HR Department: How Business Ownership and Activity Type Affect Its Existence in the Albanian Companies

Amalia Tola

Keywords:
Human Resources Management; Human resources department; Organizational performance

Abstract: Human Resources Management is an important function of organizational management. The way an organization uses its human resources for the development and implementation of its strategies can strongly affect its performance. Human Resources Management (HRM) in the context of a market economy is still a new concept in Albania.

About thirty years after the transition from a centralized economy towards a free-market economy, the job relations in Albania are undergoing important changes; therefore, businesses should be able to successfully face the fast development of technology, globalization effects, and the need to have an efficient and effective labour force to fulfill, in the best way possible, the economic objectives. The role of the HR department is crucial towards such achievements; however, this role and its potential towards organization success is not fully appreciated by the Albanian private sector companies and often the HR department is not existent, or its role is vague.

This paper uses literature review and quantitative research to analyse the role of the HR department as a key function of organizational management and to explore the extent of HR department presence in the big companies in Albania, in the view of ownership and type of business activity.

1. INTRODUCTION

Human Resources Management (HRM) is an important management function, which greatly contributes to organizational success and when properly managed it can serve as a competitive advantage. Since Albania has transitioned from a centralised economy, running for about 46 years, towards an open market economy in the early nineties, the human resources management, in the view of an open market economy was a novelty and it took time for the private sector to understand the role of HRM in the organization and to consider such investment. However, HRM practices in the private sector are still new and the necessity and benefits of having a properly functioning HR department, policies and practices, are still not fully understood and implemented. The HRM in the organization is primarily perceived to have an administrative rather than a managerial role.

The role of HRM often is not carefully considered for its potential to improve organizational performance. Even though there is a growing number of big companies which appreciate HRM and its impact on the organization, there is still a considerable number of businesses that do not pay attention to the necessity of having an HR department with proper policies and practices in place.

The need for the Albanian private sector to effectively manage human resources becomes more crucial in the front of growing competition from domestic and foreign companies, free trade and globalization, and especially facing the challenges towards EU integration. Proper management of human resources would greatly contribute to improved quality of products and services; increased creativity and innovation; motivation, commitment, qualification, efficiency and effectiveness of the workforce, which in turn would contribute towards a competitive advantage.

Agricultural University of Tirana, Faculty of Economy and Agribusiness, Tirana, Albania
This article aims to explore one aspect of HRM in big companies in the private sector in Albania, which has to do with the presence of the HR department, its size ratio compared to other practices, and whether the business ownership and the activity of the company are factors which affect the existence of the HR department in the Albanian big companies.

2. LITERATURE REVIEW

Good HRM is a feature of visionary organizations. HRM builds upon the assumption that human resources are the ones that would form a competitive advantage for an organization, and the purpose of HRM is to incentivize and emphasize the commitment of its employees towards the organization. HRM practices focus on processes of recruitment and selection, management of talent, training and development of employees, performance management, remuneration management, motivation, planning and organizing, as well as the definition of job functions in the organizational structure. The HRM philosophy, in general, has evolved over time as a result of economic development, industrialization, the evolution of human rights principles and management ethics. The development of the HRM concept is based upon the effective use of employees and their treatment as resources or assets that strongly contribute to the fulfillment of the strategic goals of an organization.

Different researchers have defined HRM in different ways. The definition provided by Dessler (2007) about HRM is: “Applied policies and practices to guide the human aspect of management, including recruitment, selection, training and performance evaluation”. Hellriegel et al. (2009) define HRM as: “The process of analysis and management of the needs for human resources in an organization, aiming to guarantee the fulfillment of the strategic objectives”. HR management is a philosophy of people’s management in an organization, based on principles and values. According to Storey (2001), “HRM is based on the supposition that it is the human resources that can create a competitive advantage for an organization, and the purpose of HRM is to incentivize and empower employees’ commitment.” The way how employees are managed and developed is considered one of the main factors contributing to the organizational performance (Marchington and Wilkinson 1997, Philips 1997). The HRM function is comprised of several policies and practices, which are especially important for a growing organizational performance. The efficient and effective development of such practices contributes to better quality products and services as well as to growing benefits for the employees. According to Gubbins et al. (2006) if HRM policies and practices are well defined, they affect the perceptions and attitudes of managers and employees towards their job.

Different researchers suggest that applied practices in the HRM field affect organizational performance by having a direct influence on the attitude and behaviour of the employees. Organizational performance growth is the focus of today’s management practices, by clearly defining what needs to be achieved and how it can be achieved. Management of human resources clearly influences the improvement of organizational performance. According to Guest (1997) ‘An element which characterizes HRM is the principle that performance is improved through people’s work in an organization’. Huselid and Becker suggest that a professionally designed and deployed HRM system represents a significant economic asset for an organization. Ramsey et al. (2000) emphasize the fact that the opportunities and benefits offered through HRM practices affect the employees to have a better perception about the fulfillment of their needs.

Effective management of employees is considered the most difficult and complex aspect of management in an organization nowadays. Different authors have raised the importance of HRM
towards an improved organizational performance as well as contributing to the achievement of strategic goals and objectives. However, the presence of an HR department in an organization, as well as the extent of the policies and practices applied has to do with several factors related to economic development as well as related to the stage in the lifecycle of an organization. In small organizations, the focus is on survival and HR practices may not be properly documented or structured and defined with a clear methodology, and often the HR department is not present. On the contrary, larger organizations that are more settled and have secure business strategies, often establish their HR departments with formal policies and practices, such as job descriptions, formal remuneration systems, hiring and retention of employees, training and development, etc. In general, as staff size grows and organizations become complex, the HR function becomes more formalized and sophisticated (Hornsby and Karatko, 1990).

Executives in the HR department and other functional areas attempt to fit policies and processes to the business needs, yet the business needs vary depending on organizations’ stages of development (Baird and Meshoulam, 1988). The HR practices and systems must fit the needs of the organization and often require management to support significant organizational change. The size of an organization will certainly affect the way how HR practices and systems are designed and implemented, and the size of an HR department is usually measured as a ratio of HR FTE (full-time equivalent) staff versus the total number of employees (FTE). This is one of the HR indicators which is usually known as the ‘HR-to-employee’ ratio.

Different authors have defined a benchmark related to the number of employees which marks the existence of the HR department. There are different opinions about this number for a company to hire an HR specialist and therefore start an HR department. Some refer to 50 employees, often to 100 employees, however, there is not a clear-cut reference for that. According to Brewster, et.al (2006) the HR function is usually formalised and structured in organizations with more than 200 employees. Other researchers such as Galanaki and Panayotopoulou (2008) and Fernandes-Sanchez et al. (2008) have used 200 as the employee number to select companies to analyse different aspects of HRM. According to Albanian law\(^2\) companies with 50 to 249 employees are categorised as medium enterprises while those with 250 and more employees as big enterprises. Considering these two levels, Albanian companies with 250 or more employees are selected for the purpose of this article, considering that their size implies that organizations need to have structured and formalised HR systems and practices, therefore such companies would make a valid target for the hypotheses analysis.

3. METHODOLOGY

The purpose of this article is to explore the extent of the presence of the HR department in the Albanian companies and whether the business ownership and activity type of these companies play a role in the existence of the HR department. As defined by the literature review, the establishment of the HR department is related to the size of the organization. As small businesses tend to struggle for their survival, the establishment of the HR department is not a priority. The need for HR presence becomes more crucial as the company grows. As provided in the literature review, the target companies for this article are those with 250 and more employees. The size of the organization affects the dynamics of HR development in an organization, both in terms of structure as well as in terms of policies, systems, and practices.

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1 Law No. 10042, date 22.12.2008
The data for this research are gathered via questionnaires as a tool for systematic data collection. The questionnaire is constructed with concise, clear, and understandable questions measured on a 5 level Likert scale, and the responses are analysed using quantitative methods. The data collection is guided by the confidentiality principle. 65 companies were selected forming such a sample size that provides a confidence level of 95% and a margin of error of 5%. The analysis of the internal consistency and reliability of the questionnaire was performed using Cronbach Alpha whose coefficient value resulted to be over 0.80 proving as such the validity of the questionnaire.

The analysis regarding HR department in these selected companies is done using two dynamics: a) the presence of HR department in these companies in the viewpoint of ownership and activity type; and b) the size of the HR department using the indicator of HR-to-employee ratio, often referred to as HR ratio. For the purpose of this article, the companies are categorized following their ownership and type of activities as follows.

- **Ownership:**
  - *Albanian* – the owners are Albanian individuals and/or entities
  - *Foreign* – the owners are foreign individuals and/or entities
  - *Joint* – companies have joint ownership of Albanian and foreign individuals and/or entities.

- **Activity type:** *Production; Service;* and *Trade.*

For the analysis, five hypotheses were defined to statistically analyze the effect of ownership and activity type on the existence of the HR department, as well as to the HR ratio (HR-to-employee) in the big companies in Albania.

**Hypotheses:**

- **H\(_1\):** The existence of HR departments in Albanian big companies is affected by the ownership in these companies.
- **H\(_2\):** The existence of HR departments in Albanian big companies is affected by the type of activity these companies perform.
- **H\(_3\):** The size of the HR department in the Albanian big companies is sufficient to perform all tasks and responsibilities.
- **H\(_4\):** The HR ratio in the Albanian big companies is affected by the type of ownership in these companies.
- **H\(_5\):** The HR ratio in the Albanian big companies is affected by the type of activity these companies perform.

4. **RESULTS**

As Albania has come out of a centralized economy under a communist regime, the private sector has started to develop from the early nineties. About 79% of the companies that are part of the research are established before 2006 while about 54% are established between 1991 and 2000.

About 49% of the questioned companies offer services operating mainly in the banking, telecommunication, education, health care, and customer care, while 43% are production companies and only 8% are trading companies. Regarding ownership, 44% of the companies have foreign ownership, while 43% have Albanian ownership and only 13% have joint ownership, foreign and Albanian. Based on the analysis, the foreign-owned companies operate mainly in the services industry (63%) and production (37%), while the Albanian-owned companies operate mainly in production (42.3%) and services (38.5%).
The HR department in the big Albanian companies is the focus of this article. The presence of the HR department in companies of this size (250 and more employees) is an awareness indicator that the company appreciates HRM and has invested to at least create the structure for such management function. On the other hand, the size of the HR department analyzed using the HR ratio provides information regarding the sufficiency of the HR staff in the company structure, which implies the extent of applying HR practices in an organization. As described in the literature review, there is not any clear-cut reference regarding the value of such ratio, however, a comparison with different research on different countries provides some feedback on the level of such ratio.

4.1. The existence of an HR department in the Albanian companies

From the companies researched, only 11% result not to have an HR department. In these companies, the main tasks part of the HR role, such as recruitment and selection, performance evaluation, remuneration, are under the responsibility of the CEO and Finance department which cover mainly the administrative aspects of the HR practices.

The analysis about the effect of the ownership in the existence of the HR department, provides some feedback about the level of awareness of the Albanian entrepreneurs regarding the necessity of having in place an HR department. Therefore, the analysis compares the companies with foreign, Albanian or joint ownership. The categories regarding activity type, aim to analyse whether the existence of HR department is more present in the service sector, compared to production or trade, considering that the service companies are from mainly the banking and financial sector in Albania, as well as telecommunication.

1. Hypothesis one suggests that there is a significant relationship between the type of ownership and the existence of HR departments in the big companies in Albania.

About 89% of the questioned companies do have an HR department within their organizational structure. The HR department is missing in 26% of the companies with Albanian ownership and 12% of the companies with joint ownership, while all foreign-owned companies do have an HR department in their organizational structure.

To analyze whether such difference is statistically significant, a ‘Chi-Square test of Independence’ was performed, using two non-numeric variables: ‘ownership’ as an independent variable and ‘existence of HR department’ as a dependent variable. The ownership type is analysed in three layers: Albanian, foreign, and joint ownership. The test resulted statistically significant, $X^2$ (df=2, N=65)=11.087, P=0.004, therefore we can conclude that there is a statistically significant relationship between the type of ownership and the existence of HR department in the Albanian big companies.

In order to measure the effect between the two variables, Cramer’s v coefficient is calculated resulting in a value of 0.372, which shows an average strength of association between the two variables (classification according to Rea & Parker, 1992) type of ownership and existence of HR department. Therefore, Hypothesis one is accepted.

2. Hypothesis Two suggests that there is a significant relationship between the type of activity and the existence of HR departments in the big companies in Albania.
From the questioned companies, it is about 19% of the production companies, 20% of the trading companies and 7% of the service companies which do not have an HR department in their structure. Most of the production companies in this category are mainly companies outsourced by other companies for clothing and shoe production. From the data analysis, service companies are more inclined to have an HR department (93%), considering that part of these businesses operate in the banking and financial sector, telecommunication, etc. However, in order to analyze whether this difference is statistically significant, a ‘Chi Square test of Independence’ is performed using ‘activity type’ as an independent variable and ‘existence of HR department’ as a dependent variable. The type of activity is analysed in three layers: production, services, and trade. The test value resulted as $X^2 (df=2, N=65)=2.248$, $P=0.325$ and since $P$ value is higher than 0.05 the relationship between these two variables is considered not statistically significant. Therefore, we can conclude that Hypothesis two is rejected.

### 4.2. The size of the HR department in the Albanian companies

The number of HR staff in an organization is not a meaningful indicator if considered alone; therefore, the HR ratio is used to measure the sufficiency of the HR staff. This indicator measures the ratio between the HR staff versus the total number of employees using full-time equivalent (FTE) numbers. Such an indicator is called ‘HR-to-employee ratio’. Since there is no previous research regarding this ratio in Albanian companies, other research is used as a reference point for comparison.

Previous research from Brewster et al. (2006) provides the average ratios in Europe overall and some countries within Europe. According to this study, the HR ratio in Europe resulted to be 1.59 HR staff per 100 employees with a variation among different countries, where the average ratios for Bulgaria were 1.02, Ireland 1.99, UK 1.50, Germany 1.46, Spain 1.28 and 1.52 in Estonia. The Society for Human Resource Management (SHRM) (2015) has done some research regarding the HR ratio in the US, analyzing more than two thousand companies of different sizes in the US. The average HR ratio resulted to be 2.57 for all organizations. As staff number increased the HR ratio decreased.

According to SHRM, small businesses (1-250 FTE) in the US have an HR ratio of 3.4, while companies with 251-1,000 FTE have an HR ratio of 1.22. For larger companies, the ratio decreases to 1.03 HR staff per one hundred employees. As shown in Table 1, about 72% of the questioned companies have an HR ratio of less or equal to 1 per one hundred employees, while only 15% have a ratio between 1.1 and 1.5%, comparable to the rates of EU average and US value of companies with staff above 250 up to 1000, which is more comparable to the sizes of Albanian companies.

The average value of the HR ratio for the Albanian companies is 0.81 with a minimum value of 0.26 and a maximum value of 1.86 and a 0.48 standard deviation (Sd). The distribution is clearly visible as shown in Figure 1.

<table>
<thead>
<tr>
<th>HR ratio</th>
<th>%</th>
<th>accumulated %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1–0.5</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>0.6–1.0</td>
<td>34</td>
<td>72</td>
</tr>
<tr>
<td>1.1–1.5</td>
<td>15</td>
<td>87</td>
</tr>
<tr>
<td>1.6–2.0</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>total</td>
<td>100%</td>
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</table>

**Table 1. HR ratio in the Albanian companies**

**Source:** Own research
3. Hypothesis three suggests that the size of the HR department in the Albanian big companies is sufficient to perform all tasks and responsibilities.

The companies were asked to respond whether they perceive their HR staff number as sufficient to perform all their tasks and responsibilities. About 47% of the companies have responded that their HR staff number is either too small or somehow sufficient. However, to analyse whether such perception is realistic a Pearson's $r$ correlation analysis is performed using two numerical variables: ‘HR staff is sufficient’ and ‘HR ratio’. At first, the analysis of the normality of the two variables was performed using the graphical analysis (Q-Q plot) (Figure 2 and 3) and analysis of Skewness and Kurtosis.

The test showed that there is a positive correlation $r(58)=0.390$, $p=0.004$, of an average level (Hopkins, 1997) between the perception of the companies about the sufficiency of the HR staff versus the HR ratio. As such, it can be concluded that the number of HR staff in the big companies in Albania is not sufficient to perform all tasks and responsibilities that such function requires. Therefore, hypothesis three is rejected.
4. Hypothesis four suggests that the HR ratio in the big companies in Albania differs in relation to the ownership of these companies.

From the data analysis results, the average value of the HR ratio is 0.81 HR staff per one hundred employees (FTE). The companies with foreign ownership, in general, have a higher ratio compared to the other companies with Albanian or joint ownership. About 41% of the researched companies have an HR ratio with a value above 1.1 per one hundred employees compared to the other companies, where only 16% of the companies with Albanian ownership and 14% of the companies with joint ownership have HR ratios in these values.

To analyze whether this finding is statistically significant, the ‘One-way ANOVA’ test was performed to compare the effect of the independent variable ‘ownership’ to the dependent variable ‘HR ratio’. The analysis of the normality was performed using graphical analysis (see Figure 4) for both variables as well as Skewness and Kurtosis.

![Figure 4. Ownership](image1.png) ![Figure 5. Activity type](image2.png)

Source: Own research

The supposition of homogeneity of the variances was tested using Levene’s test, which resulted in $F(2,58)=0.224$ and $P=0.8$. The Anova test value resulted to be $F(2,58)=2.438$ and $P=0.098$. Considering the P-value, the result is not statistically significant; therefore, there is not any statistical evidence that can prove any connection between the HR ratio and the ownership for the Albanian companies. Therefore, hypothesis four is rejected.

5. Hypothesis five suggests that the HR ratio in the Albanian big companies differs in relation to the type of activity these companies perform.

The analysis of the 58 companies showed differing HR ratios of the companies concerning their activity type. The companies which offer services, in general, have a higher HR ratio compared to the companies which deal with trade or production.

To statistically analyze such a relationship, the ‘One-way ANOVA’ test was performed to compare the effect of the independent variable ‘activity type’ to the dependent variable ‘HR ratio’. The analysis of the normality was performed using graphical analysis (see Figure 5) as well as Skewness and Kurtosis.
The supposition of homogeneity of the variances was tested using Levene’s test, which resulted to be $F(2,58)=1.085$ and $P=0.346$ ($P>0.05$). The Anova test value resulted to be $F(2,58)=0.898$ and $P=0.414$. Considering the $P$-value is higher than 0.05 it can be concluded that the relation between the HR ratio and the company activity type is not statistically significant. Therefore, hypothesis five is rejected.

5. CONCLUSION

HRM is a management function that needs special attention considering its impact on the creativity, innovation, motivation, efficiency and effectiveness of the workforce, transforming it into a precious asset for the organization. Job relations in Albania are undergoing important changes as the private companies must be able to successfully face the technology advancement, globalization, growing domestic and foreign competition, and the need to have an efficient and effective workforce, in order to fulfill the economic objectives.

The focus of the article is put on exploring the existence and the size of the HR department in Albanian companies, as the prerogative condition for a proper HRM function. The target of this research were the Albanian companies with 250 or more employees, which are considered by law as big companies in Albania. The analysis was performed in the view of the raised hypotheses regarding the effect of ownership and type of activities both in the existence of the HR department, as well as on the HR ratio, and whether the size of the HR department is perceived to be sufficient for the appointed tasks and responsibilities. The analysis was structured based on five hypotheses which were evaluated in order to prove their validity.

The HR department resulted to be present in 89% of the companies’ overall, and it is the companies with foreign ownership and the ones delivering services, which have a higher presence of HR department compared to other companies. The lack of an HR department is a characteristic of big companies with Albanian ownership. The existence of such a department is key for HRM development in a company, as it would create the premises for qualitative management of the employees, and therefore every practice related to it.

The HR department overall results to have less staff than needed for the fulfillment of tasks and responsibilities. This creates a risk for the companies because the overload of roles would result in less quality and diminishing results. The low HR ratio is a characteristic of the big companies in Albania, and such ratio is not affected by the ownership or activity type of these companies.

Understanding properly the role of HRM towards organizational success and investing in creating the proper structure to support such management role, is key for the organizational success overall. In Albania, although a considerable part of the businesses is aware of the importance of having a properly qualified and motivated workforce, still at times the role of the HR department and the importance to have a well consolidated and functional department is not fully understood. Such lack of understanding would cause many difficulties in managing human resources, affecting the overall organizational performance and labour market; therefore, raising awareness of the business community for proper human resources management has utmost importance.
REFERENCES


