

Human Resource Management in SMEs in the Czech Republic – Specifics and Key Requirements

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Abstract. A frequent problem regarding human resources management in SMEs is that established rules are not followed. This is because managers either do not fully understand the rules or the importance thereof, or because of a lack of professional support or rigorous control by a human resources department. Another reason is that not all SMEs have personnel specialists or HR managers at their disposal, as a consequence of which the control and advisory role falls under the responsibility of line management. The solution to this conundrum may be the adoption of a personnel manual, a document that summarises best practice regarding human resources management based on the experience of professionally managed and financially prosperous small companies. This can be understood to represent a user-friendly methodological guide for the successful implementation of personnel management activities in SMEs by line managers, a guide which includes clearly defined methodological, control and advisory tasks and functions.

Key words: human resource, management, requirements, SMEs

1 Introduction

Personnel management processes in SMEs are either performed formally, but inconsistently [1-3], and often subject to the individual approach of a line manager, or not performed adequately at all [4-7]. The potential to exploit personnel management as a tool with which to support corporate performance is therefore lacking [8], as a result of which its role and control functions within an organisation do not correspond to the role of other staff functions, such as financial management.

This fact, which is supported by practical/empirical observations, became the initial hypothesis for this article, which was later verified on the basis of the results of a questionnaire survey.

The solution to this conundrum may be the adoption of a “personnel manual” [9-11], a document that summarises best practice regarding human resources management based on the experience of professionally managed and financially prosperous small companies. This can be understood to represent a user-friendly (certified) methodological guide to the

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successful implementation of personnel management activities in SMEs, a guide which includes clearly defined methodological, control and advisory tasks and functions.

People are a key component of a successful business operation, and therefore the role of human resources management in each organization is to ensure the highest possible efficiency within the human potential usage [12]. Additionally, the importance of human capital is also discussed in a number of studies, e.g. [13, 14], which emphasize the necessity of developing entrepreneurial and managerial competencies for university students as potential future managers.

The principles of personnel management set out in such a manual should be sufficiently simple and user-friendly, but at the same time unambiguous and binding for all line managers within an organisation. Its contents must not only correspond to the general principles of professional human resources management, but also to the goals, current situation and main priorities of the organisation, as dictated by its personnel and business strategies.

The specific conditions an SME operates under means that it is highly recommended that such a personnel manual be created at all times in cooperation with line management and personnel management. Nevertheless, within this context, appropriate management training may also be needed to guarantee and/or support its role.

2 Data and Methods

To verify the hypothesis concerning the specifics of human resources management in SMEs and the requirements for improvement, a questionnaire survey was conducted among 220 SMEs in the Czech Republic. The questionnaire consisted of 30 questions on personnel management as a whole (its position and role within the organisation), personnel costs, the recruitment and selection of employees, employee motivation, employee education and development and the implementation of corporate culture and ethics.

The questions focused mainly on how the company created its personnel management methods/procedures for individual areas, to what extent these methods/procedures are uniform and the importance of the role of personnel management (and the individual areas it covers) within the company.

In order to better explain any possible differences, additional information on the participating SMEs was collated, namely legal status, respectively ownership structure, the market in which the company operates, its size, financial success, including the outlook for the future, the development of average personnel/labour costs and business plans for the future. The survey also sought to establish whether the companies have a personnel department or not.

The data were subsequently subjected to single and multiple statistical analyses.

3 Results

The results of the research revealed that just over one-third of the SMEs do not have uniform personnel management tools in place, or if they do, these tools are not used consistently. It was also found that this fact is linked to the size of the company and the presence or absence of a personnel department. In addition, in two-thirds of companies, it was found that the principles underpinning personnel management are set by top management and in the remaining one-third in conjunction with other managers or senior employees.

According to the research, SMEs have problems hiring new employees, especially qualified personnel (one-third of them). However, less than one-third indicated that these problems apply to all employees.

Just under two-thirds of the SMEs reported that their staff turnover rate was below 5%, with only 11% stating that it was above 10%. This result indicates that staff stability is not an issue at this time. However, the increasing problems associated with the retention of qualified employees may be a more worrying trend, as reported by more than one-third of the participating companies.

The findings on the incentive effect of employees' variable wage component, which less than a quarter of the companies considered insufficient, is also linked to the previous result. The results concerning non-financial motivation revealed marked differences between companies, with less than one-third of the SMEs viewing their work as being of special interest or prestigious, and over 30% seeing no room for such considerations.

With regards to perceptions on the (further) education needs of staff, relatively large differences were found among the SMEs, with just under 60% seeing a need and almost 30% not perceiving any need at all.

The proportion of employees that undergo thorough initial training was found to be relatively high in the participating SMEs (68%), whereas only 20% of the companies indicated that such training is limited to certain categories of employees. The further education needs of employees were found to be organised randomly in about 50% of the companies, with only a third of them indicating that this is organised according to a plan.

The surveyed SMEs regard a code of ethics as a crucial tool for ethical management. However, only 27% of the companies indicated that they actively work with one, another 27% indicated they have it, but don't apply it much, and another third that they don't have it and are not considering the creation of one.

3.1 Principles underpinning a personnel management manual for SMEs

On the basis of the results obtained through the questionnaire, a personnel management manual for SMEs should clearly state that:

- professional performance of personnel management activities serve to increase the performance of SMEs;
- performance of personnel-management activities forms part of the duties of all executives and is one of the criteria for their evaluation and remuneration;
- personnel management activities are carried out in cooperation with managers and the personnel department;
- personnel management activities fall under the responsibility of individual managers, which cannot be delegated to subordinates.

At the same time, it should focus specifically on the main areas of personnel management, i.e. on methods for the planning and management of personnel costs, including methods for the continuous analysis of the causes of deviations between planned and actual costs; recruitment and selection methods and tools suitable for SMEs, both in terms of cost and professional assessment, and where appropriate, the adaptation of candidates and/or staff/ new employees; the potential introduction of more efficient tools for motivating staff and rewarding performance, including non-financial motivational tools that will reduce staff turnover (improve staff stability); methods for identifying the training needs of staff, as well as methods for increasing the efficiency and effectiveness of corporate training, including its organisation; the rules and tools for ethical management in SMEs, including the drafting and composition of a code of ethics to underpin such procedures.

The following rules covering the main HR management areas can serve as a brief example.

3.1.1 Employee selection and hiring

The rules in a personnel manual for hiring new employees should serve primarily to professionalise the selection and reduction of unwanted staff departures. Once again, the basic principles should be summarised in simple, clear rules, for example, as follows:

- recruitment is based on a uniform recruitment process (methodology); the basis of the assessment of candidates is an interview conducted on the basis of a single format (structured interview forms), focusing on the criteria set out in the job description. The results of the individual interviews are recorded for the final evaluation of the selected candidates;
- the assessment of candidates is carried out by the chief executive officer or a senior manager in conjunction with a human resources officer;
- each assessor has the right to comment negatively on a candidate's admission; in such cases the candidate should not be accepted;
- in the case of a large number of candidates, especially for managerial and commercial positions, the selection process is carried out using the assessment centre method, with the participation of a senior manager and a human resources officer;
- the strengths and weaknesses of a candidate identified during the recruitment process (as reflected in the candidate's assessment sheet) serve as the basis for the development of an individual adaptation plan for the newly recruited employee;
- the HR department must prepare an annual report for the management of the organisation on the causes behind the departure of employees and the level(s) of undesirable staff turnover in individual departments/sections;
- the level of undesirable staff turnover in individual departments/sections of the organization is an important criterion that is taken into consideration within the framework of management's regular evaluations.

3.1.2 Employee remuneration and motivation

The aim of the personnel manual in this area is to anchor the basic rules in order to produce cost-effective remuneration that contributes to an employee's motivation, performance and job satisfaction. These rules may vary considerably from one organisation to another, but the following principles can be given as examples:

- the remuneration is based on a fixed wage component corresponding to the tasks and qualifications set out in the job description. The share of the fixed wage component for workers and those in technical-economic positions should not fall below 70% of the total wage, for specialised and managerial positions (not in top management) below 50% of the total wage;
- performance rewards (bonuses) are provided on the basis of a regular annual performance evaluation according to the criteria set for each job group. Performance remuneration for workers and those in technical-economic positions is provided up to an amount equivalent to a maximum of 15%, resp. 20% of their basic wage, for specialists and managers (not in top management) up to a maximum of 30% of their basic wage;
- extra ordinary performance, in particular the achievement of a specific objective, is remunerated through extraordinary remuneration;
- employee benefits are used to increase the motivation and job satisfaction of employees and are determined differently for individual groups (levels) or positions;

- intangible forms of remuneration for excellent performance (work success, initiatives, savings, improvement proposals) are used to motivate employees. These include verbal praise, praise at a meeting, a thank-you letter, company diploma, presentation in a company magazine, etc.

3.1.3. Employee development

The principles for employee development can be divided according to the nature of the reasons and needs for education. For example, the education may be required under legislation, as a result of amendments to laws and decrees, or may concern technical education, education aimed at acquiring and developing managerial, business and/or language skills, or may involve participation in professional conferences. The main principles for employee development can be summarised as follows:

- the basis for effective training events, especially managerial training events, is annual planning, ex-post evaluation and support for the use of the newly acquired knowledge;
- the training plan is prepared by the HR department based on managers' suggestions;
- the precondition for sending an employee to a training event is the agreed objective for the event, as determined by a senior manager, and the agreed success criteria between the employee and their supervisor;
- the evaluation of the training event takes place immediately after the event. This focuses on quickly capturing the main findings of the event, which, if applicable, provides valuable information for the analysis of the causes of its failure to achieve. The evaluation of educational event after one month, respectively three months by senior manager is very important for assessing the effectiveness of the educational event and internal information transfer. The appointment of internal lecturers for individual areas of corporate training will be carried out by the personnel management of the organisation on the basis of proposals put forward by top management.

3.1.4. Employee development

The creation and application of a code of ethics, i.e. a set of values, principles and rules by which an organisation abides, is an effective tool with which to enforce them. The development of a code of ethics should be based primarily on the following steps:

- the identification of key ethical issues or uncertainties faced by employees in different business areas;
- a review of corporate or managerial practices with respect to the implications thereof for employee ethics. An example could be to verify that the company's remuneration system does not encourage unethical behaviour towards customers; and
- an analysis of other factors or pressures that may lead to the unethical behaviour of managers and employees.

The incorporation of ethical standards into an organisation's practices relies on a number of tools and measures. The main ones are:

- the publication of a code of ethics;
- workshops that highlight the application of ethical principles and standards in the day-to-day decision-making of managers and/or other employees. A part of these workshops should be dedicated to emphasising the importance of ethical leadership, i.e. examples of managers adhering to the principles enshrined in a code of ethics, which is usually one of the most effective tools for the implementation of a code of

ethics. The 360-degree evaluation method can be used to verify how such examples work;

- training programs that inform employees of the importance of and the principles enshrined in the code of ethics, including explanations of ethical standards and dilemmas, as well as of the disciplinary consequences of failing to adhere to or violating the provisions therein;
- the establishment of a corporate hotline to offer assistance or advice to employees who find themselves in ethically complicated or contentious situations. These are measures that mainly affect larger companies;
- the projection of the principles enshrined in the code of ethics into the personnel policies and personnel management tools (guidelines and rules) of an organisation, especially with regards to recruitment, remuneration and the evaluation and promotion of employees.

By implementing such measures, a code of ethics, respectively the observance thereof, becomes a key criterion for the continuous and regular evaluation of employees as well as for the implementation of other personnel activities and decisions.

4 Conclusions and recommendations

Personnel management processes in SMEs are either performed formally, but inconsistently, often subject to the individual approach of a line manager, or not performed adequately at all. The solution to this conundrum may be the adoption of a “personnel manual”, a certified document that summarizes best practice regarding human resources management based on the experience of professionally managed and financially prosperous small companies.

Based on the above findings, a certified personnel management methodology for SMEs should, subject to company size, focus on and bind executives to basic rules, procedures and methods for individual personnel management processes. The general principles that underpin personnel management activities should reflect the mission and basic rules that apply to all personnel processes/activities in an organization. They should clearly state that the:

- professional performance of personnel management activities serve to increase the performance of SMEs;
- performance of personnel-management activities form part of the duties of all executives and is one of the criteria for their evaluation and remuneration;
- personnel management activities are carried out in cooperation with managers and the personnel department;
- personnel management activities fall under the responsibility of individual managers, which cannot be delegated to subordinates.

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