems by seeking the willingness of employers with no experience to launch cafeteria. The findings of the study suggest that the different tax regimes are responsible for the major employer-related differences in the ways in which the two countries provide benefits in kind – that is, non-financial benefits to their employees.*

*Keywords: Employee benefits, Cafeteria plan, Taxation, Comparison, Hungary and Slovakia*

## 1 Introduction

Company leaders planning for the long term recognised long ago (in the era of classic capitalism, in fact) that Human Resources are the only resources which offer sustainable competitive advantage [5]. In today's relatively unstable world, we can detect a strengthening of the opinion that companies can best be judged in terms of their behaviour towards their employees [1], and an old business maxim also says that only employees who themselves are well treated will treat the customers well. It is, of course, important to acknowledge that this aim can most

easily be achieved by creating a motivating working environment and a pleasant and flexible organisational structure, all of which enables employees to produce their best [1]. It is not always easy, of course to meet this requirement and especially in times of economic recession. Many professionals believe that the simplest solution to such a situation is to cut employee benefit packages by at least 10-15%, although this is probably not a productive way of solving financial difficulties [2]. Several research projects have shown that, due to the economic crisis, the motivation of people has significantly changed. Many of the 'winners' in the pre-crisis era suddenly became 'losers'. The ground fell from under their feet. However, a good number of employers also think that, in a time of recession, reasonable benefits play an important role [9].

Recognising the value represented by employee benefits is, in fact, of increased importance in complicated situations such as those recently experienced. The value of benefits received is often underrated by employees, but this perception needs to change and the effectiveness of benefits to be clearly shown [3].

The category of 'employee benefits' comprises the whole range of non-wage 'reward tools', including those quite unrelated to performance, and there is, in fact, no company which does not provide some benefits to its employees. The three most important types are, firstly, mandatory or compulsory benefits, whilst a second group - also serving the employer's interests - improve the living or working conditions of employees [19]. The third are distributed on the basis of the social needs of employees. One strategic issue of the reward system is the decision making process involved in providing employee benefits. The possibilities are:

- a fixed system – in which the benefits are identical for all employees,
- a flexible system – which permits some from several forms of benefit.

Traditional reward systems have a fixed character, in that they offer similar benefits to everyone, even if, perhaps, subject to a value- or quantity determining formula. Administration is relatively simple, but the system itself is quite inflexible.

The 'cafeteria' model is one of the newer solutions in the field of reward management; it originated in the USA, although by now it is used worldwide. The system was launched in 1400 organisations at the end of the '90s [8]. The greatest success in Europe was achieved in the UK, but, due to taxation rules in Germany and Austria, the model is relatively little used in these countries [12].

Suitable for everybody' is the essence of the cafeteria model, 'a self-service system' in the words of [19]. There is a 'menu' detailing what benefits are offered by the employer and at what price, together with the total amount of money available. This gives the employee the opportunity to decide for himself what he would choose as a benefit. Within the framework of Cranet (the international HR

research network) we had - among other things - been studying the use of flexible benefits in respect of 6258 organisations in 30 Central East European participating countries. [4] The results of the survey reveal that flexible forms of a reward system are found in all the countries examined. An analysis of some employee segments shows that flexible benefits are most commonly found in relation to heads of companies (36.6%), followed by professionals (31.8%), administrative staff (28.0%) and manual workers (20.1%) - although these proportions are no longer so clear [16; 4; 6].

## **2 The Cafeteria system in the countries studied**

### **2.1 Employee benefits in Hungary**

The Cafeteria system evolved in Hungary in the 1990s as one of the visible features of globalisation, but based mainly on French and American experience. The regulations then in force provided a very favourable environment for both employers and employees for almost 15 years. Due to these supportive conditions, reward systems based on flexible choice were introduced in many foreign- and domestically owned companies, as also in the whole of the public sector, even though flexible systems are not as popular in SMEs [14]. On the basis of our earlier experience at the end of the first decade of the new millennium, the popularity of the cafeteria system in domestically owned firms was virtually identical to that in US owned entities [8]. The system is much more popular in Hungary than in its largest FDI provider, Germany [11].

A characteristic feature of what we term the 'Expansion' phase is the rising number of tax-free benefits as well as the growth in the value of benefits. Changes in tax regulations in 2006, however, set a limit to this favourable situation. The Ft 400.000 (3.300 Euro) limit to the total amount was introduced in that year and remained in force until 2008. A further feature of the expansion period is the tightening of rules relating to benefit administration.

The number of tax-free benefits was dramatically cut in 2010. Previously popular benefit items were first taxed and then subject to a Health Insurance contribution. Benefit-related deductions amounted to 25% in 2011, to 30.94% in the following year and then to 35.7% in 2013 [6].

## **2.2 The situation in Slovakia**

Although the levels of tax and other deductions are far lower in Slovakia than in Hungary, the contributions paid by the employee are classified as Health and Social Security Insurance. Compared to his counterpart in Slovakia, the Hungarian employee sees the state take a significant part of his gross income, with medical and social insurance for the good of the employee representing merely a small part of the amount. Nevertheless high tax rates encourage employers to pay some part of all wages and salaries in the form of tax-free or preferentially taxed benefits.

Certainly the Slovakian employer also provides benefits to employees, but these differ from those used in Hungarian practice. The great majority of employers in Slovakia provide fixed benefits, mainly forms of benefit which are linked to the company profile or to the position of the employee. The most popular benefit items in Hungary are various types of voucher, whilst in Slovakia the benefits most often provided are mobile 'phones for private use, educational courses (mainly language courses), discounts for company products or services and supplementary medical, life and pension insurance.

With the arrival of the recession, issues related to the reward system became matters of dispute. According to the press release publicized by SODEXO, the food management company, in 2009, food vouchers are the most frequently provided benefit items in Slovakia [20; 17].

## **3 Benefits – flexible benefits Hungary vs. Slovak Republic 2013-2014**

The following part of the study reflects the research which we carried out in Hungary and Slovakia during 2013-2014.

### **3.1 Hypotheses**

In the course of our investigation we searched for confirmation of the following hypotheses:

- H1: Flexible solutions are more typical in large firms. This was determined by reviewing the literature which says that reward systems used by employers vary according to the size of a company. Using professional employee motivation tools is more common in larger than in smaller enterprises [21].

- H2: Foreign owned firms offer both more and more varied benefits than locally owned firms. This is based on the concept which supposes that the form of ownership and the entity of the owner have considerable influence on the HRM practice of the company [10;15].
- H3: The design features of a cafeteria system are very similar at different employers, regardless of company size and form of ownership. Other research has concluded that HRM practices used to alleviate the effects of the recession in firms in Central-East European countries are very similar [7].

### **3.2 Research sample**

Our research was carried out with the participation of 420 Hungarian and 126 Slovakian employers. The main features of the two samples are as follows:

- Form of ownership: In these terms there are no significant differences between the two countries. The majority of participating organisations are domestically owned: specifically, 70% of the Hungarian and 68% of the Slovakian respondent organisations are locally owned.
- Size: SMEs (Small and Medium Enterprises) dominate in both samples. 48% of Hungarian and 57% of Slovakian respondents belong to the SME category, with almost one-third of the Hungarian and 15% of the Slovakian sample being large enterprises.
- Sector [field of operation]: The overwhelming majority of organisations participating in the research operate in industry, trade or services. In terms of the sector in which participant organisations operate, there are no major differences, although the proportion of companies in trading, agriculture or the public sector is a little higher in the Slovakian sample and higher in the Hungarian sample in the financial sector.

### **3.3 Survey results**

85% of the responding organisations in the Hungarian sample used employee benefits in their reward policy in 2013, and only 5% noted that benefits were not given to all employees. The available amount of benefits is uniform in the case of all employees in 55% of participating organisations in Hungary. Due to legal requirements, all employers provide benefits to their employees in Slovakia, but these vary over several groups of employees.

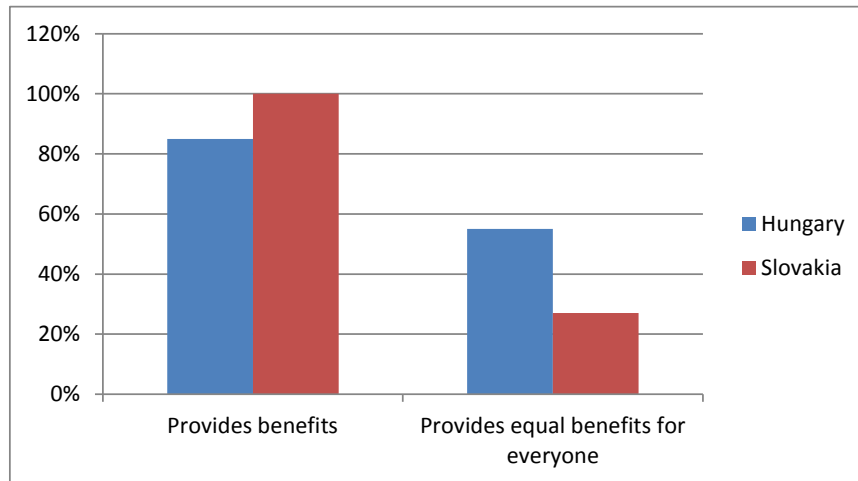


Figure 1  
Proportion of organisations giving benefits/giving equal benefits to all  
*Source: Authors' own research*

Flexible benefits are very popular in Hungary, where 74% of employers have used the cafeteria system as a reward tool. 49% use both flexible and fixed benefits and 51% use the cafeteria system only. Flexible solutions are not popular in Slovakia where only 19% of respondents have used it.

The proportion of organisations providing optional benefits is in direct proportion to the size of organisation. The breakdown of participating companies in the Hungarian sample using the cafeteria system shows 34% of microenterprises, 63% of SMEs and 79% of large enterprises. This has its parallel in Slovakia, where 35% of SMEs and 43% of large enterprises offer a flexible choice of benefits, with 100% of responding micro-enterprises providing only fixed benefits.

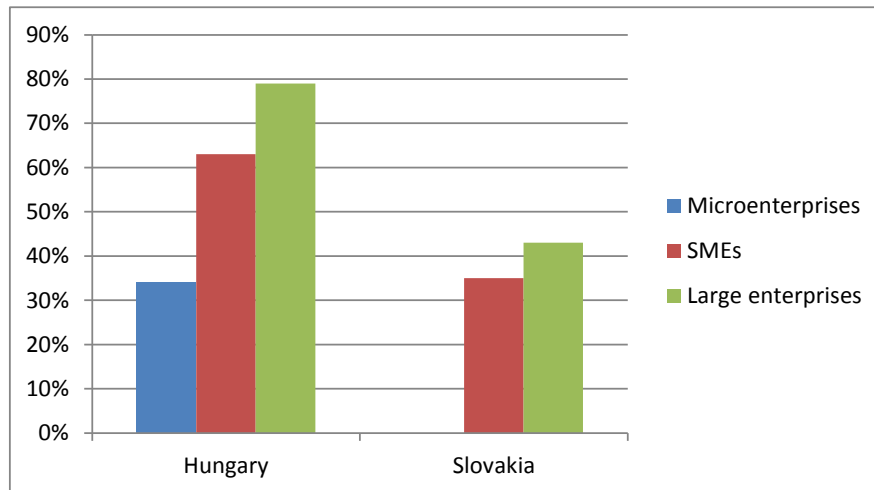


Figure 2  
Organisations using a cafeteria system by company size  
Source: Authors' own research

The majority of respondents in Hungary offer 5-10 benefits, 11% offer 4 or fewer, whilst 32% offer 11 or more. The average number of optional benefits in Slovakia is 4, whilst in relation to fixed benefits the average is 8. The average number of optional benefits in partly or wholly foreign-owned organisations is higher in both samples than in domestically owned entities. The features which companies take into account in their reward packages have various levels of importance, and employers naturally find some more important than others. Respondents from the Hungarian sample noted the strengthening of employee loyalty and the optimization of wage costs as the most important factors when devising their cafeteria system. Slovakian respondents think that the most important are enhanced employee satisfaction and employee motivation.

The Chi squared test shows no significant relation between the design features of a cafeteria system, the form of ownership and the size of the organisation. The value of Cramer's V coefficient verifying the intensity of the relation is between 0.13 and 0.18 in respect of the form of ownership and between 0.14 and 0.21 in respect of an organisation's size - which indicate a weak relation in terms of both factors.

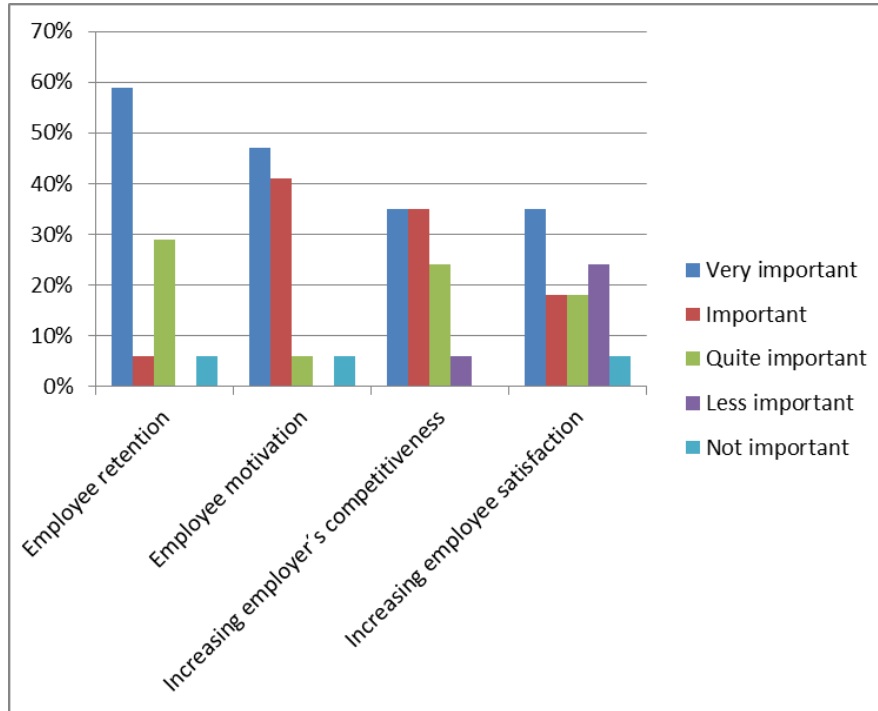


Figure 3  
 Most important design features of the cafeteria system - Slovakia  
 Source: Authors' own research

The opinions of Slovakian respondents relating to the design features of cafeteria systems is related to neither ownership form nor company size, and Cramer's V coefficient values are close to zero for both. Since the number of organisations providing flexible benefits is too low in the sample, the figures in this case were based on the answers of all respondents actually providing benefits.

## 4 Conclusions

Our examination of established reward practice in Hungary and Slovakia revealed both differences and similarities. The reason for the differences could lie in the differences in labour law in the two countries, whilst the similarities are produced by the identical interests of the employers. Some of the benefits in Slovakia are prescribed by the Labour Code, as well as the creation of the so-called Social Fund, which serves as the 'financial watchdog' for benefits. According to the Personal Income Tax Act, all income is taxed at the same rate, regardless of its



character or regularity. The taxpayer is the one who receives the income. (The Income Tax Act, however, provides multiple tax exemptions).

Although the Hungarian employer is not bound to provide benefits to employees, a great number of employers do so. According to the Hungarian Income Tax Act, income tax is paid by the employer also, but tax rates are more favourable in respect of benefits than in the case of income paid in cash. The greatest influence on employers in decisions regarding their own reward policy is the pressure to meet legal requirement, and so the main factor determining reward practice in the country is the legal environment.

85% of Hungarian respondents provide benefits to their employees, and more than half of these treat all employees equally. Slovakian employers, on the other hand, mainly provide benefits to different groups of employees, and only 27% do so on an equal basis. In terms of use and frequency of use, we can also find significant differences between the two countries. Many of the organisations providing benefits in Hungary offer a free choice among benefits, and 74% of Hungarian respondents operate a cafeteria system.

Most of the benefits provided in Hungary comprise vouchers and electronic cards which are recharged monthly with specific sums of money. The cafeteria system is not as popular in Slovakia, and the majority of employers provide only fixed benefits. These generally vary for different employee groups, but the most common in Slovakia are food vouchers, travel allowances and protective clothing, all of which are mandatory, and prescribed by the Labour Law.

The hypotheses proposed earlier in this paper require us to compare features of employee benefits found in the two countries.

- In the first hypothesis we contended that flexible solutions are more typical of large firms, and the results of our survey confirm that the use of a flexible system is directly proportionate to the size of a company. This applies to both countries.
- The second hypothesis suggested that foreign owned firms generally provide more benefits than those domestically owned. Our survey showed that the average number of optional benefits in Hungary provided by domestic companies is 7, whilst foreign owned companies provide 10. This difference, however, is much weaker in Slovakia, where the average number of benefits offered is 4 at local and 5 at foreign owned firms. In respect of fixed benefits the figures are 8 at domestically owned and 11 at foreign owned firms.
- Our third hypothesis held that the design features of cafeteria systems are very similar when used by different employers, regardless of the size or form of ownership of the company. The Chi

square test has proved this, the value of Cramer's V coefficient showing a weak relation with the two factors examined that is, with the size and form of ownership in both countries.

Hypotheses	Accepted	Partially accepted	Not accepted
H1	√		
H2		√	
H3	√		

Table 1  
 Hypothesis validation  
 Source: Authors' own research

The Cafeteria has become the prevailing tool of employee motivation in countries where, due to taxation rules, employers are able to realise savings whilst at the same time providing benefits. In this case benefits are not limited to one group of employees, but every employee has a certain part of his wage or salary in the form of a non-financial benefit. Since Slovakian employers are unable to reduce their tax bill by providing employee benefits, they provide benefits solely only to motivate employees.

## 5 Limitations and future plans

Although we would not claim that either the global sample or its individual components are truly representative in every way of Hungarian and Slovakian enterprises, among the respondent organisations we have met companies whom we might describe as resolute and purposeful, and, based on their responses, whose changes and practice in the field of reward management would be well worth studying. We also consider it worthwhile to continue our study, especially in relation to the cafeteria system. We plan, therefore, to carry out further research during the course of next year - hopefully with the participation of more organisations. We shall focus on:

- fixed benefits,
- flexible benefits,
- organisational specifics of cafeteria system usage,
- the financial framework of cafeteria systems,
- operating a cafeteria system in a changing tax environment,

- the willingness of employers with no experience to launch a cafeteria system,
- the future of benefit systems.

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