

## Chapter 4

# The Synergistic Potential of Human Resource Management in Small and Medium Enterprises

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### ABSTRACT

*In large-scale operations, strategically orientated Human Resource Management generally has a structural function. In small- and medium-sized enterprises, however, strategic intent has to be more intimately matched to entrepreneurial behavior of core management. In these firms, HR is not an added layer but rather a key synergistic element in their strategic configuration. Considering the economic challenges faced by the small firm, it would seem that some form of strategically orientated HR is beneficial; however, it is often unconsidered. Taking a resource-based view of the firm and a configurational approach to strategy, this chapter considers the challenges to strategically orientated HR adoption in small entrepreneurial enterprises. It examines the characteristics of entrepreneur-founders, strategic orientation, and strategic configuration in an increasingly globalized context. Challenges to HRM adoption are identified, and a number of possible solutions are considered.*

### INTRODUCTION

Guest and King (2001) asked a simple but provocative question: “If good people management is self-evidently beneficial to organizations, why do not more of them adopt it?” (p. 11). In a later publication they returned to this question, noting that while the rhetoric surrounding the importance of people management was generally accepted and while the notion that people as “key assets in the fight for competitive advantage has taken hold

... and while it is no longer quite right to claim that in the absence of a crisis HR is inevitably a low priority... neither is it a priority” (Guest & King, 2004, p. 421).

The apparent paradox of recognizing people problems, but not adopting good people management, can be seen in the continuing reluctance of many large-scale organizations to adopt Human Resource Management (HRM); however, the total absence, or low priority, of HR perspectives is even more apparent in small- and medium-sized

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enterprises (SMEs). In a review of the extent to which HRM practice was adopted in U.K. manufacturing SMEs, it has been noted that “very few of the organizations adopted a strategic approach towards HRM.... the dominant approach seemed to be one of reactive, opportunistic pragmatism, showing little development from the standard modern approach identified as most common in the early 1980s” (Duberley & Walley, 1995, p. 981). Harney and Dundon (2006), in a study of small-sized business enterprises in Ireland, recognized that these firms operated “in a contextually plural world” and that HR prescriptions should not be considered a miraculous “seamless garment,” but rather “a quilt composed of a distinct mix of policies and practices, in some cases uneven and contradictory, imbued with varying levels of formality and informality” (p. 69). Nevertheless, most of these firms did not examine the richness of the HR quilt, select appropriate scraps, or stitch them into their own workplaces. When small- and medium-size firms do adopt a strategically orientated HR approach they expect pragmatic results, requiring their HR managers and consultants to “move beyond ‘talking’ about bridging research and practice and really work to help line managers use the knowledge...they want people problems solved... they may be searching elsewhere for their answers” (Welbourne, 2007, p. 469).

If SMEs are indeed searching for the answers to their people problems in places other than HRM, is that really unexpected or unreasonable? The newly created SME has little connection with the potential of HR approaches, but the HRM community of practice seems to have even less connection with small- and medium-sized firms. Despite the prevalence of SMEs and their significant contribution to most economies, Heneman, Tansky, and Camp (2000) in reviewing the literature found it “disheartening to note that scant attention in the SME research literature is given to the study of human resource management practices” (p. 11). When attention was shown the outcome often “appears to be rich in prescriptions, limited in

sound descriptive surveys, and sparse in analytical research” (p. 20). Three years later, some of these authors woefully acknowledged that small and medium-sized enterprises “have been treated as second-class citizens by authors in the human resource management literature for far too long” (Tansky & Heneman, 2003, p. 299).

This chapter explores the adoption of HRM in small- and medium enterprises. In doing so, it argues that two considerations are relevant. First, the unique dynamics of the small firm need to be appreciated in considering the level and quality of HR approaches proposed. That appreciation should center on an open-system and resource-based consideration of the enterprise and de-emphasize the large-scale paradigms and “best practices” often reflexively suggested by HR practitioners. Resource-based views of the firm recognize the contributory value of human assets and human capital, linking human resources more tentatively to strategic performance (Way & Johnson, 2005; Wright, Dunford, & Snell, 2001). From this perspective, HRM is re-orientated away from a structural function to an active dynamic that is more relevant for the complexity of the SME. Synergism – the catalytic enabling produced by the strategic alignment of people and resources – seems more appropriate than the HR functionalism often associated with large-scale enterprises.

Second, whether the small firm recognizes, considers, or implements strategic HR depends primarily on the attitudes and propensities of the firm’s founder-entrepreneur. To the extent that decision-making is a rational process, the challenge for the HR community – whether as participants in small firms or as consultants to these enterprises – is to provide considered and credible approaches that recognize the founder-entrepreneur’s vision. Rather than offer a one-size-fits-all seamless garment, the HR practitioner should appreciate the unique complexity of the firm’s context, the possible ambivalence of the founder-entrepreneur’s attitude, and the inherent patch-like nature of strategic HR approaches. This

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