

## DETERMINANTS AND BARRIERS TO USING THE PERSONNEL FUNCTION MANAGEMENT CONTROL SYSTEM IN THE THEORY AND PRACTICE OF ENTERPRISES

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**Purpose:** The purpose of the paper, on both theoretical and practical grounds, is identification and an attempt at evaluating the experiences of implementing and exercising control of the HR processes in enterprises.

**Design/methodology/approach:** The empirical part presents results of a diagnostic survey conducted among a group of 236 enterprises operating in the territory of Poland.

**Findings:** The basic conclusion arising from the conducted research is that the key barrier to implementing advanced HR practices, such as the personnel function management control system, is the perception of the personnel function and the awareness of its importance for the organisation.

**Research limitations/implications:** It is the new HR competencies and the ways of combining the results of implementing the personnel function with the company's goals and performance that provide an important premise for further research.

**Originality/value:** With regard to the determinants, it has been shown that the source of the capital is most strongly correlated with the application of the HR function management control system. The analysis of the results also enabled identification and characterisation of the most important barriers and limitations to its implementation, which boil down to the perception of the personnel function as not contributing added value to business.

**Keywords:** personnel function, HR management, personnel management control system.

**Category of the paper:** Research paper.

### 1. Introduction

The area associated with the broadly understood functioning of people in organisations has been undergoing fundamental changes in recent years. HR departments are under increasing pressure to continually deliver improved performance and effectiveness of the personnel function (Bainbridge, 2015). The said pressure is exerted by both managers and external stakeholders whose expectations are related to creating added value by those responsible for

the HR function as well as to genuinely supporting line managers in carrying out management of human resources (Brockbank, Ulrich D., Kryscynski, Ulrich M., 2018). In the context of these changes, the personnel function (also referred to as HR function) can be defined as a set of actions of an expert and advisory nature related to people and aimed at providing them with relevant methods and tools for implementing and carrying out management of human resources which serve the purpose of achieving the goals of the organisation and a long-term increase in its value (Gołembski, 2019). In order for the personnel function to be a genuine support to the other areas of the enterprise, it is necessary to correlate HR goals with business goals (Deloitte, 2014). This, in turn, requires a more quantitative and analytical approach not only to the processes taking place in the HR area. Actually, the key challenge in modern times is to combine, within one information system supporting management decisions, measurements of both the personnel function and of the HR situation in the enterprise, which can altogether be termed as the HR function control. However, in order to be able to create a basis for implementing a management control system in the area concerned, it is vital to be aware which factors determine the use of such controls in modern organisations.

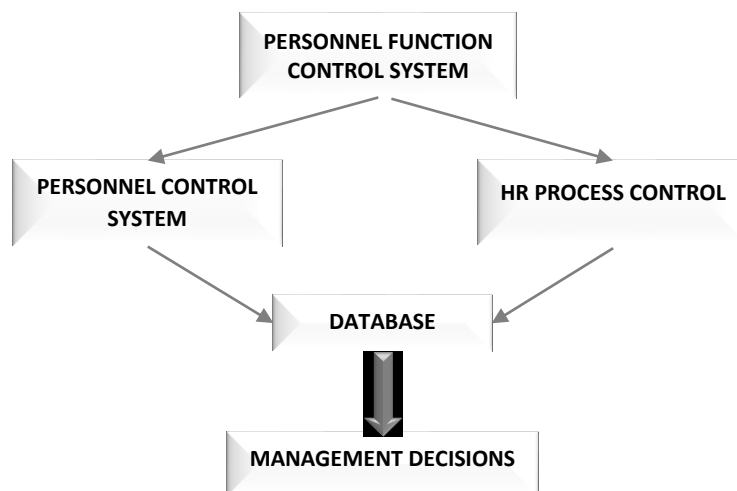
In view of the above, the purpose of the paper is to identify and evaluate the determinants and barriers to implementing and maintaining a management control system for the personnel function and barriers to its application in enterprises based on literature and empirical research. The considerations are the result of literature research and an empirical study conducted on a sample of 236 enterprises.

## **2. Personnel function management control system – notions, tools and implementation**

The notion and concept of management control system are relatively well known and established both in economic theory and practice. In the opinion of R. Eschenbach (1996, p. 17), the task of a management control system is to support the management of the enterprise in fulfilling their managerial function. Taking a more detailed approach, it can be accepted that a management control system is a ‘special system of coordination of specific tasks in the sphere of management, particularly in planning and controlling; it is also a system of gathering and processing information on the current status of all management functions and a system of making corrections in order to improve the efficiency and reduce costs’ (Bernais, Ingram, 2005). While the concept of management control system as such is not new, it should be stated that it is still in development with regard to the personnel function. This is due to the fact that the other members of the organisation perceive the HR area in terms of quality which is unmeasurable. Furthermore, within the HR structures themselves there has been a shortage of competence with regard to communicating inside the enterprise with the universal language of

business, i.e. the language of numbers (Dziechciarz, 2011). In effect, the goals, actions and initiatives undertaken by staff members responsible for the personnel function were not (and are not even today in many cases) related to the business goals and strategies (Cascio, Boudreau, 2012). The above has been a reason for making attempts at adapting a more quantitative and analytical approach into the set of activities of HR departments, from parameter setting to management control systems.

When embarking on theoretical deliberations aimed at systematisation of concepts, it should be remarked in the first place that personnel management control system should not be equated with personnel function management control system. In the author's opinion, it is so because the concept of personnel control relates to labour resources that are defined in the literature as human resources of an enterprise (Paździor, A., Paździor, M., 2016). According to Z. Antczak and S. Borkowska (2014), it is an internal system of managing human resources in an organisation. It involves monitoring, analysing, assessment and making decisions. On the other hand, personnel function control is a broader notion because in addition to analysing and monitoring of human resources, parameters are also set to the processes, actions and initiatives undertaken by staff members responsible for the HR function. Therefore, when making an attempt at defining the personnel function management control system, it can be assumed that it is a system of gathering, processing and analysing data on the current situation concerning human resources in an organisation and on the processes and actions being carried out within the framework of the personnel function, which system provides support for decisions concerning their shaping and combines the enterprise's HR policy and economic policy.



**Figure 1.** Conceptual diagram of the personnel function management control system. Source: own work.

The application of an integrated, comprehensive approach to parameterisation and data analysis allows to anticipate potentially adverse incidents relating to human resources and to prevent them by flexibly adjusting the HR processes and actions (Cascio, Boudreau, 2014). It should be stressed here that the application of the personnel function management control system is closely linked to utilisation of the latest information and computer technologies. The level of advancement of a particular enterprise in the sphere of IT solutions being used is undoubtedly one of the key factors affecting the implementation of the solutions discussed.

With regard to the tools and measurements used in the personnel function management control system, for each of its constituent areas (Figure 1), a set of indicators parameterising events and actions within processes should be designed. For this purpose, it is in the first place necessary to identify and define the main groups of indicators which, from the perspective of the current deliberations, can be divided into:

- **Personnel function implementation indicators**, which concern the utilisation of measures of effectiveness and efficiency of the personnel function itself. Their application in practice helps separate the indicators and statistics describing the functioning of HR processes from the measures and indicators that are related to the employees as a whole.
- **Measures and indicators of the HR situation** which are made up of a set of tools intended for monitoring employees' activities in order to precisely assess their performance and effectiveness, as well as to formulate predictions and decide on any changes (Mayo, 2004).

Due to the fact that the matters related to the analytical approach to the HR area are relatively new and are still in continuous development, they provide a convenient field for deliberations and empirical studies. In contrast to the financial measures and indicators, the sets of which are named and the methodology of creating and analysing them is known, parameterisation of the personnel function is an open issue (Gołembski, 2019). The choice of indicators and even creating own ones depending on the needs of the organisation is an individual matter because neither in the theory nor in the practice of business has any universal set of indicators for HR been established thus far (Carlson, Kavanach, 2012). Hence, the set of measures parameterising both the HR situation and the behaviour of the personnel function proposed in this paper (Table 1) should be treated as open and flexible, which provides an important premise for further research.

**Table 1.**

*Examples of strategic and operational indicators of HR situation and implementation of the personnel function*

<b>Indicators of HR situation</b>	
<b>Strategic measures</b>	<ol style="list-style-type: none"> <li>1. Net/gross return on human capital</li> <li>2. Economic added value of human capital</li> <li>3. Market value of human capital</li> <li>4. Return on investment in human capital</li> <li>5. Operating revenue from human capital</li> </ol>
<b>Operational measures</b>	<ol style="list-style-type: none"> <li>1. Indicators of labour cost productivity</li> <li>2. Indicators of employment (including overall variation, rotation, absences, 'unwanted' departures and retention)</li> <li>3. Indicators of workforce stability</li> <li>4. Indicators of employees' performance and effectiveness</li> <li>5. Indicators of working time</li> <li>6. Indicators of the HR and payroll processes</li> <li>7. Indicators of employee evaluation</li> </ol>
<b>Indicators of implementation of the personnel function</b>	
	<ol style="list-style-type: none"> <li>1. Indicators of recruitment</li> <li>2. Indicators of the effects of implementation programmes</li> <li>3. Indicators of the effects of employer branding programmes (related with indicators of recruitment)</li> <li>4. Indicators of the effects of talent management programmes</li> <li>5. Indicators of the effects of development programmes</li> <li>6. Indicators of employees' satisfaction and engagement (opinion audits)</li> <li>7. Group of indicators measuring HR departments' performance, such as e.g. HR department costs/operating costs; number of HR department employees/total number of employees; HR department costs/costs of external contracts, etc.</li> </ol>

Source: own work based on: Ashton, Haffenden, Lambert, 2004; Gołembski, 2015.

The above presented proposal for a division of measurements of the HR situation into strategic, operational and those concerning the behaviour of the personnel function arises from the need to design and implement a systemic approach to the analysis of HR data, which may contribute to streamlining the decision-making process at the management board level. It should be presumed that the mere fact of making a measurement the effect of which is numerical data (or percentages), without a previously adopted analytical scheme will not fulfil its purpose in the process of identifying the causes of the situations as they come up based on the results of HR parameterisation (Levenson, 2005). The aforementioned scheme can be understood as a systematised way of comparing data originating from e.g. the presented sets of indicators in order to determine the possible causes for a particular occurrence in the HR situation. Thanks to this, the process of identifying the causes, making decisions and taking actions will, in the author's opinion, become significantly compressed in time (Gołembski, 2019). Furthermore, such logic of gathering and analysing data allows for effective identification and management of personnel risk, which also must be seen as a benefit from the application of the personnel function management control system. As mentioned above, the choice of indicators for each of their sets is an open issue, dependant on the individual needs and conditions at each enterprise. However, an attempt can be made at identifying and analysing the factors that affect the use of the personnel function management control system and above all, the barriers and limitations to its implementation, which is the subject matter for the deliberations in the empirical part of the paper.

### **3. Determinants and barriers to implementing the personnel function management control system in the light of the results of the empirical studies**

#### **3.1. Methodological remarks**

The paper presents the results of empirical studies conducted in 2017 and 2018. The diagnostic survey was conducted among a group of 236 enterprises operating in the territory of Poland, which were divided according to the criteria considered to be potential factors that might affect the use of the personnel function management control system. The said criteria comprise the size of the enterprise (measured by the number of employees), the origin of the capital (Polish, foreign or mixed) as well as the type of activity (production, services or trade). Stratified sampling was used to ensure representativeness of the sample. The inference was performed based on a statistical analysis of the data using methods of descriptive statistics, such as analysis of the structure of responses (as a result of which the inference was of an interpretative nature), correlation analysis and factor analysis (which enables reduction of two variables into one factor and the obtained new mega-factor is essentially a linear combination of two original variables). Due to the limited length of the paper, the graphs present the aggregate data for all the enterprises while results broken down according to the predefined criteria and the essential correlations between the variables are discussed in the text.

#### **3.2. Results of the empirical studies**

Results of the studies carried out seem to confirm the aforementioned assumption that the personnel function management control system is still relatively rarely used. The analysis of the data obtained suggests that in general only 11% of the enterprises in the study apply parameterisation of the employment and HR processes as a support for management decisions. Further research procedure, in which the analysis took account of the adopted criteria made it possible to demonstrate (Table 2) that the most essential factor affecting the use of the personnel function management control system is the source of the capital, followed by the size of the enterprise and the type of activity. On this basis, it can be concluded that the concept of the personnel function management control system is definitely more widely applied abroad while its application at the Polish branches is the effect of the knowledge transfer and management. In the author's opinion, this should be a hint for Polish enterprises concerning a wider application of benchmarking within the latest HR trends in order to maintain a competitive position among employers in the labour market.

**Table 2.***Use of the personnel function management control system in the enterprises in the study*

Size of enterprise			
Responses	Large	Medium	Small
Yes	<b>23.1%</b>	12.3%	3.8%
No	76.9%	87.7%	96.3%
Origin of capital			
Responses	Polish	Foreign	Mixed
Yes	10.2%	<b>33.3%</b>	25.0%
No	89.8%	66.7%	75.0%
Type of activity			
Responses	Production	Services	Trade
Yes	<b>25.0%</b>	11.1%	10.0%
No	75.0%	88.9%	90.0%

Source: own work based on the survey.

When expanding the analysis of the results presented herein, it should be added that the overall level of utilisation of the personnel function management control system is surprisingly low. With respect to the small entities (up to 49 employees), the lack of advanced practices in the HR area is not surprising. This is primarily due to the lack of a genuine need to have elaborate processes within the framework of the personnel function, which in turn is the effect of the small number of employees and one-man management. However, the low percentage (25%) of large companies (over 249 employees) using the personnel function management control system is even more surprising as the constant pressure to improve business performance is accompanied by the intensifying struggle for employees ([www.pulshr.pl](http://www.pulshr.pl)). Thus, given the assumptions already stated above that the management control system in the HR area is a relatively new concept, it was recognised that adoption of new solutions is a lengthy process which requires an expansion of the range of competencies indispensable in order to implement the processes in question. For this reason, it was decided in the next step to empirically determine (Table 3) whether the enterprises have any plans for the nearest future (within 2 years of the date of the survey) to implement the personnel function management control system.

**Table 3.***Declared intention to introduce the personnel function management control system in the enterprises in the study*

Size of enterprise			
Responses	Large	Medium	Small
Yes	<b>33.3%</b>	20.8%	6.3%
No	66.7%	79.2%	93.8%
Origin of capital			
Responses	Polish	Foreign	Mixed
Yes	16.3%	<b>55.0%</b>	42.0%
No	83.7%	45.0%	58.0%
Type of activity			
Responses	Production	Services	Trade
Yes	<b>50.0%</b>	14.6%	16.7%
No	50.0%	85.4%	83.3%

Source: own work based on the survey.

The relatively low interest in implementing the personnel function management control system, particularly among the Polish enterprises (16.3%) might indicate some barriers and limitations that prevent the managers from giving a priority to these issues. The awareness of the benefits arising from the application of the management control system in the HR area is visible in companies with foreign capital (55% of respondents set its implementation as one of the main objectives for the next 2 years), which suggests that in foreign companies the personnel function in the broad sense is put on par with the other processes in the organisation and is of strategic importance. In order to verify this supposition, it was investigated what sort of barriers and limitations to the development of the personnel function (including the control system) are identified by managers in the enterprises concerned. In order to ensure comparability of the data and maintain transparency of the research procedure, respondents selected possible barriers from a set of predefined responses. The said barriers were identified based on an overview of the literature. Due to the relatively large number of indications and responses, factor analysis was employed (Table 4) which enables a reduction of variables into one so-called mega-factor, which is essentially a linear combination of two or more original variables (Stevens, 2012). The main factors that were obtained this way generate not only a large amount of data but also provide new information that can make a convenient basis for inference.

**Table 4.**

*Matrix of factor loadings after varimax rotation for barriers to the development of the personnel function in the enterprises in the survey*

Specification	Factor 1 name	Factor 2 name
Small impact of the HR area on the functioning of the organisation	0.06	0.60
Personnel function perceived as non-essential by managers	0.22	<b>0.74</b>
Lack of formalised HR systems	0.47	0.37
Lack of IT tools supporting the implementation of the personnel function	0.42	0.41
Lack of genuine support from those responsible for the personnel function	0.46	0.65
Lack of tools for measuring the effects of implementation of the personnel function	<b>0.84</b>	0.16
Lack of analytical tools measuring the relation between implementation of the personnel function and the company's performance	<b>0.89</b>	0.11
Failure by internal customers to perceive real value for business from the implementation	<b>0.72</b>	0.22
Non-inclusion of line managers in the implementation of the personnel function	0.49	0.55
HR process and organisation of the personnel function unadjusted to business needs	0.08	<b>0.72</b>
Percentage of variance explained	29.05	25.46
Aggregate percentage of variance explained	29.05	54.51

Source: own work based on the survey.

As a result of the investigation, two main mega-factors were distinguished, which jointly explained almost 55% of variance concerning the problem being analysed, which makes it possible to draw conclusions on the key determinants preventing the implementation of the personnel function management control system. And so, the first of the identified mega-factors, explaining almost 30% of variance, contains original loadings (Table 4) which refer on the one



hand to the lack of analytical tools or the relation between the implementation of the personnel function and the company's performance, and on the other hand, to the perception of the said function as not contributing value to business. In the cause and effect aspect, the second of the mega-factors identified (explaining 26% of variance) can be considered as the effect of the first one. It is so because original loadings of the second mega-factor contain statements that the personnel function is regarded by managers as non-essential and that the HR processes are not adjusted to business needs. The basic conclusion arising from the above is that the key barrier to implementing advanced HR practices, such as the personnel function management control system, is the perception of the personnel function and the awareness of its importance for the organisation. In the author's opinion, this provides an important hint to those responsible for the personnel function concerning the varying needs and expectations of the other members of the organisation with regard to the role of the HR area. Hence, it seems inevitable that the range of competencies of those responsible for the HR function will gradually be expanding to accommodate analytical and business competencies, which provides a convenient premise for further research.

#### **4. Summary**

The purpose of this paper in the theoretical part was to systemise the knowledge based on the study of the literature and to make an attempt at defining the notion of the personnel function management control system as an important element combining the personnel policy with the business strategy within an enterprise. It had been demonstrated that the notion of the personnel function management control system is a broader issue than personnel control in that it is its extension incorporating HR processes. In the empirical part, on the other hand, the purpose was to identify the determinants and barriers to implementing the aforementioned concept in the enterprises included in the survey. With regard to the determinants, it has been shown that the source of the capital is most strongly correlated with the application of the HR function management control system. The analysis of the results also enabled identification and characterisation of the most important barriers and limitations to its implementation, which boil down to the perception of the personnel function as not contributing added value to business. It should be assumed that the personnel function management control system will be developing dynamically in enterprises and go far beyond the simple measurements of performance or employment numbers (DiClaudio, 2019). However, in order to make this development possible, the set of competencies required from those responsible for the personnel function will evolve and will be to an increasing extent based on analytical and business competencies. In summary, it is the new HR competencies and the ways of combining the results of implementing the personnel function with the company's goals and performance that provide an important premise for further research.

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