

HUMAN RESOURCES MANAGEMENT CONTROL*

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Abstract

We consider that the human being is the most important asset of the company. In the context of the social politics of the company and of the objectives of the management, along with all the other departments, the management control contributes to the resources of the entity. In this paper we want to demonstrate the importance of human capital as one of the key factors of the growth process in all countries and the necessity of the organization of a management control to be able to provide information about human resources. Which are the axes for the reporting of the information concerning the human resources? What kind of reports and indicators should be prepared by companies for management? Which are the main concerns of the companies connected to profitability – efficiency – wages? The answer will be found in this paper. In the current conditions in which personnel restructuring processes, combined with the costs reduction efforts and new requirements arise in the management control of the company, our paper will present how we can make a correct assessment of the value created by the human resources component of the company.

Key words: Human resources, management control, indicators, reports, accounting.

JEL classification: M41: M51: M54

INTRODUCTION

The human being is the richest resource of the company. The profitability of the company is born out of the coordination of the human resources elements. As a consequence the companies have to establish as objectives both the social and human profitability. But the human being is not driven as a car. His own complexity, variable in time, is added to the complexity of the relationships between persons. A company that does not integrate the social criteria, doesn't risk only endangering its image, functioning, survival, but, which is more important, it won't develop through its trust capital as to its partners. The creation of the richness and value result not only from the properties of a product, but also from the intangible services accompanying it. The way people communicate and work together determines the profitability of a company.

The relationship between the economical performance and human performance at the level of a company is very tight. Even if this relationship cannot be established/measured directly, there is however a range of indicators that can do this.

An important target of each country is to ensure a development that can continue “for ever” or at least until the end of a politically relevant time horizon; long term policy. This development must be a positive development that may be defined as a change over time that somehow increases the welfare. Welfare can be considered as the outcome of consumption that consists of consumption of goods and services that are produced and traded in markets as well as goods and services that are produced in households for own consumption or directly harvested from nature. These goods and services are produced from total resources or capital base. The capital base is produced by real or produced capital, natural capital, human capital and social capital. Consequently, human capital (HC) is also an important part of society’s resources base.

The notion of HC was introduced in literature by Becker and Schultze in 1960. Becker (1964) defined HC this way: “HC, viewed education, on -the-job training and health as components of HC with consequences for earnings and economic productivity”.

Rower (1987, 1990, 1994) considers HC as an important element in understanding development.

OECD (2001) defines HC: “HC is the knowledge, skills, competences and attributes embodied in individuals that facilitate the creation of personal, social and economic well -being”.

OECD Growth Study (2003) reminds the importance of education and HC for economic development.

HC is embodied in humans that all are free women and men. HC is therefore not, unlike physical capital, traded separately in markets. In the literature HC is decomposed into raw labor, education and skills, but in some literature the notion of HC is mostly only connected to education and skills. HC as a notion is used to present how countries must develop, but for companies inside a country the notion used is generally that of human resources (HR).

A group of people working together to achieve a common purpose is defined as an organization (Bounds et al., 1995). Organizations vary in size, structural and the kind of activities they engage. A common thing for all organizations is that they bring people and resources together to fulfill some mission and purpose. All these resources must be controlled in order to explain how purposes were attained. So that is why a part of management control must be directed towards human resources. HR is recognized as an important function in an organization, so that it must be controlled.

To organize a management control (MC) for HR, in our opinion that means: to identify activities to control; to specify indicators to calculate; to select reports to prepare for different levels of management; to reconcile the data obtained by different departments (human resources, different responsibility centers); to fight against absents, to measure the faithfulness and attractiveness; to budget the need for work from one year to another; to integrate the juridical and social constraints in the economic reflections; to manage the social risk; to know the assembly of the components of the total remuneration; to direct the company's strategy and the remuneration on politics; to manage the performance criteria (tool for control, indicators characteristics); to measure the performance and the human resources costs.

HRMC is a permanent control performed for the social drive and for measuring the social performances of the company, in a tight correlation with the economic performance .

PREVIOUS STUDIES CONCERNING THE HR

HR is an element of the intellectual capital, intangible in nature that creates substantial value for the company because of its individual and collective competences developed. Obviously, there are entities that know to value their industrial, technical and commercial intelligence capital; these companies have a market advantage in today's economy when the production is supported by the knowledge and capacity to develop relationships with the partners. The human resources management has to adapt to this economy of the networks conceiving common criteria with the partners for the recruitment, training and management processes of the human capital.

Along the time the economists considered the human resources a component of the capital. Starting from 1960 (Herman, Theeke, 2005) in USA started to develop the concept of Human Resources Accounting. The first company interested in applying it was RG. Barry Cor poration. It included the HR as assets items in the company's statement of financial position. Even if some of the companies focused on the human resources appreciated the ides it is very difficult in practice to apply it, because of a lack of standardizat ion and measurement methods for the value created by the human resources.

In France at the end of the years 1970 (Martory, 2003) appears the idea of a Social Statement of Financial Position. This is a report that presents in connection with the social environment the expenses and the services of an organization directed to social groups that have relationships with it (employees, investors, customers, suppliers and the public). Here are also disclosed some social politics, the targets, the measures considered for their achievement, the value obtained by the organization etc.

There are many definitions of this concept, but, yet, a classification and a definition of the intellectual capital presented in the project MERITUM 2002 was accepted by more authors in their papers (Sveiby, 1997; Edvinsson, 1997; Guthrie, 2000); IFAC, 1998). It is detailed in the following table:

Table no. 1. The classification and definition of the intellectual capital

Category of intellectual capital	Definition of intellectual capital
Human	The knowledge that employees take with them when they leave the firm. Includes the knowledge, skills, experiences and abilities of people. Some of this knowledge is unique to the individual, some may be generic.
Structural	The knowledge that stays within the firm at the end of the working day. Comprises the organizational routines, procedure, systems, cultures, databases, etc. some may be legally protected and become Intellectual Property Rights, legally owned by the firm under separate title.
Relational	All resources linked to the external relationships of the firm, with customers, suppliers or R&D partners. Comprises that part of human and structural capital involved with the company's relations with stakeholders (investors, creditors, customers, suppliers, etc.) plus the perceptions that they hold about the company.

Source: Meritum project, cited by Beattie & Thomson, 2007

Stanciu (2008) tried to synthesize the methods of assessment and recognition of the intellectual capital in the financial statements. She presents various opinions regarding the possibility of the recognition of the intellectual capital and the extent to which there is a need to recognize it. The conclusion of the paper is that, the traditional accounting system needs to be extended to capture the company's value creation potential and to be based on the effectiveness of its response to the stockholder's expectations as well.

Sandu & Ioan (2008) asked themselves which are the axes of intellectual capital disclosure in the annual reports of a recently privatized company and what would be the challenges, risks and benefits involved of such disclosure. They analyzed the financial statements of Petrom Company on a three years period. The study is interesting, as the foreign company that took over the Romanian company brought an important intellectual capital. Their conclusion is that this company presents most detailed information concerning the structural capital and less detailed information concerning the human capital.

INDICATORS AND REPORTS FOR HR

Alvin Toffler, cited by Anghel & Ipate (2008), said: “I wonder if anybody buys shares to a company which has not proven its management skills or in which the management system is not competitive? Could anybody think to buy a company which has no reputation or credibility proved long-time by the investors? And, in that logic of things, are there not the list of constant customers or subscribers, the efficient distribution networks, the preferred customers or subscribers, the efficient distribution networks, the preferred relationships or the skills of the managers in concluding convenient agreements facts which determine a better or smaller value for a company in regard to another?”

The main tools developed in order to facilitate HR and/or intellectual capital reporting are: the market value of the company minus the accounting value (Gu & Lev, 2001; Hall, 1993; Luthy, 1998); the intangible asset monitor (Sveiby, 1997); the balanced scorecard (Kaplan & Norton, 1996); the Skandia Navigator (Edvinsson & Malone, 1997; Edvinsson, 1997); Tobin's q (Stanciu, 2008); the calculated intangible value (Luthy, 1998); intangible value metrics (Lev, 2001); the intellectual capital statements (DATI, 2000); and the model proposed by Anghel & Ipate (2008), where the value of the intellectual capital is determined as a difference between the market value and the net value of the tangible assets.

Indicators and reports to prepare play controllers for managers are in direct relation with the activities that have to be identified by MC. In our opinion HRMC must be directed towards four activities:

- i) planning and recruitment

- ii) compensation
- iii) training and development
- iv) performance appraisal
- i) Planning and recruitment

HR planning is a process for developing alignment between the organization's strategy and the people it employs to execute the strategy (Bounds, 1995).

Recruitment is a process of attracting the best qualified people to apply for the job and also to motivate people to fulfill the mission of the organization. The candidates have to be recruited quickly and with a minimum cost. The recruitment terms have to be minim and they are calculated as the number of days between the recruitment request and the occupation of the position. The recruitment costs have to be also minim and they include the cost with the announcement of the recruitment, the costs with the resumes analysis, the costs of the recruitment department. In order to succeed, the recruitment has to end with the occupation of the position by a person that has the requested qualities.

We think that planning as the first part of this activity is important to be under control in order to identify and to explain differences between forecast figure and real figure.

A report may be presented based on available information about planning and recruitment divided into two categories: indicators about jobs and employees need for those jobs and indicators about activity.

In the first category we think to report the following indicators:

Table no. 2. Planning and recruitment indicators

Indicators	Plan	Actual	Variances	Causes
1) Total number of jobs	X	X	X	X
2) Total number of employees	X	X	X	X
3) The need for personnel	X	X	X	X
4) Average salary	X	X	X	X
5) Total number of workers - job 1 - job 2 ... - job n	X	X	X	X
6) Average salary per worker	X	X	X	X
7) Administrative employees total number and by type of jobs	X	X	X	X
8) Average salary per administrative employee	X	X	X	X
9) Distribution employees total number and by type of jobs	X	X	X	X
10) Average salary per distribution employee	X	X	X	X
11) The structure of the qualification of the personnel	X	X	X	X
12) The percentage of the personnel using various criteria (qualification, sex, age, religion, nationality etc.)	X	X	X	X

The second category – indicators about activity – should contain information about expenses incurred in this activity and different costs to be calculated such as:

- activity total cost;
- number of employees;
- employees salaries;

- average salary;
- number of interviews;
- number of recruitments;
- average cost for recruitment (total activity cost/number of recruitment) ;
- the degree of the coverage of the necessary personnel;
- the number of persons which were unsuitable (that were wrongly chosen for the job);
- the degree of the noncoverage of the personnel scheme and the costs for their supplanting.

ii) HR compensation

Compensation is considered as a payment from the organization to the employees for their services based on wages and other benefits. Rewards are also considered as another form of compensation to reward the employees for their contribution to the company's performance. The system of remuneration is an important system of the company's culture, with its rules and standards. The organization of the work and decentralization of the power within the team s requests remuneration politics that need the development of the cooperation and collective competences.

From the manager's point of view to analyze this activity he needs information about compensation's total value and components and information about this specific activity. The remuneration system chosen has to be simple and easy to understand in order to be accepted by the employees searching for equity and security, to be adapted to change and to incite the personnel for the change. Consequently, a report will be divided into two parts to present relevant information about HR compensation. Indicators about HR compensation may be as following:

- total employees number;
- employees salaries;
- average salary;
- activity total cost;
- average activity cost per employee;
- personnel expenses/value created
- average cost per hour;
- pay-list cost;
- average number of claims for errors ;
- social expenses value.

In the second part of the report, we think to prepare for management a second statement containing indicators about salaries/wages expense in order to analyze the importance of those expenses in the total cost as follows:

- total salaries/wages expenses
- total wages/salaries productive workers expenses
- total salaries/wages administrative employees expenses
- total salaries/wages distributions employees expenses
- total period cost (only salaries/wages expenses)
- % of wages/salaries in production sector
- costs with the change of the personnel (unsuccessful recruitment and restarted).

In the meantime we consider that the value of the reward should be analyzed according to the involvement of the personnel. For analyzing this section we suggest the following indicators:

- the time ratio;
- the degree of the yield/work productivity;
- the involvement degree;
- the structure of the working places;
- the supplementary hours/medium cost per supplementary hour;
- minimum/ maximum yield.

- iii) Training and development (T & D)

Training helps employees to gain particular job skills and development involves on-going education to help prepare employees for future jobs. On a short term, the training has to facilitate the change: the evolution of the jobs, the development of the potential, the management of the careers. On a long run, the training accompanies the culture change and helps the adaptability of employees. Development involves more than learning a skill such as problem analysis, creativity, team-building and leadership. Training and development is important for accomplishing the mission and vision that managers chose for an organization.

To realize training and development's targets companies often devote ample resources presented in budgets. These resources are allocated to the employees that have the motivation to stay within the organization. This is why, in the first part of the report, we will present indicators that show the maintenance and motivation of the employees:

- fluctuation rate/ fluctuation costs;
- accidents frequency/ unused time/ work accidents costs;
- sickness frequency/ unused time/ sickness costs;
- wages structure/ bonuses etc.;
- cost-benefit-motivation analysis;
- the report between the personnel training (costs for training) and their stability within the company;
- employees participation to profit;
- supplementary social services costs;
- the degree of personnel satisfaction;
- the time spent by the employees within the organization;
- the reason for the personnel for leaving the company.

Budgets contain information about total resources (T & D), number of employee implicated in this process, T & D cost per employees. So that a report for management will contain the following indicators:

- total resources amount;
- total number of T & D actions;
- total cost of each T & D action;
- total number of employees implicated in T & D process ;
- average cost per employee trained ;
- days for training per employee ;
- the number of employees that change the function within the organization;
- the time for T & D per employee per year;
- the impact of the T & D in saving the resources within the company;
- the structure of the employees involved in the T & D process using different criteria (sex, qualification, age etc.).

iv) Performance appraisal

In the social sciences the word performance knows two senses:

- *the social performance* can be defined as the intensity with which a person chooses to cooperate for the objectives of the company, or, more general, the level of satisfaction touched by the persons that are a part of the life of the company. The social performance reflects the impact of the social politics on the attitude of the employees as to the company where they work;
- *the human performance* is analyzed according to the result obtained by the employees connected to their work. This result is expressed according to the richness created, added value created, the supplement of value obtained by the company etc.

The two notions are distinct because (Jianu, 2007):

- the social performance reflects the aptitude to raise the level of satisfaction of the personnel, to improve the social climate and the life conditions;
- the human performance supposes the optimization of the social cost to obtain a certain result or to maximize this result.

The management of the human resources is an essential item for the financial performance of a company. A study performed by the American counseling cabinet *Watson Ayatt* shows that the most profitable companies in the management of the human resources create two times more value than others. There are five motivations for each person at their working place (Levering & Moskowitz, 1993):

- remuneration;
- professional development;
- working place environment;
- respect and consideration;
- work interest.

Performance appraisal is a way to evaluate how well employees have met expected levels of accomplishment compared to some standards or goals. Performance appraisal influences HR decisions on such issues as pay, promotion, training and development. The appraisal may focus on outcome measures such as levels of quality, productivity or financial performance.

Values and methods in performance appraisal may be presented as follows:

- direct individuals or direction to the work force
- control people and processes
- feedback used for ratings, rewards and sanctions
- feedback useful for improvement
- motivating or de-motivating employees (source: adapted from Scholtes)

Regarding this activity, management controller must prepare a report where indicators about types of appraisal actions are presented and also the activity cost per each type of action.

We consider that a company that wants to be profitable has to focus the management of its human resources on achieving the following objectives:

- to integrate progressively the new employees;
- to participate actively in integrating and training the young persons;
- to participate in the integration of the persons with handicap;
- to update continuously the internal resources;
- to practice a responsible and equitable management of the jobs;
- to prove flexibility in the work organization;
- to take into account the individual aspirations;
- to assure the person's security;
- to support the employees with problems;
- to value the personal richness;
- to recognize the individual and collective work;
- to practice a correct remuneration of the employees;
- to protect the results correctly;
- to manage the resignations;
- investments in personnel, by continuous training and development;
- the possibilities for the employees reconversion that are found on the working force market at a certain moment;
- personnel leasing.

CONCLUSIONS

1) The management of the HR is more and more complex. We started this research by presenting human capital concept, because this notion is used to calculate sustainable development indicators. For all the countries it is necessary to value the human capital, but this is a difficult

action. In other way the value of human capital is determined based on human resource components for each company. So that HRMC will be a consequence of the importance of these resources for companies, geographic area and also for the countries.

2) HRMC may be divided into two parts: a part dedicated to the activity's control and another part representing outcomes activity control. In the French literature, HRMC focuses only on the activities identified in the area of HR. In our opinion, HRMC is more than the activities' control. For this reason, in this paper we presented indicators for two different parts of HRMC.

3) The economic environment along the social system has to propose a strategy at the HR level, taking into account the demographic evolution, but also the professional qualification.

4) The preparation of different reports for managers needs information about expenses, costs, number of employees, types of jobs, types of activities etc. Some information is obtained from HR department (employees, jobs, activities) and often from accounting department (expenses, costs, turnover etc).

5) We consider that indicators and reports that have been presented in our research represent our concept about what HRMC must be. Our model is based on a theoretical research (books, studies etc.) and on a practical documentation concerning the needs of companies in this area.

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