

## LABOR MARKET TRENDS AND TENDENCIES IN HUNGARIAN PUBLIC SECTOR IN LIGHT OF AN EMPIRICAL RESEARCH

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### Abstract

Employee turnover is a current challenge of human resource management in organizations. Staff turnover is regarded as a key performance indicator for Human Resources departments, and a serious rise in its level points to events, issues or problems which may severely hamper the successful and efficient operation of any organization. Hence, in such cases immediate measures should be taken to curtail turnover. The paper reviews briefly current trends of labor market and specific HRM challenges of public services. In this study an empirical research is also introduced. Employees with adequate professional experience represent outstanding value for operational efficiency, a turnover index compiled by on a sectoral basis, highlights the fact that turnover is highest among blue collar workers in the private sector. Surprisingly, within the same group in the public sector turnover is typically low. At the same time, however, our 2017 results show that astonishingly high levels of turnover (even 40%) may also occur in public sector organizations. Public sector in Hungary has provided life long employment but the new labor regulation and labor shortages have drastic changed the particular traits.

**Keywords:** *turnover, shortage of labor, public sector*

**JEL classification:** *M12; M54*

**LCC:** *HD28*

### Introduction

A legitimate question in this context must be: Why do we deal with such issues as turnover and shortage of labor in a country where, mere five years ago, the unemployment rate was a double-digit figure (10.2%) (KSH, 2018).

For a long period, all forecasts and opinions asserted that available jobs were few, and employees should value their job – since, if they happened to lose it, finding a new one would be a problem; they would have to live with the risk of unemployment.

This was especially true for young people, older (50+) employees and for people who lived in small, rural settlements or in backward regions.

However, in recent years – more specifically in the last 3-4 years – we have witnessed major changes: today, the scarcity of available jobs is limited to very few regions and to few occupations. The shortage of labor and the difficulty in finding suitable applicants for vacant jobs are increasingly common (Mádi, 2018).

The shortage of labor and retaining employees have become major problems in the modern economy (Kovács, 2012). This impacts on an ever growing number of different areas and so is a serious challenge to all companies.

A shortage of labor forces companies to increase wages, since the competition to recruit skilled labor intensifies in direct consequence. It is frequently the case that there is a lack of population fit for work, and this may produce a critical shortage of labor. In such cases, a conceivable future solution for companies is robotisation. In the wake of new technological advancement, the number of available jobs and the demand for unskilled labor is decreasing in relation to jobs which are open to automation. At the same time, we can envisage an increase in the demand for highly skilled labor (Harari, 2018).

This situation clearly shows that the shortage of labor and high employee turnover are both serious, current issues which generate substantial problems for for-profit companies and for other organizations likewise. Organizations in the public sector are also hit by this modern-day predicament. Their employees are also often dissatisfied and, when they finally leave the job, it is increasingly arduous to find skilled replacements.

Currently there are thousands of vacancies. Stokers, IT system administrators, kindergarten teachers, ambulance drivers and research fellows are all in demand for public service positions. Nevertheless, the labor union movement says that there are 160 000 public employees, whose salaries have not been raised at all in the past decade (Hír TV, 2018).

### **Theoretical background**

First of all, let us clarify what we mean by ‘labor market’: it is a virtual place where labor supply and demand meet. The gap between them produces a labor surplus (when supply is greater) or a shortage (when demand is greater).

Dutch research shows that the turnover of female public servants is principally contributable to intrinsic factors, whilst a man’s decision to leave the public sector is mainly driven by extrinsic factors. In the case of men belonging to some ethnic minority, organizational management and the style of supervision are prominent factors in their abandoning the public sector. The notion of multicultural management has only a moderate negative correlation with the resolution to change job.’ (Sandra, 2011)

Salaries in general climb, as does household welfare, but enterprises in Western Europe and also in Slovakia complain and are pessimistic in their outlook since there is a lack of skilled labor and finding adequately skilled labor to fill vacant positions has become a considerable problem.

In addition to statements by leading politicians, numerous European surveys support the worries of companies and project a gloomy future unless serious changes occur. Whilst companies struggle to find applicants for vacant positions, in the meantime further talented people often disappear from their staff. Employees often decide to work abroad for higher salaries and for a higher standard of living. There are, however, many signs in the labor markets of neighboring countries of movement in a more positive direction in recent years, although companies in the Central European region see the situation in a different way (Žuffa, 2017).

Shortages of labor have continued to grow in Hungary – as they did in previous years. However, the number of job categories featuring massive vacancies and where finding good replacements takes a long time has grown further (Sebök, 2017).

Employee outflow to foreign countries is constantly growing and this is a further stimulus to already hesitating individuals to take a job abroad. With the EU accession of ex-socialist countries, emigration among member states gathered momentum and initiated new trends. The principal objective of this new type of emigration is work. Statistics show that the scale of emigration of Hungarian citizens started to increase in 2008 and leapt to an even higher level in 2010 (Sebök, 2017). According to some sources (BBJ, 2018), to date over 340 000 of Hungarians have emigrated.

Educational structures are still far from being in tandem with employers' requirements, and this produces a huge overall skills gap on the labor market. Both quantitative and qualitative shortages of labor in certain sectors can be ascribed to two causes. One is what we term the 'skills gap', which means that some working-age adults lack the needed skills – often lacking even the basic competencies. The other cause is termed 'skill mismatch' – which refers to situations when the skills required by companies are different from those which people had acquired. This issue could be addressed if the two parties (schools and business) cooperated from the start of the training process and jointly determined the necessary basic competencies to be taught (Sebök, 2017).

Employee turnover is a major problem in both companies and institutions, and constitutes a major performance indicator for Human Resources departments. Its increase is a sign of events, issues and problems which – untreated - are certain to form a serious obstacle to the prospects of efficient and successful operations. Consequently, in such cases, measures should be taken immediately to curtail turnover (Boudreau, 2010).

Excessive levels of turnover are a great burden for organizations. The costs related to vacant positions, additional recruitment, resources wasted on training and, most importantly, the costs induced by the loss of human capital are all considerable organizational expenses (Grissom-Grotty-Keiser, 2016).

The upturn in the economy would seem to be an adequate tool for curtailing turnover in the private sector. When the economy improves, the unemployment rate will be low and private sector companies are likely to have enough money to retain their workforce. However, the public sector is vulnerable from several angles - not least since in many countries it is unable to keep up with the private sector in terms of salary levels.

Employee satisfaction is a fundamental issue also. Fringe benefits, such as company pensions and health insurance, are disappearing. It is not uncommon that some employees have two different jobs in parallel within the same company, producing levels of employee satisfaction even worse than they had been before the recession (Barrett-Greene, 2014).

What, therefore should be done to reduce staff turnover? Salary rises might seem to be an obvious answer, but, sadly, in many situations it is impractical. Fortunately, there are alternative methods - for instance:

- We must thoroughly comprehend why people leave their jobs – by exit interviews, revealing root causes and drawing the necessary conclusions for the future.
- Updating obsolete compensation packages – competitive reimbursement system.

- Monitoring the problems of individual jobs and their negative effect on employees – setting up a monitoring process which prevents employees from overloading themselves (Barrett-Greene, 2014).

Organizations are increasingly forced to guard their work-force against the enticement of competitors. Our study reveals that some factors have a major impact on an employee's decision whether to stay or leave. These may include employee training and development facilities, appropriate acknowledgement of - and reward for - good performance, competitive compensation packages and workplace safety. Nevertheless, the significance of other factors must not be undervalued when formulating employee retention and persuasion policies. A well-designed combination of intrinsic and extrinsic motivational factors has a potential to support retention and so to moderate excessive levels of turnover (Samuel- Chipunza, 2009).

The public sector is quite heterogeneous: government officials, civil servants, public servants, uniformed individuals, individuals employed based on the Labor Code, individuals performing public tasks and individuals employed by state-owned companies all belong here. Recent legislative changes affecting the public sector, prolonged economic recession in the recent past and – today - the increasing stability of the market have all turned out to be forces which have transformed the characteristics of labor flow, its patterns and quantitative attributes (Gellén, 2013).

Employee turnover is regarded as a key area in public service research, but yet it is still a domain we have much to learn about (Grissom et al., 2016).

An overall business issue is that public institutions incur tremendous costs and lose much important knowledge and skills due to employee turnover. The root cause of the problem is that leaders in the public sector do not seem to have strategies to improve employee retention (Carroll – Izard, 2016).

The shortage of labor in the public sector is massive. There are thousands of vacant positions at present. Stokers, IT system administrators, kindergarten teachers, ambulance drivers, research fellows are all sought for public service positions. However, the labor unions say that there are 160 000 public employees whose salaries have not risen at all in the past decade (Hír TV, 2018). There are public servants whose salary is – after many years of employment – less than that of a new entrant skilled worker (HRPortal, 2018).

Public servants perform tasks for the whole of society, and their employers are organizations funded by the government. The public sector is heavily on the demand side of the labor market. It must compete with all other employers in recruiting and retaining good professionals. Demand for intellectual skills which can be automated or robotised will decline, whereas the need for unalienable human skills – such as social empathy, creativity, management or analytics – will continue to rise. As a consequence, the scale of overall labor demand may decrease. Required knowledge and skills will differ from those now needed. This phenomenon is certain to impact on the public sector also. (Domokos-Jakovác- Németh, 2016).

The challenges which the Hungarian public sector must face are by international comparison. The ratio of public servants in Hungary is above average: the active population is 4.5m and 19% of these work in the public sector. The Central Statistical Office confirms that one-fifth of employees are employed by the public sector – which means 860 000 people (Linder, 2014). Public servants are important not only due to their huge number but also for the tasks they perform for society. Therefore, it is in everyone's interest that public servants do a good and

efficient job. This high quality expectation requires that public servants possess top-class knowledge, ample abilities and in addition, they remain in their jobs for the long term. Unfortunately, many specialists opine – and relevant researches also show – that, despite the enormous size of the public sector, the recruiting and retention of a good workforce is becoming ever more complicated. Hence both excess and shortage in terms of the workforce are simultaneously present.

As an actor on the demand side of the labor market, the public sector must compete with foreign employers for an adequate workforce. The private sector offers higher salaries and greater prestige whilst the public sector is characterized by lower salaries, flat salary increase trends, typically non-performance-based pay and narrow margins for salary differentiation. In addition, there are further issues leading to dissatisfaction in the public sector: the decrease in the number of comparative advantages which used to make the sector attractive (job security, fewer mandatory working hours). Now, career planning obstacles, mainly the non-performance-related promotion system, over-officialised procedures and shortcomings in (IT) technology (Domokos-Jakovác-Németh, 2016).

The most substantial and also the most frequently mentioned reason which deters people from the public sector is simply the low pay. The next reasons are pervasive officialism and the lack of employee self-governance. More specifically, some measures are too labyrinthine and pointless and it verges upon the impossible to work ones way up or develop oneself. The bureaucratic machine torpedoes many innovative ideas. Another possible problem is the mistreatment of employees by unsuitable managers (Barrett-Greene, 2007).

In addition to adequate salary levels, corporate labor recruiting and retention abilities could be supported by other, important factors such as the prestige of the job, the appreciation of professionalism, career opportunities, trainings (during paid working hours), job security, flexitime, more leisure time and appropriate working conditions. A consultant of Select International believes that companies must satisfy five criteria if they are to retain talented employees (Thomas, 2017):

- Fair working conditions and workplace safety.
- Unambiguous goals and expectations, with appropriate organizational communication and job descriptions.
- Freedom of speech with regular feedback.
- Support for employee development; challenging and motivating tasks.
- Acknowledgement, appreciation and reward for good performance.

The size of the budget and the level of non-monetary support have a great impact on the employees of a public sector organization and also influences the number of employees who are willing to accept these job offers and stay (McGuire, 2015).

The literature mentions various reasons for the shortage of labor. These include:

- a gradual decline in the supply side of the labor market owing to demographic trends,
- the inactivity ratio is high in the working-age population,
- emigration has intensified from 2010,
- educational issues (e.g. basic or digital competency problems, deficiencies of vocational trainings),
- there are many poorly educated individuals among the unemployed and among public workers,

- the level of Hungarian pay has fallen below that in neighbouring countries (Bagó, 2018).

The labor market is constantly and rapidly changing. Today is fierce competition on all markets: for customers in the goods and services markets, for investors in the capital market and, for the best workforce on the labor market. The image of the ideal job and the ideal employer is also hastily altering. The penetration of globalization, innovation and automation essentially transformed both the supply and the demand sides of the labor market (Domokos-Jakovác-Németh, 2016).

The shortage of labor must be addressed and – if employment circumstances, legislative and financial conditions give enough space – managers may choose among many different strategies to combat this.

The shortage of labor continues to be a serious issue in 2019 but the forecast economic slowdown may gradually ease the tensions of the labor market as it will decrease the demand from employers (TASR, 2019).

The most difficult question in 2018 asked who would be able to find a job, but in 2019 it may be more concerned with the quality of jobs. The market will force organizations to redesign employment and relearn how to find, keep, evaluate and properly incentivize a workforce in the new circumstances (Macdonald, 2018).

Korn Ferry asked talent recruitment specialist from all parts of the world to identify 10 new talent management trends. Here is what they said:

- Further developments in artificial intelligence (AI). AI has become the Holy Grail of recruitment. Specialists, however, fear that AI will not focus enough on diversity and tolerance. AI is capable of identifying the gender of applicants based on a variety of factors such as the use of ‘responsible for purchase’ and ‘hard tasks’ - expressions attached to males, whereas ‘persuasion’ and ‘understanding’ are linked to females. AI must also be trained to recognize the skills needed for a given role, so, feeding extended amount of data into the system might be helpful.
- We should also bear in mind that: it might be that we find applicants who would be perfect for another job but not for the one we are currently dealing with; it would be useful to keep track of such people.
- Personalized pay: There are four generations on the labor market and each has its distinct preferences regarding compensation packages. Smart companies use the social media, focus groups and surveys to decide what each generation wants, and so they can personalize their packages by offering the best combination of compensation elements.
- Rethinking performance reviews: Surveys prove that annual reviews do not benefit organizational performance, and so, it would be best to start giving real time feedback and keep annual reviews only as a supplementary procedure. Continuous feedback would support employee development much more.
- Dig more deeply into the issues of diversity and tolerance: the number of women in top management positions is globally increasing. Whilst this is welcome news, it is also a challenge for companies: they must ensure the harmonious cooperation of diverse groups – women, the colored, the handicapped and the LGBTQ.
- How do we do it? How do they perceive us? Sellers of consumer goods and retailers have assessed customer experience regarding brands, and this practice is becoming

more and more a part of recruitment also. Technology facilitates real time feedback from applicants on their perceptions of the recruitment process. These measuring tools seek feedback at every stage of the recruitment process. The quality of the recruitment process can be improved with the help of the data collected.

- Is this a genuine position? The title of some positions – e.g. ‘legal ninja’ or ‘ethical hacker’- might seem odd but rapidly changing corporate strategy may require such newly invented roles. Some of these interesting titles are intended to attract young applicants.
- Talent analysis is as important as business analysis. Business leaders use business analysis heavily to determine strategy – which then supports cost and operational efficiency. Specialists say that this approach is not sufficient any longer. Companies will fail if they cannot find appropriate talents. Therefore, talent analysis is becoming one element within business analysis.
- Conversation and understanding talents – from entry to retirement. With the enormous inflow of data, companies have started to use integrated methods for the preparation of talent related decisions - including recruitment, compensation and employee development. Unfortunately, in many organizations these HR functions often cannot communicate with one another. There is a tendency to apply a more thorough data-based approach which gives insight into various aspects of the organization, groups and individuals. This facilitates the integrated approach of HR activities with close links to financial outcomes. For example, data collected during the recruitment stage can be used for the design of a personalized training program.
- Reconciling short-term employee interests with long-term business goals. The speed of technology development and the exploration of changing business priorities help us to understand what is likely to happen in the coming year or even in the next month. In a new study 77% of talent managers say that they have to manage roles which had not existed a year before. Major organizations apply a holistic approach in the recruitment of talents. The speed up leasing out in the short run. At the same time they focus on a longer- term approach by deep immersing in business needs and creating a strategic plan which includes clear goals but can be modified if necessary (Macdonald, 2018).

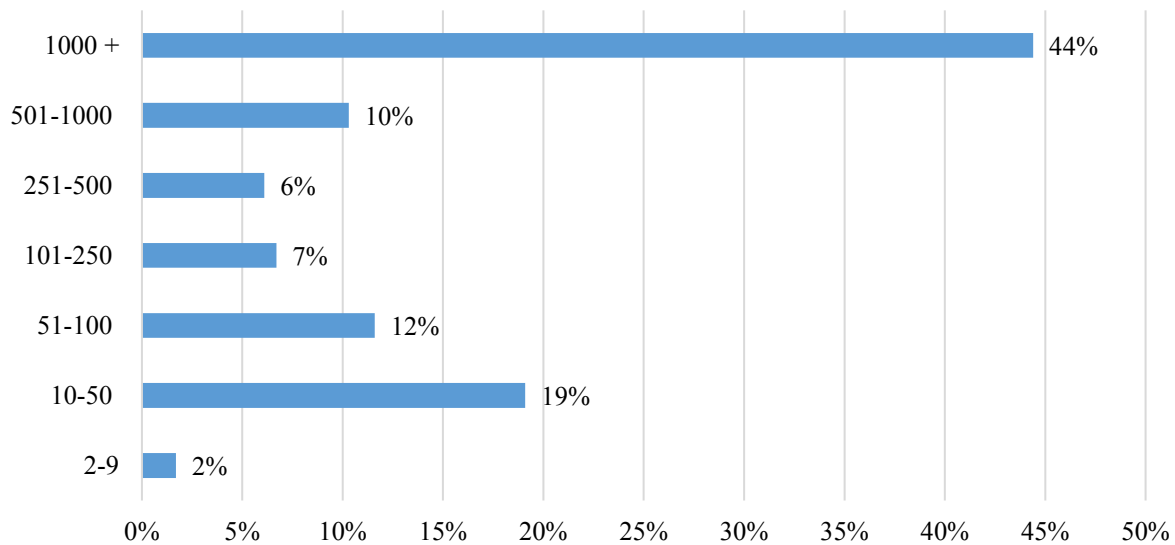
## **Empirical study**

### ***Sample***

Based on a survey supported by the HR Research Centre of Szent István University, the State Science and Economy Department of the National University of Public Service, the TESK group, the Budapest Chamber of Commerce and Industry, the National Alliance of Human Resources Specialists (HSZOSZ) and the National Human Management Society (OHE), we present in our study the most significant issues of turnover and shortage of labor in the public sector.

Our data are from 2017. We used the snowball method for data collection, and so the sample is not representative. The questionnaire included mainly close-ended questions with nominal and metric response scales. Responses were collected through an online surface. We used univariate and multivariate technics for the evaluation: frequencies, means, variances, cross-tabs, ANOVA, factor analysis and cluster analysis.

The total number of survey takers was 2 194. All are from organizations in the public sector. The headcount and annual budget of our respondents are shown in Chart 1. and Table 1.



**Chart 1.: Headcounts of responding organizations (data in %)**

*Source: authors' own calculation*

**Table 1.: Annual budgets of responding organizations (data in %)**

Annual budget (MHUF)	%
under 10	21,6
10-100	22,0
100 -1 000között	17,9
1 000-10 000	15,7
10 000 -100 000	12,3
100 000 +	10,4
Total:	100.0

*Source: authors' own construction*

The table shows that over half of the respondents are from organizations with large headcount and 40% of them had annual budgets in excess of HUF 1bn.

### *Hypothesis*

Our literature review suggests that the main reason for employees exiting public sector is low pay. This is why we chose to test this hypothesis:

‘The most important factor in the turnover of highly educated employees in the public sector is pay.’

### *Analysis*

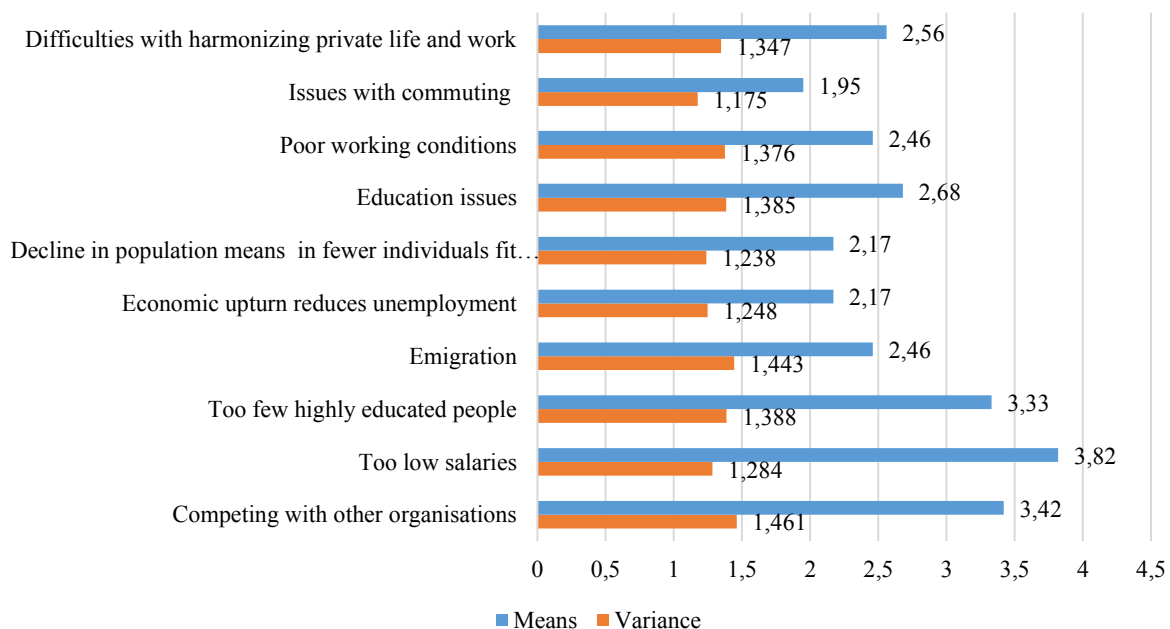
At 5% of respondents, overall turnover was 0% in 2016. A further 50% confirmed overall turnover to be 5-20%, and in 53 organizations it was above 40%. We then limited our question to highly educated employees only. In 65 organizations their turnover was above 40% and 40% of respondents quoted 5-20%.



We tested whether there are correlations among headcount, annual budget and the intensity of turnover. The Khi-square test shows a significant relationship between overall turnover and headcount (Pearson Khi-square = 87.825 df= 30 sign = .000 p<0.05). In other words, the level of turnover was lower in large organizations than in smaller. Whilst there is no turnover in 1.8% of large organizations, there is 11.4% in organizations with 10-50 employees. Over 40% turnover features in 251-500 employee organizations (6.7% of all respondents).

We also found correlation between the turnover of highly educated employees and organization size (Pearson Khi-square=95.195 df=30 sign=0.000 p<0.05). Highly educated employees are less likely to leave large organizations than small ones. We found no significant correlation between turnover and organizational budget.

We also examined the reasons for the shortage of labor. The present study focuses on highly educated employees. Respondents had to indicate on a 5 grade scale why they believe the shortage of labor occurs in the public sector. Option ‘1’ represents total rejection of the given cause and option ‘5’ total agreement. Chart 2. shows the means and variances of the responses.



**Chart 2.: The reasons for the shortage of labor in highly educated workforces in the public sector**

*Source: authors' own construction*

The responses reveal that the core reason for highly educated individuals rejecting public service is low salaries. The other crucial reason is the competition among employers: this forces them to bid against one another for suitable personnel. The shortage of highly educated employees was considered high, but the good news is that commuting and, educational system issues have only a minor role and the decrease in unemployment has a limited impact as well. It is also a fact that variances in the case of all questions are noticeable, meaning that the opinions of respondents are heterogeneous. We must remember too, that many respondents failed to answer some of the questions.

We distilled the individual reasons into factors for further analysis, but not all variables turned out to be suitable for factor making. KMO= 0.784 Khi-square=1 86.8 df=36 sign=0,000. We

used the orthogonal method for factor rotation, more specifically Varimax. The explained variance of factors is 62.511% - which is acceptable. We identified the following factors (Table 2.).

**Table 2.: Rotated Component Matrix**

Components	Factors		
	1	2	3
Poor working conditions	.791		
Difficulties with harmonizing private life and work	.778		
Issues with commuting	.765		
Educational issues	.548		
Low salaries		.792	
Competition with other organizations		.757	
Too few highly educated people		.599	
Economic upturn reduces unemployment			.846
Declining population results in fewer individuals fit for work			.813

*Source: authors' own construction*

Factors extracted:

- Factor 1: Workplace conditions
- Factor 2: Competition for workforce
- Factor 3: Declining labor supply

We used the factors to form clusters with the aim of finding homogeneous groups in the sample. K-means method resulted in 3 clusters:

- Cluster 1: organizations where the shortage of labor is caused by the decline in the labor supply and poor workplace conditions.
- Cluster 2: organizations where low pay deters applicants.
- Cluster 3: organizations which are relatively attractive – especially due to good working conditions - for highly educated applicants.

360 of our respondents belong to Cluster 1, 282 to Cluster 2 and 293 to Cluster 3. We used the Khi-square test with a view to exploring the potential relationship between cluster attachment and headcount or annual budget. The results show no significant relationship among these variables (in the case of the cluster number–headcount pair Pearson Khi-square=12.471 df=12 sign=0.409  $p > .05$  whilst in the case of the cluster attachment-annual budget pair Pearson Khi-square=.831 df=10 sign=.548  $p > 0.05$ ).

53.8% of micro-organizations, 51.4% of 101-250 employee organizations and 3.2% of 51-100 headcount organizations belong to cluster 1. The most highly represented group in cluster 3 (attractive organizations) are 500+ headcount organizations – one-third of them belong to this cluster.

By annual budget, 47.6% of HUF 100m – HUF 1bn organizations, and 46.5% of HUF 1bn – HUF 10bn organizations belong to Cluster 1. 37.1% of the HUF 10bn – HUF 100bn organizations belong to Cluster 3.

Finally, respondents were asked about measures they use to cope with the shortage of labor – including that of highly educated employees. Chart 3. shows us these measures.



**Chart 3.: Measures for reducing turnover and the shortage of labor**

*Source: authors' own construction*

It is apparent that public sector employers are well aware of the fact that low pay is the major issue to be dealt with. As a supplement, an attractive reward system can be useful. Several employers believe that the in-house development of professionals may solve the shortage, whether achieved by own efforts, by external providers (schools) or by cooperation. This can be supported by a career and succession program which is regrettably unavailable at most employers. Atypical employment is also rare. Flexitime is slightly more frequent.

## Conclusions

In our current article, we have introduced the results of a 2017 research whose goal was to uncover the reasons for the shortage of highly educated workforce in the public sector. Our findings prove inadequate pay to be the chief cause. Due to the fact that, at the same time, this is our hypothesis, we can accept it. The second cause is keen competition for labor among employers. Apparently, employers do know how serious the result of low pay is. 9% of them claim to be trying to address it. Nevertheless, beyond dealing with pay issues, synchronizing

educational system with the requirements of the public sector and efficient internal succession programs may also contribute to the solution.

It was our goal also to parallel findings in literature with the results of our research – specifically with the nature of the shortage of labor in the Hungarian public sector. Our empirical study casts light on the root causes of labor turnover and on the drivers of employee dissatisfaction.

The literature mentions low pay as being in the first place and this is in full agreement with our empirical findings. A good pay rise could noticeably narrow the gap between labor demand and offer. Besides underpayment, there are numerous other factors which increase turnover. Such factors are poor working conditions, the misfit with the educational system, fierce competition for labor among employers as well as the lack of promotion and development opportunities in the public sector.

Organizations should consider these root causes and introduce the necessary measures which are feasible for the organization and welcomed by its employees.

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