

Chapter 10

Reframing HRM in SMEs: Navigating challenges and dynamics

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Abstract

This chapter brings together key insights concerning HRM in SMEs. We start by reinforcing the significance of SMEs, before exploring why the respective HRM and SME literature tend to talk past each other. Drawing on the insights of the contributions to this volume we then revisit the RECIPE framework (resource constraints, environmental vulnerability, centralized control, informality, proximity of relations and employee dynamics) exploring how our understanding has been advanced and unanswered questions that remain. Finally, we outline a pathway for future research including the significance of sustainability, digital disruption, change ad transition and gender equality. A case is also made to further consider context by disaggregating across micro, small and medium sized firms and in being more global with in our scholarship.

Keywords: SMEs; research agenda, SME characteristics, employees, RECIPE

Introduction

All the chapters in this edited collection make clear the contributions that SMEs make to the global economy reinforcing that their socio-economic impact cannot be understated (Storey, 1994). SMEs serve as vital fulcrums for job creation, seedbeds for innovation, while playing a critical role in the eco-system of larger firms. The Covid-19 pandemic dramatically illuminated the vital role SMEs play in serving local communities. The chapters in this collection also make clear the significant challenges such firms confront when it comes to the management of people. The resource

constrained and hierarchically contracted nature of SMEs make them especially reliant on talent, meaning that the impact of HRM decisions are transparent, telling and thereby transformative or detrimental to SME sustainability. Particularly noteworthy therefore is the scant attention paid to SMEs in HRM research and the limited engagement of SME research with HRM (Harney & Alkhalaf, 2021; Wapshott & Mallett, 2016). Moreover, in contrast to historical assertions, SMEs are far from a relic of a bygone era. This type of thinking is exemplified in the work of R. Edwards who relegated smaller capital utilising 'simple control' to the status of a 'modern day periphery', 'a declining sector, as the large corporations continually encroach on its markets' (Edwards, 1979: 35). By contrast the socio-economic imprint of SMEs and the significance of understanding HRM in such firms will only be accentuated by the likes of digital disruption, the 'gig' economy and the ability of firms to be born global as 'micro-multinationals' (Harney & Nolan, 2022; ILO, 2017).

HRM and SME research: Talking past each other

We commend our contributors who took up the challenge to (re)frame current understanding of HRM in SMEs beyond the conceptual impasse of a deficiency based logic (i.e. where more formal, sophisticated HRM is seen as the only route to progress). While there have been growing calls for more dedicated SME research (Festing, Harsch, Schäfer, & Scullion, 2017; Krishnan & Scullion, 2017; Lai, Saridakis, Blackburn, & Johnston, 2016) progress has been hindered by a lack of critical assessments of the nature and applicability of HRM as applied to the SME context. Part of the problem resides in HRM's normative compulsion to prescribe. Many studies abstain from theoretical reflection and perpetuate a large firm bias by either uncritically deploying established research instruments, and/or by casting the small firm as lacking or deficient if they fail to meet normative ideals. This is exemplified by a stream of

research in HRM exploring mutually enhancing bundles of best practice HR known as high performance work systems (HPWS). For example, supported by the confidence wrought by a scientific agenda, the well cited work of Huselid asserted that “the use of high-performance work practices and good internal fit should lead to positive outcomes for *all types of firms*” (1995: 644 emphasis added). Founded on the assumption of a ready-made, large scale, well resourced and bureaucratic HR function for many SMEs the logic and effort of engaging uncritically in HPWS is more likely a highly-probable waste-of space (HPWS).

From the perspective of SME research there has been a similar neglect of HR issues (Burton, Fairlie, & Siegel, 2019). This in part stems from a tendency to privilege the idea of a heroic, (male) entrepreneur, to the neglect of the broader team of employees or ‘joiners’ (chapter 7 this volume). The limitations of an exclusive ‘entrepreneurial perception’ of the small firm are that it a) fixates attention on the individual to the neglect of others employed within the firm (Curran, 1991); b) focuses research on certain types of firm and regions (e.g. high-technology firms and silicon valley type clusters) and away from the small firm sector as a whole, and; c) it leads to the perpetuation of an implicit ‘acorn to oak’ assumption concerning the desire for growth whereas it is only a small minority of SMEs that are purely motivated by the goals of profit and business expansion (Kidney, Harney, & O’Gorman, 2017; Ram, Jones, Abbas, & Carter, 2005). Welter and colleagues offer a strong critique of the current focus of entrepreneurship research, with clear implications for the study of HRM (or relative lack of), arguing that research and themes have narrowed to be become self-serving focusing almost exclusively on ‘the wealthy and successful’ ((2017: 317).

Given this context, coupled with the limited exchange of ideas between HRM and entrepreneurship scholarship (Burton et al., 2019), it is unsurprising that extant work

on HRM in SMEs has been described as ‘underdeveloped and equivocal’ (Chadwick, Way, Kerr, & Thacker, 2013: 311) remaining at a very nascent stage of theory development (Barrett & Mayson, 2006). In order to make sense of contradictory evidence there is a requirement to move beyond universalistic stances to explore how HRM is appropriately conceptualized and operationalized in the SME context (Allen, Ericksen, & Collins, 2013). This involves a greater accommodation of contextual conditions, exploring what organisations actually do in practice, and the conditions of possibility shaping what constitutes viable or effective HR practices (Gilman, Raby, & Pyman, 2015; Lai et al., 2016). This motivation formed the catalyst for this collection as we asked contributors to move beyond futile counts of the number and extent of ideal HR practices in place and/or attempts to simplistically demonstrate performance outcomes. Ultimately, whatever the terminology in use or expertise involved (or not) all organisations must confront and manage HR issues whether in a formal or informal manner (see Chapter 6). Once a firm goes beyond a single person entity (Wapshott & Mallett, 2021) it is thereby engaged in HRM.

Navigating the challenges and dynamics of exploring HRM in SMEs

It is clear that advancing understanding of HRM in SMEs mandates ‘deeper contextualisation’ (Korsgaard, Hunt, Townsend, & Ingstrup, 2020). To create new knowledge, there is requirement to update, renew and critically assess work which has sought to bridge SME and HRM (Harney, 2021). While HRM in SMEs has long been recognized as complex and diverse (Harney & Dundon, 2006), there has been little by way of critical reflection, theoretical advancement and dedicated discussion. The aforementioned ‘deficiency’ based understanding has encouraged limited regard for

boundary conditions, the dynamics of growth and contraction or an appreciation of how, or whether, HR practices might be more organically developed. Allied with this has been a focus on the ostensive aspect of relations (e.g. abstract structures) and a desire for univariant relationships e.g. between size and person-organization fit or variants of HRM and performance outcomes. By contrast the chapters in this volume avoid uncritical applications of HRM to the SME context, and instead provide alternative and novel ways to explore how HRM is actually practiced in SMEs. This includes engaging with a challenge agenda to (re)frame regulation as a managerial challenge (Chapter 2), to examine the challenges surrounding the use of external expertise in shaping HRM in small firms (Chapter 3), to explore the role of the owner manager as an enabler of learning (Chapter 4) and to identify the theoretical basis and empirical necessity of exploring resilience in SMEs (Chapter 5). In these chapters contributors demonstrate how HR science is best understood as a process, not a predetermined position. A challenge based understanding encourages us to test, challenge and reconsider the fields self-evident truths (Harney & Collings, 2021).

Chapters in the second half of the volume animate key dynamics shaping HRM including drawing on control to understand various typologies of small firms (Chapter 6), examining the impact of joiners for the development of new firms (Chapter 7), providing a multi-level understand to appreciate employee experiences of HRM in crisis contexts (Chapter 8) and finally, unpacking the dynamics of informality including its complementary and substitutive effects (Chapter 9). These chapters help progress understanding from dominant steady-state conditions towards embracing the dynamics of stability and change. As these chapters demonstrate there is much to be learnt from embracing context and accommodating uncertainty. As per Alvarez and Porac uncertainty should 'be sought out for its generative capacity as much as it is

avoided because of its vicissitudes' (2020: 12). Importantly these chapters also illuminate a pathway for research to move away from exclusively exploring certain HR practices to exploring broader underlying purpose (typology of control), the role of transition and change (on-boarding new hires), the situational value of HR in shaping employee experiences (signaling), and dynamic form and function of HR (synchronicity).

All the contributions to this volume highlight the significant impact of the SME context on shaping the take-up, meaning, enactment and assessment of HRM. Briefly returning to the RECIPE framework of key SME characteristics (Harney, Gilman, Mayson, & Raby, 2022) outlined in the introduction is instructive as it helps reinforce the newly found SME contextual emphasis evidenced across the chapters. In terms of *resource constraints* the chapters support the idea of the liability of smallness but also provide a layer of further understanding. This includes where and how SMEs might seek external expertise and indeed their willingness to engage with external supports in the first instance (Atkinson, Lupton, Kynighou, & Antcliff, 2022). Can resource constraints be mitigated through strategic collaboration, networking, co-opetition or other forms of delegating outwards beyond the firm boundaries? Related is the idea that much of the expertise and experience of SMEs is embedded in a tacit fashion, including across employees who might easily leave or be poached or indeed in the head of the owner manager. How can SMEs create an infrastructure to nurture and leverage this form of understanding and what role may enabling digital technologies play in helping with this task? In the context of resource constraints, how do SMEs ensure an appropriate effort and allocation of investment and time so as to balance exploitation and exploration activity (Coetzer, Redmond, Sharafizad, & Lundy)

and focus on institutional factors such as regulation that may seem more malleable and less relevant (Mallett, Wapshott, & Vorley, 2019).

With respect to *environmental vulnerability* many of the contributions stress the VUCA (volatile, uncertain, complex and ambiguous) environment that SMEs operate under. How might firms best navigate this turbulence including developing capabilities in environmental scanning in order to develop new knowledge and insights? What might artificial intelligence and real-time nowcasting data analytical capabilities offer to SMEs in terms of people management and monitoring performance? HRM clearly has the potential to direct employee and firm attention to critical areas explore. Environmental factors should not be considered in a deterministic fashion as SMEs owner managers may reach some form of 'accommodation with environmental conditions' (Child, 1997: 70). As Pondy and Mitroff remind us "the environment can be understood as a source of 'information' that makes internal organisation possible" (1979: 12). Importantly, HR can help owner managers with internal management through signaling their interpretation and emphasis as a form of sense-making, especially relevant in the context of dramatic uncertainty and change (Prouska, Nyfoudi, Psychogios, Szamosi, & Wilkinson, 2022).

In terms of *centralized control* the imprint of the owner-manager or dominant coalition is omnipresent. Evidently role modeling of desired behavior can be critical. For example, owner-managers who value learning can rely on their role modelling behaviours as opposed to having to revert to traditional HRM practices (Chapter 4). How this prospective influence is translated to a remote or hybrid working context is

an interesting question to explore. Whilst it has been traditionally understood that owner managers hoard relevant strategic and financial information, emerging research highlights the merits of top down information disclosure which is then reciprocated by employees in a form of social exchange (Prouska et al., 2022). While entrepreneurship research has long explored the passion motivating founders, the implications of this as form of motivator and prospective signal for employees (including new hires) remains underexplored. Drawing further insights from entrepreneurship would also highlight the gendered nature of such roles and the implications of same.

Informality is a prominent, though not necessarily a universal feature, (see Chapter 6) in SMEs. Informality fits well with the constraints facing SMEs, as it can speed up decision-making and may even be more appropriate and effective in enhancing business performance (Chadwick et al., 2013). Informality therefore lends itself to the operational flexibility needed to effectively respond to evolving external pressures. However the consequences of informality can be uneven and variable for employees. There is much to learn about employee expectations and preferences for the nature and form of HR that they experience at work and the respective outcomes of this. Interesting questions concern the concept of synchronicity between formality and informality. Marchington and Suter (2013) purport that formal and informal practices can operate in both a parallel manner (to address different issues) or in sequential manner (to address similar issues) but need to be combined for operational effectiveness. How might formal and informal approaches be used in tandem and is this something that forms or can be formulated? According to Harney and Alkhalaf “formality and informality often form two sides of the same coin, so that any approach which denies this risks being analytically short-changed” (2021: 23).

The chapters also draw attention to important implications of the *proximity of relations*. This is a vehicle for guidance and establishing relationships and meaning for employees. This is likely to be especially important in socializing new staff or so called 'joiners'(Chapter 7) or in the context of diminishing uncertainty of fear in particularly severe crisis situations (Chapter 8). The proximity of relations also informs where owner managers receive and develop their HR expertise. It is frequently the case that owner manager rely on a limited network of close contacts or 'circle of acquaintances', and this has implications in terms of the diversity and relevance of advice that they receive or are receptive to.

HRM in SME research is dominated by managerial perspectives as opposed to *employee dynamics*, and an associated unitarist view of the employment relationship (Harney & Alkhalaf, 2021). This is somewhat true of the contributions to this volume where a manager's perspective is overrepresented. Focusing on transitioning and change, chapters on dynamics open up questions about what happens when circumstances change be this as a result of new hires (chapter 7), crisis situations (chapter 8) or the need to foster greater resilience (Chapter 5). Interestingly one line of research highlights the value of some form of constructive conflict to enable and embed learning in SMEs (Coetzer et al.). Recent research also focuses on solidarity amongst employees and the role of information sharing across teams in SMEs in diminishing the negative workplace repercussions of workforce and cost reduction strategies (Nyfoudi, Theodorakopoulos, Psychogios, & Dysvik, 2022). Research on Canadian high-growth SMEs during the COVID-19 pandemic, demonstrated how low employee morale contributed to a spiral of growth reversal (Lim, Morse, & Yu, 2020). There is much to learn about employee experiences of work in SMEs, not least why employees chose to work in SMEs. There is also a wealth of insight to be gleaned

from employee focused research in SMEs, including by engaging with classic work (e.g. Curran & Stanworth, 1979; Ingham, 1967) which has not yet found its way to inform HRM.

Progressing forward

The review of RECIPE characteristics helps surface some of the paradoxes related to HRM in SMEs. These include likely mixed performance effects, design that may be intentional or unintentional, formal and/or informal as well as the significance of temporal boundaries. There is also a need to disrupt the assumed unitarism that prevails in much research including exploring differences between employee groups, such as management versus employees (Verreynne, 2012) but also with respect to length of service, function, gender and ethnicity. The contributions variously point to novel and alternative approaches to progress forward with an agenda to (re)frame HRM in SMEs. Some common themes include moving beyond HR practices to embrace HR as a process capturing features such as consistency and communication as well as the need for multi-level and longitudinal research. Notable for their absence is any detailed discussion or application of sustainability, digital disruption or gender and inequality. We have also treated the SME category quite loosely when in practice research should specifically recognise and unpack differences based on criteria such as size (liability of smallness), age (liability of newness), ambition (survival, succession etc) and growth state (contraction, stability, scaling) (see Harney & Alkhalaf, 2021; Harney & Nolan, 2022). Allied to this, in the domain of SME growth and development there has been little sense of how firms might transition into and out of HRM approaches. While we have privileged the SME context we do so from a privileged context of WEIRD countries (Western, Educated, Industrialized, Rich, and Democratic). There is much to explore through greater comparative analysis across contexts and countries. Overall, we hope we have moved the dial forward in first drawing attention to SMEs and secondly in providing some novel perspectives to (re)frame our understanding of HRM in SMEs. This has only been possible thanks to the generosity and insight of the leaders in this space who took the time to pen their

thoughts. The next task is for others to draw on their ideas and push the agenda forward for the benefit of SME research and practice.

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