

# HUMAN RESOURCE MANAGEMENT IN SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CZECH REPUBLIC

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**Abstract:** *Human resource management is a crucial factor that determines the success of small and medium-sized enterprises in the market and its competitiveness. Small and medium-sized enterprises in the Czech Republic form a significant group of employers in the Czech Republic since they employ two thirds of employees out of the total number of the work force and represent over 99% of the overall number of active business entities. The main objective of the article is to evaluate the level of human resource management in small and medium-sized enterprises in the Czech Republic. Partial objectives of the article are to define a human resource management profile of small and medium-sized enterprises in the Czech Republic and to test dependencies between selected qualitative features. The data (n = 499) was collected by means of a questionnaire technique. The results of the survey confirmed important human resource management internal factors (the size of the enterprise, the position of the HR manager in top management and the existence of the HR department) and helped to define the human resource management profile of small and medium-sized enterprises in the Czech Republic.*

**Keywords:** *Human resource management, HRM activities, Small and medium-sized enterprises, The Czech Republic, Survey.*

**JEL Classification:** *J24, M12, O15.*

## Introduction

In the Czech Republic personnel work has undergone significant changes since the 1990s [8; 37] which were triggered by the increasing importance of the resource approach to achieving a competitive advantage [1; 18] and the transfer from the information to the knowledge society [13; 24]. The changes were connected with the changes from a post-socialistic to capitalistic country. According to Milikic, Janicijevic and Cerovic [22] the main challenge for managers in the post-socialistic countries is to efficiently replicate human resource management (HRM) practices from the Western capitalistic countries. The system of human resource management in enterprises is a crucial factor that determines the success of the enterprise in the market and its competitiveness [33], despite the fact that the success and speed of transition processes in the post-socialist countries produced quite different results regarding their institutional and economic systems [22]. The speed of changes in the external and internal corporate environment and the necessity to promptly respond to them place increased requirements on the quality of human resource management in enterprises. HR department managers and specialists have to search for a new balance between corporate goals, society's requirements and employees' needs. Enterprises that fail to focus on the future and the development of human resources (HR) will stagnate.

The main objective of the article is to evaluate the level of human resource management in small and medium-sized enterprises (SMEs) in the Czech Republic. Partial objectives

of the article are to define a human resource management profile of SMEs in the Czech Republic and to test dependencies between selected qualitative features. The article consists of six logically interlinked parts. The first part concentrates on the importance of human resource management. The second part presents the theoretical framework. The third part describes the methodology of the survey. The results of the primary survey are presented in the fourth part while the fifth part focuses on the evaluation of human resource management in the SMEs in the Czech Republic. The sixth part summarizes the overall conclusions.

## **1 Statement of a problem**

Human resources are a key factor of the enterprise's success [15; 34] and a valuable source to achieve a competitive advantage [4; 11; 28; 31]. Theories of strategic management have historically acknowledged the importance of internal activities, resources or capabilities as prospectively important sources to achieve a competitive advantage [5]. The effective management of the enterprise's human resources is a major source of competitive advantage and may even be the single most important determinant of the enterprise's performance [29].

Human resource management is a conception that often substitutes the traditional approach to personnel management. The management of human resources within enterprises has started to have a more and more important role, due to the fact that their functioning and success are determined by the knowledge, skills and abilities of its employees [28]. Recently the management of human resources has placed emphasis primarily on the strategic aspect of personnel work which determines the efficiency of enterprises and their success in the market [11; 14; 17; 38]. An increasingly greater part of personnel work is delegated to managers at all managerial levels and personnel work thus becomes part of their everyday tasks [16; 28; 30].

Dynamic changes in the external environment, in particular technological advancements and innovations linked therewith, contribute primarily to the higher productivity and speed up changes inside enterprises. For enterprises to succeed, they need to invest in their employees and ensure the maximum use of their work potential [2; 21]. Lasting success of enterprises depends on abilities, knowledge, skills, will to work, dedication and creativity of people that work for them [20]. State-of-the-art technology and proven methods and techniques will fail to work and lack sense if the enterprise is short of capable people [26]. One thing is to find and correctly select capable employees, another thing - often more difficult - is to help them stabilise in the enterprise and identify with their job and the goals of the enterprise [18]. It can be said that the efficiency of each enterprise is directly determined by the performance of employees who work for the enterprise and the key to efficiency lies in people as such [15; 26].

Despite the fact that the global population is growing, in developed economies the number of people in the productive age continues to decrease [10]. Human resources become in very short supply for enterprises [12]. Increasing enterprise competitiveness is a topic of great importance for the majority of enterprises [19; 32; 36]. This may only be achieved by ensuring the right people are in the right place, i.e. by winning and retaining talented employees who are to become potential substitutes of current key employees [3; 18].

## 2 Methods

The level of human resource management in SMEs was monitored through a three-phase questionnaire survey that was conducted in the period from 2011 to 2014. The survey was focusing on the following main area: (1) the existence of HR department, (2) the evaluation of the implementation of key strategic documents and (3) the main HRM activities ensured. The sample group consisted of 285 small and 214 medium-sized enterprises. The total thus was 499 enterprises. The response rate was 54%. Enterprises were selected randomly. In order to improve the quality of the results of the questionnaire survey and to get a real picture of the current state of human resource management in enterprises in the Czech Republic, it was required that questionnaires were completed by a specialist from the HR department or the owner of the enterprise. In some cases respondents could choose more than one answer for each question. Therefore the sum of all the choices in these questions are not 100%. The structure of enterprises is shown in Tab. 1.

**Tab. 1: Structure of enterprises in percentages**

<b>Economic sector</b>	<b>Primary</b>	<b>Secondary</b>	<b>Tertiary</b>	<b>Total</b>
Small enterprises	4.9	26	69.1	100
Medium-sized enterprises	7	29.9	63.1	100
<b>Area operated</b>	<b>Private</b>		<b>Public</b>	<b>Total</b>
Small enterprises	82.8		17.2	100
Medium-sized enterprises	67.8		32.2	100
<b>Size of the market</b>	<b>National</b>		<b>International</b>	<b>Total</b>
Small enterprises	76.5		23.5	100
Medium-sized enterprises	57.9		42.1	100

*Source: authors' survey*

The data have been processed by means of absolute and relative frequencies using the IBM SPSS Statistics 22. Testing was done by Pearson's Chi-Square Test ( $X^2$  test) in association and contingency tables. Five null hypotheses were tested stating the non-existence of dependency between two qualitative features examined:

- Existence of the HR department in SMEs is not dependent on the size of the enterprise.
- Existence of the HR department in SMEs is not dependent on the position of the HR manager in top management.
- Existence of the HR strategy is not dependent on the size of the enterprise.
- Existence of the HR strategy is not dependent on the existence of the HR department.
- Existence of the HR strategy is not dependent on the position of the HR manager in top management.

The level of significance was set at 0.05. To interpret the strength of Cramer's V, a scale according to De Vaus [7] was used.

### **3 Problem solving**

#### **3.1 Small and medium-sized enterprises in the Czech Republic**

SMEs play an important role in the economy in Europe [25]. SMEs (up to 250 employees) form a significant group of employers in the Czech Republic because they employ 60.9% of employees out of the total number of the work force and represent 99.83% of the overall number of active business entities in the Czech Republic [23]. According to the Czech Statistical Office [6], the segment of SMEs in the Czech economy is, in the long-term, dominated by very small enterprises (SEs) employing a maximum of nine people, which represents one third of all jobs and one fifth of the overall amount of added value in the economy. These enterprises, however, were the most affected by the 2008 economic crisis. Pursuant to the data from the Small Business Act for Europe [9], the number of SMEs that ceased to exist after more than fifteen years in business continues to grow rapidly.

#### **3.2 HRM organisation in small and medium-sized enterprises in the Czech Republic**

##### ***3.2.1 HRM profile of small and medium-sized enterprises***

The survey results show that only 15.4% of SEs have the HR department, which is a common feature in SEs. SEs ensure the majority of basic HRM activities through their internal resources. This primarily means activities in the area of remuneration (67.4%), employee benefits (73.7%), employee training (52.6%), releasing of employees (81.1%), a human resource information system (HRIS) (57.9%) and employee hiring (89.5%).

The situation in medium-sized enterprises (MEs) is, due to their size and annual turnover, different. 50% of enterprises addressed have the HR department. MEs, more than SEs, undertake a number of HRM activities using their own resources. These activities include: remuneration (74.8%), employee benefits (90.7%), employee training (65.4%), releasing of employees (92.5%), the HRIS (80.8%) and employee hiring (93%).

Within the monitored HRM activities, it was further determined which internal documents the enterprises formulate. The survey results show that 55.4% of SEs have a business strategy; however, the HR strategy is available in only 33% of enterprises. This is despite the fact that HR goals should be linked to the strategic goals of the enterprise. They should also take into account the specific needs of the enterprise and define expected benefits associated with their fulfilment. The survey revealed that MEs adopt a more responsible approach to the development of basic strategic documents. 78.5% of MEs have a business strategy and 68.7% also have the HR strategy.

The development of economy after 2008 also influenced the situation in SMEs in the Czech Republic. In 40.4% of SEs the headcount has not changed, and in 28.1% of enterprises the number of employees has decreased. In 19.2% of MEs the headcount has not changed, and the figure dropped in as much as 47.2% of enterprises. The majority of small (96.5%) and medium-sized (91.1%) enterprises do not ensure outplacement. Job analyses are carried out by solely 28.1% of SEs and 39.3% of MEs.

To hire employees, SMEs most frequently search through their internal resources. Internal resources are exploited by SEs as follows: 68.1% of SEs use them to recruit managers, 49.8% to recruit specialists, 43.9% to recruit administrative staff and only 24.6% to recruit workers. Internal resources are exploited by MEs as follows: 79.9% of MEs use them to recruit managers, 66.4% to recruit specialists, 68.2% to recruit administrative staff and only 30.4% to recruit workers. To hire managers, SMEs use in particular interviews, CVs and references. In case of specialists and administrative staff, qualification tests are

required. Hiring employees from internal resources is closely linked to career management. It also enhances employees' identification with the enterprise and their stabilisation. It is important for SMEs not only to recruit the right employees for the right positions, but also be able to retain them. But only 29.1% of SEs and 57.9% of MEs concentrate on the adaptation process.

Formal employee performance appraisal is a critical HR activity which impacts the performance of both the individual and the enterprise. Formal employee performance appraisal is undertaken by 36.5% of SEs and 63.6% of MEs. SEs often underestimate it; they tend to focus on informal appraisal, in which the role of the evaluator is fulfilled by the enterprise owner or top manager. Employee performance appraisal may only be efficient if it is combined with other HRM activities. SMEs most frequently use employee performance appraisal results for remuneration purposes (SEs 41.4%, MEs 60.7%), employee training (SEs 16.1%, MEs 38.8%), career management (SEs 16.1%, MEs 37.4%) and HR planning (SEs 12.3%, MEs 29.4%).

Employee training represents an integral part of the HRM activities of any enterprise. Without investing in employees' training, no enterprise may achieve long-term success in the market. Although a number of SEs generally underestimate training of their employees due to the lack of financial means, the survey shows that 66.3% of SEs invest in employee training. The figure for MEs amounts to 83.6%. However, the efficiency of made investments is systematically checked by only 21.1% of SEs and 34.1% of MEs. The majority of responding SMEs do not engage in work with talent. What is particularly alarming is that only 3.5% of SEs and 13.6% of MEs have a talent management strategy in place. 31.6% of SEs mentioned that they managed talents intuitively and 64.9% of SEs did not engage in talent management at all. Similar applies to MEs: 35% of them manage talents intuitively and 51.4% do not engage in talent management. The most frequent reasons for this mentioned by SMEs were: the unimportance of this area for the enterprise, increase in costs and the size of the enterprise.

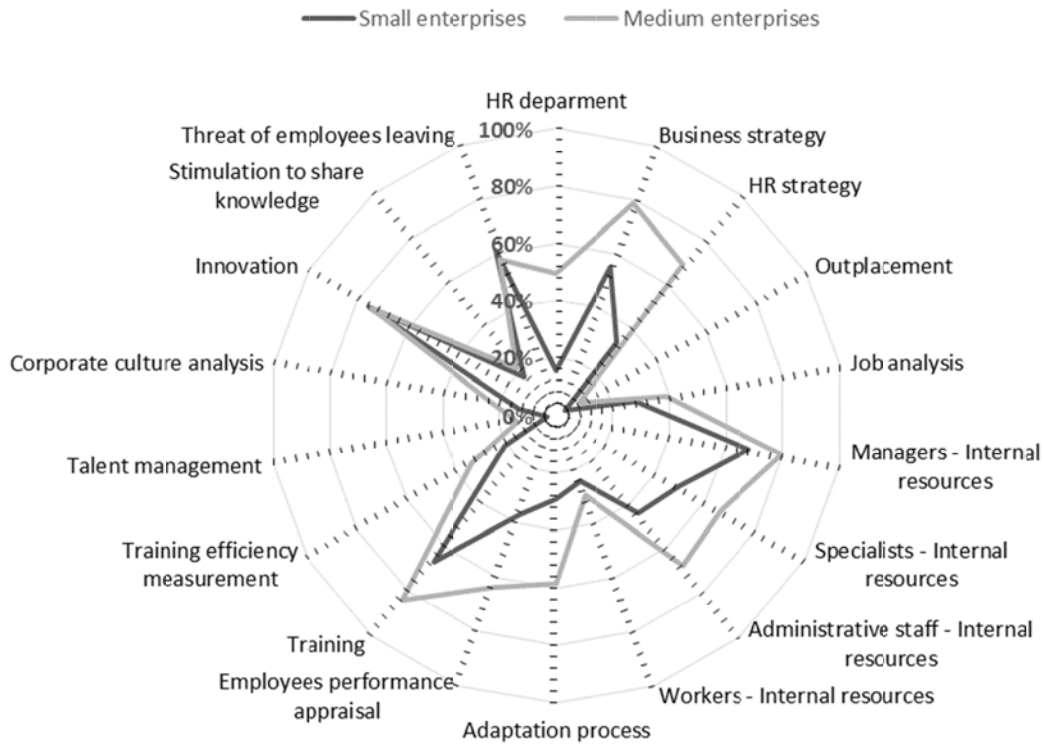
Human resource management is closely linked with corporate values that represent one of the foundation stones of the corporate culture. Although 50.2% of SEs and 66.8% of MEs formulate their corporate culture, only 13.3% of SEs and 22.4% of MEs analyse it. Innovations are a key precondition of the long-term competitiveness of enterprises and the economic performance of the Czech Republic. The results arising from the survey reveal that for 75.4% of SEs and 74.3% of MEs is important to focus on innovation. In the majority of cases they are stimulated by their customers (SEs 51.2%, MEs 45.8%), employees (SEs 50.2%, MEs 51.4%), experts (SEs 35.4%, MEs 41.6%) and competitors (SEs 34.7%, MEs 27.6%). In 10.2% of SEs and 16.8% of MEs the initiative to innovate comes from their R&D department. Only 2.8% of SEs and 8.4% of MEs co-operate with universities. Innovations most often relate to work procedures (SEs 49.1%, MEs 49.1%), quality of work (SEs 46.7%, MEs 44.4%) and work productivity (SEs 31.2%, MEs 23.8%).

The final part of the questionnaire survey was targeted at knowledge continuity ensuring. The survey shows that key employee knowledge and experience are fully recorded by 24.6% of SEs and 18.2% of MEs. 48.8% of SEs and 60.7% of MEs record key employee knowledge and experience only to a limited extent (they focus primarily on critical knowledge) and 26.7% of SEs and 21% of MEs do not record their key employee knowledge and experience at all. Simultaneously, only 17.5% of SEs and 21.5% of MEs stimulate their employees to share, transfer and preserve their knowledge and experience when these employees leave the enterprise. It is quite surprising that in today's turbulent

environment 61.1% of SEs and 57.9% of MEs do not feel jeopardised by the decision of their key employees to leave.

The HRM profile of SMEs in the Czech Republic is displayed in Fig. 1.

**Fig. 1: HRM profile of small and medium-sized enterprises**



Source: authors' survey

### 3.2.2 Testing dependencies between selected qualitative features

HRM organisation in SMEs in the Czech Republic is determined by a number of factors, such as the size of the enterprise, its purpose, business strategy, etc. Despite the fact that SMEs usually do not have the HR department established or have a department of a limited size, it is necessary to focus on HRM. Within the frame of the survey conducted, five partial null hypotheses were tested (see Tab. 2). It also shows the Asymp. Sig. or the Pearson Chi-Square Test. In the event of null hypothesis rejection (Asymp. Sig. < 0.05), alternative hypotheses (HA) were accepted stating the existence of dependency. In this case the dependency was expressed by means of Cramer's V coefficient and a scale according to De Vaus [7] was used.

**Tab. 2: Results of the test of qualitative features for hypotheses 1 - 5**

No.	Null hypothesis	Asymp. Sig.	Decision	Cramer's V	Strength of the relationship
1	Existence of the HR department in SMEs is not dependent on the size of the enterprise.	0.000	Reject the null hypothesis	0.372	Moderate
2	Existence of the HR department in SMEs is not dependent on the position of the HR manager in top management.	0.000	Reject the null hypothesis	0.256	Moderate
3	Existence of the HR strategy is not dependent on the size of the enterprise.	0.000	Reject the null hypothesis	0.354	Moderate
4	Existence of the HR strategy is not dependent on the existence of the HR department.	0.000	Reject the null hypothesis	0.350	Moderate
5	Existence of the HR strategy is not dependent on the position of the HR manager in top management.	0.084	Do not reject the null hypothesis	-	-

*Source: authors' survey*

The survey conducted has revealed that only 30.3% of SMEs have the HR department established and in 54.1% of SMEs the person in charge of HRM holds a position in top management. In 73.5% of the SMEs with the HR department the person responsible for HRM holds a position in top management. Despite the fact that some SMEs do not have the HR department established, in 45.7% of them a manager with a position in top management holds responsibility for HRM. The results of the survey have confirmed that this is true primarily of SEs (74.8%), in which the responsibility for HR issues usually lies with the enterprise owner (this is a common trend). In 57.3% of SMEs the person in charge of HRM was hired from internal resources. 65.3% of SMEs addressed have a business strategy and 48.3% of them the HR strategy.

#### **4 Discussion**

Human resource management in SMEs takes place under very specific and definite conditions characteristic of the given enterprise and its level is determined by a number of internal and external factors. The results of the survey confirmed that as regards internal factors these refer in particular to: (1) the size of the enterprise, (2) the position of HR manager in top management and (3) the existence of HR department. Other very important factor is the financial situation of the given enterprise. As regards external factors, the level of human resource management is most influenced by the situation on the labour market. These results are confirmed also by Urbano and Yordanova [35], who point out that according them the adoption of HRM practices is positively associated with the presence of the HR department.

Many SMEs encounter serious human resource problems, while in the same time these human resources present a critical factor that determines the success of their competitiveness [4]. According to Poór, Mura and Zsuzsa [27], it is important to note that

many publications on HRM in and outside the CEE region have studied this important management function rather superficially. SMEs in the Czech Republic represent the important group of employers and therefore they need to be taken into account. The conducted survey helped to define the basic characteristics in the area of HRM in SMEs in the Czech Republic, the level of individual HR activity ensuring and the HRM profile of SMEs. The survey has revealed the following conclusions:

- In the course of the last three years we have seen a decrease in the headcount in one third of SEs and half of MEs.
- SMEs undertake the major part of HRM activities.
- The majority of MEs undertake a broader range of HRM activities (e.g. job analysis, adaptation process, employee performance appraisal, training and training efficiency measurement).
- In the hiring process to recruit managers, SMEs usually take advantage of employees from internal resources.

Tab. 3 shows other main survey conclusions.

**Tab. 3: Main survey conclusions**

HRM activities	S/MEs	%	Conclusion
HR department	SEs	15.4	The majority of SEs have no HR department established. Every second medium-sized enterprise has the HR department.
	MEs	50	
Business strategy	SEs	55.4	One half of SEs formulate their business strategy, yet only one third of SEs formulate the HR strategy. Two thirds of MEs have both business and HR strategies in place.
	MEs	78.5	
HR strategy	SEs	33	
	MEs	68.7	
Outplacement	SEs	3.5	SMEs do not ensure outplacement.
	MEs	8.9	
Talent management	SEs	3.5	The majority of SMEs do not manage their talent.
	MEs	13.6	
Corporate culture analysis	SEs	13.3	SMEs do not carry out corporate culture analyses.
	MEs	22.4	
Innovation	SEs	75.4	Two thirds of SMEs concentrate on innovation. However, their R&D department is rarely involved. The co-operation between SMEs and universities in the area of innovation is quite poor.
	MEs	74.3	
Stimulation to share knowledge	SEs	17.5	The majority of SMEs do not stimulate their employees to share, transfer and preserve knowledge.
	MEs	21.5	
Threat of employees leaving	SEs	61.1	More than a half of SMEs do not feel endangered by the leaving of key employees.
	MEs	57.9	

*Source: authors' survey*



## Conclusion

HRM system is a crucial factor that determines the success of the enterprise in the market and its competitiveness. It is essential to realise that well-organised HR processes contribute to the improvement of the employer brand. The theoretical contribution of the article is the summarisation and comparison of results of survey focusing on HRM and HRM activities with reference to the strategic importance of this area for management that was conducted in the Czech Republic. The practical contribution is to present the latest results of the level of HRM in SMEs in the Czech Republic having in mind its importance in the current competitive environment. The results of the survey confirmed important human resource management internal factors and evaluated HRM activities which are crucial for HR strategy and policy of SMEs. These results may help SMEs set suitable HR strategies and policies and thus respond to the changing conditions and trends in human resource management not only in the Czech Republic.

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