

Chapter 1 Reframing HRM in SMEs: An Introduction

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1.1 Introduction

Recent years have undoubtedly witnessed a growing literature on human resource management (HRM) in small and medium-sized firms (SMEs). We have seen several special issues of leading journals devoted to this topic over the past two decades, including Human Resource Management (Tansky & Heneman, 2003), Human Resource Management Review (Barrett & Mayson, 2006) and most recently, The International Journal of Human Resource Management (Harney et al., 2022). In addition, several pertinent systematic literature reviews (SLRs) have been published (Harney & Alkhalaf, 2021; Nolan & Garavan 2016; Van Lancker et al., 2022). Dedicated chapters on SMEs have also appeared in recent editions of leading HRM textbooks (e.g. Torrington et al., 2020; Wilkinson et al., 2021). Despite such important progress, many questions remain unanswered, and the ultimate, perhaps surprising, conclusion is that extant literature on HRM in SMEs remains significantly deficient, fragmented, and equivocal. There are many reasons for this, not the least universalistic undertone of best practice HRM theory which assumes that HR issues and solutions as applied to large firms can be transplanted without distortion or adaptation to the SME context. There is a growing body of literature which recognises this deficiency, but much less is offered by way of alternative means of understanding and engaging with the challenges and specificities of managing people in a smaller firm context (Harney, 2021; Nolan & Garavan 2016).

We hope this book will act as a catalyst to promote discussion and debate based on the topics explored and reframing advanced in the chapters that follow. In this introduction we begin by outlining the significance of SMEs and consider the challenges associated with understanding the term 'SME'. We then detail some of the key characteristics of SMEs, as captured by the acronym RECIPE (resource

constraints, environmental vulnerability; centralised control; informality; proximity of relations and employee dynamics) (Harney et al., 2022). We conclude with a summary of the contributions to this edited volume.

1.2 Motivation

The motivation for this book arose from a desire to address key limitations in current research exploring HRM in SMEs. One basic deficiency concerns the extent of attention directed towards SMEs. Systematic reviews continuously highlight a field neglected from mainstream research. A quarter century review of contributions on HRM in SMEs found that only 0.5% of articles published in Employment Relations/HRM journals paid dedicated attention to the SME context (Harney & Alkhalaf, 2021). Examining SME studies in the context of Human Resource Development, Nolan and Garavan (2016) point to a niche and isolated area requiring further engagement. The relative neglect of SMEs in the HRM literature can be partially explained by the fact that studies outside of the traditional, multinational corporate setting are regarded as unconventional contexts for management research, which leads to their exclusion (Bamberger & Pratt, 2010). Similarly, Corbett et al. (2014) observe the institutional pressures that perpetuate a homogenisation effect whereby attention to unconventional research sites is limited. A second deficiency identified in reviews is a tendency to draw upon a limited and narrow range of theories. Much traditional theorising and research in HRM can be characterised as what Alvesson and Gabriel (2013, p. 245) refer to as 'formulaic', which leads to the production of 'more of the same, within the same conventions' (ibid., p. 252).

With this edited volume we sought to bring together a collection of chapters to not only direct greater attention to the SME context, but critically to advance understanding of the challenges and dynamics of HR issues in this context. We were keen to bring leading-edge international researchers together to reframe understanding of HRM in the SME context, including via novel theoretical perspectives and exploring hitherto underexplored areas. It is arguable that the preoccupation with conventional research settings has stymied development of the HRM field as there is a notable absence of studies that challenge the status quo. 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” (2006, p. 475). This book represents our efforts to push forward new research agendas and approaches to engage and accommodate HRM in SMEs. Notably, in so doing we move purposefully beyond tired debates about particular HR practices (e.g. recruitment, training) and an exclusive focus on performance.

Bacharach and Bamberger (2007, p. 389) observe that “studies in which the examination of context is a ‘declared and substantive’ research objective are rare”. The approach taken in this volume privileges the SME context arguing that HRM in SMEs cannot be understood independent of this context (Harney et al., 2022; L’Écuyer et al., 2019; Mallett et al., 2019; Mayson & Barrett, 2017). The chapters included in this book therefore explicitly consider the broad range of external and internal contextual factors (both enabling and constraining) that shape the conceptualisation, manifestation and meaning of HRM in SMEs.

1.3 Defining Key Terminology

There are a number of key terms used throughout this book that require definition; notably HRM and SMEs. While the topic of HRM in SMEs might appear on the surface to be a relatively simple one, in practice, it is difficult to construct definitions of both terms. Attempts to map the conceptual terrain of both HRM and SMEs are fraught with challenges, which stem directly from the lack of definitional consensus as to what constitutes either HRM or an SME. As detailed by Katz et al., “with so many ways to define HRM and the SME, almost anything could be studied” (2000, p. 8).

1.4 What is an SME? Significance and Definition

The global socio-economic imprint of SMEs is significant. According to the OECD, SMEs account for approximately 99% of all firms, and 68% of all private sector employment, playing a vital role in sustainable economic growth, job creation (or

contraction), innovation and social cohesion (OECD, 2021a). In emerging markets SMEs contribute up to 40% of GDP and generate 7 out of 10 new jobs (World Bank, 2021). SMEs experience heightened exposure to macroeconomic turbulence, making them particularly vulnerable to conditions of socio-economic disruption (Psychogios et al., 2019). In the current environment, this includes forces such as (de)globalisation, digitalisation, global pandemics, supply chain disruptions and geo-political uncertainties. SMEs were disproportionately impacted by the Covid-19 pandemic as they are overrepresented in the most exposed economic sectors (Harney and Collings, 2021; Thukral, 2021). Evidence suggests that many SMEs endured a sharp decline in revenue of between 30 and 50% (OECD, 2021b), increased failure rates (Kalemi-Özcan et al., 2020), with small business owners suffering from adverse mental health consequences such as burnout (Torrès et al., 2021). It is anticipated that SMEs will play a critical role in global recovery and renewal, not least as recent crises have highlighted their role as a backbone to socio-economic development (Belitski et al., 2022). Such developments make this book a timely endeavour.

While the significance of SMEs is clear, efforts to understand what constitutes an SME are fraught with complexity and contradictions (Harney et al., 2022). After decades of debate, the only consensus about what constitutes an SMEs is that such firms are “clearly not large” (Storey, 1994, p. 8). Definitions of the term ‘SME’ exhibit considerable variance, which impedes efforts to achieve comparability in research studies around the globe. Quantitative definitions based on the numbers employed by the firm persist as the principal means of classifying firm size. A widely cited definition is that proposed by the European Commission (2020) which disaggregates firms as micro (less than 10 employees), small (10–49), and medium sized (5–249). This categorisation is further delimited by criteria relating to ownership (non-subsidiary/independence) and revenue limits.

While the default position of relying on quantitative definitions may have pragmatic utility, this risks perpetuating an approach whereby the specificities of SMEs are overlooked (Torrès & Julien, 2005). Curran and Burrows (1986) refer to this as ‘size reductionism’ whereby the behaviour of the SME is explained by reference to whatever size criterion has been chosen. In privileging size, other contextual factors may be neglected or treated as secondary. Thus, while the size of the firm will invariably affect

the nature of how the employment relationship is managed, HRM is not merely size-dependent. The unique characteristics of SMEs must be afforded attention to inform studies of HRM. Rather than reverting to the default position, in this book, we emphasise the importance of researching SMEs by being cognisant of their key characteristics and local ambitions, in addition to recognising the influence of important determinants such as the strategy in place and the nature of talent employed. In this way we also seek to avoid common flaws such as the ‘universalism composition fallacy’ (Nightingale & Coad, 2014) whereby entrepreneurial stereotypes are transposed to all SMEs. Relatedly we caution against any implicit ‘acorn to oak’ assumption concerning the desire and ability for growth. For SMEs performance does not always equate to a grandiose quest for competitive advantage, but rather aligns with purpose, relative performance goals, local differentiation, desire for sustainability, independence and/or succession across generations. Performance in an SME context can cover a wealth of outcomes as opposed to the narrow generation of financial wealth. The chapters in this book utilise a variety of different terminology such as small business, small firm and SME to analyse the context under investigation. A key uniting feature is an emphasis on key SME characteristics that serve to not only distinguish SMEs from larger firms, but also shape HRM in this context.

1.5 A RECIPE for Exploring Key SME Characteristics

Extant understanding of HRM in the SME context has been hindered by a lack of dedicated attention to the ‘specificities’ of the SME context (Torrès & Julien, 2005). Drawing on Harney et al. (2022, pp. 3177– 3180) these include resource constraints, environmental vulnerability, centralised control, informality, proximity of relations and employee dynamics as captured by the acronym RECIPE.

Resource Constraints

In terms of resources, SMEs suffer from ‘liabilities of smallness’ meaning they face constraints in terms of finances, time and expertise often limiting their investment in

HRM, including the inability or unwillingness to hire dedicated HR expertise. In essence SMEs are 'not little big businesses' (Welsh & White, 1981) as they typically suffer from severe cost constraints and challenges in introducing and sustaining so called 'best practice' HRM practices. By the same token, because SMEs are so labour intensive they are especially reliant on the effort and performance of all employees. This makes SMEs particularly vulnerable to the consequences of deficient HRM such as poor hiring decisions, below par performance and employee turnover or illness (Klofsten et al., 2021). It is important to also note that resource constraints can also serve as a catalyst for agility, creativity, and resourcefulness. In many instances, sophisticated HRM is not even viable or necessary in an SME context. For example, in terms of recruitment SMEs may draw on personal networks ensuring a degree of peer pressure in terms of performance expectations. Another approach might be to purposefully hold back from recruiting to ensure greater internal efficiencies or to avoid intensive selection tools but rather utilise probation periods as a 'prolonged selection filter' (Behrends, 2007, p. 67). As Moule concluded from his study of small button manufacturers what is rational in the context of decision making should be judged "by [desired] outcomes rather than organisational theories of best practice" (1998, p. 652).

Environmental Vulnerability

SMEs are likely to be especially sensitive to socio-economic disruption (Lim et al., 2020; Psychogios et al., 2019). Unlike larger firms, SMEs typically lack buffers to protect against environmental turbulence and shock. Proximity to the external environment means SMEs are often 'takers not makers' of external conditions and demands be this competitive forces or labour market dynamics (Wapshott & Mallett, 2021). This 'liability of volatility' was exemplified during the Covid-19 pandemic, when many SMEs had to fight for survival and/or dramatically pivot their core business operations (Lundmark et al., 2020). Proximity to structural and market-orientation instability can lead to HRM which is more organic, adaptive, ad hoc, or even imposed (Harney & Dundon, 2006; Mendy, 2021). Allied with resource constraints, SMEs often struggle to engage in environmental scanning, which can result in knowledge deficiencies related to regulatory change or competitive dynamics. It can also be difficult for SMEs to position themselves as a viable employer of choice as they may lack legitimacy and recognition in the labour market.

Concentrated Control

Owner managers or top teams often bear a significant 'imprint' on the approach taken to people management in SMEs (Baron & Hannan, 2002; Harney & Alkhalaf, 2021). Concentrated ownership and control means that decision making often resides with one individual as the owner manager, on a familial basis or via a small dominant coalition. Concentrated control is frequently associated with an ideology of unitarism or claims of a family like atmosphere in SMEs. The implications can be a reluctance to delegate HR tasks and selective use of voice, with limited sharing of financial or strategic information. This points to the longstanding recognition of varying leadership styles in impacting employee experiences in SMEs (Goss, 1991; McClean & Collins, 2019). Concentrated control also serve to put the parameters on performance outcomes expected and desired within SMEs. Often these take the form of survival, succession, local advantage, or socio-material wealth as opposed to hard financial measures (Wach et al., 2016). For example, while many assume SMEs to be gazelle like organisations solely motivated by growth ambition, in reality this is very much the exception. 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). This points to varying frames of reference and local understanding when exploring HRM decisions and outcomes in an SME context.

Informality

A common feature that will be identified across the chapters in this book is the emphasis on informal practices and operation in SMEs. This is in many ways a direct manifestation of resource constraints, environmental vulnerability and concentrated control. A preference for informality enables flexibility, influence and cost saving. Informality creates an interesting paradox when it comes to HRM in SMEs. While informality can provide difficulties in terms of justice, consistency and challenges for scaling and growth, it can equally form the basis of advantage fostering local accommodation and commitment and at times serving as a viable substitute for formal HR practice (Bacon et al., 1996; Patel & Conklin, 2012). Of course in practice informality may well be variable across HR practices e.g. less common in areas mandated by institutional or regulatory pressure (e.g. grievances) but more prominent

in training and development e.g. learning on the job. Capturing this dynamic HRM in SMEs might be said to be 'intuitive' co-evolving with the external environment (Buisson et al., 2021).

Proximity of Relations

The size effect of SMEs means a relatively flat structure and smaller span of control resulting in more proximate social and spatial relations between managers and employees. This suggests visibility of SME leaders, enhanced chances of on-going employer-employee interactions and that employees are likely to have a direct line of sight to business challenges and end-user experiences. This proximity of relations can facilitate a negotiated order as owner managers seek to control worker output frequently through local accommodation (e.g. flexible working hours, community hiring practices, opportunity for voice and shared responsibility) (Ram, 1991; Wapshott & Mallett, 2013). Of course proximity of relations cannot be equated with a style of relations, as it just as easily facilitates an iron-fist of rule as a family-like culture, or indeed variants of both. Interesting HRM issues also arise when the proximity of relations is disrupted, be that via the introduction of new hires to the firm, attempts at formalising practices, dealing with the consequences of growth in employee numbers, or succession/change of leadership (Harney et al., 2022).

Employee Dynamics

A final characteristic of SMEs relates to the nature of work and employee experiences in this context. While we can caution against early accounts advocating a deterministic self-selection thesis (Ingham, 1967) it is equally clear that there are unique features shaping the work experience in a smaller firm context (Van Lancker et al., 2022). Examples might include the opportunity to work across multiple roles, having a direct line of sight with the value created by products or services and/or regular interactions with management. These have the potential to lead to intrinsic motivation, discretionary effort and greater engagement of employees working in an SME context, even in the absence of sophisticated HR practices, as evidenced by some research in this area (Bryson & White, 2019; Forth et al., 2006; Mustafa et al., 2021). Experiences of work in the SME context are likely to draw attention to interesting questions related to local commitment, perceptions of justice, and the impact of relativity when it comes

to factors such as pay and conditions. Of course, we should be cautious to not promote a singular or stereotypical view of SMEs. Paternalistic relations can easily have an undercurrent of harsh work, intensification and control.

1.6 What is Human Resource Management?

This book adopts an 'analytical approach' to HRM (cf. Boxall et al., 2007). Following Boxall and colleagues, the aim of utilising an analytical approach is 'to understand what managers do and why they do it before we offer any sort of prescription for what...they should do' (Boxall & Purcell, 2016, p. xi). For the present purposes, the term analytical HRM offers three important contributions. 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 et al., 2007, p. 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 necessity of the process not on predetermining or dictating the form it will take; "HRM happens in some form or another" (Boxall et al., 2007, p. 1). This avoids the common problem in much HRM analysis whereby its meaning is exhausted by those who prescribe it (Ezzamel et al., 1996, p. 63). Very much connected to this is the third and important point that analytical HRM moves towards embracing the inevitability of tension and contradiction, and so steps away from a unitarist and normative agenda. HRM, so conceived, is the practical activity of people management, a 'warts and all' type depiction. The power and politics inherent in the operation of employment relationship is acknowledged through the notion of 'plural' HRM goals and 'strategic tensions' (Boxall & Purcell, 2008, p. 280). We therefore adopt a pragmatic approach and treat HRM in a descriptive manner. Such an approach has the advantage of affording a degree of flexibility in capturing a broad range of activity, whether labelled HRM or not. This tactic similarly finds support in the empirical work of Kitching (2007) and Hill (2004). An analytical approach to HRM also complements the focus of the book given its primary concern with locating activities and processes within their wider context (Boxall et al., 2007). Moreover, a context-

based conceptualisation of HRM assumes particular importance because of its ability to tactically engage (Jacques, 1999) with SME practice and accommodate its specific challenges and dynamics (Nolan & Garavan, 2014).

1.7 Structure of the Book

This edited collection brings together insights from thought leaders in the field of HRM in SMEs. The chapters are grouped into two key sections: (1) HR Challenges, and (2) HR Dynamics. We conceptualise HR challenges as encompassing the wide range of potential challenges confronted by SMEs as they navigate the effective management of the workforce. SMEs face unique challenges directly stemming from their size, which may create pressures, tensions and dilemmas with regard to people management. These include the liabilities of smallness and newness, as well as resource challenges pertaining to attraction, development and retention of the workforce. In turn, these challenges can give rise to unique HR dynamics in the SME setting. The concept of HR dynamics refers to the patterns of HRM in the SME context that may evolve and alter over time. The heterogeneity of HRM in SMEs is widely observed and can be further complicated by the growth intentions of the firm. An explicit focus on dynamics will allow us to consider how the interplay of a range of external and internal contextual factors coalesce to shape the nature and form of HRM in SMEs, including the degree of (in)formality adopted. In presenting content in this way we move beyond traditional accounts which are organised by HR function or practice area, e.g. recruitment, performance, training etc., and equally move beyond tired considerations of the applicability of HR, e.g. HR and performance, best practice/best fit etc.

Part I—HR Challenges

Part I of this book contains 4 chapters that address various HR challenges facing SMEs. In Chapter 2, Wapshott and Mallett address the implementation of employment regulation as a managerial challenge. They emphasise the importance of understanding how owner-managers navigate their business support journeys to develop resources to address this critical challenge. In Chapter 3, Atkinson and Lupton focus on the potential impact of HR support as means of meeting the challenges posed by the adoption of strategic HRM within small firms. They present findings from a CIPD

project which offered free bespoke, specialist HR support to a selection of small firms across the UK. The chapter emphasises the importance of capturing both the content and process of HR, as well as being sensitive to the prevailing influence of the owner-manager in order to better understand small firm engagement with HR support services. Coetzer and Wallo further unpack the impact and challenge of owner-manager influence on HRM in small businesses in Chapter 4. They examine how the unique features of small businesses may present challenges to owner-managers in the enactment of their central role as enablers of learning. In the final chapter of Part I, Chapter 5, Mendy concentrates on the resource constraints facing managers in SMEs in crisis situations when implementing core HRM practices. He presents two models (the resilience scaffold and resilience framework) which emphasise the importance of resilience development to deal with HR implementations challenges in SMEs.

Part II—HR Dynamics

Part II of this book includes 4 chapters that address HR dynamics in SMEs. The chapters pay particular attention to a range of contextual characteristics of SMEs that may serve to explain the heterogeneity of HRM practice in the SME setting. In Chapter 6, Kroon and van Koppen explore the unique context of small glasshouse horticultural businesses. They compare the HRM practices of 8 case firms to the dimensions of the control-based configurations theory. Their findings emphasise the utility of this perspective for capturing and explaining the variation of HRM practices firms facing similar conditions (equifinality), as well as the outcomes for organisational effectiveness and employee wellbeing. In Chapter 7, Van Lancker and Knockaert present a review and research agenda pertaining to the distinctive role of joiners and the role they play in the performance and development of new and entrepreneurial ventures. They advocate a process lens to understand joiners from a more dynamic perspective in order to capture their evolutionary journey in the new venture setting. In Chapter 8, Nyfoudi draws upon the novel theoretical framework of Coleman's boat to examine how macro-level influences such as turbulence and micro-level elements in the form of employee perceptions interact and shape the emergence of SME-specific HR outcomes. In order to achieve a more comprehensive understanding of HRM in turbulent SMEs, the chapter advocates the need for multilevel research

designs incorporating much-needed employee perspectives, managerial perceptions, as well as external environmental influences.

In the final chapter of Part II, Chapter 9, Nolan and Harney examine the tensions inherent in the formality-informality dynamic in SMEs. The authors emphasise the importance of capturing the logic underpinning the adoption of degrees of (in)formality by being more sensitive to issues of context. The chapter proposes that formal and informal HRM may be simultaneously complementary and substitutive. It argues for the adoption of more nuanced understanding and operationalisation of HR informality if this key feature of SMEs is to be captured and accommodated in research endeavours. Chapter 10 provides a summary and conclusion by revisiting the RECIPE framework (resource constraints, environmental vulnerability, centralized control, informality, proximity of relations and employee dynamics), exploring how our understanding has been advanced as well as highlighting unanswered questions that remain.

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