

Human Resource Management in Small and Medium-Sized Enterprises

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The Emerald Handbook of Work, Workplaces and Disruptive Issues in HRM

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ABSTRACT:

This chapter seeks to reclaim the significance of SMEs in studies of HRM as a means to better address and accommodate changing ways of work. We commence the chapter by outlining empirical and ideological reasons for the neglect of SMEs, contrasting this with their socio-economic imprint. We then outline key characteristics and determinants of HRM in the SME context before outlining the need for more contextually sensitive and local definitions, including via the concept of analytical HRM and by disaggregating SMEs. Finally, based on these considerations we outline an agenda for future research and understanding, including the role of institutional logics, HR process, employee perspectives and digitisation.

KEYWORDS:

(Please supply up to 6 keywords for your Chapter)

1. Small firms
2. Small and medium sized firms
3. Entrepreneurship
4. Analytical HRM
5. People Management
6. Informality

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Introduction

2023 marks the 50th anniversary of the publication of E.F. Schumacher's classic treatise '*Small is beautiful: A study of economics if people mattered*'. While the argument has been critiqued and ideologically dissected in the intervening years, the book has proved remarkably prescient. Notably, it highlighted small enterprise as a, if not *the*, fundamental unit of analysis for the conduct of business. For Schumacher small firms were 'growing', 'highly prosperous' serving to 'provide society with most of the really fruitful new developments'. Indeed, despite the perception of 'inescapable necessity' of gigantic organisations, Schumacher deftly noted that "as soon as great size has been created there is often a strenuous attempt to attain smallness within bigness" (1973: 53). Second, Schumacher questioned the dominance of economic discourse founded exclusively on growth and profit, thereby illuminating a sustainability agenda and multi-stakeholder focus that is now all too familiar. According to Schumacher the 'fateful error of our age' is "our inability to recognise that the industrial system, with all its intellectual sophistication, consumes the very basis on which it has been erected" (1973: 16). Perhaps unsurprisingly, Schumacher finds smalls units to be less harmful to the natural environment because, although more numerous, their individual force will always be relatively small. Equally, he argues that the dynamics of size positively impacts the community and employment relationship, enabling greater employee participation and autonomy, something that is lost once an enterprise exceeds a certain size threshold (1973: 221).

This chapter seeks to reclaim the significance of SMEs in studies of HRM and HRD as a means to better address and accommodate changing ways of work. We commence the chapter by outlining empirical and ideological reasons for the neglect of SMEs, contrasting this with their socio-economic imprint. We then outline key characteristics and determinants of HRM in the SME context before outlining the need for more contextually sensitive and local definitions, including via the concept of analytical HRM and by disaggregating SMEs. Finally, based on these considerations we outline an agenda for future research and understanding, including the role of institutional logics, HR process, employee perspectives and digitisation. Our argument is not simply based on our passion for the survival and development of SMEs, but is equally underpinned by a robust scientific base, drawing on extensive systematic reviews that we have conducted in the domains of HRM and HRD respectively (Harney & Alkhalaf, 2021; Nolan & Garavan, 2016a). By the end of the chapter we hope to have made the significant point, paraphrased from David Storey (1994), that any research that explores HRM without considering the smaller firm context, is like Hamlet without the Prince.

The empirical and ideological neglect of SMEs

"is it not time that the small started believing again, that it is beautiful, that the periphery can rise up and speak out on equal terms with the centre"
(Mary Robinson, Inaugural address as President of Ireland)

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Despite powerful and long-standing arguments such as that of Schumacher, research on employment relations and HRM has dramatically neglected the context of Small and Medium Sized Enterprises (henceforth SMEs). Researchers in this area bemoan the 'acute shortage' (Gilman & Edwards, 2008: 533) and 'sparseness' (Chadwick & Li, 2018: 1415) of empirical evidence. This relative neglect has been made abundantly clear by recent systematic reviews of the field. Harney and Alkhalaf (2021) reviewed a quarter of a century of contributions on HRM in SMEs finding that, relative to the total number of articles published over the entire time period, SME articles represented a scant 0.5% of all articles published in Association of Business School (ABS) listed Employment Relations/HRM journals. Concerning, even within the limited dedicated research, is a dominance of US and European studies, with little or no research published in these outlets exploring HRM in SMEs in Africa and Asia. Nolan and Garavan's (2016a) review of 117 articles exploring HRD research in SMEs mapped author teams, and similarly raised concerns over the ethnocentric nature of output; "the finding that a small portion of HRD in SMEs research involves a global team of researchers and that 73% of output comes from two regions is surprising given the pervasiveness of SMEs in the global economy" (Nolan and Garavan, 2016a: 89). Thus not only are SMEs extremely underexplored in HRM research, their international diversity is underrepresented, if not silenced by the emphasis of current scholarship.

The general neglect of SMEs is not accidental or due to difficulties in research access or securing respondents, which are perennial challenges in management research. Instead, as Schumacher's writings would hint, neglect in the context of SMEs takes on a normative and ideological undercurrent. Specifically, HRM research has taken a universalistic stance focusing exclusively on formal, sophisticated HRM practices, assuming a ready-made, large-scale, bureaucratic corporation manned with HR professionals (Boxall & Purcell, 2008). Until recently at least, explorations of a relationship between HRM and organisational level performance have served as 'the fundamental and defining research question in strategic HRM' (Jiang & Messersmith, 2018: 8). A universalistic undertone means researchers are "less interested in studying variation in what management actually does than in establishing what management should do" (Godard & Delaney, 2000: 494). Evidently a formal HRM framework, and a narrow emphasis on organisational and financial performance, does not accommodate the realities of managing employment in the bulk of SMEs where informality and multifaceted performance objectives are likely to prevail (Blackburn, 2005; Harney, 2021; Nolan and Garavan, 2016b). By way of example, Haugh and McKee's (2004) study found a 'cultural paradigm of the small firm' founded upon independence, survival, control and pragmatism. Arguably, none of these characteristics would warrant a mention in dominant HRM accounts. Dominant assumptions do not simply hold back scholarship on SMEs, but have hindered research progress and the practical import of HRM generally; "the waters that HR-performance researchers advocate to practitioners are prescriptions for red oceans full of like-minded firms, competing on the same HR terms" (Harney & Collings, 2021: 2). The myopic focus and deficiencies of dominant research has been made all the more obvious by the Covid pandemic (Collings, Nyberg, Wright, & McMackin, 2021).

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While one might expect a demand for understanding to have emerged from the small firm literature, scholarship here has been informed by its own dominant assumptions. This includes research which promotes and perpetuates the idea of a heroic, single (male) entrepreneur, to the neglect of others employed within the firm. There is limited research on first-hires, the expansion of the entrepreneurial team, or an appreciation of the dynamics of people management beyond exploring the founder's HR blueprint (Baron & Hannan, 2002). Also significant is what Nightingale and Coad (2014) refer to as the 'universalism composition fallacy' ascribing the merits and characteristics of entrepreneurial firms to all SMEs. Related is an implicit 'acorn to oak' assumption concerning the desire and ability for growth, coupled with an over-emphasis on particular regions (Silicon Valley) and sectors (high-tech). Yet only a minority of SMEs achieve significant levels of growth in employment and are purely motivated by the goals of profit and business expansion (Barrett & Mayson, 2006; Ram, Jones, Abbas, & Carter, 2005; 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 (Stanworth & Gray, 1991). In many ways it is hard to disagree with Welter and colleagues who, in calling for more inclusive and diverse approaches to entrepreneurship, put forward that:

"We have become rather self-centred in the development of our research, narrowing down our themes and focus pretty much to a sole group our research aims to serve—academia and to a substantial degree a sole group our research seeks to celebrate: the wealthy and successful" (Welter, Baker, Audretsch, & Gartner, 2017: 317)

It is clear therefore that HRM literature has neglected the SME context as much as SME literature has neglected the HRM practices that provide the strategic context for entrepreneurs and shape career prospects for employees and organisational viability (Burton, Fairlie, & Siegel, 2019). We are motivated not simply by the relevant neglect of the SME context in mainstream research, but equally by a reality that Schumacher could not have foreseen, in that technology serves as a platform for firms to be 'born global' and enter international competition from their inception. The domain of global competition is not just reserved for MNCs, but is also populated by a number of smaller organisations founded upon exporting, international service provision, forming critical parts of global value chains (Harney, 2015; Nolan, 2017). Consider WhatsApp an organisation with 55 employees which had achieved massive market penetration in developing countries prior to its 19-billion-dollar purchase by Facebook. Any understanding of global competition which does not acknowledge SMEs and employment dynamics therein, can therefore only ever be partial at best.

Significance and definition of SMEs

"What astonishes me [in the United States], is not so much the marvellous grandeur of some undertakings as the innumerable multitude of small ones" (Alexis de Tocqueville, 1935)

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The neglect of SMEs from mainstream research becomes stark in the context of their socio-economic imprint globally, both across developed and emerging economies. SMEs account for 99% of all businesses, 60% of total employment and generate up to 60% of value added, while playing a vital role in innovation, knowledge diffusion and social cohesion (OECD, 2019). In the United States 97% of all firms can be classified as small, while in the EU there are more than 20 million SMEs representing some 99% of total businesses (Dilger, 2017). In emerging markets SMEs contribute up to 40% of GDP and generate 7 out of 10 new jobs (World Bank, 2021). Unsurprising therefore that SME development is a key national priority for governments across the globe. For example, as a consequence of the Asian Financial Crisis the Malaysian government, recognised the value of the SME sector as a critical vehicle to insulate the economy from vulnerability to external shocks (Ong, 2010). This was manifest in the 'SME Masterplan' which involved significant investment in human capital across all SMEs to foster innovation and encourage local enterprise and growth (Cafferkey, Harney, & Teck, 2013). In Saudi Arabia SMEs play a pivotal role in the economy representing more than 98% of the total enterprises and employing an estimated 72% of the workforce. The Saudi Vision 2030 focuses on further developing of SMEs as an important agent for growth and economic diversity, with an objective of increasing SME contribution to GDP (Alkhalaf, 2019). SMEs are therefore vital sources of innovation and productivity, catalysts for job creation, but equally important counters to the dominance of big business, while also a means to create local value and reduce poverty less developed countries and rural areas (Maksimov, 2017). The socio-economic imprint of SMEs, coupled with their proximity to the external environment and lack of external buffers against turbulence, means that they are especially sensitive to conditions of socio-economic disruption (Lim, Morse, & Yu, 2020; Psychogios, Nyfoudi, Theodorakopoulos, Szamosi, & Prouska, 2019). This was exemplified during the Covid-19 pandemic when many SMEs had to fight for survival and/or dramatically pivot their core business operations. Reflecting this, the Society of HRM (2020) reported a 70% decline in revenue for the vast majority of SMEs, while McKinsey warned that COVID-19 threatened the viability of 50% of European small firms (Dimson, Mladenov, & Sharma, 2021). In this context, SMEs have been forced to engage in employee downsizing and restructuring on an unimagined scale. Empirical evidence from an NBER survey of 5,800 small businesses indicates that 40% have reduced their headcount relative to January 2020 (Bartik et al., 2020).

While the significance of SMEs is clear, what actually constitutes an SME is much less so. The task of defining the term 'SME' represents one of the most fundamental problems of small business research, and there remains no universally accepted solution, other than such firms are 'clearly not large' (Storey, 1994: 8). As Harney observes, the umbrella term of 'SME' captures 'a range of organisations from the archetypical family-run corner shop to the nimble and innovative firms that hold the promise of the knowledge-based era' (2015: 118). There is also significant variance in definitions across the globe which hinders the task of valid international comparability (Storey and Greene, 2010). Generally speaking, definitions based on numbers employed remain the best-known and extensively-used ways of classifying firm size

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(Curran & Blackburn, 2001). The most commonly used definition within the OECD area is that of the European Commission. Three categories of firms are identified, including micro firms (less than 10 employees), small firms (10-49 employees) and medium-sized enterprises (50-249 employees). Annual turnover and/or balance sheet totals and firm autonomy (non-subsidiary and independent) are also invoked for eligibility. However, a key problem with quantitative definitions is that they fail to capture the heterogeneity inherent within the small business population. Precise formal criteria of 'numbers employed' can prove difficult to assess where there is a transient, casual or informal workforce, or indeed in the context of network employment such as subcontracted work, alliances and partnerships (Kroon & Paauwe, 2021). A further problem with rigid 'numbers employed' criterion is that they can lead to, and perpetuate, to "size reductionism" whereby SME behaviour is explained by reference to whatever size criterion has been selected (Curran & Stanworth, 1979). Just as we do not speak of large firms as a generic category the same should be true of SMEs. Moreover, in privileging size, other critical contextual factors shaping firm behaviour risk being neglected or treated as secondary. As observed by Scase:

"...it is conceptually simplistic to collapse a diversity of proprietorial and managerial styles into a single generic category of 'small business'. The characteristics of skill, product and market are inevitably determining factors that shape features of the management process within any firm" (2005: 66)

A further layer of complexity can be added by being more sensitive to the critical role of context. Curran and Blackburn (2001) advocate a "grounded approach" whereby "size" and "smallness" are defined according to the perceptions of those engaged in the particular economic activities under investigation. While such an approach has the advantage of being able to capture the multidimensional character of SMEs, a prominent disadvantage is the impossibility of achieving comparability between studies. The dominant objectives of many SMEs are frequently survival and sustainability rather than growth, with management decisions being made in the context of operational necessity (Down, 2010; Storey, 2011). Ultimately, failure to observe and accommodate such heterogeneity undermines efforts to understand HRM in SMEs. It may in fact undermine the efforts of researchers to identify HRM processes and practices that maximise the effectiveness of such firms. This is made all the clearer when it comes to defining what actually constitutes HRM and HR challenges in the context of SMEs.

HRM: Characteristics and Determinants in SMEs

"the canned human relations program is of little value"
Human Relations in Small Industry (Perry, 1954: 151)

As highlighted in our discussion of the neglect of SMEs, HRM research has pursued a universal stance in attempting to demonstrate the relationship between specific HR practices and organisational performance outcomes. This is most obviously manifest in the High Performance Work Systems (HPWS) stream of research which takes as its referent Huselid's empirical research finding that "the use of high-performance work practices and good internal fit should lead to positive outcomes for *all types of firms*"

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(1995: 644 emphasis added). Emblematic of 'little big business syndrome' (Welsh & White, 1981), advice to SMEs has been monotonous in its prescriptions of large firm solutions. In essence it is advocated that SMEs introduce the likes of sophisticated recruitment, extensive formal training, employee engagement surveys with little or no regard to the cost of introduction or the very viability of the HR practices in the first instance. This can also be seen in national policy level prescriptions to improve or advance the competitiveness of the SME sector which typically latch onto best practice prescriptions. Empirical research exploring the transferability of large firm best practice HRM to the SME context has been mixed and equivocal at best (see Harney & Alkhalaf, 2021). This is hardly surprising as it is long understood that SMEs can function appropriately with a limited range of more pragmatic, optimal and 'intelligent', formal and informal HRM (Marchington, Carroll, & Boxall, 2003). Examining HRM practices among the Sunday Times '50 best small companies to work' for in the UK, Drummond and Stone concluded that each business "adopts a distinct bundle of workforce related practices, based upon its own perceived needs and priorities" (2007: 196). Characteristics specific to smaller firms such as their 'hierarchically contracted' nature mitigates against typically cited best practice such as the internal promotion and formal communication channels. 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 or are deployed indiscriminately. Something that is true for SME and large firms alike.

More recent research has brought important contingencies to the table in exploring the likely diffusion and impact of best practice HRM in an SME context. This includes research which has examined competitive rivalry SME in shaping the impact of HPWS on innovation in New Zealand (Haar, O'Kane, & Daellenbach, 2021), unpacked the impact of leadership style on high-commitment HR in the US (McClellan & Collins, 2019), and explored the role of the capacity of SME CEOs as shaped by network characteristics in determining HPWS amongst Spanish SMEs (Martinez-del-Rio, Pingshu, & Guthrie, 2021). Research has also delved into the prospective impact of HR professionals in an SME context finding a limited relationship to the uptake of HRM (Wu, Hoque, Bacon, & Llusar, 2015) or a relationship with respect to particular HR practices e.g. formal training and performance-related pay (Way, 2004). Other research points to the longer-term benefits of such investment in terms of viability of the SME (Chadwick, Guthrie, & Xing, 2016) or in facilitating growth (Kotey & Slade, 2005). Guerrero and colleagues (2021) deploy resource orchestration theory (ROT) to link the interaction between HR professionals' human and social capital to firm performance via the use of high-performance work practices (HPWPs) in a sample of Canadian SMEs. While useful in raising the empirical profile of SMEs, a consequence of using sophisticated, formal and best practice HRM as the referent to explore SMEs is that it perpetuates a deficiency-based logic. The implication is that formality must be adopted because it is the "right" thing to do, rather than consideration being afforded to whether the practices-in-use are achieving their objectives within a given context (Wapshott & Mallett, 2016). The 'deficit' approach, which is dominant in the literature (Nolan & Garavan, 2016a,b), affords limited understanding to the contextual realities of HRM in an SME context where informality, owner-manager preference, and

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emergent and dynamic HR properties frequently prevail. For example, in exploring recruitment in SMEs, Behrends (2007) points to practices are not necessarily better or worse, but rather follow a 'different logic' so that the quest becomes one of surfacing various 'functional equivalents' in accomplishing required HR-functional requirements (i.e. recruitment, performance management etc). Reflecting on findings from case studies of 18 SMEs from the Republic of Ireland Harney and Dundon observe that:

“the notion of a normative HRM model was not coherent in terms of actual practices but rather reactive, and emergent HRM-related processes were often imposed to meet legislative requirements or to reinforce owner– manager legitimacy and control” (2007: 110).

Studies of HRM as applied to the SME context, generally abstain from theoretical reflection and thereby risk perpetuating a large firm HRM bias, by either uncritically deploying established research instruments and/or by casting the smaller firm as lacking or deficient if it fails to meet the normative ideals. While it is understandable and important to assess the applicability of HPWS to SMEs, this should form the beginning rather than end of analysis, inviting further questions as to the SME characteristics which may substitute, complement or indeed cannibalise the validity of HPWS in this context (Harney & Alkhalaf, 2021). The lack of direct attention to the context in which HR is enacted and the agency of key actors is increasingly recognised as a deficiency of HRM research generally (Cooke, 2018; Harney & Collings, 2021; Vincent et al., 2020). Stripping HR back to the core functional task of control, Kroon and Paauwe (2021) depict a diversity of possible HR archetypes applicable to the SME context, ranging from craft employers through traditional owner-managers to alliances and partnerships. Atkinson and colleagues (2021) present an important distinction between routine and progressive HR, highlighting how 17 small firms have engaged with external support. Important here is that the focus moves beyond the content of HRM, to how HR actually operates, including the critical role of the owner-manager as a catalyst for introducing and implementing HR. This points to the significance of more contextually grounded definitions and research that is sensitive to local understanding.

Developing contextually sensitive understanding of HRM in SMEs

*“context counts and where possible should be given theoretical consideration”
(Bamberger, 2008: 839)*

It is important to acknowledge legacy research exploring employment relations, which has long been sensitive to the smaller firm context. This includes Ingham's (1967) research on modes of employee attachment in the small firms; Curran and Stanworth's (1981) detailed sector comparison of working relationships; Al Rainnie's (1989) deterministic account of the negative impact of supply chains and large firm relations, Goss' (1991) work on management style and Ram's (1994) ethnographic account highlighting the dynamic nature of informality and negotiated order in the West
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Midlands clothing industry. Unfortunately, mainstream HR remains largely ignorant to the insights of related fields, and equally tends to neglect such historical understanding. It is certainly the case that more recent research exploring HRM in SMEs has attempted to provide more holistic and contextually grounded insights, albeit not without limitation, including perpetuating a 'western' perspective (for an overview see Kroon & Paauwe, 2021). Such holistic accounts include Edwards and colleagues (2006) who provided a synthesis of employment relations informed scholarship to create a typology of variances in small firms underpinned by institutional theory. Harney and Dundon (2006) put forward an open systems perspective allowing for both internal and external determinants of HRM in SMEs. Yet where the former affords limited understanding to the actual nature of specific HR practices (except to the extent that rules might be 'universal' or 'particularist'), the latter relies on context to capture the existence or not of HR, but is less able to systematically and comparably comment on the why and how of such differences.

So how might one progress beyond this conceptual impasse? The approach we favour is twofold. First is to provide a more accommodating, inclusive definition of HRM which does not privilege form over function, and recognises the multiplicity of possible performance outcomes. Despite their fundamental role in shaping the research at hand, definitional explorations rarely feature as part of empirical research. Nolan and Garavan's (2016a) review of 117 papers examining HRD in SMEs note a limited consensus and an 'under defined' concept, with only three papers offering an explicitly definition of HRD. Rather than take on the form of a dedicated bundle of formal and sophisticated practices as assumed by universalistic theory, HRM can be understood much more broadly as "a term used to represent that part of an organisation's activities concerned with the recruitment, development and management of its employees" (Wall & Wood, 2005: 430). Of particular utility is the pragmatic concept of 'analytical HRM' advanced by Boxall and colleagues. This similarly treats HRM in a descriptive manner; "those activities associated with the management of work and people in firms" (Boxall & Purcell, 2008: 1). However, this is accompanied by a commitment to identify and explain what happens in practice, "taking account for the way that management actually behaves and therefore privileging understanding and explanation over prediction" (Boxall, 2007: 4). At its foundation this usage involves an implicit recognition that 'human resources are strategic to basic viability as well as advantage' (Boxall, 1998: 273).

The term analytical HRM offers three important contributions when considering the SME context. Firstly, it presents a mechanism for accommodating HRM in small firms as HRM is regarded as a "fundamental activity in any organisation in which human beings are employed" (Boxall, Purcell, & Wright, 2007: 1). By implication nearly all firms will have some form of HRM, however informal (Cardon & Stevens, 2004). Second, the concept of analytical HRM avoids the limitations of approaches which narrowly impose HRM as a preconceived ideal (e.g. a certain bundle of practices), perceive HRM activities as the exclusive remit of an HR department, or treat HRM as a specific universalistic style of people management. The stress, instead, is on the

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necessity of the process not on predetermining or dictating the form it will take. This avoids the common problem in much HRM analysis whereby its meaning is exhausted by those who prescribe it (Ezzamel, Simon, Wilkinson, & Wilmott, 1996). Finally, analytical HRM moves some way towards embracing the inevitability of tension and contradiction at the heart of the employment relationship and so steps away from a purely unitarist and normative agenda (Geare et al., 2014). HRM so conceived, is the practical activity of people management encompassing power and politics through the notion of 'plural' HRM goals and 'strategic tensions' (Boxall & Purcell, 2008: 280). Wapshott and Mallett (2021) come to a similar conclusion with a focus on developing better decisions in SMEs via practices *appropriate* for this context.

The second approach we put forward is one that recognises the limitations of utilising SME as a catch-all term. In practice, there is as much diversity within the SME category as between SMEs and larger firms. Yet one-fifth of studies reviewed by Harney and Alkhalaf failed to provide any definition or criterion for the SME firms that made up their research sample. Articles also demonstrate significant slippage in using the terms small, SME, entrepreneurial, and emergent etc. interchangeably (see Van Lancker, Knockaert, Audenaert, & Cardon, 2021). HR challenges will inevitably present themselves differently across micro (De Grip & Sieben, 2009; Ram, McCarthy, Green, & Scully, 2021), small (de Kok & Uhlener, 2001) and medium-sized firms (Marlow, Taylor, & Thompson, 2010). Moreover, definitions and understanding need to appreciate the social and cultural constructions of firm size. Beyond this there are further definitional parameters which further inform the nature of HRM challenges in SMEs. The first, newness versus smallness stems from differences based on the age of the organisation. The liability of newness is confronted by emerging, start-up organisations typically characterised by a combination of inexperience, resourcefulness and on-going learning (Zahra, 2021). HR challenges in this context include efforts to enhance the capability and skillset of the managerial team, attracting first hires and gaining legitimacy (Bryant & Allen, 2009). In this context HR might be more fluid, dynamic and form overtime, especially as the resources and skills sets required won't always be known a priori (e.g. think of contexts such as driverless vehicles, nano-technology, Virtual Reality) (Zahra, 2021). By contrast, more established SMEs will have overcome liabilities of newness, but still confront liabilities of smallness in the form of resource constraints, resulting in an emphasis on efficiency and constant navigation of resource selection, orchestration and co-ordination. Here HR challenges are more likely to involve developing and retaining talent, shifting from a top-team to an organisational wide focus, delegating with performance metrics, pressures for standardisation and potentially greater challenges in innovating (Harney, 2021). Evidently the respective contexts of either newness or smallness will each yield specific HR challenges (Cardon & Stevens, 2004; Harney & Alkhalaf, 2021).

We capture a summary of key SME definitional parameters and their HR challenges and implications in Table 1. This also reflects our previous discussion on HR ambition, where it is clear 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

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profit and business expansion (Ciavarella, 2003). 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. On the basis of this definitional parameter it is important to privilege local definitions, understanding and priorities of the organisation in question. For example, in their action research exploring productivity in ethnic-minority micro businesses, Ram and colleagues (2021) found that ‘conventional economic definitions foregrounding labour productivity are an inappropriate starting point for research and policy’.

Finally, it is important to accommodate the context of the firm with respect to growth stage and state. As highlighted, the vast majority of SMEs express little desire to expand or grow. 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 et al., 2016). 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: 13). Important, also, is appreciation of the dynamic nature of growth and contraction likely to characterise the lived experience of most SMEs. To date we know little of how SMEs manage downsizing or restructuring, or the impact of adverse socio-economic conditions for employees working in SMEs (Psychogios et al., 2019)

Table 1: *SME Definitional Parameters and respective HR Challenges and Implications*

<i>Definitional parameter</i>	<i>Key Criterion</i>	<i>HR Challenge</i>	<i>HRM Implications</i>	<i>Indicative studies</i>
<i>Smallness</i>	Micro, small, medium-sized firm?	Differing HR challenges by size	- Formed versus formulated HR - Informal versus formal practice - Variable employee experiences of formality	(Wu et al., 2015) (Bryson & White, 2019) (Marlow et al., 2010)
<i>Newness</i>	Start-up or established firm?	Differing HR challenges by age	- Attraction versus development & retention - Entrepreneurial team versus organisational focus - Resource creation versus management	(Messersmith & Guthrie, 2010) (Zahra, 2021) (Baron & Hannan, 2002)

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<i>Ambition</i>	Survival, succession, internationalisation, competitive advantage?	Differing objectives for HR	- Purpose and fit - Strategic HRM to align with ambition	(Ram et al., 2021) (Khavul, Benson, & Datta, 2010) (Harney & Dundon, 2006)
<i>Growth</i>	Stage/State of growth?	Differing investments in HR	- Nature of investment in Talent - Significance of HR Manager - Contracting or expanding	(Chadwick et al., 2016) (Rutherford, Buller, & McMullen, 2003) (Nyfoudi, Theodorakopoulos, Psychogios, & Dysvik, 2020)

Implications for future research on HRM in SMEs

This chapter has pointed to ‘the need to bring context back in’ (Sergeeva and Andreeva, 2016: 257) by incorporating it ‘more mindfully and systematically’ (Johns, 2017: 577) into analyses of HRM in SMEs. The previous section outlined the merits of an analytical definition of HRM, coupled with a disaggregated view of SMEs taking account key definitional parameters. This opens up a call for future research which privileges contextual factors and moves us behind simplistic and stilted applications of HRM. In this vein we highlight four perspectives which we feel would help advance understanding and progress the line of thinking outlined in this chapter.

Institutional Logics

It is clear that analyses of HRM in SMEs remain dominated by a deficiency model which fails to recognise, accommodate and explain what actually happens in SMEs and the manner in which contextual factors shape the nature and form of HRM. Institutional logics refers to the “socially constructed historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality” (Thornton & Ocasio, 1999: 804). Early proponents highlighted a range of ideal logic types operating at societal, industry and organisational field levels, e.g. the market, the state, the corporation, and the community (see Thornton, Ocasio, & Lounsbury, 2012 for an overview). Recent work also highlights the importance of understanding the micro-foundations of institutional logics, how these unfold in practice and how actors engage with potentially conflicting logics during their day-to-day work (McPherson & Sauder, 2013; Tyskbo, 2021). Institutional logics may influence managerial awareness, decision-making, sensemaking and actions and hence are a major determinant of HR structures and practices (Lewis et al., 2019). This perspective points to the motivations behind both individual and collective actions

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within a given context (Öberg & Shih, 2014), thereby integrating agency and structure (Zilber, 2013).

Of particular significance to the study of HRM in SMEs is that the institutional logics perspective enables a more nuanced understanding because it emphasises the local contextual embeddedness of social and organisational phenomena such as HRM practices (Gümüşay, Claus, & Amis, 2020). Notably, while logics may constrain managerial action, they can also enable it (Cardinale, 2018). Thus, a logics perspective enables us to move beyond the notion of SMEs simply being at the mercy of their external environment to one which foregrounds owner-manager agency and their capacity to make choices within external and internal constraints (Atkinson et al., 2021). Nolan et al. (2020) recently drew on an institutional logics perspective to study the dynamics of HRD in small tourism firms. The study reported a wide range of institutional logics that impacted upon how and why decisions about HRD are made, the degree of HRD formality, as well as how interventions were designed, planned and implemented. Significantly, the study emphasised how owner-managers and frontline employees reconcile potentially conflicting institutional logics regarding HRD on a day-to-day basis. This contributed to complex and heterogeneous patterns of HRD as stakeholders exercised agency in the interpretation of these logics to shape HRD. While an institutional logics perspective has not gained much traction in HRM research (Lewis et al., 2019), we argue that it has the potential to explain the variation of HRM practice within SMEs and answer questions pertaining to the adoption of particular practices and the degrees of formality and informality of HRM in different sectoral contexts (Nolan & Garavan, 2016b).

HR Process & Implementation

Surprisingly limited research has taken a HR process perspective to explore the dynamics of HRM in SMEs. The HR process perspective has great utility for this task, as, by definition, it moves beyond exploring the content/form of HR (e.g. lists of best practices) to engage with how and why HR works as it does in varying contexts. Classic work on HR system strength (Bowen & Ostroff, 2004) draws on key concepts from social influencing including visibility, distinctiveness and consistency, all of which have great applicability to the smaller firm context. By way of example, Atkinson and colleagues (2021) recently took a HR process lens to explore why 17 case firms engaged with external HR expertise. Their insights demonstrate the significant role of the owner-manager, not only in designing HR, but equally translating it to practice. Two critical factors were the extent of owner-manager understanding and commitment of HR, coupled with confidence to act. These would rarely be identified in studies of HRM in smaller firms, but provide great practical insight. This lens also helps us understand cultural differences in the ways SMEs engage with and apply HR, and equally why and how new HR practices might be considered and introduced. It is also highlights the significance of owner-manager agency and the significance of resource orchestration (Sirmon & Hitt, 2003) moving debate beyond an obsession with informality versus formality.

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Employee Voice and Perspectives

Important in further unpacking HR process and understanding HRM in context is a move beyond owner-manager frames of reference. A particularly striking void in HRM-SME research is the limited incorporation of employee voice (Harney & Alkhalaf, 2021). We lack critical understanding of how HRM practices and interventions are perceived, experienced, and responded to by SME employees. The comparative lack of attention to employees is surprising given the significance of employee perceptions of HRM as a critical factor determining the effectiveness of HRM initiatives (Otoo & Mishra, 2018). SMEs are inherently political arenas (Higgins et al., 2013) which means that employee perspectives must be afforded consideration as they represent an important member of the dominant coalition that can influence the shape and form of HRM (Kitching, 2007). The limited evidence base concerning employee perspectives does, however, point to intriguing anomalies and insights. First, previous research emphasises greater dependency on the workforce amongst SMEs in comparison to larger organisations (Rauch & Hatak, 2016; Wu et al., 2015). This dependency is more pronounced in firms relying heavily upon employee expertise to deliver high-quality client services, such as in management consultancy (Coetzer et al., 2019; Nolan and Garavan, 2019). Nolan et al. (2020) found significant differences between owner-managers and employees concerning perceptions and experiences of dimensions of training and development. This divergence exerted a negative impact on motivation among employees, who often felt unheard. Significantly, recent research suggests that HPWS contribute to strong firm performance when employees view CEOs as trustworthy and competent (Kim et al., 2020). Hence, the cultivation of positive relationships between owner-managers and employees is vital.

Second, employees' perceptions of HRM practices, such as training and development, reward management and performance management, are significant predictors of positive HR outcomes (Li et al., 2019). For example, a recent study by Coetzer et al. (2019) concluded that opportunities to participate in training and development activities were significantly and positively related to employees' levels of work engagement, innovative work behaviours and higher levels of affective commitment. Finally, employees in SMEs have been shown to exhibit greater levels of job satisfaction and work engagement, even in the absence of more sophisticated, formal HRM practices (Bryson & White, 2019; Lai, Saridakis, & Johnstone, 2017; Storey, Saridakis, Sen-Gupta, Edwards, & Blackburn, 2010). Indeed, Saridakis et al. (2013) caution against the introduction of more formalised, bureaucratic HRM approaches, which may represent a threat to creativity, innovation, trust and flexibility in SMEs. Others have highlighted how informality in SMEs facilitates significantly broader employee participation in decision making beyond their work role, including those decisions related to HRM (Gilman, Raby, & Pyman, 2015; Wikhamn, Wikhamn, & Fasth, 2021). In contrast, Philip and Arrowsmith (2021) suggest that informal and idiosyncratic HR practices can lead to sub-optimal employee outcomes in the form of inconsistent training, staff burnout, and high labour turnover. Clearly, further investigations are warranted to make sense of such contradictory evidence, with a

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privileging of contextual factors via analytical HRM and disaggregating the SME category provide a key route to do so.

SMEs and the future of work

In many ways key characteristics of SMEs can enable experimentation and change in HR in a manner that is no longer possible in larger entities. Start-up enterprises, in particular, have a track record of pursuing new business models and engaging with technology to threaten incumbents. This makes SMEs important sites for research to explore the direct effects of changing employee expectations and demographics on HR, coupled with the role and impact of digitisation and changing market factors and institutional contexts. As we detailed in the introduction, the Covid 19 pandemic has presented a huge challenge for SMEs. However, it has also presented a catalyst for explorations of continued or enhanced productivity through digitisation, as Ram and colleagues (2021) demonstrated with respect to ethnic minority micro catering firms. There are also hints that the embedded nature of SMEs in the community, and their fundamental sense of purpose, leaves them well placed to differentiate through authentic corporate social responsibility. This was recently explored by Werner (2021) with reference to owner-manager motivations for voluntarily seeking living wage accreditation. Unfortunately, to date research on the future of work with specific reference to the SME context is relatively scant. Progress in this area could be useful underpinned by a greater appreciation for institutional logics, HR process, and, critically, employee perspectives.

Summary

This chapter has outlined the role and significance of SMEs, highlighting that they deserve to be centre stage in the discussion and evolution of research on HRM. This argument is reinforced by recent global events which suggest a revised world order founded upon resurgent nationalism, technological disruption, changing demographics and a return to localised business and services to circumvent supply chain disruptions (Harney & Collings, 2021). It is also suggested that the Covid-10 pandemic is likely to bring about a 'great reset' (World Economic Forum, 2020), involving altered values, lifestyle choices and purchase decisions which are likely to benefit SMEs, particularly those in more rural locations. There is evidently a great need for more in-depth qualitative understanding of the dynamics of HRM in small firm contexts, moving beyond dominant thin, functional understanding (Barley & Kunda, 2001). As Schumacher forewarned, there is risk of dependence and addiction to "purely quantitative analysis and its timorous refusal to look into the real nature of things" (1973: 39). It is clear from our final section that SMEs are well placed to navigating the disruptive role of technology and the future of work, although this will not be without challenge. There are huge opportunities for further understanding of what makes for digital leaders and laggards. SMEs have also long been embedded in local community, with sustainability and authentic engagement initiatives, and a

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negotiated order of work scheduling and practice offering a route to advantage and differentiation. In many ways therefore, this is an opportune time for SMEs to be the focus of research and practice attention. Revisiting Schumacher once more is instructive

“What I wish to emphasize is the duality of the human requirement when it comes to the question of size: there is no single answer. For [their] different purposes [people] need many different structures, both small ones and large ones, some exclusive some comprehensive. ...people always tend to clamour for a final solution, as if in life there could ever be a final solution other than death. For constructive work, the principal task is always the restoration of some kind of balance. Today we suffer from an almost universal idolatry of giantism. It is therefore necessary to insist on the virtues of smallness- where this applies” (1973: 54).

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