

# Empirical Study on the Need to Implement the Human Resources Management Control System<sup>1</sup>

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## Abstract

*In order to establish a model of human resources management control system we consider that its flexibility to the current human resources needs with a view to finding a resolution to the existing inconveniences will yield an advantage to the research we aim to perform.*

*The empirical study that we have carried out consists in the analysis of companies, aiming, on the one hand, to identify the extent to which the Romanian entities have organized a human resources management policy, and on the other hand, to outline the inconveniences that underlie the human resources management, in the case of those entities that have adopted a human resources management policy.*

**Key words:** *corporative social responsibility, human resources management control system, empirical study*

**JEL Classification:** *Q19, M41*

## Introduction

Environmental and social concerns are globally important. Climate change, human rights, biodiversity extinction are just a few examples of the nowadays challenges. Consequently, environmental and social concerns are being considered more and more as globally important issues for both public and private entities. Some multinational companies have considered sustainable development and have experimented different types of societal accountability systems. Following the same pattern, the popularity of the corporative sustainable reporting has grown in the past decade. The Global Reporting Initiative (GRI) has evolved as a sustainable reporting standard and offers a theoretical framework for reporting equivalent to the one behind the financial reporting. At the same time, however, there is no knowledge regarding the actual changes created regardless of the emphasis on the societal issues.

Accounting research in the societal field becomes more and more visible now in important journals and increasingly makes the subject of expert conferences. All things considered, despite global concerns and business environment innovations, the academic research is not equally developed all over the world. We consider that this is the case of Romania too. For this reason,

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through this paper, we feel that we will bring a positive contribution to the knowledge in this particular field for our country.

## **Literature Review**

We will begin by presenting a literature review as “this represents the starting point for the selection of further research directions” (Ittner and Larcker, 2002).

Aspiring to ascertain that philosophies of Corporate Social Responsibility (CSR) and private economic interests should not be in conflict with one another, numerous materials of today debate over them and try to emphasize the interconnections among them. Clearly, there is no reason to assume the existence of a positive connection between the social dimension of an organization and its financial performances, because this would coincide with the denial of the fact that losses caused by certain irresponsible social actions may sometimes be recovered just as the “over-expectations” behaviour can induce irrecoverable costs in time for the organization. These conclusions are the result of over 30 years of applied studies.

Based on the analysis of a large sample of companies activating in various fields, it was possible to conclude that a high volume of expenses related to CSR do not necessarily lead to a profit decrease.

Thereby managers must analyse what are the essential components of CSR for them and which of these have a greater impact over the financial performances. An analysis such as this points out eventually towards a strategic perspective meant for gaining a competitive advantage through the creation of a connection between the social demand and the organizational competences (Berger et al., 2007; Kurucz et al., 2008; Porter & Kramer, 2006).

Some studies are directed towards ensuring revelatory disclosures concerning the real decisional processes referring to the investments in the field of CSR. The questions concerning the existence of clear strategies in the field of CSR, the role of management ethical reasons, the role of equity holders or the role of personnel played in the creation of such strategies, aspects referring to the existence of scandals that might have triggered the adoption of an involvement decision into aspects referring to CSR, etc still exist. All these are relevant questions for the analysis of those specific cases in which the achievement of the level of social values and the concern for profit are not objectives that exclude one another.

Consequently, further research could take into consideration these questions as the starting point for leaving behind the abstract meaning of the analysis and for narrowing down the research area. What is interesting considering this context is the diversified manner in which the shareholders change their behaviour in response to the positive or negative perception of CSR within a company. People often dispute the generally accepted ethical standards when asked about their relevance. Yet a different question arises referring to the relevance of these standards when compared to specific actions and to whether these standards could generate disagreement with other relevant norms. In this certain context, it is especially important to get an overall vision over the real decisional processes and on the motivations that make the grounds for the respective decisions. Case studies and pragmatic qualitative research are methods that could help obtain the needed vision over such situations.

The Australian study by Tower et al. (2009) analysed the corporative philanthropy according to which the excess of resources can be used in a discrete manner by the organizations' management in the pursuit of reaching the strategic objectives and competition opportunities. The data came from a sample of Australian companies listed with the stock market and it was used for acquiring a better understanding of the phenomenon and the approach used in communicating the information about the volume of resources (human and material) and the fashion in which these flow within the company. The study argues that under the pressure of a

precise and transparent activity reporting, organizations seem to be facing an obvious communication problem concerning the use of resources, approximately 25% of them lacking a well established target. Yet we must keep in mind the limitations of the study – the relatively small number of companies (40 analyzed companies), therefore the plotting of a general conclusion can be doubtful. All this considered, the result of the study offers a direction and a point of view over the typology and the extent to which corporative philanthropy manifests itself.

The human capital, associated normally with the notions of knowledge and experience, gains a new dimension triggered by the satisfaction gained within the work environment and the trust in the organizational integration system. The options concerning the human capital are heuristic in nature, and the specialized literature, which refers to the organizational behaviour, analyzes the relation between organization and human resources from the perspective of the satisfaction gained at work, trust, performance and commitment between parties. Fellipe's (2009) study uses the organization as level of analysis and wants to theoretically and empirically integrate these notions in one model.

Thus, through the analysis of some companies from the industrial sector, using factorial and multiple linear regression analysis, we established a direct and meaningful statistical link between the degree of satisfaction in the work environment, level of trust and organizational commitment level. In addition, we reached the conclusion that employees' perception on corporative objectives that concern them reflects a sustainable administration of human resources, fact that proves their commitment towards the organization.

The performed study allows the understanding of the values system created by the organization, based on the notion of knowledge, gathering of organizational resources, abilities and skills. The supported debates over the human capital overcome the theoretical dimension through employees' contribution to organizational performances, materialized in their skills and experience. In addition, emotional and subjective qualities - such as satisfaction, motivation, loyalty, trust, compromise, attitude, entrepreneurship spirit, etc - have an increasing importance, all these immaterial qualitative indicators playing an essential role in the construction of sustainable competitive advantages that add value to the company.

Therefore, human capital represents a strategic asset, difficult to reproduce, susceptible to be appropriated by the competition, a critical factor for success, considered to be vital for the organization's social responsibility and for the sustainability requirements. The human capital options are those that allow companies to transform employees in a valuable resource, by encouraging the promotion of satisfaction gained at work and of their trust in the integration system.

This conceptual and quality measurement of human resources system offers companies a clearer and more direct image over the composition of owned resources and over the evolutionary trend of the undertaken activity.

In the case of companies oriented towards a management corresponding to the best practices, the implementation of this structure allows the recognition of the human capital state through periodical evaluation of the behaviour and evolution of the variables that define it. On the other hand, it allows the reassessment of the human capital evaluation models used to establish the economic potential reported in the financial statements, and tries to answer the needs and managerial perspectives through voluntary reporting.

Literature references allow an empirical and exploratory analysis through which positive correlations can be identified between the employees' degree of satisfaction and their trust on one side, and the commitment level on the other side.

## **Research Methodology**

The research aimed at a structured character, resorting to the testing of hypotheses and investigation of the interconnections between the examined variables, fact that makes it fall within a descriptive research typology. Depending on the purpose of the research, it falls in the category of conclusive research.

The primary sources of information used for this research were the general managers or human resources managers within the companies that represented the target population.

The data collection method was an ad-hoc survey, the statistical method which assumes direct contact with the beholder of the statistical information and which is administered occasionally. The present research was a quantitative one because the information gathered was quantified and quantitatively analysed. As an instrument of information collection, we used the questionnaire. The questions included in the questionnaire were mostly closed and composite questions for which the respondent was given the possibility to fill in the answer in case none of the given options were satisfying; both the closed questions and the composite questions were formulated as multiple choice questions. From this point of view, we can conclude that the questionnaire was highly structured.

The questionnaire was designed to offer information regarding respondents' identification, classifiable information (field, turnover, total assets, employee number, etc.) and basic information. We resorted both to categorical variables and continuous variables.

The group that was tested was differentiated using the following criteria: 2008 turnover, 2008 total assets value, employee number and field of activity. We considered the identification and explanation of the differences between the sub-divisions resulted from the decomposition of the tested group concerning the pursued objectives of the questionnaire.

The questionnaires were made using Ms Word and were distributed to the respondents by electronic mail. Approximately 100 questionnaires were distributed by electronic mail in September 2009, obtaining 38 answers; from which 28 were private entities and 10 state institutions. In the following section, we will analyse the answers received from the private entities.

## **Questionnaire Analysis and Fundamental Conclusions**

The first part of our research, based on the fundamental research, resides in a literature review referring to the existing problems of human resources management control. This review of the specialized literature helped us to organize the main ideas commonly accepted on this subject.

Such a research helped us to understand the notions that build up the theoretical domain of the research theme, but most of all it persuaded us that the substance of these concepts is not a rigid one, but one that is modelled in time and space. The literature review enabled us to understand the characteristics of the current human resources management control process.

Through the questionnaire-based empirical research, we followed the manner in which it is reflected the position of the companies where the respondents work, when human resources administration is considered. The respondents were hired in Accounting and Human Resources departments of different Romanian entities. The entities from which we obtained an answer were classified according to their size, in terms of the following criteria: turnover, assets volume, number of employees, and they were fitted in a field of activity (production, services etc.).

In order to interpret the results, we initially analysed the distribution of independent variables (distribution of employee number, turnover distribution, and total assets balance distribution). The distribution of the answers based on the three criteria is presented as follows: 78.57% from the companies included in the sample have less than 75 employees. For the other intervals, the distribution was of 7.14% for each. 42.86% from the respondent companies had in 2008 a turnover lower than 300,000 EUR, 7.14% of these had a turnover between 300,001 and 750,000 EUR, 10.71% between 750,001 and 2,500,000 EUR and 32.14% over 2,500,000 EUR. 32.14% from the respondent companies had a total assets balance distribution lower than 100,000 EUR, 17.86% between 100,001 and 300,000 EUR, 7.14% between 300,001 and 1,000,000 EUR and 32.14% over 1,000,000 EUR.

The respondent companies' field of activity was represented as follows: production (21.43%); services (46.43%); distribution (25%); and other - constructions, commerce, etc. (14.29%).

The compliance with the legal provisions is presented in the table below:

**Table 1.** Legal provisions compliance

		YES		NO		NOT SURE		NOT APPLICABLE	
		Total respondents	Respondents to Question						
a)	The calculation, registration and taxes payment according to the legal provisions (24 respondents)	89.29%	100%	0%	0%	0%	0%	0%	0%
b)	Statements and fiscal notes submission referring to wages(25 respondents)	85.71%	96%	0%	0%	0%	0%	3.57%	4%
c)	Employment registration of your employees(25 respondents)	85.71%	96%	0%	0%	0%	0%	3.57%	4%
d)	Medical controls of your employees (25 respondents)	78.57%	84%	3.57%	4%	3.57%	4%	3.57%	4%
e)	Necessary specific authorization attained (25 respondents)	85.71%	96%	0%	0%	0%	0%	3.57%	4%
f)	Work schedule, free days of your employees (25 respondents)	85.71%	96%	0%	0%	0%	0%	3.57%	4%
g)	Work environment conditions for your employees (25 respondents)	85.71%	96%	0%	0%	0%	0%	3.57%	4%

Source: survey's results and personal data processing

Disciplinary sanctioning methods most often used by companies are: written notice (75%); basic salary reduction for a period of 1 to 3 months by 5% to 10% (17.86%); disciplinary termination of labour contract (10.71%).

The personnel satisfaction evaluation studies concerning the environment and labour conditions are performed at 6 months intervals (21.43%), at 12 months (39.29%) and at more than 12 months (10.71%). In 25% of the companies included in the sample, personnel satisfaction evaluation studies are not performed at all.

The opportunities of each employee to advance in his/her career, according to the study, are: low in 28.57% of the cases; moderate in 46.43% of the cases; many in 17.86% on the companies; and in 7.14% of the companies they do not exist at all.

The measurement and stimulation of the individual activity performance achieved by the members of the personnel is mostly made by a system of indicators, of which the most important are the following: efficiency, productivity, net sales, and number of clients of a sales agent (number of patients of a medic); creativity; client evaluations; retention rate on job position; time indicators; load and productivity indicators; and EBIT.

The optimization of productivity level is made through semester evaluation, money incentives based on the accomplishments of each employee – observing the quantity (for example, the number of courses performs in a given period of time) and the quality (appreciated mainly by the feedback received from the clients); cost/benefit analysis; labour productivity based on gross product indicator. Optimization through employee active motivational methods is performed by calculating the merchandise production value / personnel number. The optimization implies the reduction of personnel and other measures that might increase the value of goods produced and last but not least the net and the gross added value. It is necessary to have an adequate structure of the personnel, mainly achieved by: workload structure, the use of monthly targets and deadlines (which are subject to monthly changes with the purpose to optimize the labour process) based on the achieved production and on the number of active employees in the period subject to measurements. The employees receive tasks that must be fulfilled in a given time interval and based on the degree of fulfilment optimization measures are taken, for the employee productivity, using the indicator sales turnover / employee. The optimization is achieved through the adjustment of working hours and hence of the employee mix.

The employees are involved in Corporate Social Responsibility programmes according to the following structure: not involved in 42.86% of the companies; less than in past periods in 17.86% of the companies; same as in past periods in 21.43% of the companies; more than in past periods in 7.14% of the companies.

The human resources policy effect over employee productivity is observed as being: very weak in 0% of the cases; weak in 0% of the cases; moderate in 46.43% of the cases; good in 32.14% of the cases; very good in 14.29% of the cases.

In 89.29% (25 entities) of the companies included in the sample, the job positions have defined skills that ensure success, and the rest do not have any constraints.

Efficiency and productivity are measured within the respondent companies by: recurring evaluations; semester or annual evaluation notes on various subjects; measurement of the client feedback, through the quantity of work performed; attainment of the department objectives where the employee realizing his / her activity; with the help of the labour productivity and efficiency of usage of the labour force indicators. Also the following indicators are used: efficiency = profit / employee; productivity = turnover / employee; attendance observation; waste reduction, using continuous flow technologies; daily standard; monthly follow up of the indicators previously mentioned; daily activity monitoring; correct supervision; review accompanied by compensations; breaks schedule so that a continuous flow should exist;

measurement of the execution duration of the labour processes, and fairness of the work performed based on the monthly achieved production.

A complex analysis is made on days, supported by graphs and productivity coefficients. Productivity and efficiency are measured according to the degree of accomplishment of the labour tasks granting the previously mentioned marks, on the quality level of the services, on profit maximization and on expenses rationalization.

Productivity is measured based on the previously mentioned criteria. The selling space and the products are separated in sales area (Business Area) and product area (Product Area) that have a given number of employees and hours according to the sales budget established for that location.

The main concerns about talent development within a company refer to the fact that: the human resources department discovers talents, values them, and then contributes to their development, so that it should bring benefits to the company. Moreover, there is a concern to place each employee on the appropriate position according to his/her skills, to organise team-buildings and to improve the management control system for human resources talents.

Managers wish to develop the skills of their employees using the following methods as ways to increase personnel's loyalty and motivation: professional training courses; various thematic contests (when organized annually, the employees are free to choose the theme and use their imagination), flexible work schedules, internal development and mobility strategies, professional development plans adapted for each employee, employee specialization and training schemes.

Within the companies based on the concept of "mechanical sales", respectively client self-service, where the employee involvement is as little as possible in the sales process, in the past couple of years, it was observed that an adequate level of know-how of sales techniques overall helps to increase the sales. In consequence, the employees are involved in one-week sales training which establishes a few communication values and attitudes towards the client with a view to maximising sales.

The percentage of the employees included in the professional training programme is of: 10% in 4 respondent companies; 0% in 1 respondent company; 100% in 2 respondent companies; 65% in 1 respondent company; 30% in 2 respondent companies; 20% in 1 respondent company; 50% in 2 respondent companies; 5% in 1 respondent company; 80% in 2 respondent companies; and 100% management and 75% personnel in 1 respondent company.

The human resources strategic planning dimensions within a company have been appreciated by the respondents as follows: we cannot achieve a classification for their planning within our company; we do not have strategic planning; there were no strategies planned; there is an organizational culture, and the cooperation between the managerial level and the executive level facilitates that the employees acknowledge the proposed objectives, and encourages the decrease of resistance to change.

Medium term planning, short term planning, strategic planning, operational planning, disposable plans, permanent plans, bottom up medium term planning, 5 year plans or no need for plans are the options presented by the companies.

Human resources planning is based on exact information aiming at ensuring objective achievement. The strategic planning is performed by the human resources inspector in collaboration with the company's general manager. The employment is always made based on the production plan for the following 6 months, planning supported by serious orders.

Human resources planning is more than a tactical planning, in the sense that it must be adjusted to the sales level. The strategic dimension interferes in talent identification and promotion of those talents that suit the company's values. This group of employees constitutes the strategic

value of the human resources, motivation and development being one of the main priorities of the department.

The selection-recruitment process within a company is appreciated by the respondents as: very weak 3.57%; weak 3.57%; moderate 17.86%; good 42.86%; very good 32.14%.

The budget allocated to human resources is established between the values of 500 and 100.000 EUR, and the one for training activities is between 2 and 80% of the budget for human resources.

## **Conclusions**

The economic environment along with the social system must suggest a human resources strategy considering the demographic evolution and the professional training of the individuals.

The preparation of various reports for managers requires information on costs, number of employees, types of employment, types of positions, types of activities, etc. Some information is gathered from the human resources (employees, jobs, activities), and often from the accounting department (costs, turnover). Reports and situations to be drawn for the information flow to managers are characterized by flexibility, adaptability to requirements, and lack of a certain standardization that could create obstacles. The report content in the light of the information is much more wide targeting both the financial side and the non-financial side (qualitative indicators). An efficient management control maintains the company under pressure and helps it to achieve its goals and to remain on the desired path that can lead to the desired target. Generally, the branches of the big foreign groups develop the function of management controller.

Considering the importance of the management controller in the life of an enterprise, we consider timely and imperative the development of this position in the Romanian companies as well. In addition, we propose the inclusion of the management controller on the occupational classification list in Romania and the organization of a distinct division – *management control* - with attributions and correlations with the other divisions in order to follow, analyze and report the necessary information that supports managerial decisions concerning the achievement of short term objectives as steps in the realization of strategic objectives.

The concept of Social Responsibility of the Organization is quite recent (at least in Romania). This concept, along with the subject of hygiene, security, labour time management, social dialogue management, knowledge management, is still the responsibility of the social management controller. The social management control tries to reconcile the financial assignments with the way forecasts are made and the piloting of human resources within an organization. This will take place in a framework of connections established in the organizations, between the employees and the activities they develop.

Adding value to the organization through strategies related to human resources requires a much wider attention than a common position from the human resources department may provide. Therefore, the social management controller represents a new international profession that is practically absent nationally. This profession will find itself at the intersection of piloting, management and human resources.

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## Studiu empiric privind necesitatea implementării unui control de gestiune a resurselor umane

### Rezumat

*În crearea unui model de control de gestiune a resurselor umane considerăm că adaptabilitatea acestuia la nevoile practice existente în gestiunea resurselor umane în scopul soluționării problemelor existente va conferi un atu în demersul pe care ne propunem să îl realizăm. Studiul empiric pe care l-am dezvoltat a cuprins în câmpul analizei societăți comerciale, urmărind, pe de o parte, identificarea măsurii în care entitățile din România au stabilit o politică de gestiune a resurselor umane, iar pe de altă parte, identificarea problemelor care există în gestiunea resurselor umane, la entitățile care conduc o politică de gestiune a resurselor umane.*