

# THE STRATEGIC ROLE OF CONTROLLING AND HUMAN RESOURCES MANAGEMENT IN SUCCESSFUL MANAGEMENT

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**ABSTRACT:** During the last two decades, business systems on the Croatian business scene have been faced with a series of problems, especially when it comes to applying modern managing tools. This paper will try to shed light on the dependence between key management activities: planning, organization, managing of control and the business functions of controlling, and managing human resources. The aim of this paper is to emphasize the indispensable cooperation of business functions of controlling and management of human resources as key prerequisites for the realisation of the company vision, goals, and strategies; in other words, for successful management. Striving to successfully manage an organization, top management is faced with a core challenge; making sure that the vision, goals, and strategies are understood on all levels of the organization in order to ensure the full use of the skills and knowledge contained within the human resources of the organization in question. Human resources management and controlling are the principal partners of top management when it comes to such matters. Performance monitoring, remuneration, motivation, and the establishment of corporate culture all depend on the strong connection between these two functions existing outside the hierarchical structure of the organization. This paper will try to show how the dialogue between Controlling and Human resources management forms a crucial link between strategy, managing tools, and people as a strategic resource. It is this structured link that is the prerequisite for the successful management of the entire business system by top management.

**Key words:** Controlling, Human resources management, Strategy, Organization, Management

**JEL:** O1, O5, O16

## 1. INTRODUCTION

Management is the primary task of top management, but also its greatest challenge at the same time. Management consists of a series of components which are simplified and reduced to the most basic terms in this paper: planning, organization, leadership, and

control. Each of these activities implies a series of demanding processes which have been discussed in professional literature for decades. “Numerous definitions describe management as the ability to lead and direct a work group toward achieving certain plans, goals, and tasks.” (Gutić, D., Horvat, Đ., and Jurčević, M. 2018). Management, according to the majority of authors, is surely one of the most complex and all-encompassing tasks and roles of top management in any business system.

This paper offers a practical view which recognizes two functions existing outside the hierarchical structure of an organization, i.e. controlling and human resources management, and emphasizes its significance in efficient and practical management. In practice, top management is faced with a series of challenges; from basic ones such as offering quality solutions to business issues to strategic ones such as ensuring that the owner’s interests are met and achieving set goals. In this complex process, top management must build and rely upon available management leverage such as the business functions of controlling and human resources management.

This paper attempts to clarify the role and strategic aspect of controlling in management through planning, organization, leadership, and control, at the same time emphasizing the necessary presence of controlling through provided guidelines for management for top management. With its processes of quantitative and qualitative analyses, controlling permeates all aspects of management and facilitates efficient decision making. The second important role of controlling is reflected in efficient remuneration and motivation, which are prerequisites for activating the full potential of human resources in order to achieve total commitment entirely aligned with the defined goals of top management, there the role of the mission as the link between top management, these two business functions, and the employees is problematized.

It is in the segment of remuneration and motivation, as well as managing corporate culture, which are crucial components of management as activities performed by top management, that human resources management is apparent as the tool for successful management. Already during the 1990s, in his book “The Fifth Discipline”, Peter Senge emphasized the necessity of strengthening the abilities for learning and innovation with the goal of seeing the broader picture. In addition to the ability of seeing the broader picture in business, it is even more important to understand the broader picture on all organisational levels, for which there is a prerequisite in the cooperation between the business functions of controlling and human resources management. The importance of the relationship between these two functions is recognized by this paper in the management of the organisational structure and in assigning clear roles and responsibilities, which is the basis for efficient performance monitoring.

The final goal of the paper is to show an evident need for the establishment of the business functions of controlling and human resources management in business systems in order to efficiently perform basic management activities: planning, organization, leadership, and control.

## 2. THE ROLE AND STRATEGIC ASPECT OF CONTROLLING IN MANAGEMENT

All business systems share a single goal: to satisfy the interests of the owner. The interests have to be translated into goals, and in order to achieve those goals, it is necessary to structure the business strategy. The strategy in itself is by no means a final solution. It has to be transferred into a business plan resulting in a value or financial image in the form of a financial plan. The realization of business activities and the financial plan in order to achieve the strategic goals through a business strategy is, in practice, called management. However, it is important to note that the process of decision making connects all the mentioned elements in practice and actually steers the business system in the desired direction.

Management manages the business system through four fundamental activities: planning, organization, leadership, and control. However, decision making is a component of each of these activities.

Planning is an activity that requires setting goals and defining the course of action for their achievement. The process of planning is based on a series of analytical data about the surroundings, market, business system, sector analyses, and the competition, but also requires the assessment of restrictions and the evaluation of future trends and real risks. It is essential in the planning process to define alternative courses of activity with accompanying risks, as well as to define a way to measure success in the realization of planned activities.

Efficient management relies on organizational structure; a hierarchical depiction of roles and responsibilities that is a result of jobs and activities grouped into processes, while the processes are grouped into related clusters that are finally called departments, services, or sectors, depending on the nomenclature used by a certain business system. Organizational structure management implies continuous adjustment of the roles, responsibilities, and hierarchical relations with the goal of successfully implementing plans and achieving goals.

Leadership implies the ability to understand the available competencies and knowledge within the organization and to rationally influence their use in the wanted direction. Efficient leadership rests on good and frequent communication with the employees and on adequate motivational tools that ensure the understanding of strategic goals and expectations on the one hand, and acknowledging the invested efforts and the personal engagement of the employees on the other. The compatibility of business goals with the personal goals of the employees is crucial for successful and efficient leadership, and as such a prerequisite for the successful realization of a business strategy (Merchant, K. A. 1988).

Control is much more than the technical supervision of people and processes. It is within this activity that the complex nature of the process of management is condensed. Control is necessary for the functioning of the process and for successful operation. Per-

formance assessment is a key part of the activity of control and encompasses all business functions within the organization such as finances and accounting, sales, marketing, production, procurement, human resources, IT, and legal affairs. Performance assessment on any level reflects the results and the efficiency of the decisions made by management.

Planning, organization, leadership, and control as key activities of management impose a need for the integration and moderation of all activities through all business processes, which is a natural role of controlling which entails both management and supervision through generating bases for decision making.

Controlling is the business function that enables management of activities with a valorised statement in the form of a number. Management without navigation, i.e. a collection of data that show the position of the organization in regard to the set goal and that show the effectiveness of the current strategy, is completely nonsensical. Therefore, controlling as the integrator of key activities in the process of management plays an important role because it enables management to gain insight to the broader picture, ensures the coordination of short-term goals with the long-term vision, and, in a way, guarantees that the organization is oriented toward the future.

According to Očko and Švigir (2009): “Controlling is an expert function existing outside the hierarchical structure that assists management, but also all other functions within a company, in raising the level of effectiveness and efficiency of business. Controlling does this by transforming numerous quantitative and qualitative data outside and inside a company to information necessary for making decisions on all levels of management, and especially for the decision making of top management.”

The multidimensional role of controlling is evident because it has to take into account the concept of success as a result of the activity of all forces within an organization while at the same time remaining focused on the future. It is this aspect that is crucial in exercising the strategic role of controlling. Controlling analyses circumstances, offers trend estimations, and enables the assessment of the outcomes of different business scenarios, by which it facilitates direction selection and decision making. Controlling in itself is an invaluable source of management guidelines for the members of top management, but also for all other business functions. The very function of controlling requires a multidisciplinary approach and a deep understanding of not only the business goals and strategy, but also the value chain and all business processes. In order to successfully perform its role, controlling must also place immeasurable importance on the organizational structure, among other things because of defining points of responsibility within the structure and defining the mutual interfaces of business processes.

In addition to the roles and responsibilities that form the logical backbone of the organizational structure, particular jobs and their descriptions form the tissue of the organizational structure. Behind every job description, behind every job, there are real people with their individual knowledge, competencies, skills, and abilities necessary for

performing assigned work and tasks as well as being able to bear an appropriate level of responsibility. This fact, along with clearly defined business goals and strategy, is crucial for efficient performance assessment of management in a whole business system and on all organizational levels.

### **3. HUMAN RESOURCES MANAGEMENT AS A TOOL FOR SUCCESSFUL MANAGEMENT**

As was stated above, managers hold the following tools of management in their hands: planning, organization, leadership, and controlling. Based on the analytical bases ensured by controlling, the management sets goals, defines strategies, and makes decisions. The activity of management puts a key challenge before the managers that is crucial for successful business operations. This challenge is the issue of ensuring all employees invest maximum effort into their work.

Hamel and Prahalad (Harvard Business Review 2005) introduced the coinage “strategic intent”, which articulates the challenge of managing people for top management; how to ensure the understanding of vision, mission, goals, and the company’s strategy itself among all employees since this is crucial for the success of the business system as a whole.

If one adheres to practice, without delving into the scientific aspect of the definition of human resources management, one can claim that there is no single definition of the role of human resources management, but all authors agree that it is a key tool employed by top management. Human resources management as a business function has the role of ensuring that the whole organization is ready with regard to competencies, knowledge, and skills in order to achieve business goals and realize business strategies. In addition to this strategic framework, the responsibilities of human resources management include: the assessment of jobs, payment policies and remuneration, the structuring of social frameworks and ensuring worker rights, the motivational policies of the company and career development, and, in recent years, the personal growth of the employees. These responsibilities of the business function of human resources management imply that the key to achieving the “strategic intent” of top management is in the hands of this business function.

Planning as an activity of management also entails defining vision, mission, strategy, and goals. The concept of “the mission” is a brief and clear “translation” of the vision and strategy that ensures the understanding and identification by the employees of the goals that the company wants to achieve.

The company mission is a valuable tool that ensures all employees clearly understand the direction in which the company is headed and, in a way, helps the employees identify with the company. When one realizes this notion, it is clear that the mission statement is not a tool used exclusively by top management, but also provides strong leverage for the

function of human resources management. In this context, the mission facilitates the setting of goals and strategies for the development of human resources in order to ensure that the business function of human resources management is able to secure complete support when it comes to achieving the wanted business results.

The mission must also have a clear connection to the every-day tasks performed by the employees, the course of their career development, their contributions and the payment they receive for their contributions, but also to their motivation and their readiness to grow. These are the basic areas of responsibility of the business function of human resources management, which it realizes through managing the budget allocated not only for the cost of salaries, but also, and more importantly, for the growth and education of the employees. The structure of the budget managed by the business function of human resources management is based on expenses from salaries, expenses from the social framework and work, and expenses from investments in the development and education of the employees.

The investment in the development and education of the employees that is in line with future goals is a strategic challenge of the business function of human resources management. The programmes and contents must be aligned with the goals that the business system wants to achieve. Therefore, the knowledge, competencies, and skills of the employees must be on a level that enables them not only to perform toward achieving set goals, but also to truly understand the vision and strategies of the company. If the total level of competencies and knowledge within the system is aligned with the goals of top management, and the mission is precisely structured and successfully communicated throughout the system, top management has the opportunity to successfully round off the process of management in its entirety. It is clear from this that the total knowledge within a business system is important for management, and its importance is all the greater if one takes into account how technological development and digital surroundings raise the bar of excellence every day. The Fourth Industrial Revolution is based on innovation, and this concept depends exclusively on the total level of knowledge within a company and the ability to manage that knowledge.

#### **4. THE RELATION BETWEEN CONTROLLING AND HUMAN RESOURCES MANAGEMENT**

Within the managing activities of organization and control, mutually dependent processes are intertwined. These processes include organization design, monitoring successfully completed tasks and fulfilling predefined goals.

Experience from practice shows that, in many business systems, organization design is considered a legal affair, while the logic of management implies a somewhat different concept. Organizational structure is a result of defined goals and strategy and depends

on inherited and current relations and processes, while any “updates” to it fall under the responsibilities of top and middle management, where the holder of the process is actually the business function of human resources management. From everything stated above, the need for a multidisciplinary approach and the business function of human resources management is clear.

A precisely defined organizational structure with assigned roles and responsibilities is a prerequisite that allows controlling to apply the tools of goal assignment, but also to assess performance. The results of this process represent input parameters when it comes to salaries, remuneration, motivation, and employee growth. In order to efficiently apply the above-stated tools, human resources management must closely cooperate with controlling.

Remuneration and motivation come from excellence in achieving clearly defined and measurable goals. The maintaining and strengthening of the concept of excellence is possible only through intended personal growth and the education of employees. In order for the management to follow this process, strategic and financial plans have to exist along with clearly defined vision, strategy, and goals. The business function of controlling is the holder of these processes.

A well-balanced organization adapted to the company strategy with clear roles and responsibilities described in detail within job descriptions with added value categories such as required skills and knowledge necessary for completing assigned tasks is the goal of human resources management. Without these basic prerequisites, it is not possible to ensure the assignment of employees according to the prescribed job descriptions; employees who understand the expectations of the employer, the company strategy and business goals, and who have the appropriate level of motivation to deliver results within expected deadlines and of expected quality.

The described process shows that reward in terms of salary and bonuses, advancement in a career, and growth in terms of education and acquiring skills follows after regular performance assessment regarding to yielding results. For everything stated above to be possible, the business functions of controlling and human resources management have to be completely networked, which is apparent from the following data matrix of dependence between controlling and human resources management:

**MATRIX:**

**DEPENDENCE BETWEEN CONTROLLING AND HUMAN RESOURCES MANAGEMENT**

	<b>Controlling</b>	<b>Human resources management</b>
<b>Vision, strategy, goals</b>	participates in creation	complete understanding
<b>Strategic and financial plans</b>	participates in creation by providing analytical bases; manages the process by creating fundamental guidelines	participates in creation, provides input on employees, charged with implementation of human resources
<b>Organizational structure, roles and responsibilities, job descriptions</b>	complete understanding	management and updating based on strategies and goals
<b>Assigning goals in the organization</b>	provides input	manages the process, provides support to management
<b>Performance assessment</b>	collects data and provides report structure	follows the process and conducts analyses; input for development and remuneration
<b>Motivation, remuneration, career development</b>	provides input	follows the process, conducts analyses, and realizes steps in cooperation with management

In addition to these process interfaces, the cooperation between the business functions of controlling and human resources management is reflected through a whole line of key indicators of performance when it comes to the very business function of human resources management that are crucial for monitoring the performance of the human resources management strategy and for the achievement of autonomous goals of this business function.

However, this interdependence necessary for the successful implementation of the performance assessment system in the realization of business goals and strategies does not provide sufficient guarantee for successful management. Examples from practice have shown on numerous occasions that the level of loyalty the employee feels for the organization significantly influences the performance of business systems. The loyalty of the employees to an organization is a result of the employees' motivation and their satisfaction levels at work: "It can be a consequence of the employee being emotionally invested in the



organization, or the result of the exchange comprised of the employees investment in the company (expertise, experience, time) and the benefits the organization offers in return (the means necessary for survival and growth).” (Gutić, D., Horvat, Đ. and Jurčević, M. 2018).

In her paper entitled “The Employees – The Most Important Asset in the Organization” published in 2011, Gabčanova proved that the following parameters influence the success of an organization:

- Organizational culture
- The link between personal growth, motivation, and support from the employer
- Non-material motivational tools

This conclusion was derived from the parameters that Gobčanova problematized in the above-mentioned paper, while the following parameters represent some of the key items important in showing the interdependence between the business functions of controlling and human resources management:

- Receiving relevant business information from superiors
- Involving employees in the process of decision making
- Constructive discussions about work tasks and personal goals
- Discussions about performance and professional growth
- Application of acquired knowledge, skills, and competencies
- Importance of teamwork
- Cooperation between different organizational units
- Information about future plans and goals of a business system
- Feedback information about achieved results

Looking at these parameters that influence the total motivation levels and loyalty to the organization the most, one can categorize them all as characteristics of organizational culture managed by the business function of human resources management. Organizational culture is mostly the result of the development and implementation of strategies and policies of human resources management based on the input from top management and quantified guidelines provided by controlling. Therefore, organizational culture is an integral part of organization as a managing tool used by top management.

Almost none of the listed parameters can be fully implemented without the crucial report structure, from which structured and quantified individual goals, but also quantified results are generated. This is extremely important if one strives to remove subjectivity from the equation, which is a constant challenge when it comes to remuneration and the opportunities for remuneration, motivation, and employee growth.

By providing relevant and quantified data and performance assessments, controlling enables a high level of objectivity crucial for creating a stimulating environment and organizational culture.

It is evident that the dialogue between controlling and human resources management forms a crucial link between strategy, managing tools, and people as a strategic resource. This structural link is a prerequisite that enables top management to successfully manage a business system.

## 5. CONCLUSION

Top management is constantly faced with the challenge of management through the successful realization of “strategic intent”. The full engagement of the employees is crucial in this regard. In order to achieve this, the employees completely understand the whole strategic framework and goals that the business system wants to achieve. The knowledge, competencies, and skills of the employees, as well as their motivation, opportunities for growth, and the adequate reimbursement for their day-to-day contributions are crucial for their successful engagement.

The successful use and implementation of the tools of managing (planning, organization, leadership, and control) along with the omnipresent process of decision making are not possible if the business functions of controlling and human resources management are not structured within the business system in their full capacity. Both of these business functions exist outside the hierarchical structure of the organization and offer expert support to top management and their performance depends directly on their interaction.

Controlling is not able to ensure support to management through planning, organization, and control if human resources management has not ensured the necessary prerequisites such as the process of managing the organizational structure or defined roles and responsibilities with accompanying knowledge, competencies, and skills. Human resources management is not able to efficiently remunerate, motivate, and develop employees if the strategies and goals are not clear and if parameters for performance assessment are missing.

If one takes into account the concept of managing knowledge, one comes to the conclusion that it is controlling that creates a significant base of knowledge within the business system and, with its attribute of looking toward the future, ensures guidelines for development and innovation platforms, which is a crucial guideline for the development policies of human resources management and increases the success rate of all managing tools.

Due to mathematical models and the ability to connect strategies and values of individual resources and assets, controlling enables the quantification of employee value not only as a resource, but also as a valuable asset of a company.

Business systems that do not have a fully functioning business function of controlling, despite all other managing tools including human resources management, do not have the ability of sustainable management or the ability to capitalize the value of their human resources.

From everything stated above, it is evident that human resources management without controlling cannot align its processes and activities with the long-term goals of a business system due to an apparent lack of necessary input for the development and management of people as a true resource and true capital, with a possibility of gaining added value.

Complete functionality of dialogue between the business functions of controlling and human resources management can be achieved under one more crucial condition; an integrated business solution, i.e. a functional business IT solution that enables full transparency and management of all processes with uniform collection and processing of all necessary business information and data.

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