Chapter 6
HRM Practices and Problems in Family-Owned SMEs

Burcu Özge Özaslan Çalişkan
Istanbul University, Turkey

ABSTRACT

In exchange for the need for more highly trained employees, there is not enough qualified labor in the market. Small- and Medium-Sized Enterprises (SMEs) play an important role in the economies of countries because of their characteristics about generating employment. Effective Human Resource Management (HRM) is becoming increasingly important in the modern knowledge-based economy and vital for the success of small- and medium-sized enterprises. However, there are few studies concerning HRM practices of SMEs. The purpose of this study is to analyze the current HRM practices of SMEs, especially which are family businesses, and to identify HRM practices and the problems within these SMEs. With the help of the literature review, helpful suggestions about HRM practices are developed for SMEs.

INTRODUCTION

A small firm was defined as employing between 5 and 19 workers whereas a medium firm as having between 20 and 199 employees (Kotey & Folker, 2007). According to this definition, firms with 5-199 employees can be called as SMEs. Small and medium-sized enterprises (SMEs) which are mostly family-owned, play an important social and economic role in industry.

SMEs are known to be complex, distinctive and influenced by many factors and human resources play a vital role in developing and sustaining competitive advantage for SMEs Therefore, it turns out to be difficult to create a balance between the formal human resource management (HRM) policies and the informal culture of the SMEs (Chandler and McEvoy, 2000; Hornsby and Kuratko, 1990; Brand and Bax, 2002).

Until recently, HRM had been seen as unnecessary for smaller firms and there is limited research about the HRM practices in SMEs (Obasan, 2012). On the contrary, several studies have reported HRM practices in larger organizations. Therefore, it can be stated that HRM is typically more informal in SMEs compared with the employment practices associated with large corporate organizations (Marlow, 2002; Marlow; Taylor, & Thompson, 2010).

HRM is the way of thinking about how people should be managed as employees in the workplace and it refers the policies and practices involved in carrying out the "people" or human resource aspects of a management position, including

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recruiting, screening, training, rewarding, and appraising (Dessler, 2008). HRM practices such as recruitment and selection, employment security, compensation management, wages and incentive pay, performance management, training and skill development and career management are just a few of the practices acknowledged as having great value to the organization. It is believed that such practices for managing employees have positive effect on organizational performance (Guest, 2011; Snape & Redman, 2010). For example, the design of compensation systems including the consideration of external and internal equity is important for the employees and effect the motivation of the organization severely.

Research has shown that the most significant difference between HRM practices in SMEs and larger firms is the adoption of HRM practices. The main question is "are the HRM practices formal or informal?" Pinnington and Edwards (2000) believe that HRM theories or models of HRM are sometimes subdivided under two schools of thought, "hard" HRM and "soft" HRM. In essence, "hard" HRM focuses on managing and controlling employees in order to achieve the organization's strategic goals, while "soft" HRM gives more recognition to the needs of employees and the importance of their commitment to the organization.

Family businesses which have got some criteria like ownership and control, decision making, business acquired from parents and employment of family members may be forced upon the times to employ, train, promote or lay off for close or extended family members. Thus, a family business manager should focus more on the HRM practices to identify any infirmities that may come into existence.

It is not easy for a manager who is a father, mother, brother, sister, uncle, cousin, etc. to cope objectively with family members who are their employees at the same time. Owner-managers usually have difficulties of having to choose between either hiring or firing an incompetent relative, believing that the relationship between the family members might be damaged as a result. Under these circumstances, the manager should apply formal recruitment sources in order to attract suitable candidates. Set of important factors for human resource managers can be listed as honest and open communication, extensive use of peer-review processes that allow team members to provide direct feedback to coworkers about how they may be affecting others, and the promotion of collaborative decision-making so that managers jointly make key business decisions, and departmental teams determine their own best way of working together (Caudron, 1993). Thus, in order to be fair, family business manager should protect those important matters during managing employees.

There are many advantages and disadvantages of family controlled firms. Long-term orientation, greater independence of action, less pressure from stock market and takeover risk are some of the advantages. Furthermore, family firms have family culture as a source of pride that includes stability, strong identification, commitment, motivation and continuity in leadership. It is also important that there is greater resilience in hard times in family businesses. These firms are less bureaucratic and impersonal and this provides greater flexibility and quicker decision making. Knowing the business causes early training for family members. On the other hand, there are also many disadvantages of family firms. Less access to capital markets may curtail growth in family businesses. There may be a messy structure and no clear division of tasks in these types of organizations. Nepotism is another problem for family owned SMEs (Kets de Vries, 1993). Nepotism can cause inequitable reward systems and greater difficulties in attracting professional management to the organization. Founders may derive utility from seeing relatives involved in the business, they may decide to hire key managers from within their kinship network rather than turn to more talented professional managers. Beyond the direct effect of these lower-

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