

# 1 Introduction

## **Purpose and Context of the Book**

This book explores a range of human resource management (HRM) issues specific to small and medium-sized enterprises (SMEs). Based on a series of research studies and secondary sources of data, the book's primary aim is to contextualise HRM issues in SMEs operating in a variety of national economic contexts that are (or have recently experienced) a turbulent situation. We adopt a generic definition of turbulent contexts, referring to contexts that are characterised by a turbulent sociopolitical and historical environment and, subsequently, weak institutional bases. In particular, we refer to an entire process of continued and long-term economic shift of a country facing high level of uncertainty, volatility and structural change. We use the term 'turbulent' to describe various economies that are either under development, transformation, transition or under crisis. We use the term to describe three similar but also different types of contexts, namely emerging market economies, transition economies and crisis economies. SMEs are the backbone of these economies. It is therefore critical that we study HR practices and concepts within such enterprises. Therefore, the book covers HR practices in SMEs, such as recruitment and selection, training and development, performance evaluation and employee relations, by focusing on three types of turbulent economies: (i) emerging markets, particularly Asia (China, India, Thailand, Vietnam, Indonesia, Philippines, Malaysia, South Korea, Taiwan, Singapore, Hong Kong, and Japan), Africa (South Africa, Ghana, Nigeria and Algeria) and Latin America (Chile and Colombia); (ii) transition economies of Central and Eastern Europe (Poland, Hungary, the Czech Republic, Slovenia, Bulgaria); and (iii) crisis contexts in Southern Europe (Greece, Italy and Spain). The book is a useful resource for organisations, practitioners, academics and scholars. In the following

sections, we explain the approach to SMEs we adopt, as well as describe in more detail the three types of turbulent contexts this book focuses on.

## **What Is Meant by 'Small and Medium-Sized Enterprises'**

SMEs are non-subsiary, independent firms which employ less than a given number of employees, with this number varying between countries (OECD, 2005). In the European Union (EU), the European Commission recommendation (96/280/EC) of 3 April 1996 [Official Journal L 107 of 30.04.1996] defines organisational size of these companies as follows: micro (less than ten employees); small (10–49 employees); medium (50–249 employees); and large (more than 250 employees). However, some countries set the limit at 200 employees, while the US considers SMEs to include firms with fewer than 500 employees (OECD, 2005). Small firms are generally those with fewer than 50 employees, while microenterprises have at most ten employees (OECD, 2005).

The number of employees, however, is not the only element used to define SMEs. Financial assets are also used to define organisational size. In the EU, a new definition came into force on 1 January 2005 (OECD, 2005): medium-sized enterprises are defined as having a turnover of up to EUR 50 million; small enterprises as having a turnover of up to EUR 10 million; and micro firms as having a turnover of no more than EUR 2 million. Alternatively, balance sheets for medium, small and microenterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively. For the purposes of this book and due to the variety of regions under examination, we adopt the OECD (2005) definition of SMEs based on number of employees and include organisations with fewer than 500 employees. However, we do acknowledge that in some regions we study, such as countries in the EU, the usual SME size is defined as having fewer than 250 employees. With this broad definition, we include companies

from all around the world that operate in a more or less similar manner. Therefore, it would be interesting to explore what kind of HRM practices these companies adopt given the turbulent environment within which these organisations operate.

## **Turbulent Contexts**

As argued earlier, these turbulent contexts include countries that can be considered emerging economies, as well as emerging economies that are under political and economic (and in some cases social) transition. In addition, our definition of ‘turbulent contexts’ includes economies (mainly developed) that have passed through a financial crisis impacting on SMEs and on HRM practices. The following sections explain in brief each one of these three categories of turbulent contexts. Detailed analysis about each of them can be found at the beginning of the relevant chapters in this book.

## **Emerging Market Economies**

Emerging market economies (EMEs) are defined as those countries whose competitive advantages measured by the shares of GDP, exports and outward foreign direct investment in the world are higher than the average competitiveness advantages of all countries except developed countries (Kim and Jung, 2009). An emerging market is a country that shares some of the characteristics of a developed market, but does not quite satisfy all requirements to be termed a developed market. The four largest emerging economies are the BRIC countries (Brazil, Russia, India and China). In this book, we explore a selection of emerging economies based on available research. The regions we focus on are Asia and the Pacific (China, India, Taiwan, Vietnam, Indonesia and South Korea), Africa (South Africa, Ghana, Nigeria and Algeria) and Latin America (Chile and Colombia).

## **Transition Economies**

Since the 1990s, a number of peripheral European countries are in a process of political and economic transition from centrally planned (socialist) economies to capitalist ones. The countries that used to belong either to the Union of Soviet Socialist Republics (USSR) block or to the Yugoslav state have undergone a set of structural transformations (Feige, 2017). They are well known as *ex-communist* or *post-communist* countries, and they have been classified as ‘transition economies’ (Stark and Bruszt, 1998). In this book, we particularly explore countries of the Central and Eastern European periphery, specifically Poland, Hungary, the Czech Republic, Slovenia and Bulgaria.

## **Crisis Economies**

The 2008 global economic crisis affected many European economies, particularly those in Southern Europe. We define crisis economies as those hit by this economic crisis. A decade after this crisis started, many European nations are still struggling to return to pre-crisis levels (Le Monde, 2018). We therefore explore three countries in more detail in this book: Greece, Italy and Spain. The economic crisis created turbulent market conditions that severely affected SMEs in these economies. This book explores the impact that the crisis had on these economies and on people management in SMEs.

## **The Importance of Small and Medium-Sized Enterprises for Turbulent Economies**

There is broad agreement that SMEs are vital to achieving decent and productive employment, as they globally account for two-thirds of all jobs and are responsible for the creation of new jobs (ILO, 2015). The importance of SMEs is even more critical for emerging, transition and crisis

economies (The World Bank, 2013). However, the social-economic environment in such economies differs significantly from that in developed economies in terms of institutional framework, norms, resources and infrastructures (Han and Xiang, 2017; Psychogios and Wood, 2010; Psychogios et al., 2016).

SMEs contribute to all sectors and industries – from agriculture to manufacturing and services – and they create jobs at a faster rate compared to larger companies. SMEs expand productive capability and help absorb productive resources at all levels of the economy, which creates flexibility in economic systems that allows the collaboration between small and large companies (Subhan et al., 2013). This enhances foreign direct investments of large, usually multinational firms.

SMEs in emerging, transition and crisis economies contribute positively to the formulation of both political and social environments in these countries, enhancing changes and modernisation of the system where possible (McIntyre, 2001). SMEs absorb both material and human resources from larger firms while reformulating labour market conditions, ensuring a balancing process between them and larger companies (McIntyre, 2001). In this respect, SMEs are embedded in the institutional structures of these economies (Granovetter, 1985). SMEs also contribute to the economic development through creation of employment opportunities for growth of both rural and urban labour forces, provision of sustainability and innovation to the whole economy (Subhan et al., 2013). SMEs have a significant impact on income distribution, tax revenue, employment, family income stability and effective utilisation of resources. They have the ability to employ more labour-intensive production processes compared to large companies (Subhan et al., 2013). In low-income economies, SMEs account for 60% of gross domestic product (GDP) and 70% of total employment, and in middle-income economies, they contribute 70% of GDP

and 95% of total employment (Subhan et al., 2013). Overall, SMEs have the ability to provide productive employment opportunities, generate income and contribute to the reduction of poverty in emerging economies.

Despite their potential to contribute to the world economy, SMEs face many challenges (Newberry, 2006). The Economist Intelligence Unit (EIU) (2009) reported inadequate access to financial resources and investment capital as significant barriers to growth for these companies in emerging, transition and crisis economies. Recent changes in the global economy due to the 2008 global financial crisis and the 2009–2010 Eurozone crisis had, and in many cases still have (as of this book's writing in 2018), an impact on SMEs in these economies. SMEs have been exposed to global competition from other SMEs and from large multinational corporations (MNCs). The intense internationalisation of SMEs forced them to become more innovative in order to enhance their competitive advantage. In a similar vein, they need to find ways (again innovative) to cut costs and improve efficiency. At the same time, another challenge relates to their ability to invest in research and development. A recent study found that only about 3% of SMEs invested in research and development of new technologies and products, while over 80% of them are followers of technologies usually developed by large companies (Khazragui, 2011). The latter has an impact on their internationalisation process since they lack the necessary resources and technological advancements.

These challenges have a negative impact on the survival of SMEs, leading to high failure rates in many economies around the globe, including in developed and emerging economies (Switzer and Huang, 2007). The result is the emergence of various business management approaches that seek to help SME development and growth in developed countries (Newberry, 2006). In parallel, many of these practices are transferred to SMEs in emerging, transition and crisis economies.

However, there is a lot of research questioning the applicability of such management practices in SMEs, particularly from Western contexts to non-Western contexts (e.g. Psychogios et al., 2010).

In short, SMEs in turbulent contexts play a critical role for both the economy and society in these countries. SMEs provide employment opportunities, generate income and contribute to the reduction of poverty in emerging economies. While opportunities for SMEs have emerged during the last decade, especially after the global financial crisis, there are still many challenges that SMEs face. It is more difficult for them to capitalise on potential opportunities due to a lack of institutional support and resources. In this respect, human resources are considered extremely important for SMEs operating in turbulent contexts since they can provide the appropriate competitive advantage through their knowledge and experience, especially when these companies cannot invest a lot in developing new technologies and innovations.

It is widely known that SMEs around the world rely on less formal HRM practices (Psychogios et al., 2016). The reason for this is twofold. First, most SMEs cannot afford the investment in HRM. This means that they cannot maintain and develop HRM departments staffed with HRM professionals and experts. They prefer to either outsource specific HR functions (payroll, training, etc.) or use more informal pillars of when applying practices (performance evaluation, etc.). Second, the dominant role of the owner within these companies (usually the CEO) affects HRM application. The owner/CEO is in charge of HRM decisions. SME owners/CEOs create an informal context within these organisations. For example, in selection practices, SMEs rely heavily on *word of mouth* and references rather than on formal and well-documented processes. There is also a lack of formal job descriptions in these firms. Furthermore, employee relations in SMEs differ from larger firms in many ways. For example, it is rare to find trade unions or

collective bargaining in SMEs. The culture in these firms is typically moulded by the owners/CEOs of the firm, who directly communicate organisational objectives to employees. This creates an informal and flexible working environment. However, it seems that HRM development is not the same in all SMEs and especially in those operating in emerging, transition or crisis contexts. In this respect, this book attempts to map the current state of affairs of HRM in SMEs in turbulent contexts.

## **Overview of Chapters**

The book comprises eight chapters. Chapter 2 explores the SME approach to HRM and provides a brief overview of how SMEs apply core HR practices. The chapter analyses the informal, emergent and reactive approach of managing people in SMEs. HRM in SMEs is usually performed by the owner or senior manager. SMEs do not usually have internal HR expertise or skills, but as organisational size increases, HR policies and practices become more formalised, and the presence of an HR function and/or department is more likely. The chapter explores how SMEs manage specific core HR practices, such as HR planning, talent management, resourcing, training and development, employee relations, performance management and reward systems. Chapter 3 is the first of three chapters exploring HRM in SMEs in EMEs. EMEs are economies progressing towards becoming more advanced, usually by means of rapid growth and industrialisation. EMEs are not homogenous, although they do share similarities in terms of the historical development of their political, social and economic context. At the same time, EMEs have major societal and cultural differences that influence management practices. Within this context, this chapter focuses on EMEs in Asia and the Pacific, particularly on the role of SMEs and HRM in China, India, Taiwan, Vietnam, Indonesia and South Korea. In China, we found evidence of modernisation and formalisation of HRM and employment practices in SMEs due to



the internationalisation of businesses in recent years. Similarly, we found that SMEs in India are progressively experiencing an accelerated growth in the use of HRM practices, such as training and development and talent management. However, in Taiwan, HRM application is limited due to cultural factors and to the high proportion of family-owned enterprises that rely on informal systems of management. In Vietnam, HRM formalisation in SMEs depends upon several factors, such as competition from international firms and state-owned enterprises, expectations from international business partners or customers, and pressure from banks. Finally, in South Korea, there is evidence of HRM formalisation; however, this is not consistent across enterprises.

Chapter 4 explores HRM in SMEs in some emerging economies located in Africa (South Africa, Ghana, Nigeria and Algeria). Although there is not much empirical evidence on South African SMEs and the HR practices they use, available research points to a need for a greater emphasis on competitiveness, managerial skills and training, and retention strategies for skilled workers. In Ghana, we found that SMEs apply some core HR practices, such as recruitment, selection and training. Other HR activities such as reward management, performance management, talent management and HR development are considered as less strategic. In Nigeria, SMEs depict a mix of HRM formality and informality depending on their industry. Historical and institutional factors have affected the presence of HRM practices in businesses, with some distinctive differences observed between SMEs and larger organisations. Similarly, strong historical, cultural and institutional factors have shaped HRM application in SMEs in Algeria. The greatest effect is observed in recruitment and selection practices that are mainly influenced by networking and nepotism.

Chapter 5 explores HRM in SMEs in emerging economies in Latin America. There is scarce research on HRM in SMEs in countries in this region. For this reason, this chapter focuses on

Chile and Colombia, for which some research is available. The chapter briefly presents the historical background of these two emerging economies and discusses the nature of HRM in SMEs. HR practices in SMEs in Chile are primarily informal. There are strong cultural and institutional forces that prohibit small companies from following modern management practices, including HRM practices. In Colombia, small and medium organisations struggle between formality and informality of HRM. Formalisation in SMEs seems to stem from laws and regulations organisations need to abide by. The overall state of HRM can be considered underdeveloped, and more research is needed to understand various aspects of HRM practice and application in SMEs in these countries.

Chapter 6 explores HRM in SMEs in transition economies of Central and Eastern Europe. The past autarchic environment of state control in these countries means that entrepreneurial development has been slow and foreign investments limited. MNCs operating in the market can influence management thinking and practices in local SMEs. However, the owner usually manages SMEs in these countries, and for this reason, they develop their own informal way of working based on resources and expertise. Unregulated informal economic activities are a common feature in this region. This chapter discusses that smaller businesses in these economies do not have formalised HRM functions. However, there are three antecedents of HRM formalisation in SMEs operating in a post-communist context: degree of internationalisation, sector and size.

Chapter 7 explores the challenges the economic crisis posed for SMEs operating in European countries challenged the most by the 2008 global financial crisis, namely Greece, Italy and Spain. Many SMEs struggled for survival in increasingly turbulent markets. Their heavy dependence on credit and their inability to access finance when they needed it the most created a

trade deficit between them and their suppliers, with spillover effects on employees. SMEs struggled to overcome the economic crisis due to their inability to downsize and diversify products/services and due to their weak financial structures and limited access to finance. As a response to these impediments, SMEs had to cut labour costs by freezing recruitment, downsizing, implementing pay cuts and layoffs. This context led to the intensification of adverse working conditions for employees in SMEs, making their working lives prone to job insecurity, work intensification and pressure. As a result, employee productivity, loyalty and commitment exhibited a decline.

Chapter 8 concludes this book by revisiting the current state of affairs of HRM in SMEs in turbulent contexts. The purpose of this chapter is to draw a conceptual model of HRM by highlighting the factors affecting HRM application in emerging, transition and crisis contexts. The chapter ends by offering practical implications and suggesting avenues for future research.

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