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# Accommodating HRM in Small and Medium-Sized Enterprises (SMEs): A Critical Review

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## Abstract

The significance and imprint of SMEs as dominant employers is not proportionally reflected in people management scholarship. In an effort to map out the prospects for greater understanding, this paper critically evaluates the prevailing understanding in HRM. First, a case is made for definitional clarity to avoid aggregate interpretations of SMEs and ill-defined applications of HRM. The paper then explores four key theoretical frames of reference, namely universalism, best fit, cultural and ecological theories, highlighting their merits and limitations as applied in the SME context. This assessment results in a call for more holistic, integrative and context sensitive theory and research to understand the dynamics of talent management in an SME context. This provides a pathway to better capture, and inform, the realities of practice in this area.

*Keywords:* SMEs, Small firms, People management, Determinants, HRM, Talent management, Context, Critical review

*JEL classification:* M12, M13, M50

## Introduction

Finding, managing and retaining talent is a perennial challenge for organisations (PwC, 2019). This is especially the case for small and medium-sized enterprises (henceforth SMEs), as they are likely to lack the resources, capability and time for dedicated talent management considerations (Krishnan & Scullion, 2017). Indeed, SMEs face something of a paradox when it comes to talent management; the liability of smallness means that SMEs are especially reliant on the productivity and engagement of employees, but equally SMEs are less likely to have sophisticated practices or dedicated talent managers for these tasks. SMEs also confront additional challenges in terms of visibility and perceptions of legitimacy as a viable employer, especially when it comes to young talent. Most education systems have a 'large firm bias', exposing future practitioners to

examples of large, multi-national firms which are taken to be the norm. This is problematic as, with respect to both the number of firms and the numbers employed, large firms are the exception rather than the rule across all economies (OECD, 2019).

Efforts to address this impasse have been hindered by limited research attention on human resource issues in SMEs (Festing, Schäfer, & Scullion, 2013; Marlow, 2002). Where people management concepts have been applied, they tend to uncritically assume that large firm solutions have universal relevance (Heneman, Tansky, & Camp, 2000). A quarter-century review of HRM research on SMEs finds a research base that is dramatically underrepresented, underdeveloped and dominated by managerial perspectives (Harney & Alkhalaf, 2021). Unsurprising therefore that we see calls for greater acknowledgement of the small firm context in HR (Delery & Roumpi, 2017) and intersection across the entrepreneurship and employment literatures (Burton, Fairlie, & Siegel, 2019; Pearce,

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Harney, Zupan, & Stalker, 2019; Wapshott & Mallett, 2016). Of particular significance is a lack of critical reflection on the key assumptions underpinning dominant HR research and how they may (or may not) translate to an SME context. As Marlow noted some time ago, “engaging with, and even challenging, contemporary analyses of HRM when conceptualising them in small firms will ensure that ensuing research questions adopt a more theoretical and contextualised approach” (Marlow, 2006, p. 475). To date, such efforts have provided descriptive rather than analytical accounts (Heneman et al., 2000) and static rather than dynamic understanding (Jack, Hyman, & Osborne, 2006). As Krishnan and Scullion recognize “to date there is a real dearth of conceptual and theoretical research on talent management in SMEs and we need to know more about the distinctive challenges and TM practices in the specific context of SMEs” (2017: 469).

This paper takes up this task by providing a critical review of dominant perspectives and understanding of HRM. In so doing, it makes a number of contributions. First, it provides a detailed exploration of the definitional parameters of what constitutes an SME and subsequent implications for HRM. Katz et al. argue that “with so many ways to define HRM and the SME, almost anything could be studied” (2000: 8). The paper contributes to on-going calls for definitional clarity (e.g. Harney & Alkhalaf, 2021; Lai, Saridakis, Blackburn, & Johnston, 2016) by making a case for studies to avoid aggregate interpretations of SMEs and simplistic, ill-defined applications of HR. Second, it responds to calls for a critical evaluation of dominant HRM theory as applied to the SME context (Barrett & Mayson, 2008). Harney and Alkhalaf conclude from their systematic review that “existing research exploring HRM in SMEs has been hindered by a paucity of conceptual papers, limited critical evaluation of theory or exploration of underlying theoretical assumptions” (2021, p. 21). Specifically, the paper critically examines four key theoretical frames of reference, namely universalism, best fit, cultural and environmental theories, highlighting both their merits and limitations as applied to the SME context. Finally, the paper leverages this review to map a pathway for further research and understanding, including via a more holistic, integrative and context sensitive approaches. This aligns with calls to better accommodate context in HRM (Cooke, 2018; Lee, 2020) and offers a pathway through the barren choice between universal support for the applicability of HRM (cf. denaturing) or simply declaring it is irrelevant (cf. specificity) to the SME context (Curran, 2006).

## 1 SMEs and human resource management: What do you mean?

Reaching any definitional consensus on what exactly constitutes either SMEs or HRM has been fraught with difficulties, with efforts in both domains separately deemed ‘contentious’ (Bryson & White, 2019; d’Amboise & Muldowney, 1988). In considering definitions of SMEs, the most basic insight is that they are clearly not large (Storey, 2000). Attempts at sophisticated definitions typically combine an aggregate statistical definition, which varies by sector, with additional qualitative dimensions (e.g. Bolton Report, 1971). This favours local, intra-industry distinctions, but at the expense of facilitating broader systematic comparisons allowing for a greater range of firms. The response to such difficulties has been a recourse to numbers employed as the most relevant measure of size (Kalleberg & Van Buren, 1996). One central problem with employment-based, numerical definitions is that actual categories used to distinguish between large and smaller firms can be somewhat arbitrary, with SMEs constituting anything from a firm with 5 employees to 500 (Harney & Alkhalaf, 2021). In attempting to tread some middle ground, the European Union criteria for SMEs proves a useful framing device, as it distinguishes between micro firms (less than 10 employees), small businesses (10–49 employees) and medium-sized enterprises (50–249 employees). In addition, this definition uses eligibility dimensions concerning annual turnover and ownership. What is important to recognize is that people management challenges will inevitably differ across micro (De Grip & Sieben, 2009), small (de Kok & Uhlaner, 2001) and medium-sized firms (Psychogios, Szamosi, Prouska, & Brewster, 2016). The use of SME as a catch-all-term therefore hides the reality that there is as much diversity within the SME category as between SMEs and larger firms (Harney & Alkhalaf, 2021). Moreover, definitions and understanding need to appreciate the social and cultural constructions of firm size.

Beyond this there are further definitional parameters which directly inform the nature of HRM challenges in SMEs. The first is a critical distinction between newness versus smallness. The liability of newness experienced by start-up ventures results in “underappreciated” HR issues associated with attracting talent, inexperience and gaining legitimacy (Bryant & Allen, 2009). By contrast, more established SMEs will have overcome liabilities of newness, but still confront liabilities of smallness in the form of resource constraints, difficulties in developing and retaining staff, pressures to

standardize, coupled with greater challenges in innovating. It follows that the respective contexts of either newness or smallness will each yield specific HR challenges (Cardon & Stevens, 2004; Harney & Alkhalaf, 2021). Second, it is important to recognize that not all entrepreneurial firms are SMEs, and that not all SMEs are entrepreneurial. Only a small minority of SMEs are purely motivated by the goals of profit and business expansion (Ciavarella, 2003; Storey, 1994). For the majority of small firms, the reality often reflects a culture of survival and/or a drive by owner managers to achieve their desired status of independence, succession or viability (Stanworth & Gray, 1991). Such distinctions are lost as long as the terms entrepreneurial and small business are used interchangeably and indiscriminately.

Finally, it is important to accommodate the context of the firm with respect to growth ambition and intent. Notably, the vast majority of SMEs express little desire to expand or grow (Ram, Jones, Abbas, & Carter, 2005). More exceptional growth-focused, or IPO-intended, SMEs may well take on board the upfront costs of investment in HRM (e.g. appointment of a dedicated HR manager) conscious of a trade-off for longer-term benefits (Chadwick, Guthrie, & Xing, 2016; Welbourne & Cyr, 1999). This means that “the HR experiences and challenges for those SMEs that are growth-oriented will be qualitatively different contingent on growth stages or state” (Harney & Alkhalaf, 2021, p. 13). Table 1 provides a summary of key definitional parameters and their subsequent implications for HRM, highlighting their significance in informing policy and research.

Turning to HRM, a considered focus on talent in SMEs has been blinkered by two overriding perspectives. First is a narrow focus on the individual ‘heroic’ entrepreneur to the neglect of all others employed by the firm (Welter, Baker, Audretsch, & Gartner, 2017). Second is a dominant focus on certain types of firms and regions (e.g. high-

technology firms and Silicon Valley-type clusters) and away from the diversity inherent to the SME sector. Unsurprising therefore that Burton and colleagues call for alternative perspectives, which provide the “strategic context for entrepreneurs and shape the career opportunities for workers” (2019: 1050). While definitions of HR and talent management vary significantly, applicability to the SME context comes from the basic recognition that “human resources are strategic to basic viability as well as advantage” (Boxall, 1998, p. 273). A particular significant development in this area concerns talent management and the ‘war for talent’. This was expected to create an impetus for firms to dedicate attention and resources to talent management. However, both large and small firms alike still demonstrate critical deficiencies in this regard (Deloitte, 2019). It is clear though that Talent Management concepts such as employer branding, high impact individuals and key roles, coupled with issue of talent pools and succession hold great relevance in the SME context (Collings & Mellahi, 2009; Lewis & Heckman, 2006). In addition, both HRM and Talent Management literatures stress the practical significance of HR analytics and using a solid evidence base to evaluate and inform future people management decisions (Gubbins, Harney, van der Werff, & Rousseau, 2018). However, unfortunately for researchers much of the available evidence on people management has a large-firm bias leaving them bereft of insights and understanding of smaller organisations.

The next section furthers understanding by reviewing four dominant perspectives in HRM. This illuminates how varying emphasis and definitions determine what are seen as key people management challenges and solutions for SMEs. It becomes clear from this review that SMEs are best accommodated by inclusive, descriptive and analytical definitions which broadly capture “all those activities associated with the management of work and people in firms” (Boxall, Purcell & Wright, 2007, p. 4). This

Table 1. SME definitional parameters and their HRM implications.

| Definitional parameter | Key Criterion                                | HR Implications                 | HR debates  |
|------------------------|--|---------------------------------|---|
| Smallness              | Micro, small, medium-sized firm?             | Differing HR challenges by size | - Formed versus formulated HR<br>- Informal versus formal practice                        |
| Newness                | Start-up or established firm?                | Differing HR challenges by age  | - Attraction versus development & retention<br>- Entrepreneurial team versus organisation |
| Ambition               | Survival, succession, competitive advantage? | Differing objectives for HR     | - Purpose and fit   |
| Growth                 | Stage/State of growth?                       | Differing investments in HR     | - Nature of investment in Talent  |

review is not intended to be exhaustive, nor systematic. Instead, in the spirit of critical analysis and theory refinement (Klein & Potosky, 2019), it draws on illustrative papers that represent the perspective under consideration.

## 2 Perspective 1: Universalistic best practice

The universalistic, best practice approach is dominant in HRM research. This suggests that a specific set of HR practices has a positive impact on performance, irrespective of context (cf. Huselid, 1995). The various labels attached to HRM are indicative of this logic, e.g. Best Practice HRM, High Performance Work Practices/Systems (HPWS), High Commitment Management and High Involvement Practices. Typical HR practices advocated as part of a ‘high-performing bundle’ include sophisticated recruitment tests, internal promotions, job security, extensive training, and performance-related pay schemes (Boselie, Dietz, & Boon, 2005). This stream of research has certainly been significant in highlighting the value of HRM to an organisation, but is not without limitation, especially as we consider the SME context. In the first instance, most studies focus exclusively on the performance enhancing side of the equation, whereas research has shown that formal and sophisticated HR can be both ‘value-creating and cost-increasing’, with a likelihood for costs to cancel benefits in an SME context (Sels et al., 2006; Way, 2002). Second, there is a fundamental flaw in a best practice argument, as it implies standardisation and a focus on past practices. Increasingly, the term best-practice is seen as ‘inappropriate and misleading’, as it infers standardization (Delbridge & Whitfield, 2007). Contributions in this area tend to focus exclusively on factors conditioning *how* rather than *whether* best practice should be implemented, and by so doing are largely ignorant of the idea that what constitutes best practice may vary across time and place (Delaney & Godard, 2001; Keegan & Boselie, 2006). For example, in family firms what constitutes ‘best’ is likely to depend on the complex and multiple goals of the family (Sharma, Chrisman, & Chua, 2007).

Third concerns the pragmatic validity of HR practices, such as assessment centres and extensive employee surveys, in a smaller firm context. Indeed, there is an irony here in that many large firms try to artificially replicate teambuilding, job rotation, and communication found more naturally in the smaller firm context (Beaumont & Rennie, 1986). In many smaller firms, performance can be achieved with

modest levels of wages, training and pay, so that investment in ‘progressive’ practices may not be viable, or even necessary (Brand & Bax, 2002). Fourth, it is limiting to necessarily equate the form of HRM with its impact; utilising the criteria of training as typically measured by survey research (e.g. formal courses attended), smaller firms are deemed deficient, however, more tacit appreciations of aspects of skill development and learning processes indicate a much more positive picture (Gibb, 2000; Kitching, 2007). Finally, with respect to performance, as hinted at in the review of definitions, in a smaller firm context immediate, short-ranged and pragmatic goals linked with issues of survivability, sustainability and independence may carry more weight than the quest for competitive advantage (d’Amboise & Muldowney, 1988). Boxall and Purcell (2008) suggest that there is merely a minimum HRM ‘table stake’ required to compete in each industry.

The point is not to be completely dismissive of best practice. A focus on how HR practices work to support and reinforce each other is particularly appropriate to the SME context, as owner-managers generally appreciate people management as a flow ‘interrelated’ HR activities versus a set of discrete practices (Cardon & Stevens, 2004; Heneman et al., 2000). Moreover, there is much to be said for promoting the general principal and mind-set of sound people management as proffered by best practice scholars, while acknowledging that the specifics of implementation will vary by context. Critical to note is that a lack of sophisticated and/or formal practice in SMEs should not mean that they are automatically read as deficient or backward (Harney & Nolan, 2014). Examining HRM practices among the Sunday Times UK ‘50 best small companies to work for’, Drummond and Stone found that each business adopted “a distinct bundle of workforce related practices, based upon its own perceived needs and priorities” (Drummond & Stone, 2007, p. 196). Similarly, exploring Talent Management in Spanish medium-sized companies, Valverde, Scullion, and Ryan (2013) found that while firms were not necessarily aware of formal TM policies, they were nonetheless able to define and identify talents in their company, focusing on employee attitudes and performance (Raby & Gilman, 2012). Moreover, even where more sophisticated practices are in existence, these may be directed solely at attracting and retaining a selected few or group of core employees (Matlay, 2002) or are deployed indiscriminately, as Gilman and Edwards (2008) found in their study of fast-growth, high-tech smaller firms. This of course holds true for small and large firms alike.

### 3 Perspective 2: Matching models

Matching models of HRM are guided by the implicit assumption that the most successful organisations are those that display a ‘Chinese box’ type consistency between the external environment and internal organisation (Miles & Snow, 1984). Matching models do a better job with the key contingencies likely to shape people management. Much of this literature has focused on the vertical linkage between HRM and strategy (e.g. Schuler & Jackson, 1987) or alternatively advocated matching HRM responses to the stage of development of the organisation (e.g. Baird & Meshoulam, 1988). A focus on strategic priorities has certainly helped HR research find greater traction. However, despite being intuitively appealing, empirical evidence for a positive impact is hard to find (Han, Kang, Oh, Kehoe, & Lepak, 2019). The limitations of matching models of HRM become particularly clear, when considering the SME context. In the first instance, matching models assume classic definitions of strategy, overestimating the clarity and rationality of the matching process. Strategy may often emerge retrospectively with the classic sequence of formulation and implementation reversed, while the rigid ‘fit’ prescribed may actually hinder the innovativeness and flexibility mandated for strategic success (Harney & Collings, 2021). HRM in smaller firms often involves a more emergent, stepwise, and iterative approach, where the management of employees is likely to be crafted rather than designed (Wilkinson, 1999). Mintzberg neatly captured this tendency for emergence in smaller firms observing that “by closely controlling ‘implementation’ personally, the leader is able to reformulate en route, to adapt the evolving vision through his or her own process of learning” (Mintzberg, 2003, p. 319). It follows that attempts to capture the unique planning processes in smaller firms through ‘hard measures’ of written documentation will be insufficient (McKiernan & Morris, 1994). A strategic approach allowing for emergence and informality may be both ‘more appropriate and efficient’ for smaller firms (Beaver & Prince, 2004, p. 40). This is supported by research on pay determination and workplace learning in SMEs (Gilman, Edwards, Ram, & Arrowsmith, 2002; Kitching, 2007).

A further criticism concerns organisational developmental models, which match HR challenges to pre-determined and sequential-phases growth. In practice, drivers of change and change efforts will be uneven and complex, as organisations exhibit non-linear and dis-continuous growth process (Kidney, Harney & O’Gorman, 2017). An extensive survey of HRM in 2903 family-owned SMEs

indicated dramatic diversity in HR at different stages, therefore concluding that a traditional life cycle was not evident (Rutherford, Buller, & McMullen, 2003). A third criticism directed at matching models is that they ignore power, politics and agency. The approach assumes that HRM can simply be ‘read off’ strategy or stage of development and that suitable HR interventions can be found to ‘fit’ in the first place. Assuming a consensus on end objectives is likely a flawed starting point as people management challenges are likely to be messy, contested and shaped by power relations emphasising that “politics cannot be simply left to the end as part of the problem of application” (Wood, 1979, p. 342). Matching models leave little room for managerial agency, in either directing the organisation or ‘interpreting’ the environment (Harney & Collings, 2021). Research on SMEs has long shown the significant role that the owner-manager or founder can have in creating an imprint of HR based on an underlying ideology on how people should be managed at work (Goss, 1991). This importance is picked up by Baron and Hannon’s longitudinal research on technology start-ups, which emphasises the importance of the founders’ expectations and ‘mental models’ of proper human resource practices (termed ‘organisational blueprints’). In this sense the owner-manager is a natural conduit for vertical fit (Mayson & Barrett, 2006), and one that can facilitate or fracture positive employment relations and outcomes (Allen, Ericksen, and Collins (2013); McClean & Collins, 2019; Messersmith and Wales (2013).

It is clear that matching models provide a useful template and logic to inform choices around HRM. There is much to be said for exploring the desired employee role behaviours required of a given strategy and to design HR practices which encourage and recognize this. Moreover, there is research which shows how key contingencies, including the nature of employee skills (Bacon & Hoque, 2005) and leadership styles (McClean & Collins, 2019), impact on HR. Nonetheless, by prescribing very specific HR solutions, matching models which are founded on choice ironically end-up promoting an implicit determinism which erodes managerial or employee agency (Harney & Collings, 2021). Important questions to explore include the ideology, intent and desire of owner-managers making HR decisions, which might be far from purely rationally determined. This holds true also for the desired outcome of HR which is likely to include survivability, succession, local competitive dynamics as much as anything informed by the illusive notion of ‘competitive advantage’.

#### 4 Perspectives 1 & 2: Domain assumptions and limitations

Overall, universalistic theory largely excludes messy real-world details, while matching models provide the design at the expense of designing. In terms of their utility in understanding HRM in smaller firms, both focus exclusively on formal, sophisticated HRM practices assuming a ready-made, large-scale, bureaucratic corporation manned with HR professionals (Harney & Dundon, 2006). Evidently, a formal HRM framework “simply does not encapsulate the bulk of employment practices in small firms” (Blackburn, 2005, p. 58). Research, such as Doeringer et al.’s (1986) study of the New England fishing industry, indicates that rules and strategies are often informal understandings embodied in the custom and traditional practices of each workplace, rather than being driven by economic logic per se. One consequence of a focus on formal structures and performance outcomes is that the underlying processes remain implicit or assumed (see Table 2).

Universalistic theory and matching models approaches consider HRM as a rationally induced tool deliberately designed to maximise financial performance. In so doing they succumb to many of criticisms that March (2006) directs at the ‘technology and ideology of rationality’. Exhibiting high contextual independence, universal and matching models tend to dislocate organisations from their totality, providing limited information on the contextual determinants of HR practices and the underlying processes by which they operate. Such closed system approaches suffer from a normative bent, meaning that they are “less interested in studying variation in what management actually does than in establishing what management should do” (Godard & Delaney, 2000, p. 494). This is secured by a positivist-driven methodology, which insists that behaviour is everywhere rational in the calculative sense (Harney, 2009). This stress on scientific techniques and quest for blueprints results in limited understanding about the ‘common-sense reasoning’ of organisational members or the institutional structures and nature of embeddedness that

shape their actions (Thompson & McHugh, 1995). Arguably, the proximity to environmental forces, current of informality, centralised control, familial relations and embedded networks characteristic of small firms amplifies such criticisms. In addition, the unitarist agenda of HRM blurs the questions of goals and interests (Boxall & Purcell, 2000). Workers cannot be accurately depicted as passive recipients of practices in a predetermined fashion (Geare et al., 2014). In terms of outputs, Child (1973) noted that performance metrics are only meaningful to decision makers in relation to their own criteria of performance. In smaller firms, owner managers are frequently characterised by ‘satisficing’ rather than ‘maximizing’ behaviour (McKiernan & Morris, 1994). Haugh and McKee’s (2004) study found a ‘cultural paradigm of the small firm’ the constitutive elements of which included independence, survival, control and pragmatism. Notably, none of these characteristics would warrant a mention in dominant HRM accounts. In any case, more open and explanatory accounts are needed to capture informality, politics and emergent processes, while also embracing broader market forces, societal norms and institutional settings.

#### 5 Perspective 3: Resource-based approaches

Resource-informed theories move to explore the micro processes that constitute HRM. The resource-based view (RBV) suggests that for an advantage to be sustainable, it needs to be embedded in the firm’s distinctive resources and capabilities (Harney & Trehy, 2016; Wright & Snell, 1991). As such, the focus is on discovering how firms can build ‘an exclusive form of fit’ (Boxall & Purcell, 2003, p. 71). Some may question the basis of analytically distinguishing the RBV from other modes of theorising. However, the paradox of linking it to the universalistic approach is that HRM is at once assumed generic, while also considered rare and inimitable (Wood & Wall, 2007). The application of a resource-based perspective to HRM has not been without difficulty, including contested definitions and an unclear unit of analysis (Boxall, 1998). Thus, what the RBV provides to HRM by way of rationale, it

Table 2. Domain assumptions of universalistic theory and matching models and common characteristics of small firms.

| Universalistic and Matching Models Domain Assumptions    | Characteristics of Smaller Firms                     |
|--|--|
| Organisations have HR departments and HR professionals   | No HR department, limited dedicated HR professionals |
| Formal practices prevail                                 | Informality more likely                              |
| Strategy as rational and formulaic                       | Emergent, ad hoc strategy                            |
| Controllable environment                                 | Environmental dynamism and uncertainty               |
| HRM structures as given, static solutions                | Likelihood of change, HR as process                  |
| Focus on narrow corporate and/or operational performance | Multiple and subjective performance criteria         |

lacks in specifics. The logic of RBV arguments have been criticised for underemphasising the costs associated with the acquiring and developing resources (Lavie, 2006). Further, the RBV assumes that economic motives and rational decisions drive firm conduct and outcomes so that the process of resource selection and deployment is largely deemed unproblematic (Oliver, 1997). The result is a very benign view of social organisations, leaving no room for consideration of political factors or the influence of non-economic determinants of resource-deployment decisions. Interestingly, RBV concepts such as path dependency can just as easily militate against organisational advantage by creating core rigidities and blinkered outlooks. At a macro level, Sisson (2007) argues that a strong case can be made for 'path dependency' as an explanation for the limited movement in the direction of high performance working in the UK, while at the organisational level, Miller (1992) demonstrates how organisations easily fall victim to complacency born of success. The RBV therefore oscillates uncomfortably between the concrete rational conception of reality of its economic heritage, and the social-constructive nature of the inimitable characteristic of culture and ambiguity that it prescribes as a basis for advantage.

The RBV does, however, seem to hold some promise when applied in the domain of the smaller firm, as their lack of market power encourages greater attention to the use of internal resources in survivability and market adaptation. Resource poverty and the labour intensive nature of smaller firms means that leveraging employee skills and ability is likely to be a valuable and firm-specific resource (Mayson & Barrett, 2006; Way, 2002). Further, the RBV not only accommodates informality and process orientations, but elevates these to areas of strategic significance. These features of small firms are said to contribute to the flexibility, speed and customized focus which enable smaller firms to compete with their larger firm counterparts (Chen & Hambrick, 1995).

Similarly, the critical role of the owner manager in infusing culture values and principles resonates neatly with the prescriptions of the RBV. Yu outlines a capabilities perspective of the small firm, highlighting the greater influence that the owner can exert in securing the internal co-ordination and direction of the firm, as well as how "the specific form of idiosyncratic human relationships in small firms can be a strategic asset" (Yu, 2001, p. 190). It has long been recognised that employers may purposefully deploy unique employment practices as a distinctive means of product market competition (Brown,

2008), manifest in the talent management literature as employer branding. SMEs have long been found to foster a greater sense of purpose and meaning at work, even in the context of offering poorer pay and conditions (Harney & Alkhalaf, 2021). Others point to the familial basis of many smaller firms arguing that this can form a unique form of social capital (Arregle, Hitt, Sirmon, & Very, 2007). The target of advantage here, however, may include non-economic goals such as sustainability leveraged through loyalty and altruism rather than material benefit. In their study of low-value added firms (LVAs), Edwards and Ram (2006) note that many of the factors stressed by the RBV have 'limited applicability' and so move to explore how sets of resources are deployed to maintain the survival of the business rather than to leverage advantage.

The resource-based view clearly provides an impetus to look internally within a firm, highlighting the role of resource endowments and resource orchestration (Chadwick, Super, & Kwon, 2015). A focus on informality, values, culture, skills and path dependence are important considerations for exploring SMEs. However, the RBV also exhibits a predisposition towards some kind of 'internal labour market', which may not sit easily with the approach of all firms (Hendry, 2003). Pitelis (2006) challenges the foundational RBV work of Penrose (1959, 1995) on the basis that intra-firm decision making and conflict are effectively absent. Consequently, in its application to HRM, and smaller firms in particular, the potential for internal conflict between family members or owners and management is ignored. Yet, accounts of small firms and entrepreneurship typically stress the inherent tension between control and delegation, with owner managers finding it difficult to address people management issues (Brand & Bax, 2002) but also reluctant to hire professionals. A key concern in applying the RBV to HRM is that it lacks analytical insights into the true nature of the employment relationship (Redman & Wilkinson, 2006). More political perspectives recognise that organisational decisions and responses are unlikely to derive from the rational adaptation of a harmonious system, but rather evolve as the result of "conflicting interests, distorted information and struggle" (Nord, 1978, p. 676). An internal leaning also leads to a focus on idiosyncrasies to the neglect of the forces that promote similarity rather than differences among firms. In their research on small haulage firms, Marchington et al. note the requirement for a modified RBV which 'focuses on the notion that a minimum set of 'table stakes' (HR) practices is necessary for the continued survival of small firms' (Marchington,



Carroll, & Boxall, 2003, p. 5). Aligned with this argument is the increasingly recognized reality that understanding of HRM cannot stop at the boundaries of the firm. Instead, a range of external determinants shape, and can ultimately define, the existence of firms. The final perspective to consider is an ecological one which captures these external influences on HRM.

## 6 Perspective 4: Ecological theories

While resource-informed approaches move beyond pure rational accounts of HRM interventions, ecological theories elevate the unit of analysis to consider non-strategic institutional and political determinants of HRM (Wright & McMahon, 1992). Open systems informed accounts focus on the broader dynamics of system in which the organisation is embedded (Harney, 2019). Resource dependency theory captures the nature of supply chain relations, including the power exerted by customers and/or suppliers (Kinnie, Swart, & Purcell, 2005). Research in smaller firms has invariably hinted at the dynamics of power relations inherent within ‘the political economy’ of smaller firms, as they experience pressures exerted by larger suppliers or dominant customers (Katz, Aldrich, Welbourne, & Williams, 2000; Rainnie, 1989). It is particularly likely that HRM activities and processes in smaller firms will reflect the distribution of power and dynamics of the system within which they operate (Fuller & Moran, 2001). In extreme cases, the adoption of new practices can be imposed from outside the immediate work environment (Cassell, Nadine, Gray, & Clegg, 2002). Appreciation of such issues negates the criticism directed at closed systems HRM frameworks whose failings often derive from exaggerated conceptions of strategic choice. It would be wrong, nevertheless, to fall back on complete determinism, as the impact of dependency relations on small firms may not necessarily be unilateral or negative, while supply chain development may be uneven and complex. Where resource dependency differs from other ecological theories is that it affords managers the capacity to “manage not only structures but their environments, reducing dependencies and seeking adequate power advantages” (Scott, 2004, p. 6). There is a risk, however, that in its portrayal of choice (see Pfeffer & Salanick, 1978) RDP downplays the socially constructed nature of relations and social dynamics of power by reverting back to an overly narrow account of rationality. Uzzi’s (1997) analysis of intense competition in the apparel industry focused on embeddedness and the importance of

understanding social structure as a precondition to the logics of exchange. Thus, while directing attention outwards from the firm, the RDP may err in emphasising an under-socialised view of economic resource exchange as the central feature of relationships (see also Ram, 1994).

By contrast, accounts inspired by institutional analysis take normative and isomorphic pressures as their primary focus. Specifically, institutional and political forces mean that particular HRM practices may be introduced, or imposed, not as a direct result of market forces but rather as legitimacy enhancing actions to facilitate acceptance and survival (Di Maggio & Powell, 1983; Wright & McMahon, 1992). A central thesis of institutional theory is that HR activities may be adopted in a symbolic fashion as the result of isomorphism, irrespective of their effects on performance. A key point is that such behaviour, which might be otherwise signalled as simply ‘economically irrational’, or dysfunctional is instead understood as ‘sensible’, conferring prestige and legitimacy (Eisenhardt, 1988; Oliver, 1991). It is on this basis that Paauwe (2004, p. 3) argues that assessment of HRM should not just be about economic rationality, but also about ‘relational rationality’ manifest in efforts to achieve fairness and legitimacy. The task of exploring how the social embeddedness of firms in particular contexts shapes their structures and processes has much significance for smaller firms, given their heterogeneous nature. Edwards, Ram, Sen Gupta, and Chin-Ju (2006) suggest that an institutional approach is the best platform from which to explore HRM in smaller firms. However, the transposition of institutional analysis to the domain of smaller firms is not unproblematic. On one hand, a concern with conformity is contingent upon factors such as employer visibility and legitimacy needs, arguably shaped in part by size effects. Small firms are much less exposed to standardised practices diffused through HR professionals, and are said to be much less concerned with conforming to the accepted norms of HRM than larger firms (Kalleberg & Van Buren, 1996, p. 49). On the other hand, small firms face severe problems of legitimacy. For example, in the start-up phase, Baron, Burton, and Hannan (1999) note the importance of having certain desired practices in order to satisfy external constituents. Smaller firms also typically face ongoing difficulties in gaining sufficient status and recognition in order to attract and retain employees. Exploring IPO firms, Welbourne and Andrews (1996) suggest that utilising HRM to strengthen structural inertia may be beneficial, particularly in the early life cycle

stages, as it increases the chance of organisational stability and survival.

Importantly, HRM interventions need to be adequately contextualised to understand their true determinants and import (Jiang, Takeuchi, & Jia, 2020). For example, while Dietz et al. find a striking picture of financial participation by employees among their sample of small e-commerce firms, they avoid automatically interpreting this as a ‘strategic innovation in HRM’ instead locating the trend in its broader context as “a pragmatic response to the going rewards package in the sector at the time” (Dietz, Van der Wiele, Van Iwaarden, & Brosseau, 2006, p. 460). In addition, it is important to note the potential discrepancy between the ‘structural and technological facade’ of attempts to elicit legitimacy and the actual behaviour of firms, as exemplified in Holiday’s (1995) study of quality control in small manufacturing firms. While capturing contextual influences, institutional theory can have trouble accommodating change, stressing convergence over uniqueness. Often interpretations view sources of organisational action as purely exogenous and ignore the actual processes of institutionalization (Heugens & Lander, 2009). Aldrich captures the nature of the limitation succinctly, stating that “the models ecologists build thus tend to neglect individuals in organisations, decision-making processes, and the micro-processes linking environments to organisations” (Aldrich, 1992, p. 19). More recent work calls for attention to competitive dynamics in the form of *presenting issues* and key events, which are likely to serve as a trigger or catalyst for HRM interventions in SMEs (Harney & Alkhalaf, 2021).

## 7 Discussion

This critical review has shown how each perspective offers a differing interpretation of the definition, role and value of HRM and talent management in a smaller firm context. Complementing the rational and performance focus of best practice and matching models, resource-based approaches provide a useful micro orientation and critique of pure rational accounts, encouraging understanding of informality and process-based insights. Ecological theories open up analysis to the more macro socio-economic determinants of HRM. Given that small firms are likely to experience greater environmental uncertainty than larger firms, these latter perspectives sit well with analysis of the small firms. Small firm analysis falls victim to the broader tendency in HRM of explaining differences across firms purely by factors premised upon economic

rationality (e.g. Lepak & Snell, 1999) and thereby ignoring the social forces manifested in normative or relational rationality. Universalistic and matching models accounts proceed with a largely closed system conceptions founded on a high degree of contextual independence. As a result, they suffer from an implicit determinism, arguably of equal force to the explicit determinism of extreme ecological theories. Interestingly, all four perspectives have difficulty in accommodating agency, which although forming the central foundation of resource-informed theories, is here subject to its own form of an ‘action determinism’ constitute of internal political processes and collective understandings isolated from the totality of economic and social relations (Child, 1997, p. 52). By way of summary, Table 3 provides an overview of the four modes of HRM theorising, capturing their key processes, their focus and unit of analysis, as well as the roles they imply for the management of HR, coupled with their respective key strengths and weaknesses.

Accordingly, what does all this suggest for advancing understanding of HRM in the context of SMEs? First, it highlights the significance of exploring and delineating the definitions that underpin our scholarship (see Table 1). Consideration of SME definitional parameters of newness, smallness, ambition and growth should form an inevitable starting point for researchers who wish to consider the nature and purpose of HR in this context. Deploying SMEs as an aggregate category glosses over the heterogeneity both within and across SMEs, resulting in a significantly diminished research opportunity. Similarly, when it comes to HR, comparison with dominant definitions and ideals should form the beginning, rather than the end of analysis. There is much scope for more analytical considerations of HR which are more phenomena and supply-side determined (Ployhart & Bartunek, 2019), moving to capture “the way that management actually behaves and therefore privileging understanding and explanation over prediction” (Boxall, 2007, p. 4). In this vein, Chadwick and Flinchbaugh (2020) usefully advocate a move beyond HR practices to focus on various domains of organisational effort within HRM as a more encompassing set of ‘HR activities’.

Second key point highlighted by the review is the importance of surfacing, challenging and ‘hanging a question mark’ on dominant assumptions (Harney & Collings, 2021) (see Tables 2 and 3). One vital element of theory building is exploring how and why theories, models, and vocabularies may be limited in accounting for a phenomenon (Alvesson

Table 3. Key characteristics of the main modes of theorising in HRM.

|                         | Universalsitic Theories       | Matching Models                 | Resource Based Approaches           | Ecological Theories                  |
|-------------------------|-------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Processes               | Universal                     | Rational/Alignment              | Learning/Bargaining Satisficing     | Darwinian/Conformity                 |
| Focus                   | Internal                      | Internal, (aspects of external) | Internal (cognition, politics)      | External (societal)                  |
| Unit of Analysis        | Firm                          | Firm Strategy/Life Cycle        | Culture/Climate, Dominant Coalition | Population, Network Organisation set |
| Contextual Independence | High                          | Medium                          | Medium-Low                          | Low                                  |
| Role for the HR         | Determined                    | Determined                      | Collectively Construct/             | Reactive                             |
| Management (Agency)     | - Implemented Efficiently     | - Constrained Adaptation        | - Satisficing                       | - Survival/Compliance                |
| Strengths               | - Legitimise HRM              | - Rational                      | - Emergence and Learning            | - Capture Context/Table Stakes       |
|                         | - Universal Laws              | - Prescriptive Solution         | - Process Understanding             | - Survivability                      |
|                         | - Scientific Agenda           | - Link to Established           | - Accommodate Informality           | - Social Factors                     |
|                         | - General Principles          | Domains                         | - Exaggerate Differences            | - Determinants                       |
| Weaknesses              | - Assumed Unitarism           | - Deterministic                 | - Difficult to Research             | - Actors as Passive Agents           |
|                         | - Mechanisms Absent           | - Normative                     | - Isolate from External Environment | - Homogenous Institutional Impact    |
|                         | - Ignore Determinants/Context | - Static                        |                                     | - Tensions Downplayed                |
|                         |                               | - Narrow Conception of Fit      |                                     |                                      |
|                         |                               | - Assumed Unitarism             |                                     |                                      |

& Karreman, 2007). Central to this endeavour is using the SME context to inspire ‘problematization’ of extant HRM theory. To date, there have been merely been calls for such critical engagement, most forcibly by Marlow; “small firms should not be excluded, there should be a greater critique of the narrowness, or poverty, of so called global theories or meta-narratives of HRM” (2006: 468), but little by way of actual progress. Arguably, until the type and form of HRM adopted by SMEs is empirically examined, and the complexity used to shape current debates, then understanding of HRM can only ever remain partial and incomplete. Notable advancements would come from research which more directly explores and tests underlying assumptions, competing hypotheses, non-linear effects and multiple HR activities.

Third, the review highlights the importance of more holistic and context-sensitive approaches which are more likely to accommodate the key characteristics of HRM in SME contexts. This might include integrative theory, allowing for differentiation and conformity in HR (Deephouse, 1999), or accommodating agency and the environment in exploring HR decisions, as per attention-based HR (Lee, 2020). Oliver (1997) suggests that both resource capital and institutional capital are indispensable to advantage, noting that firms may be unwilling, rather than unable, to imitate resources and capabilities, especially where these lack legitimacy or social approval. Vincent et al. (2020) highlight the merits of theoretical bricolage when trying to understand and accommodate HR practices and the practical/structural realities framing its existence and operation. Nolan and Garavan (2016) provide interesting recommendations for progress in accommodating SMEs, including via complex resource-based theory. An important complement is research which provides a layered and multi-level understanding. Across the dominant perspectives reviewed, HR agents (be they owner managers, consultants, outsourced providers, or employees) risk appearing as ghost-like characters, either assumed out of existence by unitarism or downplayed as a result of broader social determinants.

## 8 Conclusion

Calls for a critical analysis to accommodate ‘every day HR practice’ have been made across both HR (Harney & Collings, 2021) and SME research (Welter et al., 2017). It is important to recognize that the current review is a conceptual one drawing on exemplary articles, as opposed to a systematic or representative overview of current understanding.

Nonetheless, by subjecting four key modes of extant HR theorizing to immanent critique in an SME context, this paper has set in train opportunities for theory development and greater understanding. It is clear from the review that progress mandates definitional clarity, constructive challenging of theoretical assumptions, theoretical bricolage, coupled with the incorporation of a broader range of HR stakeholder views, not least a critical employee perspective. The task of engaging and researching SMEs is not without challenge, but for those who persist, the theoretical and practical rewards can be great.

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