
Leaders Management and Personnel Controlling in SMEs

Pavla Břečková¹, Karel Havlíček²

Abstract:

The target of this article is to introduce leaders management and personnel controlling in small and medium-sized companies (SMEs), from the strategic and operational points of view, as the greatest competitive advantage of SMEs in the coming years will not be products or financial or technological resources, but employees. Strategic controlling includes organizational architecture linked to managerial assumptions, both of which are necessary to be adopted if business success should be achieved. The article presents a horizontal and vertical manager model that helps to assess managers and their abilities. Operational personnel controlling then focuses on personnel plans and productivity management.

Key Words: *Personnel Controlling, Strategic Controlling, Horizontal and Vertical Manager Model, Managerial Assumptions, Management Productivity*

JEL Classification: *M31, M21*

¹ *Head of Business Administration department, Ph.D., Faculty of Economic Studies, University of Finance and Administration, Estonská 500, Prague, Czech Republic. E-mail: pavla.breckova@vsfs.cz*

² *Dean, Ph.D., Faculty of Economic Studies, University of Finance and Administration, Estonská 500, Prague, Czech Republic. E-mail: karel.havlicek@vsfs.cz*

1. Introduction

This article focuses mainly on personnel controlling aiming to monitor and evaluate the company's short-term and long-term targets directly related to human resources management. Human resources management is essential to the success of any company, including small and medium-sized companies. But their management is rather different from that of big companies. Small and medium-sized companies are not usually able to offer career benefits comparable to those of big companies. On the other hand, they can offer the possibility of real production values, not those invented by multinational parent companies, but those that are real and achievable. The quality of the individual employees in the company is the most important condition for the success of small companies, because the failure of individuals has immediate effects, unlike in big companies (Havlíček, 2011).

In comparing small firms with large ones, scholars present these key findings: (1) employees report the highest job quality in small firms, which decreases as the size of the firm increases; (2) workers in small workplaces owned by large firms report lower job quality than workers in comparably sized workplaces owned by small firms. (Storey, Saridakis, Sen-Gupta, Edwards, Blackburn, 2010).

Other scholars have suggested that adopting human resource management (HRM) practices can improve small firms' competitiveness, thus enhancing their legitimacy (e.g. Williamson, Cable, & Aldrich, 2002). Enhanced legitimacy enables small firms to attract more qualified employees, which increases labour productivity and allows the firm to better compete in the marketplace (Patel, Cardon, 2010).

The greatest competitive advantage of small and medium-sized companies in the coming years will not be products or financial or technological resources, but employees. The significant change in quality management and relative abundance of foreign capital, as well as the willingness of investors to allocate resources to interesting medium-sized companies will mean that crucial competitive advantage begins to move from the area of quality and price to the personnel level. People will decide, not money. The financial capital will become a consequence and a cause of the success of the individual companies. The companies will be in the hands of capable or less capable individuals or teams. The task of management is to create these teams and the task of the controlling will be to evaluate their actual contribution and performance (Havlíček, 2011).

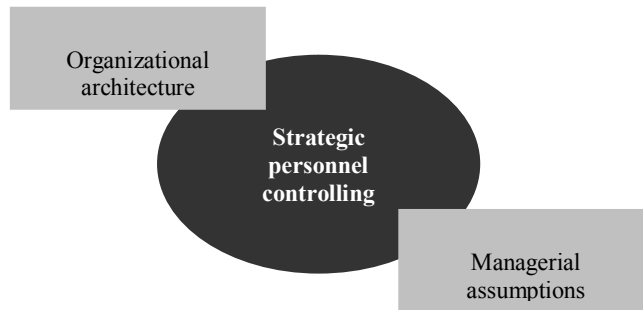
A detailed business process management model is provided in Figure 1. The M-C model is the basis for all business activities and thus serves as a basis for understanding marketing management and controlling.

2. Strategic personnel controlling

Strategic controlling in the area of human resources management should focus mainly on optimizing the organizational architecture of the company and

creating feedback in the selection of key employees, particularly in managerial positions.

Figure 1. Strategic personnel controlling



2.1 Optimization of the organizational architecture of the company

Building organizational structures is not restricted only to projects and creation, but also to continuous monitoring of whether they are still beneficial for the company. The company changes in its lifecycle and if its organizational structure is not changed in time and with regard to the change of product segments and in particular with regard to its size and future financial participation, it may result in counterproductive and significant costs as well as communication, competence and responsibility failures. It is not unusual for a company to change its architecture linked to different competencies and forms of reporting even several times during its lifecycle. This may also be associated with changes in key positions of the company. One of the greatest dangers is adherence to the existing method of company or group organization, not because of the actual benefit for the company itself, but because it conforms to existing managers and employees. The change in the organizational structure is a typical process innovation that should occur with regard to the company's ongoing growth. It does not always need to lead to absolute change (such as moving from the functional structure to the product one) when we talk about the process organizational innovation of higher orders, but there may be a slight modification of the existing architecture (such as other geographic arrangements with respect to a change of territorial priorities of the company), then it is a basic organizational innovation (Havlíček, 2011). The task of the controlling is to continually assess the benefits of the existing structure and to propose measures for more effective management.

2.2 Assessment of managerial assumptions

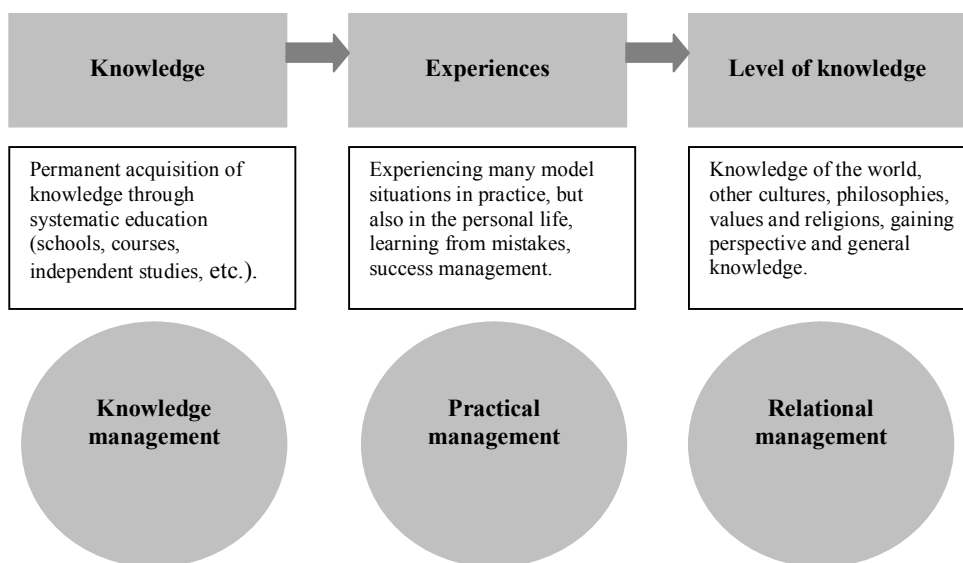
The controlling is not responsible for the selection of managers, but it should be able to create an impartial perspective for owners and chief executives of the company and help them with fundamental strategic decisions that undoubtedly

include selection of top management. External examination does not mean communication related to the method and methodology of their choice, but discussion related to the elementary preconditions for working in the top management team. Strategically oriented managers must be thoroughly distinguished from operational managers, as well as professionally oriented managers able to manage individual divisions or sections or absolute leaders who want to manage the whole company. From this perspective, it is recommended to assess managers using the horizontal and vertical assumptions.

2.3 Horizontal manager model

The basic horizontal assumptions for work in top teams³ are described in Figure 2, including links to the generic management designation.

Figure 2. Horizontal model for managerial jobs



As can be seen in Figure 2 managers must have all required skills and abilities; neither the knowledge nor the practical side of management skills can be underestimated. Knowledge management is the basis for the clarification of concepts, terminology and basic theory that is essential for innovation management and cannot be underestimated. It is necessary to continue education, to work with

³ The so-called horizontal assumptions for work in managerial teams based on knowledge, experiences and level of knowledge have been presented by the author of the book for many years. The horizontal model was officially published for the first time in 2009. Havlíček, K.: *Role of managers in the company management process Prague, University of Finance and Administration, 2009. Eupress.*

new discoveries in science and the technical areas in which we operate. The half-life of information acquired at universities is currently five years at most and for this reason it is necessary to constantly continue our education. On the other hand, if we focus only on knowledge and disregard other areas shown in Figure 2 - experiences, we become so-called academic managers without much chance to succeed in the current market.

The development of practical management is due to the number of model situations that a manager experiences in practice (and in his or her personal life) and also due to the time within which he or she acquires the experience. Experience increases with age and it is good for the management team to have so-called practitioners who can assess the individual situations and future trends on the basis of their experiences. But if, as in the first case, we base ourselves only on practice and experience and underestimate the development of knowledge and future education, we become so-called intuitive managers, which in many cases means that our intuition is incorrect due to lack of knowledge and we waste time and money.

Finally, the third managerial area of the so-called level of knowledge is tied to actual and specific knowledge of the contemporary global world, understanding of other cultures, philosophies, religions and values.. At a time when we have the opportunity to conquer virtually any global territories we choose (development of Asian, African and Latin American markets) or we need to protect ourselves from their producers (import of goods and services from "third countries"), in addition to a general overview and improvement in foreign languages, we also obtain one of the most important management tools needed for top team management and big companies: a detached view. Not to mention that we will become successful conquerors of these territories only if we understand them and preserve a respect for them based on a knowledge of their culture and philosophy. Mainly, however, a knowledge of foreign territories and respect for other values make us able to be "on top of things" at certain stages of decision-making, which is the essential prerequisite for working in top management.

2.4 Vertical manager model

The vertical perspective is based on differentiation of managers according to their ability to view and manage business activities in short-term (operational) or long-term (strategic) targets.⁴ The individual management levels are described in Figure 3.

⁴ A vertical perspective of the managerial assumptions is described by a successful local manager, the chairman of the board of the company M.L.Moran, Mr. Václav Novák. Mr. Václav Novák's formal five stages principle was changed by the author of this article into the four stages principle. V. Novák formally suggested these five stages: performance, targets, strategies, visions, faith. However, we will define visions as a part of strategies, meaning that those who are able to think about long-term plans are also able to establish the right visions. Václav Novák applies this model in his lectures, not only to business companies, but also the non-profit sector and public sector, for example politicians.

Figure 3. Vertical model for managerial jobs

There are relatively few managers at the very top of the pyramid. There are managers who unshakeably believe in their visions and for whom strategic management and work are a real mission. There are managers whose charisma and energy impress, motivate and persuade others with their unshakeable belief in their colleagues as well as investors. They are natural-born leaders and no other job would suit them. Their main motivation is not money, but the desire to be a leader, to guide people and be successful.

Below them is a group of managers who do not necessarily share the absolute belief in the products and the company as a whole, but have the ability to look at the company in the long term, to correctly define its visions and prepare the way to achieve long-term targets. They belong to top management teams, are involved in the creation of the business strategy, and have the potential to manage key divisions and sections, as well as the whole company. In exchange for their work they expect excellent support, solid comfort, or even a chance to become one of owners of the company.

Then there are managers who can precisely determine short-term operational targets, manage individual departments, motivate staff and partially participate in the management strategy. This is usually a director of trade, finance, production, etc. Their problem is that they are not able to view the company as a whole and cannot predict the future development of the company in the long term. Although their work as directors may be exemplary, they are usually lost among the leaders. In exchange they expect bonuses and adequate support.

Finally, the largest group of executive managers are individuals who can focus on the targets set by their superiors and partially participate in the setting of these targets. These are employees who have no ambition to manage the bigger teams and companies, who are oriented towards pursuing short-term targets. In exchange they expect a clear answer in the form of commissions, bonuses and other rewards. They are able to manage only a very small team of employees and only in the area with which they are familiar. These are mainly managers of commercial departments, (focused on specific territories or products), production managers, quality managers or chief accountants.

3. Operational personnel controlling

This focuses on the actual performance of the whole company with regard to the number of employees and their effectiveness as well as evaluation of the performance of individual employees, setting their plans, monitoring their performance and proposing different measures (Figure 4).

Figure 4. Operational personnel controlling



3.1 Productivity management

In this case, efficiency means efficiency relative to labour costs. It should be kept in mind that the company's target cannot be to ensure regional employment, but to achieve the healthy functioning of the company. Small and medium-sized companies in most cases cannot afford the extensive social policies put in place at big companies. They can profit from the fact that they do not need to fight against powerful unions and can create for their employees comfortable customized conditions, an individual approach or in small companies a "family atmosphere". The disadvantages, however, are too close relations, high interdependence in smaller regions and the influence of family members, acquaintances, etc. Particularly in small towns, it is not easy to implement tough cost reduction measures

interconnected with lower working comfort, reduction of remuneration or dismissal. Nevertheless the view of the company has to be primarily economic, as unfulfilled financial indicators result in the loss of lending, confidence of suppliers, owners and employees whom the company protected and created an inadequate background that does not correspond with the actual business performance.

This is confirmed by a study of a sample of 145 British SMEs. Faced with multiple competitors, many with established brands and customer relationships, risk levels and the threat of failure are greater for small firms entering and operating in highly competitive product markets. Small firms therefore need to be particularly focused on maximizing employee productivity (Patel; Cardon, 2010).

The performance mostly relates to one employee by expressing the added value per employee (Havlíček, 2011).

$$\text{Labour Productivity per Employee} = \frac{\text{Added Value}}{\text{Number of Employees}}$$

However, the numerator can be any other performance data (such as total sales or total profit), but added value is among the most widely used indicators measuring employee productivity. In accountancy added value is defined as an increase in the value of the production or sale of goods to the value of inputs (materials, energy, services or goods in case of the purchase and sale of these goods) and can be seen from any profit and loss statements.

The value of productivity is not determined in tables, it depends on the focus of the company (manufacturing companies have this indicator lower than consulting companies for example), its investment ambitions, region (in relation to average wages) and the product. The indicator informs us whether the company is able to pay reasonable wages with all investment activities and interest payments on loans (which are monitored by the bank for example). The indicator also informs us about the readiness for further investment development and employment policy (it is important for negotiations with employee representatives or management in determining the motivational criteria). The problem of Czech manufacturing companies in particular is low productivity per employee. If a company achieves productivity of CZK 400,000 per employee, for example, it is understandable that the future of the company is called into question, because it is in fact cut off from any investments. If we take a simplified model where the average wage in the company is equal to the average wage in the economy (rounded to CZK 25,000) then after adding the costs of health and social insurance, the added value covers only wages and related payments. Therefore there is no money for further development, extraordinary costs, adjusting items, etc. (Havlíček, 2011).

Similarly, the overall productivity of the company can be expressed as a labour expense in relation to added value.

$$\text{Productivity of the Company} = \frac{\text{Personnel Costs}}{\text{Added Value}}$$

This is only a modified view of productivity based on the total amount of expenses on company employees. The indicator must be lower than one (otherwise the company cannot have the money for wages – it is in fact a crisis scenario where the resources for wages are taken from the sale of tangible assets or increasing credit exposure), but again, there are no strict limits. For manufacturing companies, the result should hover around 0.5 and for companies providing services even lower.

To correctly determine the target indicators of productivity it is useful to use the comparative method (so-called benchmarking) where productivity indicators of comparable companies in the industry are systematically compared, ideally with the same product and in the same region.

From the perspective of controlling it is essential that the required productivity is defined prior to the preparation of the budget of income and expenses and that this indicator is classified as a critical indicator of the company's efficiency. Normally both banks and owners do this (Havlíček, 2011).

3.2 Monitoring of personnel plans

This is often an underestimated activity; for successful business management, however, it is an activity of significant importance. The problem is not setting motivational criteria and their incorporation into the employees' plans, but their monitoring, evaluation and proposing of necessary measures. This is obviously associated with the chosen methodology. It is often a part of quality management systems (QMS, TQM, BSC) or internally monitored and evaluated activities. Incentive plans are an integral part of personnel management; however, their evaluation is also ensured by the controlling departments.

There are different ways to prepare and monitor an incentive plan, but the more important thing is immediate feedback if there is a failure. Personnel or team plans may be overestimated; there could be a major change on the market or organizational changes in the company. All this should be taken into account when evaluating motivation. On the other hand, no remunerations can be paid in case of a demonstrable loss of performance, if elementary and achievable targets are not fulfilled or if there is a threat to the stability of the company. Bankers, investors and other creditors will monitor our company especially through simple economic indicators. If these indicators are not respected there cannot be any systems of benefits and remuneration. Good faith and work cannot be assessed by extraordinary remuneration, but only the basic wage. If the given factors are the base for successful implementation of good results then the remuneration must be paid; otherwise the employees will lose their motivation. It is essential to evaluate it and subsequently explain it to employees. Remuneration paid without explanation loses

its effect, just as non-payment of promised bonuses must be supported by a clear explanation of why they were not paid. The same situation is valid for non-financial motivation.

Own personnel development plans and targets are prepared as a team (motivation for the success of the whole department or results of the whole company) and as individuals (personal targets of mainly the middle and senior management). Their content is different from the size and orientation of the company, but their continuous evaluation should be similar. It is recommended to evaluate them in relation to pre-set and agreed targets at least twice a year, for the first time only partly and for the second time already as the final results at the end of the year. However, it is also common to assess the results quarterly. However, it is different when there is a personal plan of the business manager or accountant and it is also necessary to distinguish the overall concept of the evaluation.

Success is one of the motivation factors and the fact that someone is doing something right should be communicated not only to him or her, but also to the whole team in which they work. It is not the controlling manager who is responsible for the evaluation, but the direct manager, department manager or HR or CEO, but the controlling department is responsible for control of monitoring and evaluation using the "extra pair of eyes" system if there is not too much favouritism for certain individuals or departments or on the contrary bullying of certain individuals. Controlling also includes monitoring of the career of key employees in the company and determination of long-term motivational factors.

4. Conclusion

The article is aimed at the area of personnel controlling as a part of human resources management, with a primary focus on the segment of small and medium-sized companies (SMEs). The issue is studied both from a strategic and an operational perspective. It clearly defines the differences of managerial activities in big companies and SMEs, while emphasizing the need for a certain complexity and perspective, but also defines the requirements for various managerial positions. It deals with the measurement of productivity and success, which determines the greatest competitive advantage of small and medium-sized companies. In the next few years these will not be products or financial or technological resources, but employees.. To assess the key managerial assumptions we need the so-called horizontal manager model that includes knowledge, experience and level of knowledge. Another model is the vertical manager model based on the differentiation of managers according to their abilities to see and manage individual business activities. The key terms of operational controlling are productivity and personnel plans (and their monitoring). Productivity is based on the total volume of expenses related to employees of the company and the added value. For the correct

determination of the target indicators of productivity it is good to use the comparative method that systematically compares indicators of productivity of comparable companies in the same industry.

References

- Bovee, C. L., and Till, J. V., 1992, "Marketing", 1st Edition New York: McGraw-Hill, Inc., 761 s. ISBN 00-700-6734-1.
- Breckova, P., and Vlacihova A., 2011, "Czech Business Environment: Burden or Prosperity?", in International days of Statistics and Economics: Conference Proceedings, September 22-23, Prague, Slaný: Melandrium, 2011. ISBN 978-80-86175-72-0.
- Breckova, P., 2011, "CSR in the Czech Companies and Social Order of Responsibility", in Social Responsibility of Companies - Transfer of Scientific Knowledge into Practice, *Almanac of the International Scientific Conference, February, Olomouc*, University of Moravia in Olomouc, c2011. ISBN 978-80-87240-67-0.
- Frame, A, Barnes, D., and Edwards Ch., 2001, "Managing Customers Relations and Quality", (Book 1, 2, 3, 4). Milton Keynes: OUBS.
- Friedman, G., 2010, "The next 100 years: a forecast for the 21st century", 1st Anchor Books ed. New York: Anchor Books, ISBN 978-076-7923-057.
- Havlicek, K., 2009, "Task of Managers in the Business Management", 1st Edition, Prague: University of Finance and Administration, 87 s. ISBN 978-80-7408-026-5.
- Havlicek, K., 2011, "Management & controlling: small and medium-sized companies", 1st Edition, Prague: University and Finance and Administration, 210 s. ISBN 978-80-7408-056-2.
- Havlicek, K., and Valencik R., 2011, "A Game-Theory-Based Analysis of Corruption and its Effects in CEE Countries", *Ekonomia Economics*, Wroclaw: Wroclaw University of Economics, year 21, No. 14, 243- 252, 9 ISSN 1899-3192.
- Marik, M., 2007, "Methods of Evaluation of the Company: Evaluation Process - Basic Methods and Procedures", 2nd up-dated edition, Prague: Ekopress, 2007, 492 s. ISBN 978-80-86929-32-3.
- Mikovcova, H., 2007, "Controlling in practice", Plzeň: Aleš Čeněk, 183 s. ISBN 978-80-7380-049-9.
- Pankaj, C. P., and Cardon, M. S., 2010, "Adopting HRM Practices and Their Effectiveness in Small Firms Facing Product-Market Competition", *Human Resources Management*, vol. 49, no. 2, s. 265-290.
- Storey, D. J., Saridakis, G., Sen-Gupta, S., Edwards, K. P., and Blackburn R. A., 2010, "Employee Job Quality: The Role of Firm and Workplace Size", *Human Resources Management*, vol. 49, no. 2, s. 305-329.
- Synek, M., 2007, "Management Economics", 4th up-dated edition, Prague: Grada, 452 s. ISBN 978-80-247-1992-4.
- Valencik, R., 2008, "Games Theory and Redistributinal Systems", 1st Edition, Prague: University of Finance and Administration, 120 s. ISBN 978-807-4080-029.
- Vlachy, J., 2006, "Financial Risk Management", Prague: University of Finance and Administration, 256 s. ISBN 80-867-5456-1.
- Williamson, I. O., Cable, D. M., and H E Aldrich, H. E., 2002, "Managing people in entrepreneurial organizations: Learning from the merger of entrepreneurship and human resource management", in Katz J. E., and Welbourne T. M., *Managing people in entrepreneurial organizations: learning from the merger of entrepreneurship and human resource management*. 1st ed. Amsterdam [u.a.]: JAI, s. 83-106. ISBN 978-0762308774.