

IMPLEMENTATION OF HUMAN RESOURCE CONTROLLING IN SMALL AND MEDIUM-SIZED ENTERPRISES

VERONIKA SOÓSOVÁ

Abstract

In the dictionary of personal managers increasingly grows the concept of „human resource controlling“, which follows the effort of companies to manage the performance of human capital, to measure its value, and to compare the results with another organizations. Neither the human resource management, so as other areas of managing, cannot be functional properly without controlling – without setting objectives, monitoring the measure of their pursuance, determining divergences and receiving improving measures. The contribution focuses on the definition of human resource controlling and the possibility of its application in small and medium-sized enterprises (SME). The importance of the implementation of the human resource controlling results from the large share of personal costs to the total costs which requires to display the added value of human labor. Human resource controlling aims to monitor and identify the deviations from the goals in human resources and creates proposals for their elimination. It points to the curiosities between SME and controlling, in an effort to provide a general framework for the principle of the introduction personal controlling in SME. With the help of personal functions – personal planning, recruiting and development tries to describe the activity of controlling in human resource management. The last part deals with the so-called human resource (HR) scorecard, thus the tool of HR controlling which can the small and medium-sized enterprises use to performance management in human resources.

Key words: human resource controlling, small and medium enterprises, human resources, human resource scorecard, implementation.

Classification JEL: M12 Personnel Management

1 Introduction

A market economy with a strong competitive pressure forces companies to a constantly consider about their progress, respectively remain under the same position among other companies. Companies have to constantly adapt to the rapidly changing conditions, and on the basis of this also the human resource management (HRM) confronts significant demands for flexibility and accountability for its policies.

The human labor costs absorb in many enterprises the largest part of total costs. Because of this fact, the result consists in the high importance of displaying the added-value of human labor which is a challenging role of a controlling function.

Human resource management must not only ensure the coherency of its activities with the corporate strategy, but also that, so as the personal managers were able to quantify their contribution, as well as the contribution of other workers within the organization reliably. Human resource controlling as a part of the human resource management is well known particularly in first-class and large companies, in small and medium-sized enterprises is applied far fewer systematically. The human capital, which companies compete in large on, represents all the skills, knowledge, and talent which abound the company's employees. However, the question is not whether small and medium-sized enterprises can implement the human resource controlling, much important is the answer to the question how can be the human resource controlling implemented in small and medium-sized enterprises.

Controlling as such is able to almost perfectly describe the reality in which the organization is currently occurred. It collects data, synchronizes information, helps to choose people able to carry out the business goals, monitors the compliance of plans, detects the

deviations and proposes measures. It is performed in various areas of business activity, and so, as in a large enterprise, it is also important in a small enterprise.

2 Theoretical definition of human resource controlling

Human resource controlling amalgamates two science disciplines – controlling and human resource management, using principles and practices of controlling which binds with the personal management knowledge. We can define it as a management tool which for the purpose of increasing the company's value targets on plans, budgets and on managing the deviations off the plan with the solution ex post and making foresee ex ante.

„The concept of Human resource controlling can we deduce from the conception of controlling as a management tool which aim is to increase the value of the company and which is particularly intended on planning and budgeting, evaluating the pursuance of the financial plan, managing the deviations from the plan, and on the control of the plan topicality and the plan changes,“ (Dvořáková, 2007. p. 387).

Table 1. Relationship between individual fields of personnel management and personnel controlling

The Personnel Management Field	Controlling Functions/Roles
Analysis of employee numbers	Performing analyses regarding employee numbers
Determining employee needs	Determining employee needs through the use of Employee Needs Planning
Acquiring (Recruiting) employees	From a costs-perspective, to establish the most appropriate ways and means as to how to acquire and recruit new employees. The preparation of objective selection tools
Employee development and training	Controls of educational levels. career development controls
Dismissing and letting employees go	From a costs-perspective, to establish the most appropriate ways and means as to how to dismiss or let employees go. Tracking/Supervision of the course of the process.
Filling work positions with employees (job allocation)	Planning employee job allocation
Managing personnel costs	Assist in the setting of Personnel Costs budgets. Tracking „real“ personnel costs. Analysis of the indices. Analysis of any deviations

Source: Zámečník, R.: Measurement of personnel controlling qualitative indices in a selected industrial enterprise. In Edward Shinnick: Issues of economic performance. Berlin. LIT Verlag. 2009, p. 24

Urban defines the human resource controlling as a „part of personal management, a managing process, whose role is to determinate specifically goals and standards of personal management, to monitor and evaluate their pursuance, and to give notice on the deviations between goals and reality, i.e. evaluate the results of human resource management, contribute to its advanced efficiency and effectiveness (as a whole, even if it is for individual personal processes) and to focus the human resource management on the activities and areas, which are the key to achieving the business goals of the enterprise,“ (Urban, 98, p. 124). Areas, which the human resource controlling intervene to, shows the following Figure:

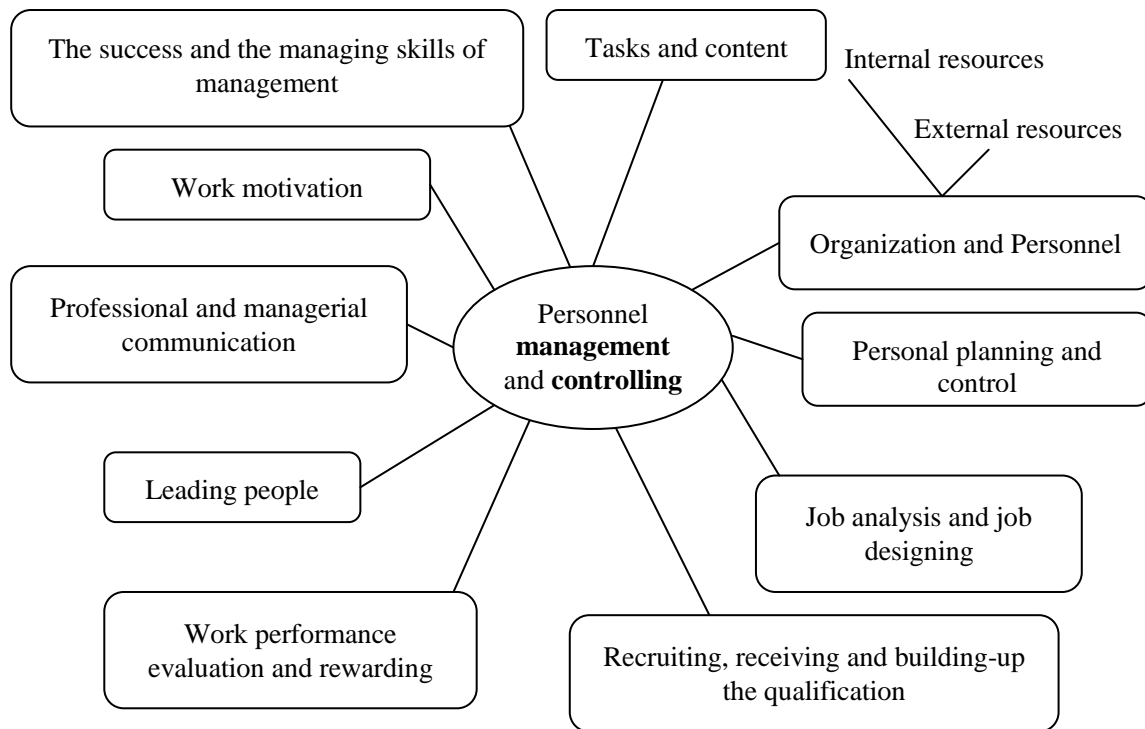


Figure 1. Personnel controlling and personnel management

Source: <http://www.dominanta.sk/mmPersControl.htm>, 20.8.2011

Although controlling isn't oriented only to the control, but it is a concept that is focused on the result, small enterprises often don't know to define it, however they met this term not once. The reason is, because it is confused with control, and so they miss the real importance of controlling. The implementation of controlling in the small and medium-sized enterprises must bear in mind the specific features and characteristics of the individual firms (see following Table – Table 2).

Table 2. Curiosities of small and medium-sized enterprises in relation of controlling

Characters of small and medium/sized enterprises	Actuating on controlling
Organization and management	There isn't a controller position. The controlling functions assume employees who are for the existing tasks best suited. In many cases becomes controlling the thing of the boss.
- Owner – entrepreneur	
- Congestion of management	
- Few delegation	
- No problems with coordination	
- There aren't generated departments	Coordinating function of controlling recedes into the background, the importance of supporting functions increases.
- Accumulating functions	
- Low level of formalization	
- Organizational orientation on personalities	
- Patriarchal leadership	
- Less importance of achieving profit	

<i>Planning, managing, control</i>	
- Lack of business management knowledge	To the fore is the informational function of controlling. Through controlling increases the importance of formal planning and control, which, however, shouldn't suppress the flexibility and preparedness to improvise, but they should support it.
- Insufficient information economy	
- Lacking knowledge about the enterprise ambient	
- Under-developed planning	
- There is no strategic planning	
- To the fore is improvisation	
- In managing and control prevail free-wheeling personal contact	Controlling tools must be easily accessible and must not propound any large business knowledge.
- Small extension of the calculations of cost accounting and making budgets	

Source: Eschenbach, R. et al.: Controlling. Praha. ASPI Publishing, 2004

The human resource controlling is divided into the strategic and operational controlling and the basic difference is the aspect of time. While the operational controlling monitors costs and efficiency, the strategic controlling tries to manage human resources in the long term. However, it is important to be aware of that human resources can be quantified only to a certain extent because there aren't any causal relations between inputs and outputs.

On the basis of visible differences between strategic and operational human resource controlling and the relation of small and medium-sized enterprises to controlling can be expected the operational orientation of human resource controlling in small and medium-sized enterprises. The main areas that the operational human resource controlling deals with, shows following Figure (Figure 2):

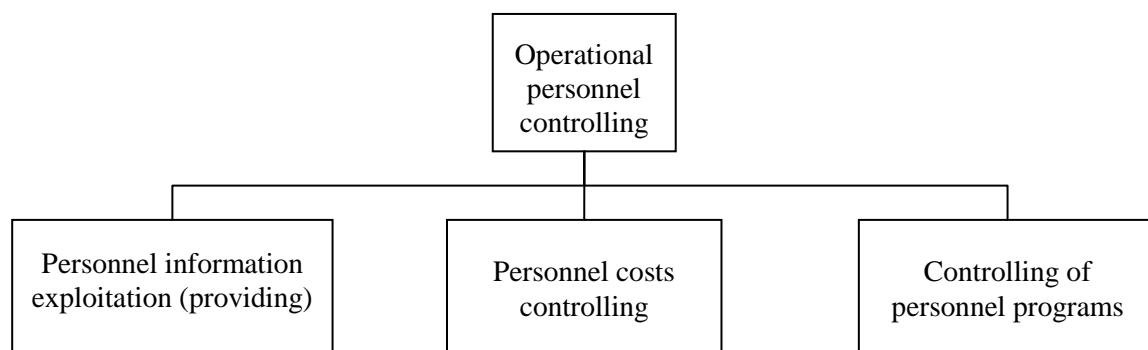


Figure 2. Departments of operational human resource controlling

Source: own study

The main tasks of human resource controlling consist in ensuring the decision-makers with the necessary personnel information, supporting the optimization of personnel costs, and maximizing the efficiency of personnel programs. It focuses on the daily work. From a quantitative aspect, it is the quality and effectiveness of processes related with costs and efficiency. Qualitative aspect compares the plan with reality. It often uses a co-worker investigation.

2.1 Controlling of HR functions

HR planning

In general, personal planning performs the role which consists in the allocation of human resources in the enterprise. It includes several activities – planning of acquiring staff, managing workforce, etc. So it describes the whole planning process for all workers in which it must deliberate factors such as the amount of human resources, costs, and time. In term of quantum of the human resources, not only their number is important for controlling but also the time which are they in the enterprise receipt for. In planning the number of employees, the human resource controlling deliberates primarily the number of full-time employees, so those who are and it is assumed that they also will be available for the company. The basis for acquiring the human resources is then the ratio of the employees' fluctuation and their total number. In term of the costs, especially the number of planning processes and the costs relating with the planning are important.

Acquiring human resource

The basic goal of the human resource acquiring is to detect potential employees who conform the requirements of the given working place that has to be filled. In the term of controlling, the applicants in this area are distinguished for example according to an education. In the human resource acquiring, controlling evaluates the efficiency and effectiveness of the whole process from the advertisement submission as to the adoption of the employee. It indicates the number of job interviews to the number of applicants for the job in percent. We can assess the accuracy of the submitted advertisement on this basis. If the requirements wherein were posed clearly, most of the applicants should be suitable for the requirements, and it is assumed that those attend also the interview. If the advertisement was made with unclear information, only a few applicants for the workplace devolve on a personnel interview.

Human resource development

The primary purpose of human resource development means to increase the efficiency, performance, and skills of the employee. Human resource controlling evaluates activity in the extent of selecting potential candidates, their development in relation with the workplace, and retaining the employees by planning their career, respectively by the development within the company. The personnel portfolio – modified BCG matrix – can serve for a potential exalting, planning, but also acquiring employees. It shows four different classifications of employees according to their performance and potential. On the basis of it, the company can identify for example employees who are suitable for the high managerial functions. In the term of the employee development, the human resource controlling evaluates especially the time of training the individual employees, as well as the ratio of the training costs to the total personnel costs.

2.2 The procedure of the implementation of human resource controlling

Considering human resource which can be quantified only to a certain extent, the assignment of the work results to the costs is difficult because of the absence of causal relationships between the inputs and the outputs. Homolka (1998) in his article ranked critical factors of the human resource controlling implementation into the following four areas (see Table 3). The listed areas and factors can be called critical by the reason of their solving/achievement in advance of applying the human resource controlling in the company. The largest significance has the cultural area, because its providing is the most complicated.

Table 3. Four areas of human resource controlling implementation

Area	Critical factors of implementation
Human resource area	Lack of qualified human resource Lack of time
Systemic area	Sufficient and accurate preparation Complex concept Interfacing the methodology activities and tools with the technical tools
Technical area	Assurance sufficient hardware and software
Cultural area	Definition of objectives Active involvement of management Acceptance of the system with all its active and passive users Measurability of benefits Reporting and the interpretation of results Change management

Source: According to: Homolka, P.: Personální controlling. In: Moderní řízení 9/98

As was mentioned already, it is necessary to know the selfhoods of individual enterprise and consider them in the implementation of the human resource controlling in small and medium-sized enterprises. Because of this reason, an exact procedure for implementing the human resource controlling into small and medium-sized enterprises cannot be determined. Each step of the implementation depends on different variables those have effect on a concrete devolution. The main variables, that affect the controlling implementation, are the size and type of the enterprise. Generally, we could however apply the **following procedure**:

1. Analysis of an actual status – description of the baseline situation, determining the specifics of the company, searching for potential problems of the implementation of human resource controlling.
2. Problem and goals of HR controlling – definition of the problem comes from the assumption that the corporations implement controlling especially if there is a problem, that needs to be resolved, and the ideal solution is currently the implementation of controlling. On the basis of finding a problem, the enterprise demarcates goals in the human resource area which it wants to achieve through the controlling.
3. Implementation of controlling in corporate practice – the basis of implementing the human resource controlling is the determination of a team of people who will deal with filling the considered goals. „The people are an avoidable assume for a successful realization of this work who though their performance potential fulfill the increasing requirements of customers,“ (*Stolorz, Fohmann, 2005, p. 200*).
4. Exploitation of human resource controlling and control – by using controlling, the enterprise can diagnose the inadequacies and errors in the personnel area and then it can provide the proposals for their improvement. But the role of a human resource controller does not consist only in the mistakes correction but also anticipate them so that he could avoid them before they occur. „The role of a human resource controller is to appreciate the productive factor work so that it can confront the increasing requirements to reduce costs,“ (*Jung, 2007*).

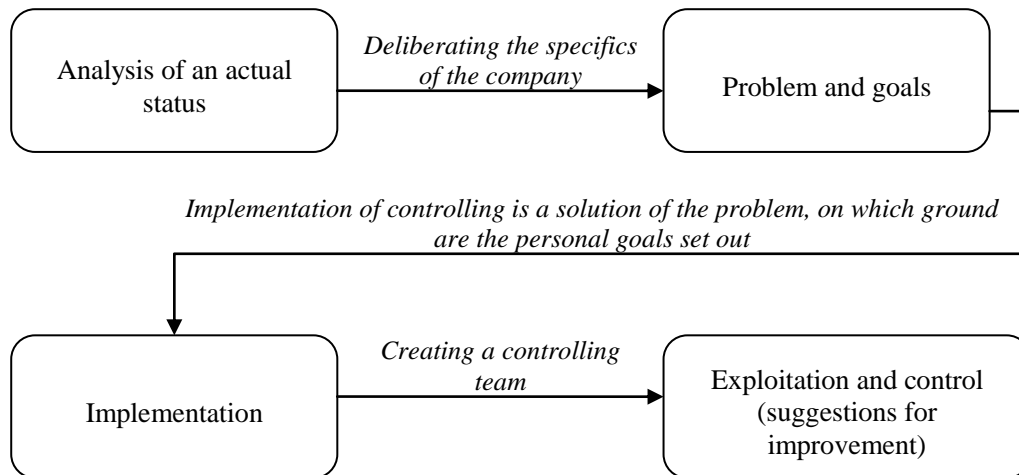


Figure 3. Graphical model of the HR controlling implementation procedure

Source: own study

The reason, of which small and medium-sized enterprises do not implement the controlling in the range such as large companies, is a scare of a new and unknown. The condition for an effective implementation of controlling in small and medium-sized enterprises is especially the persuasion of the owner and his/her ability to get for this step also other people who will add new tasks such as the preparation of reports and evaluation, on the basis of which employees may have a sense of losing the „independence”, or „work freedom”.

3 Human resource scorecard – potential tool of the human resource controlling in small and medium-sized enterprises

For an effective achievement, the human resource controlling uses various tools. In the term of small and medium-sized enterprises, we can identify key measurements as useful in these enterprises, and so-called HR scorecard (<http://www.hrmbusiness.com/2009/02/using-balanced-scorecard-in-hr.html>). The enterprise can effectively implement the balanced scorecard only if it is able to gradually convert their practices, importance, and goals onto the employees. It should be provided a certain framework and a technical preparation in this way, basically on which can the employees see the corporate goals, strategies, and method of their measurement.

„Using the HR balanced scorecard, a business will be able to easily track down and record their human resources metrics. Take caution though that compiling the data as well as the metrics will not do the leader any good if he were to not analyze it and incorporate it in his decision making processes. This is where the HR balanced scorecard comes in. Any company will need a methodology that will allow it to view and analyze the information to know what kind of beneficial decisions to make for the good of the employees and the company as a whole. The HR scorecard will be able to present the metrics of human resource in a more manageable and easily understandable way, which will then allow many managers to look at it and make the necessary adjustments based on the results that they got from it,” (Blokdijs, 2008, p. 128).

„Human resource scorecard lets you do two important things: manage HR as a strategic asset and demonstrate human resource’s contribution to your firm’s financial success. Although each firm will depict its scorecard in its own way, a well-thought-out scorecard should get you thinking about four major themes: the key human resource deliverables that will leverage human resource’s role in your firm overall strategy, the High-Performance Work System, the extent to which that system is aligned with firm strategy, and the efficiency with which those deliverables are generated,” (Becker, Huselid, Ulrich, 2001, p. 53).

The main task of the balanced scorecard (BSC) is to bind the activities of human resource with the strategy and determine the extent in which the human resource functions add value to the goals and business strategy. In the course of human resource, it relates mainly to the people, their productivity, and processes.

- a) People – the behavior of employees, their abilities, or skills.
- b) Productivity – output per employee.
- c) Processes – evaluating of employee satisfaction – how an organization rewards them, develops their abilities so as they continue to provide the added value for the company

Advantages of the use of balanced scorecard in the human resource management can be expressed as follows:

1. Using BSC in performance management means actually a holistic approach because it doesn't leave any of the key areas of the organization „unchanged”. It focuses on the essential things needed to achievement of maximum results. It follows the principle of Pareto where 80% of the productive organizational performance comes from 20% of the most important indicators.
2. Balanced scorecard is linking the organizational units to a cohesive entity in a common goal, and at the same time they will henceforth strive for achieving their own and departmental goals. Own performance is linked with the department performance. Goals and performances of individuals are then integrated into the performance of the unit or department. BSC forces workers to proceed synergistically.
3. The best part of the implementation of the balance scorecard is that we have results of what we measure because the BSC allows an organization to link the measurements with the business strategy and goals.

„The HR scorecard can be used to diagnose internal fit and external fit in a relatively straightforward way. Firstly, managers diagnose the internal putting on the basis of assessing whether the individual personnel practices support each other, or work in a contending sense. Second, managers assess whether the personnel practices give a full-valued possibility for the key worker's development “products”, such as labor stability and teamwork. Third, the degree of external fit is assessing by the advising of the degree which the worker's “development products” are linked to the key strategic performance management programs to. These tree evaluations are extremely useful not only for the rationalization of the measures of internal and external fit of high-performance working systems, but also to involve a wider group of managers and employees in the discussion how to implement the system as the best,” (Bohlander, Snell, 2010, p. 721).

According the human resource scorecard, the personnel measurement system must be based on a clear understanding of organizational strategy. It is a mechanism which describes the creation of the employees' value and the system of managing corporation's employees. The human resource scorecard has five key elements (<http://www.markhuselid.com/hr.html>):

The first element is what we called Workforce Success. It asks: Has the workforce accomplished the key strategic objectives for the business?

The second element is we called Right HR Costs. It asks: Is our total investment in the workforce (not just the HR function) appropriate (not just minimized)?

The third element we describe as Right Types of HR Alignment. It asks: Are our HR practices aligned with the business strategy and differentiated across positions, where appropriate?

The fourth element is Right HR Practices. It asks: Have we designed and implemented world class human resource management policies and practices throughout the business?

The fifth element is Right HR Professionals. It asks: Do our human resource professionals have the skills they need to design and implement a world-class human resource management system?

By elaborating the human resource scorecard, as well as by the implementation of human resource controlling, it is necessary to be aware that the miscarriage of organizations do not consist in technologies or buildings but in people.

Table 4. Practical examples of the application BSC in human resource management

Company	Strategic goals	Indices	Measurement method
BMW	The choice of employer: internal/external employees	Attractiveness in the labor market	Attractiveness analysis
		Successful selection procedure	Ratio of applicants to the invited
		Employee satisfaction	Exploration of employees
Breuninger GmbH & Co.	Developing a qualified and motivated staff	Employee satisfaction	Index "happy employee"
		Qualification and quality of employees	Tests results
		Employee fluctuation	Fluctuation measure
		Employee productivity	Turnover per employee

Source: Wunderer, R., Jaritz, A.: *Unternehmerisches Personalcontrolling: Evaluation der Wertschöpfung im Personalmanagement*. Luchterhand Verlag GmbH. 2006, pp. 361-364

4 Conclusion

The human resources of a corporation become by the instrumentality of a market economy increasingly an important source of the competitiveness, the value of HR capital increases. We can affirm that they are considered as the most essential factor that is utilized by corporations. Not only superior but also small and medium-sized enterprises would them therefore pay relevant attention. Although is their assessment difficult, the point, whereby they exceed in, is just a good organization and exploitation of human resources. The human resource controlling contents the qualitative, quantitative and strategic field of human resources. Through this effort, it contributes to the business results improving. Because of the diversity of small and medium-sized enterprises, its implementation is different in dependence on the specifics of the enterprise but ultimately enables to measure business results in personal area, as so as to compare them with the other enterprises and afford improvements.

References:

- [1] BECKER, B. E., HUSELID, M. A., ULRICH, D.: *The HR Scorecard: Linking People, Strategy and Performance*. Boston. HBS Press. 2001, 235 p. ISBN 1-57851-136-4
- [2] BLOKDIJK, G.: *Balanced Scorecard 100 Success Secrets: 100 Most Asked Questions on Approach, Development, Management, Measures, Performance and Strategy*. Emereo Pty Ltd. 2008, 156 p. ISBN 978-0-9804-8525-7
- [3] BOHLANDER, G., SNELL, S.: *Managing Human Resources*. USA. South-Western Cengage Learning. 2010, 821 p. ISBN 978-0-324-59331-0

- [4] DVOŘÁKOVÁ, Z. et al.: *Management lidských zdrojů*. Praha. C. H. Beck. 2007, 485 p. ISBN 978-80-7179-893-4
- [5] ESCHENBACH, R. et al.: *Controlling*. 2. vydanie. Praha. ASPI Publishing. 2004, 816 p. ISBN 80-7357-035-1
- [6] HENZE, J., KAMMEL, A.: *Personal-wirtschaftslehre 1*. Praha. Paul Haupt Berne. 2001, 544 p. ISBN 3-8252-0649-1
- [7] HOMOLKA, P.: *Personální controlling*. In: Moderní řízení 9/98. ISSN 0026-8720
- [8] JUNG, H.: *Controlling*. 2. Auflage. Munchen, Wien. Oldenbourg. 2007. ISBN 978-3-486-58500-1
- [9] STOLORZ, Ch., FOHMANN, L.: *Controlling in Consultingunternehmen: Instrumente, Konzepte, Perspektiven*. 2. erweiterte Auflage. Germany. 2005, 272 p. ISBN 3-409-22139-5,
- [10] URBAN, J.: *Praktický personální controlling*. In: Moderní řízení 5/98, p. 124. ISSN 0026-8720
- [11] WUNDERER, R., JARITZ, A.: *Unternehmerisches Personalcontrolling: Evaluation der Wertschöpfung im Personalmanagement*. Luchterhand Verlag GmbH. 2006, 498 p. ISBN 978-3472063384.
- [12] WUNDERER, R., SCHLAGENHAUER, P. *Personal-Controlling: Funktionen – Instrumente – Praxisbeispiele*. Schäffer-Poeschel. 1994, 212 p. ISBN 379 100 7661
- [13] ZÁMEČNÍK, R.: *Measurement of Personnel Controlling Qualitative Indices in a Selected Industrial Enterprise*. In: Edward Shinnick, Issues of economic performance. Berlin. LIT Verlag. 2009, p. 24. ISBN 978-3-8258-1963-7
- [14] <http://www.dominanta.sk/mmPersControl.htm>, 20.8.2011
- [15] <http://www.hrmbusiness.com/2009/02/using-balanced-scorecard-in-hr.html>, 14.9.2011
- [16] <http://www.markhuselid.com/hr.html>, 13.9.2011

Address of author:

Ing. Veronika SOŠOVÁ
Faculty of Business Management
University of Economy in Bratislava
Dolnozemska cesta 1/b
852 35 Bratislava
Slovak Republic
e-mail: soosova.veronika@gmail.com