

THE CHALLENGES FOR THE HUMAN RESOURCE MANAGEMENT IN GERMAN SMALL AND MEDIUM SIZED ENTERPRISES (SME) IN CONNECTION WITH THE DEMOGRAPHIC CHANGE

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Summary: The demographic change and its effects on the societies is a current scientific topic of great interest. The German Labor Market for example is in transition: the range of working-age persons will decline by 6,5 millions until 2025, which means that the number of appropriate specialists will decline as well. The aim of the paper is to show, which possible strategies German SME could generate to deal with these developments and how they response on this situation in terms of a change of their Human resource management. This implies different fields of action like personal recruitment and vocational training, typically summarized in a Balanced score card (BSC) in order to obtain the competitiveness of the SME.

Keywords: Demographic change, SME, Balanced scorecard

1. INTRODUCTION

Germany is in the middle of drastic demographic changes. The eleventh coordinating population forecast by the Federal Statistical Office (Federal statistical Service Germany, 2006) showed that the population would diminish significantly. Not only the state and society will be affected by the impact of the demographic trends, companies will feel the consequences as the peoples' demand of goods and services on the markets will decline, too. As employees are one of the most important, if not the most important corporate resource, a result is that the companies have to deal with an older average age of the employees and bigger problems in order to find the employees needed for the special belongings of the SME's. It is insofar a specific SME problem, because they typically do not have a personal-recruitment unit within their companies. The SME's form the backbone of the German economy. The Institute for SME Research in Bonn (Germany) has noted in a recent study (Fuchs and Dörfler, 2005a) that the awareness of the German SME-owners is quite focused on parts of the demographic change and its consequences: While many companies have recognized the need for an adjustment in the sales area a developed awareness of changes of the personal policies still is missing. Due to the demographic change and its challenges for the SME it is therefore to consider which strategies should be generated and realized.

In this context, the "Balanced Scorecard" has been intensively discussed for years. Since its conception by KAPLAN and NORTON (Kaplan and Norton, 1996) in the early nineties was introduced into various companies, including small and medium enterprises, there are already numerous publications about the BSC. This paper shall present a description of conceptual and practical approaches for SME's in terms of managing their staff by the BSC. It aims to show how the BSC is suitable for SME's, generally regarded as a controlling and a management system specifically for the consideration of Human Resource-related impacts of the demographic change. In particular, the classical BSC contents the learning and development perspective as well as selected approaches of the BSC. With the use of the BSC

and an increased engagement with the learning and growth perspective in the context of demographic change, SME's can generate and use developed strategies purposefully.

2. THE IMPACTS OF THE DEMOGRAPHIC CHANGE

The term “demographic change” is synonymous with demography, often used with population. The population statistics include the population its structure and population movement, population models and projections. A population forecast is an estimate of future population growth. Important factors are the birthright of demographic behaviour, mortality and net migration. At the end of 2010 lived 82.1 million people in Germany. This will be reduced by 2050 to nearly 69-74 million (Fuchs and Dörfler, 2005b). At the same time will increase the average age of residents of 42 years in 2005 to 50 in 2050. Here, the relations between old and young will change significantly. On the one hand, decreases the number of people less than 20 years in 2050 to less than 30% of the population and the 20 - to 65-year-old to below 22-29%. On the other hand, the number of 65-year-old and older increase by about 43% for businesses, the development of the labor pool is more important than the development of the population in a whole. The labor force will decline from 2004 to 2050 by 13 million people to 31.5 millions. The decline of the labor force potential in the former East Germany is with 55.4% more dramatic than in western Germany with 22.9%. At the same time shifts the age structure of the labor pool. Both, the number of employed persons between 15 and 29 years and the 30 to 50 year old will fall sharply. Only the number of older workers raises from 10.3 million in 2004 to 14.3 million in 2020 to 2050 back to about 11.2 million. In addition to the decline in the labor pool also the shift in age structure vary significantly from region to region, in some districts of Germany, the number of older people is about two thirds or more (Federal statistic service, 2008). Because of the sharp decline in the younger labor force the competition between the vocational training alternatives, i.e. the dual training system and the technical and higher education sector, as well as between the companies will increase. In addition to the reduction and the aging of the labor force potential the skill level and the skill structure of the population will change. The nowadays middle-aged people between 30 and 50 will not be replaced adequately nether with the proper qualification levels nor at the needed extend. Their departure creates not only a quantitative gap, but the companies are facing the problem to replace its quality. The assumption that better qualified younger generations replace older employees is pretty unlikely. If education continues to stagnate at the current level there will be a huge lack of skilled workers. For example, an increasing shortage of machinery, electrical and industrial engineers as well as a lack of skilled workers in the IT- branch is already recognizable. Summarized the demographic change will lead to a partial shortage of labor, a labor force reduction followed by increased wages, an increase of employees with performance constraints, reduced staffing flexibility, know-how gaps and a loss of innovation are predicted (Fuchs and Dörfler, 2005a).

3. STRATEGICAL RESPONSES ON THE DEMOGRAPHIC CHANGE

This demographic development in addition with the globalization of the markets is the biggest future challenge for the companies. The impact on the firms will depend on the operating history and personal political strategy in the past. To cope with the inexorable demographic trends, especially in medium-range decisions the companies require new strategies and measures. A special concern of SME's by the demographic development is obviously the particular importance of human resources and the typical weakness in personnel and organization of human resource management strategies. The importance of human resource strategies in SME's remains far behind compared with those for large firms (Hamel, 2006).

For SME's, human resource management criteria such as loyalty, reliability, thinking identification with the enterprise, creativity, quality and cost consciousness are more important than for large firms. The employees in SME's have a special position. The relative importance of each employee is often bigger than the relative importance of the same employee in large firms. In addition, the SME depend on the employee's flexibility on all sides because of their high-trained and especially technically specialized staff. This is why they are often an insignificant proportion of unskilled and semiskilled workers employed. This also distinguishes the SME structure's from large companies. For SME's qualified and motivated employees are considered as a resource of vital importance. Strategic considerations are absolutely necessary in order to deal with the future developments of the demographic change as described above. As the activities of SME's concerning the covering of the staff needed often had hampered by a missing strategy there is a need to generate and implement a fitting strategy. Problems of staff recruitment combined with a strong ability to face the challenge of global markets have to be solved. Therefore, two steps seem to be essential for SME's: First there has to be developed a strategy that contents solutions for the emerging problems followed by the demographic change. Second the elements of this strategy have to be extended by further elements especially like how to deal with the challenges of globalized markets. Both can typically be realized by a fitting BSC, which is an option that shall be described in the further. A systematic human resource development so far is carried out only in a few medium-sized enterprises (Kayser, 2006). This is illustrated by the fact that training is often done only for current needs and solving technical problems. Already, the middle class is faced with the problem of skilled labor in sufficient numbers and skills needed to find. To deal with the impacts of the demographic change the SME will have to implement a strategy that includes all action fields which are important for the success of the companies. A key factor is already and will be more and more the strategic field of "Personal management and recruitment". However, this strategic goal cannot be reached isolated from further perspectives and goals. Only if the strategic objectives of financial, customer and process perspective are embedded as well a successful growth perspective can be obtained (Krause, 2008). The field of "personal management and recruitment" covers both education and vocational education like training on the job in order to improve skills, establish human resource development or improve product management and so on. On closer inspection it becomes clear that these objectives have a cross-over nature. Thus, the goal maintaining employability includes increased employee retention, skills development and maintenance of physical, mental and psychological abilities. Therefore strategic goals have to be as unique as possible and should take care of specific belongings as well, especially as the SME's typically have a high specification grade. The BSC is considered to be a very usable tool for SME's to generate a strategy that combines the strategy elements being considered already with a strategy for personal management and recruitment.

3.1. STRATEGICAL GOALS

The strategic objectives in the BSC specify the business strategy. Within the BSC the demographic development and its impacts will be integrated as a factor of opportunities and risks. The extension of the classical BSC with four dimensions to the environment as a fifth base perspective allows consideration of indicators including the earliest indicators of labor market analysis. The BSC is a concept for the implementation of corporate strategies (Börner, 2006). It is derived from the strategy of the company as a strategic management system supporting the management process of master critical management processes. (As part of strategic planning, the five levels of goal-setting, environmental analysis, business analysis, strategic choice and strategy implementation can be distinguished. The BSC is attributable to

implementation of the strategy). Thus for the strategy choice and strategy implementation, the results of the environmental analysis in the form of opportunities and risks involved in the environment are relevant. Demographic trends have to be included into the strategy decisions to keep the actuality of the BSC and the corporate strategy. In particular, opportunities to integrate the recruitment and development in the classical BSC are developed, presented and evaluated. The task of recruitment is to procure the necessary staff in the required number and skills at the appropriate time for the requested feature at competitive and achievement-income. As parts of the strategic fields of action of recruitment are exemplary goals: Highly qualified and motivated employees in the necessary number set, attractiveness as employer, qualitatively and quantitatively sufficient personnel, a continuously improvement of skills and techniques (Philipps, 2003). Concerning the organizational conditions it is typical for SME that personnel planning, career structure and succession remain largely limited to non-routine activities. A competent organizational unit solely for the staff is usually not available, even staff positions for the organizational integration of personnel management functions are mainly exhausted in a personnel or payroll office which is responsible for the essential administrative tasks, as well as a functional assignment of personnel management. Action fields of a demographically-oriented personnel management have to focus on core operational processes and related cross-action areas. Through staff development, the goal of helping to qualify employee's at all hierarchical levels to face current and future needs can be reached. This includes all programs and systems that deal with workforce development activities and methods of training, continuing education within the company. By determining the strategic objectives for each perspective, the strategy within the individual perspectives and goals assigned to receive. At the same time, this forms the basis for all other activities in the BSC-creation. To ensure the strategic importance the strategic objectives should have a highly competitive relevance. By the formulation of strategic goals it has to be made sure that they are as specific as possible and action-oriented. The high level of competitive relevance is absolutely necessary in order to continue or improve the market success.

3.2. PERSONAL MANAGERMENTS' FIELDS OF ACTION

The fields of action in the personal management concrete the strategic goals and describe instruments to reach the goals and make an important contribution to the success of the company. With respect to the recruitment a distinction is made between internal and external recruitment. Internal recruitment typically goes hand in hand with the development of the staffs' qualifications and skills and shall be explained further. Recruitment in this context means the external recruitment of workers (a strength of the SME is basically a high degree of loyalty and responsibility of employees to the company; workers often remain for a longer period in the same company (Jürgenhake, 2008). Taking into account the regional differences in the demographic development intensive recruitment efforts must be expanded to meet the needs of cover the personal demand for the SME's. This also means, as local labor markets differ quite significantly the opportunities of the potential workers are varying. Taking this into account, the fields of action have to fit with the regional environment. Although the recruitment actions might be very different from each other the key is usually to stress the advantages of the SME like special promotions or job advertisements designed in a way to focus on the specific benefits due to work in a SME (e.g. like a good environment, a "great team spirit"). The main target is to compensate possible disadvantages compared to big companies as described above. Besides the recruitment the other most important target is the development of the employees in order to optimize their skills for the needed demands. This bundle of actions is summarized under "Human Resource development measures" and contents all actions like create a training and educational plan for the near future as well as for

the next years, create a forecast of the future demand of employees and the changes of their needed skills or level of vocational education. These measures are closely interacting with other strategic goals as described in the BSC. Summarized the fields of action of the personal management are the specific discharges of the strategic goals set in the BSC embedded in the strategy-mix of the SME's as a part of the BSC as well. Therefore there are many correlations with each other e.g. the goal of generating growth will not be reached without better qualified and/or personal or maybe new ways of distribution etc.

4. CONCLUSIONS

The demographic change will exacerbate the problems for SMEs concerning the recruitment and education of the employees needed. This situation is even more difficult as SME's have many disadvantages in comparison with large companies although, however, there are several advantages, too. It is therefore increasingly important to deal intensively with the recruitment of staff to the "war of talents" not being on the losing side, e.g. the advantages must be published especially in order to be an interesting option for young professional potential workers instead of work for a big employer. The systematic BSC is a possible approach for SME's to implement a tool that helps facing these problems and supports to find solutions. As a successful strategy-mix a BSC must firstly describe the strategic goals and secondly lead to concrete fields of personal management action (Bleicher, 2004). The bundle of strategies has to be chosen by taken all the targets of the SME's into consideration, not only the personal management but as well as an equivalent strategic goal. With the extension of the BSC approach to the demographic change and its challenges, the future position of SME's as employers and as market partners can be strengthened. For example, weak school leavers and unemployment or less qualified persons might be very good options at second glance, if they are qualified adequately by training on the job and thus integrated in a personal, not anonymous atmosphere (Fridag, 2002). Those niches are relevant in order to be serious competitors for the best candidates with large, established companies. The recruitment costs can be kept comparatively low and if this is embedded in a strategy the continuous search for promising applicants becomes standardized process weather for a special unit within the SME's or for the owners of them. Processes like personal recruitment or designing a training on the job planning's for a year or for longer perspectives in order to enable employees to deal with new challenges in the future have to be as standardized as for any other activity else. Only those SME's that recognize early the meaning of a structured personal-strategy linked with new ways of the search of personal and qualifying the staff systematically will survive and keep their special abilities as powerful partners for specific solutions.

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