

# PROPOSED SOLUTIONS FOR COMBATING HUMAN CAPITAL EROSION IN ROMANIA

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## **Abstract**

*Unfortunately, human capital erosion is a topical problem which affects the entire labor market. In Romania the issues are much more difficult than in other Member States of the European Union. Human capital erosion is a process through which the human capital from an organization, or from a country, is underused or not used at all due to various economic and social factors.*

*Through this research paper we intend to identify the main factors that led to the current high level of human capital erosion, as well as potential solutions for reducing and even stopping this process.*

**Key words:** *human capital, erosion, human resource management, solutions*

**JEL classification:** *M12*

## **1. INTRODUCTION**

**2.**

Starting with the '90, the human resource is considered as a strategic resource, and in recent years it has acquired a special importance being considered a resource that offers competitive advantages. This fact is also demonstrated by the renaming of the function, from personnel function in the '80, to human resources management in the '90, to human capital management nowadays.

Human capital erosion is relatively a new term, but meaningful and very devastating if it is not controlled. In Romania unfortunately we have to face with its consequences every day, because since this “popular” economic crisis appeared we Romanians had to face massive layoffs and salary reductions and with an increased depressive psychological state among the population, starting with young students which fear that they won't have a job when they graduate or that their parents won't have enough money to help them finish their studies, to the average wage of the working population that fears that it can lose its job, and even retirees that fear for their children or grandchildren's future.

In order to understand better the human capital management and its implications over an organization, and implicitly over the whole economy of Romania, we must take into consideration the specificity elements of human capital. All of these elements should be capitalized by each organization, thus leading to a more “healthier” economy and implicitly to a harmonized working environment.

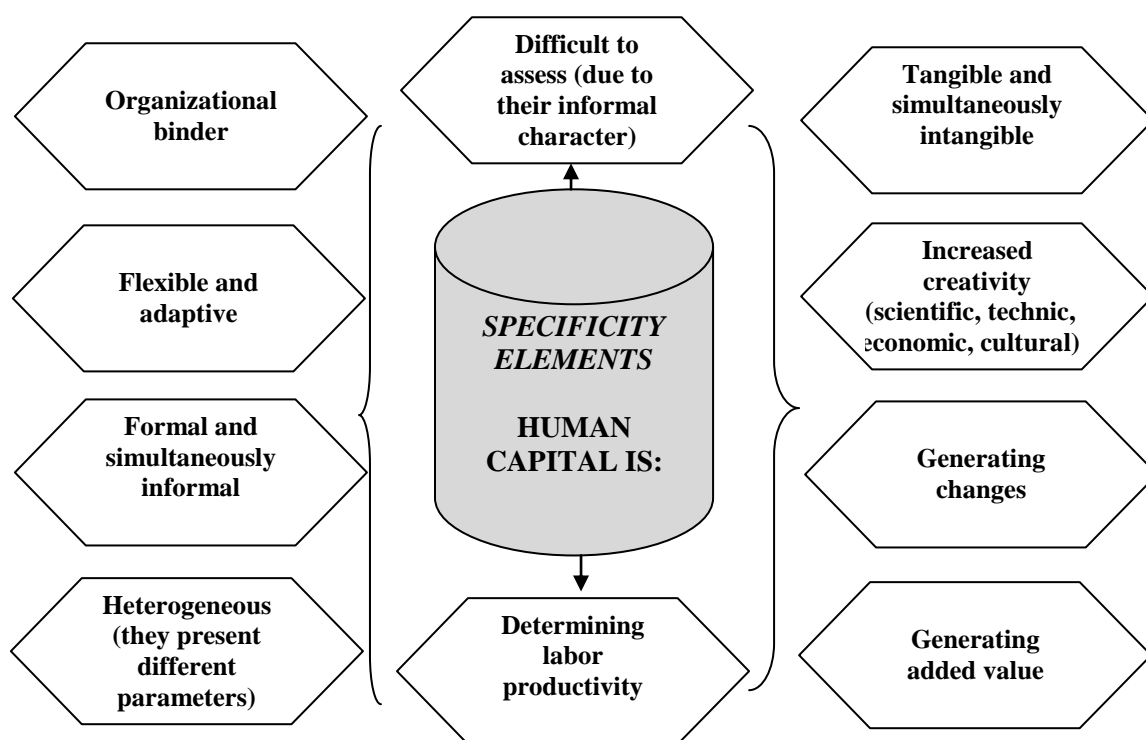


Figure 1 Specificity elements of human capital

Source: Information after O.Nicolescu, I.Verboncu, *Fundamentele managementului organizației*, Editura Tribuna Economică, București, 2003, p.196-199

### 3. THE HUMAN CAPITAL EROSION DEGREE REFLECTED THROUGH THE UNEMPLOYMENT RATE

Human capital erosion is the process through which human capital (from an organization or a country) is underused or not used at all in economic processes due to various economic and social factors. The human capital erosion degree is best reflected through the unemployment rate, this unfortunately being very high in Romania.

Table no.1

Unemployment rate in Romania	
Year	Unemployment rate
2000	7.3%
2001	7.8%
2002	8.6%
2003	7%
2004	8.1%
2005	7.2%
2006	7.3 %
2007	6.4 %
2008	5.8 %
2009	6.9 %
2010	7.3 %

Source: Information from [www.eurostat.com](http://www.eurostat.com)

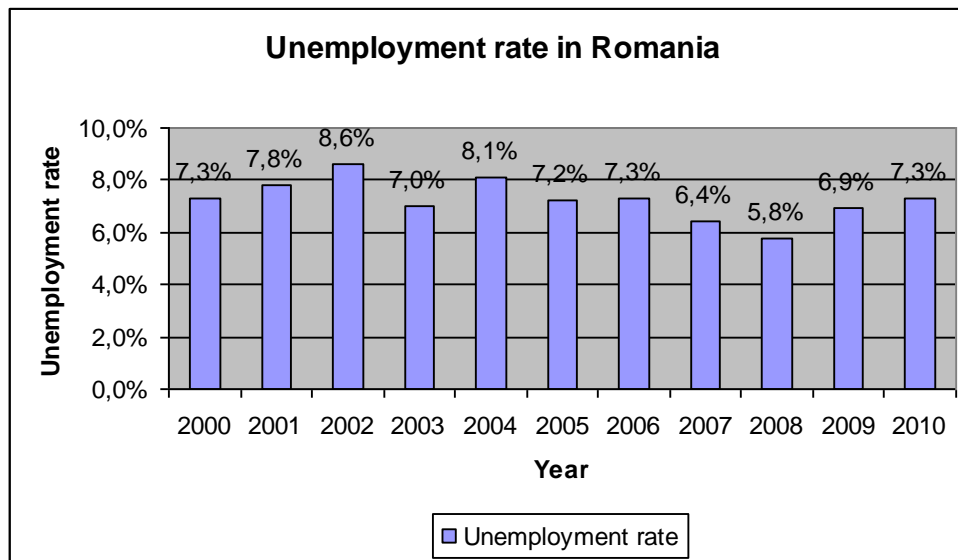


Figure 2 Unemployment rate in Romania

Source: Information from [www.eurostat.com](http://www.eurostat.com)

#### 4. PROPOSED SOLUTIONS FOR COMBATING HUMAN CAPITAL EROSION IN ROMANIA

Unemployment, as the expression of the existing imbalances in the economy and their impact on the labor market, is caused by the reduction in the employment of labor force, as a result of the transformation process in the stage of transition to a market economy (the restriction of activities, the closure of organizations, refurbishment, retraining), as well as by the entry on the labor market of young graduates and other people which were integrated into the so-called "voluntary unemployment".

After analyzing the entire labor market in Romania we reached to the conclusion that the main factors for the high unemployment rate are as follows:

- effective demand reduction;
- large volume of imports (official and "unofficial");
- decreased investments;
- reduction of the internal savings potential;
- reduced upgrading capacity induced by the investments rate compression;
- absence of an adequate legal framework;
- financial blockage along with investment blockage;
- increasing prices and reducing salaries;
- the high level of emigration among qualified persons with higher education as well among unemployed people.

The solutions proposed for combating the human capital erosion in Romania are very simple: first we should implement (more precisely re-implement) vocational schools. This is a sustainable solution that would help young graduates and at the same time unemployed of all ages.

The second solution consists in continuous training programs, more precisely retraining employees so that they acquire the abilities and capacities necessary for the "new job". We consider this being a much better solution than to hire a new person, meaning it is much better to work with a person that is practically "family", someone you know and whom you worked with for a long period of time than to start with someone new, whom you don't know and don't know if you can trust.

## 5. CONCLUSIONS

Considering that the unemployment rate in Romania is of long duration, it has as an effect the emergence of a new category, namely discouraged persons. This fact highlights the psychological impact on the unemployment rate on the individual. These psychological effects that are at the level of an unemployed person, we must keep in mind the particularly serious impact that is being induced by unemployment on the relations between the unemployed and his family, between him and his friends.

Although there are a multitude of solutions we consider that the most effective and easy to apply would be the implementation of vocational programs corroborated with on the job training in order to help the Romanian economy overcome this crisis period and its population to have an adequate standard of living.

The finality of the strategies on combating unemployment and stimulating employment must be included in achievement of the central objective set out in the Romanian labor market: human capital development and increasing its competitiveness on the labor market by ensuring equal opportunities of lifelong learning and the development of a modern, flexible and inclusive labor market that leads, by 2015, to an employment rate of over 70%, in terms of maintaining an unemployment rate below 6%.

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