

Marcin Golembski<sup>1</sup>DESIGNING THE HUMAN RESOURCE FUNCTION  
AT MICRO- AND SMALL ENTERPRISES

*The purpose of this article is to characterize the decision variables in the design process of the personnel function, specifically at micro- and small enterprises. The problem is particularly relevant to micro- and small enterprises at which, due to limited resources and relatively small (usually linear) structures, the organization of personnel processes is more difficult than at larger entities.*

*Keywords: human resources management; HR function; HR process; microenterprises; small enterprises.*

Марцин Голембські

МОДИФІКАЦІЇ КАДРОВИХ ФУНКЦІЙ  
НА МІКРО- ТА МАЛИХ ПІДПРИЄМСТВАХ

*У статті описано параметри та різні модифікації кадрових функцій з урахуванням особливостей функціонування мікро- та малих підприємств. Дане питання є особливо актуальним саме для цієї групи підприємств у зв'язку з обмеженістю ресурсів, невеликою та переважно лінійною структурою таких підприємств, що ускладнює організацію кадрових процесів на таких підприємствах, у порівнянні з великими.*

*Ключові слова: кадровий менеджмент; кадрова функція; кадровий процес; мікропідприємство; мале підприємство.*

*Рис. 4. Табл. 2. Літ. 11.*

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МОДИФИКАЦИИ КАДРОВЫХ ФУНКЦИЙ  
НА МИКРО- И МАЛЫХ ПРЕДПРИЯТИЯХ

*В статье описаны параметры и различные модификации кадровых функций с учётом особенностей функционирования микро- и малых предприятий. Данный вопрос является особенно актуальным именно для этой группы предприятий в связи с ограниченностью ресурсов, небольшой и преимущественно линейной структурой таких предприятий, что делает организацию кадровых процессов на них сложнее, чем на больших предприятиях.*

*Ключевые слова: кадровый менеджмент; кадровая функция; кадровый процесс; микропредприятие; малое предприятие.*

**Introduction.** In management theory and practice HR issues, seen as fundamental success factors in today's enterprises, are among the most dynamically developing knowledge areas. A popular saying that "people are the most important resource of a company" has ceased to be a mere slogan unrelated to the efficiency of employees and, by implication, organizational effectiveness (Ulrich and Brockbank, 2005: 16). Today, human resources management (HRM) is oriented towards supporting business and creating added value through workforce management optimization (Cannings and Hill, 2012: 139–149).

Nowadays there is a tendency to narrow down HRM issues to the delivery of personnel function in a systemic way using process methodology (Ashton, Haffenden and Lambert, 2004: 32–35). A view that prevails both in theory and practice of management is that people management is the task for line managers, whereas HR specialists provide real support by delivering tools and solutions helpful at individual stages of personnel processes. The issues explored by researchers find broad applica-

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tion mainly at large and medium-sized enterprises characterized by complex organizational structures and large financial and human resources. However, there is a problem with the micro- and small enterprise sector where HRM process relies mostly on the intuition of managers and is largely unstructured (Ward, 2008: 11–13). We may presume that this is due to small number of employees, making it unviable to operate the personnel function with all the trappings of contemporary HR management. A question, therefore, arises whether it is possible to design an HR function well fitted to the needs of micro- and small enterprises.

In view of the above, the aim of this article is to identify and characterize decision variables in the process of designing a human resource function for micro- and small enterprises. The secondary objective is to present the selected results of the case studies conducted to reveal the actual condition of the HR function in some researched entities. The article has a contributory character and presents the findings of studies in the form of preliminary hypotheses regarding various aspects of HR function design at micro- and small enterprises.

**1. Evolution of the human resource function – an attempt to systematize the terminology.** As mentioned in the introductory part of this article, justified is the claim that HR function is within management area that in recent years has undergone the deepest transformations as compared with all other organizational functions. The scale of this phenomenon is evidenced by the fact that changes in the HR function occur at all levels, beginning with the definition of the human resource process through to the organization of HR function itself (Miranda, 2005: 34–37).

As terminology needs to be systematized, the HR function can be defined as a set of activities concerning people, aimed at achieving corporate objectives and satisfying the needs of employees, including their personal development (Listwan (ed.), 2010: 16). According to Antczak (2005), the scope of HR function includes executive, advisory and regulatory activities. In the theory and practice there are several synonymous terms used by individual authors to describe the processes, components and problems of a broadly construed HR function, such as: personnel administration, personnel management, workforce management, human resources management, human potential management or human capital management (Antczak, 2005: 18). The human resource function in a particular organization is shaped by many factors, such as company strategy, company structure and organizational culture as well as certain internal and external relations (Krol and Ludwiczynski (ed.), 2006: 18). The main task of HR function in modern-day enterprises is to shape the processes operated within the HR function in such a way as to effectively create value for both internal stakeholders (employees, managers, trade unions) and external stakeholders (shareholders, clients, the state, local communities etc.). Hence, the ability to create and deliver value to various groups has and will continue to have strategic importance for the future of HR function in organizations. Efficient execution of people-related activities in an organization comes down to setting apart logically and chronologically arranged sub-functions which all together combine in a broadly understood HR process. Along with the development of management sciences (especially theory and practice of HRM) changed the views as to what type of activities make up the HR. Table 1 presents a concise review of opinions contributed by various authors on the composition this function in organizations.

Table 1. Components and the flow of the human resource process in literature, author's own work based on: (Tyranska (ed.), 2012: 19)

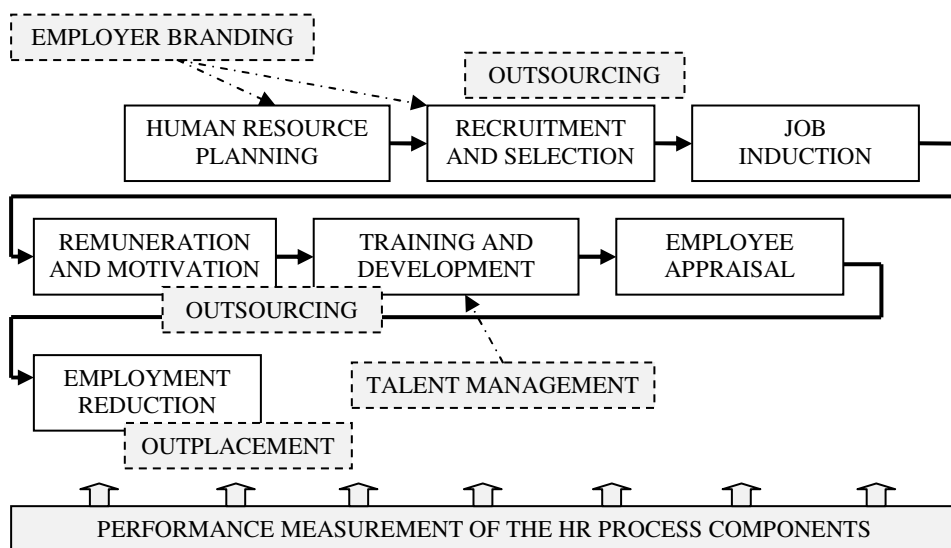
Author	S. Borkowska	A. Sajkiewicz	S.L. Rynes, G.T. Milkowich
Components of HR process	<ul style="list-style-type: none"> <li>- Manpower planning</li> <li>- Creation and maintenance of personnel information systems</li> <li>- Valuation of jobs</li> <li>- Selection and deployment of workforce</li> <li>- Appraisal of work outcomes</li> <li>- Promotions, transfers, employment reduction</li> <li>- Remuneration policy</li> <li>- Motivating through job organization</li> <li>- Conflict resolution</li> <li>- Employee welfare policy</li> </ul>	<ul style="list-style-type: none"> <li>- Staff selection and appraisal, contracting employees</li> <li>- Employee development, staff education, use of manpower resources</li> <li>- Creating work conditions and motivating to work</li> <li>- Termination of employment</li> <li>- Information provision</li> </ul>	<ul style="list-style-type: none"> <li>- Human resources planning</li> <li>- Recruitment</li> <li>- Selection</li> <li>- Internal deployment and development</li> <li>- Performance appraisal</li> <li>- Work and employee relations</li> <li>- Remunerations</li> </ul>
Author	W. Mondy, A. Sharplin, R. Holmes, F. Flippo	H. Johannsen, G.T. Paee	F. Michon
Components of HR process	<ul style="list-style-type: none"> <li>- Recruitment, selection, appointments</li> <li>- Training and development</li> <li>- Performance appraisal</li> <li>- Remunerations</li> <li>- Health and safety</li> <li>- Work and employee relations</li> <li>- Personnel studies</li> </ul>	<ul style="list-style-type: none"> <li>- Recruitment and selection</li> <li>- Training</li> <li>- Remunerations</li> <li>- Fringe benefits</li> <li>- Job valuation</li> <li>- Performance appraisal</li> <li>- Industrial relations</li> <li>- Health and safety</li> <li>- Manpower planning</li> <li>- Management development</li> <li>- Personnel reports and statistics</li> </ul>	<ul style="list-style-type: none"> <li>- Employment planning</li> <li>- Staff recruitment and selection</li> <li>- Social and professional adaptation</li> <li>- Employee appraisal</li> <li>- Continued education and skills improvement</li> <li>- Employee promotions</li> <li>- Social and economic analyses</li> </ul>

Analysing the views presented in Table 1 we may notice certain differences in details; nevertheless the authors appear to agree on the very essence of the human resource process.

However, in contemporary economic practice HR activities performed within the human resource function are being extended to include additional groups of activities, such as employer branding, talent management and outplacement<sup>2</sup>. This extension of the HR process follows a pressure exerted by key stakeholders on HR departments to generate real value for business. This in turn implies the need for para-

<sup>2</sup> The named components of HR process significantly extend the range of impact of the personnel function as they, as it were, step out beyond the organization to reach potential as well as former employees (e.g., employer branding and outplacement), and significantly extend the playing field in the area of employee development (e.g., talent management). However, given the stated aim of this article and due to volume limitations, these groups of activities are not discussed here in greater detail.

meterization and continuous measurement of HRM performance to ascertain contribution of human resource activities to value creation. This is a significant change, since until recently HR activities were regarded as qualitative in nature, and therefore rather unmeasurable. All the above implies the need for updating the perception of the corporate HR process. Hence, drawing on the literature and empirical studies, the following picture presents a proposition of HR function flow chart updated with new HR activities.



*Figure 1 Components of HR process, author's own construction*

In Figure 1 there are three notable features of the HR process evolution.

Firstly, in view of the requirement for cost optimization imposed by the present economic environment, strong emphasis is placed on parameterization of the HR process. While until recently the focus was on employee appraisal, today attention has turned to performance measurement of the HR function in terms of its contribution to value creation for business.

Secondly, there is a clear tendency to outsource elements of the HR function, both through the creation of subsidiary companies which are subsequently contracted to perform auxiliary corporate processes (including personnel processes)<sup>3</sup>, and by contracting external specialist firms known as Business Process Outsourcing companies to run HR processes. This is not an entirely new phenomenon since outsourcing to external firms has been widely used for a long time. However, along with the rapid growth of modern business services, the scope of outsourced HR processes has increased to include the sub-processes such as recruitment and selection, salary and wage administration with related reward systems, employee development or extensive outplacement programmes.

<sup>3</sup> Such entities, known as Shared Service Centres, specialize in running auxiliary processes for parent companies or entire capital groups. Such organisations are established usually by large corporations, predominantly multinationals.

Thirdly, noteworthy is the fact that in today's organisations the HR process takes on additional activities. As mentioned before, the inclusion in the HR process of employer branding or outplacement extends the personnel function to involve potential and former employees. Furthermore, in the area of employee development a group of activities has been set apart to form the concept of talent management, an activity which goes far beyond the classic policy approach to training.

The discussion so far indicates a significant evolution of the HR function in today's enterprises. Therefore, valid is the question of how in these circumstances micro- and small enterprises should organize and deliver the human resource function within their corporate structures. In order to answer this question we need to establish the actual state of the HR function in the discussed group of business entities, which will be the subject of considerations further.

**2. Management of the HR function at micro- and small enterprises – the results of studies.** In order to establish the actual status of the HR function at micro- and small enterprises it was necessary to conduct the research which took the form of case studies as part of a wider research project. The study investigated 12 enterprises characterised by diverse sizes and representing different industries. The sample included 4 large enterprises, 2 medium-sized firms and 6 entities representing the micro- and small enterprises sector. The study was conducted between November 2013 and March 2014 and the main research method was case study. The research tools were face-to-face interviews, and documentation analysis. Persons participating in the study were company owners (micro- and small enterprises) and senior managers (large and medium-sized enterprises). In addition, researchers scrutinised documentation made available by the participating entities to establish whether individual components of the HR process were performed in a formalised intuitive manner. In this article, due to scope and space restrictions, only selected partial results are presented.

The first step in establishing the status of the HR function was to find out whether in the studied entities the processes of HR management were formalized in a human resource strategy.

Among the micro- and small enterprises participating in the study only two had a formalized HR strategy, confirming the supposition made in the introduction to this article that most HR activities in this group of firms are performed intuitively, making it difficult to design personnel processes in an optimal way.

An important part of the case studies was to obtain information as to which HR activities were actually performed, particularly at micro- and small enterprises. To this end, during interviews the respondents were shown a list of HR activities from which they were asked to choose those actually performed by their firms. These activities included:

- a) planning manpower requirements;
- b) forecasting changes in workforce employment;
- c) planning job-filling;
- d) recruitment of staff;
- e) staff selection;
- f) induction of new employees;
- g) remuneration systems;
- h) motivation systems (if exist);

- i) employee periodic appraisal systems (if exist);
- j) employee development (all forms);
- k) employee competencies management;
- l) termination of employment.

**HAS YOUR FIRM IMPLEMENTED A HUMAN RESOURCE STRATEGY - BROKEN DOWN BY COMPANY SIZE**

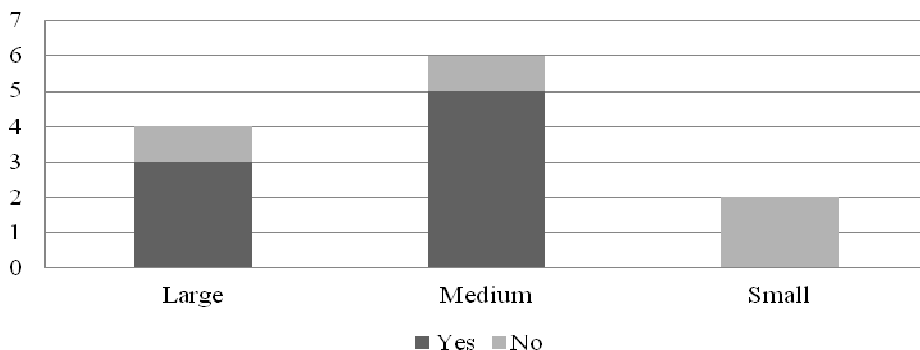


Figure 2. Implementation of HR strategy in the studied firms, author's own work based on the conducted studies

The results of this section of the study are presented in Figure 3.

**HR activities performed systematically at enterprises - by their size**

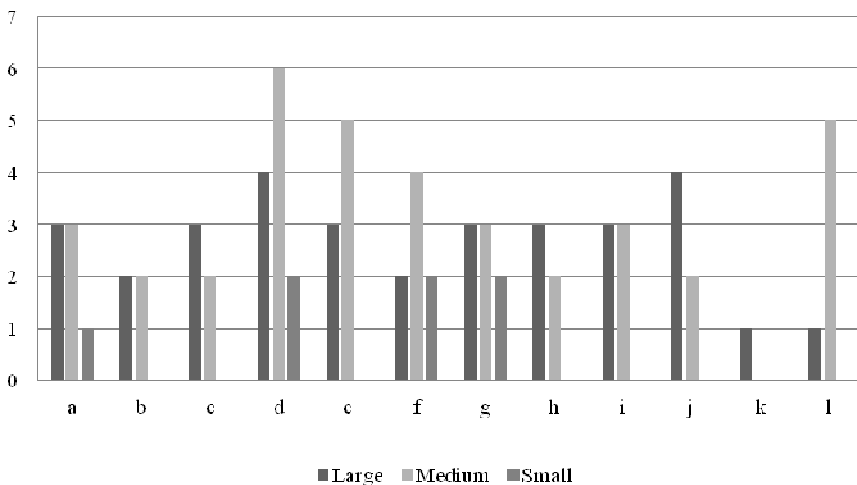


Figure 3. HR activities performed at enterprises, author's own work based on the conducted studies

The diagram suggests that at micro- and small enterprises the HR process is performed only to a limited degree. In the studied MSEs the HR function is limited to recruitment, employee induction and administration of payrolls. Only one firm in

this group declared activities related to employment planning. To explain why that was so, a question had to be asked: who is responsible for running the HR process at the investigated enterprises? Figure 4 presents the breakdown of responses, providing a basis for further analysis.

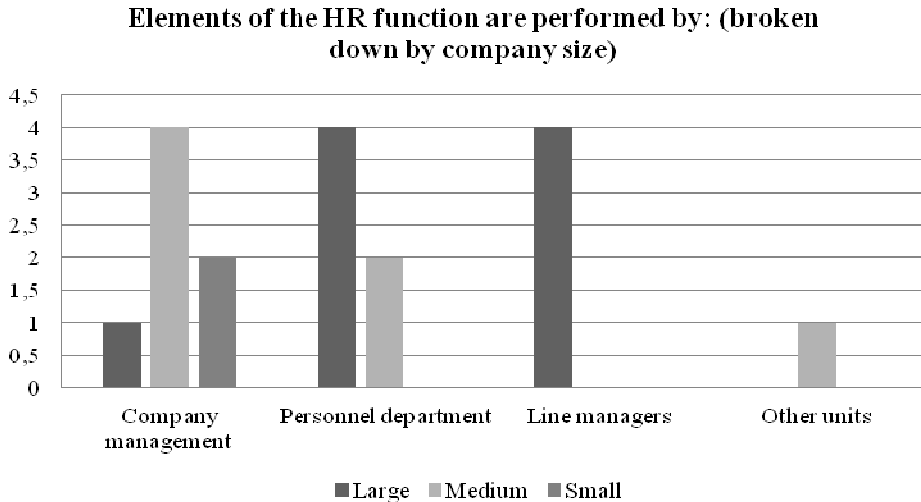


Figure 4. Units responsible for running the HR process in the studied firms, author's own work based on the conducted studies

The responses clearly indicate the lack of coordination of HR activities at micro- and small enterprises<sup>4</sup>, which appears to explain the small number of HR activities performed by these firms. Moreover, the study identifies owners of micro- and small enterprises as the only administrators of the HR function. Such circumstances raise the question of how this function should be structured in micro- and small enterprises so as to produce the greatest added value for owners and employees. The answer is by no means straightforward, and will never be universal. This is because the specificity of each individual enterprise is unique and thus general conclusions are impossible, especially with respect to this sector of companies. Nevertheless, the discussion hitherto implies the need to identify a group of decision variables that should be taken into account by owners and managers of micro- and small enterprises when designing the HR function for their organisations. This will be the subject of discussion in the next part of this article.

**3. Identification and description of decision variables in the design of the HR function for micro- and small enterprises.** Literature review and empirical studies on HRM at micro- and small enterprises indicate that an overwhelming majority of these firms operate a limited scope of HR activities performed in an unstructured manner, even intuitively. The literature predominantly presents the view that this state of affairs should be regarded negatively. In the author's opinion, however, only the intuitive decision making and absence of systemic approach to the HR function can be judged

<sup>4</sup> Only two firms in the group unequivocally identified the unit responsible for running the HR function in their organization. The remaining firms returned vague answers.

negatively. The mere fact that not all activities of the HR function are performed does not mean that the HR function of a company is dysfunctional. This is so because HR solutions are effective if they are "made to measure" and provide real support for business. Furthermore, according to management theory (Grajewski, 2007: 68), activities which do not contribute directly or indirectly to value creation should as far as possible be eliminated from the process. As discussed earlier, the study reveals that in the MSE sector the administration of HR activities is entirely in the hands of owners. This suggests that, charged with other responsibilities and operational duties, these owner-managers are not likely to perform HR tasks to a satisfactory level. Additionally, given the specific character of micro- and small enterprises, especially in terms of workforce size, we can assume with high probability that not all HR activities are indispensable or even needed at all. Nevertheless a systemic, structured approach to the HR function design is a necessary condition for efficient administration of this function, and this calls for identification and description of a decision variables packet that would provide a basis for designing an optimal, fit for purpose HR process. Table 2 presents a proposed set of decision variables which, in view of the author, should be taken into account by managers of micro- and small enterprises in the design of the HR function. Each decision variable is accompanied by a set of questions that an entrepreneur should answer to get guidance while designing the HR function.

**Table 2. A model example of a set of decision variables for designing the HR functions in micro- and small enterprises, author's own work**

Decision variable	Problems to be solved
<b>Cost</b>	1. What is the cost of administering the HR process in its present form? 2. Has the company a separate budget for delivering the HR function? 3. Has the company measured the opportunity cost of the absence of specific components of HR process? 4. What would be the cost of outsourcing HR activities?
<b>Area</b>	5. What industry does the firm represent? 6. Is the firm geographically dispersed? 7. What is the company's organizational structure? 8. What is the key competitive advantage of company's business?
<b>Scope</b>	9. Which components of HR process are actually performed? 10. Which HR activities bring measurable effects? 11. Which components of HR process have not been implemented and why?
<b>Tools</b>	12. What is the degree of computerization of the HR process? 13. What tools are used in the administration of the HR process? 14. Is the HR process documented? 15. Does the firm use control tools to monitor the HR function and what are these tools? 16. Are the effects of the HR process measured? 17. Does the firm conduct periodic audits of employee opinions?
<b>People</b>	18. Number of employees. 19. Average staff rotation annually. 20. Employment stability (measured with the use of an indicator). 21. Employee profile. 22. The level of employee competencies. 23. Who is responsible for delivering the HR function? 24. Has the company sufficient people resources (apart from the owner) to carry out the HR function?



The use of decision variables presented in Table 2 can provide substantial support for managers in deciding on the HR function structure in their organizations. Providing answers to the formulated questions should limit intuitive decision-making on the scope of HR activities and thus improve effectiveness of the HR process, optimizing costs at the same time. We must emphasize, however, that decision variables identified in this text are illustrative only, and their number and scope can be both extended or reduced. Nevertheless, the variables provide a convenient starting point for further studies.

**Conclusion.** Human resource management at micro- and small enterprises poses a challenge for management theoreticians and practitioners. Limited finances, small company sizes and the absence of structured HR procedures make it difficult to design HR function that would generate real value for both owners and employees. We must also be aware that a single, universal method of managing a small firm does not exist, and all attempts at describing the specificity of running small business entities may go only as far as to indicate certain features and behaviour patterns that in these organisations occur more often than in others (Sidor-Rzadkowska, 2010: 23). The present article makes such an attempt by proposing a set of decision variables aimed at assisting owners of micro- and small companies in the design of the scope and working structure of HR function. In sum, the issues discussed in this article deserve further indepth studies whose results may – in addition to a scientific value – bring measurable practical solutions for micro- and small enterprises.

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