Highlights on the HRM in SME`S – A Romanian Study Case

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Abstract

Little is known about HRM – politics, development, practices, tendencies – in SME`s. Most researchers focused on various aspects of HRM in large companies. On the other hand the chronic lack of resources of the smaller firms forces these organizations to practice a different approach when dealing with HRM topics. Based on data gathered from a significant number of Romanian SME`s, the present work highlights the specificity of the HRM practices in these firms. We found considerable variations in human resources practices; a statistically significant relation has been discovered between the educational level of the entrepreneur and such variables as HR strategies and politics or the size of the firm. The volume of the valid information we assembled from this survey helped to shape a model describing the typical behavior of Romanian SME`s confronted with an HR problem.

JEL classification: M12, M13

Key words: human resources management (HRM), small and medium-sized enterprises (SME`s), survey

1. Introduction

A more systematic approach towards HRM in SME's is a relatively recent phenomenon, research in this field still being in an exploratory stage. Researchers have ignored the SME's field also because those who were tempted to investigate this domain have been faced with a difficult access to information firstly because the entrepreneurs are very busy people and they probably regard the academic domain with a certain degree of suspicion. As far as the SME's category in Romania is concerned, it has a recent history, it has reappeared around 20 years ago, and although it has reached an overwhelming percentage in the total number of companies (99,6%), the investigation of Human Resources Management in these companies is still in an introductory stage.

The implications generated by the scarcity of research are manifold, both for the SME's and for the Human Resources in particular. We still lack the conceptual framework and methods that are applicable for the majority of the firms – the SME's. We have neglected to approach the domain that represents most companies. A wide range of authors have mentioned the lack of attention that the HRM literature pays to the SME's (Deshopande and Golhar 1994, Kok and Hartog, 2006; Price 2004, Kotey and Slade, 2005). In order to emphasise the characteristics acquired by the content and forms of realization of Human Resources Management in the SME's in Romania, we have conducted an ample survey on a representative sample of SME's, based on a questionnaire delivered to the entrepreneurs .

The results of the questionnaire indicate a considerable diversity in the way in which Human Resources practices are used in SME's.

As far as the basic activities of the HRM are concerned, some are used more than others. The selection and recruitment procedures are clearly the most used, which is not surprising. As far as the assessment system in the SME's is concerned, it was discovered that, while some methods are being used, in general, the formalised systems are scarce. Besides, there is a great diversity in the way in which the assessment process is interpreted and put into practice. As far as the training domain is concerned, there are some interests, companies preferring to experiment solutions that seem apropriate for their particular situation. Given the diverse nature of the investigated SME's, it clearly appears that the entrepreneurs and managers implement ad-hoc measures rather than having a coherent approach, based on strategies in the implementation of HRM.

They adapt every moment to the particular situation they find themselves in, from the point of view of their own company's characteristics and of the business environment they are in.

Next, we present a model which emphasizes the key characteristics that influence the SME's in adopting the specific Human Resources practices. This model has taken shape from the analysis of the data obtained from the survey that has been conducted.

2. Model description

The model is structured in several stages, as follows:

The mechanism is triggered by a concrete problem occurance, to which an organization (SME) must react: a serious problem, or one that has been ignored for some time, like solving a qualifying request or a work productivity decrease.

The decision to consider the problem discovered as being fit for analysis and intervention is based on several fundamental endogenous factors, called by us „determinants", factors that will constitute the screening kit, wich is specific for that particular enterprise. Besides the company size, we are considering the existence of a HRM departament and human resources strategies or policy, and also of the entrepreneur's education level as determinant factors for the achievement of efficient HRM practices. The key problem in this context is the existence of a key person that will consider the HR practices as possible answers to particular questions and having the requested power to influence this area`s decisions, the company size being a constant prerequisite for the existence of that person.

Once this filter has been passed through, the next step consists in the problem assessment from the HR perspective. This assessment will be performed in a framework that is defined by another factor set: company culture regarding the Human Resources, previous experience in HR practice implementation – experience that may be gained inside the company or from other people (positive experience, for example, will encourage to try other practices). In the operative decisional process, it is also important to understand HR trends – at this point, the SME can certainly get some help, mainly from territorial support structures (if they exist and work). This information will impact as far as a certain practice has been implemented, formalized and used.

But, the most important factor in concluding and deciding is the ressource availability. The resources requested for each action must be estimated, SME ressource level being often an impediment for each new project. No doubt, certain practices, like recruiting using informal channels (live presentation), request less resources. Other practices can be very expensive. Therefore, their implementation will be affected by the ressource availability. At this point, the existence of local structure is important. If there is financial support for a certain local initiative, the entrepreneurs could have it much easier and those practices would be more atractive. But there is also a psychological aspect besides the financial one. An organization may be aware of the existence of such resources, but may not realize their availability for human resources initiative or may not be motivated to use them. Therefore, a human resources-connected problem will be handled as such only in the presence of the requested understanding and resources.

Finally, the mechanism goes on with the conclusions and with the decision-making process in order to get a concrete solution for the occured problem. The solution implementation – usually also involving personnel reassesment – will usually change a certain output configuration, which means a result the efficiency of which has to be assessed, formally or informally.

Another key approach of this model consists in reevaluation and complex decisions. The estimation of how an initiative has been „issued" will be reflected in the decision to use it again if necessary. Therefore, the model will now include a feed-back loop, entering the way of action in the database of the organizational experience, and also being added to the basement of the organizational culture and, least but not last, at the future availability of company resources.

The key point of the model consists in the fact that HR practices are more often triggered by acute situations as they appear rather then by strategic decisions. The model is promoting an internal and ad-hoc vision of HR practices in SME's. In order to make a change, an important need must exist: occurrance of a concrete problem.

The model is useful by highlighting multiple approaches of HR practices in SME's, because it is based on concrete data and problems signaled by interviewed people, like the insufficient resource availability for small companies and the importance of HR professionists.

Companies will often introduce new practices without a serious analysis of the way in which they will affect the system. This lack of professionalism may lead to a lack of efficiency in the new practice. Despite that, we must think differently in this context, as far as the small enterprise is concerned. As analyzed, the classic assumption that small organizations should be managed in the same way as the large ones but on a smaller scale will lead to an obstruction of the distinctive processes and specific practices in SME's. The SME's managers adapt to the context, being able to make different decisions for the same problem, if they find themselves in different situations. The challenge for small companies is to grow using very flexible HRM practices and policies, avoiding burocracy extension in an area with scarce managerial resources.

The present comment takes under consideration the problems regarding the degree in which SME's have the resources or intention to implement the strategic HRM as a whole. And it is indeed difficult to understand „strategic" other than in its traditional development, which is from the large companies' point of view. Regarding the SME's, rather than placing ourselves on the „strategic" level, we had better analyze the HR problems generated by the business' current priorities. Given the different nature of the SME's, we cannot, however, expect linear conclusions in a unitary and homogenous dialectics.

3. Statistical corelations between the determinants.

Given the importance that has been discovered of the four determinants of HRM in the SME's, we have analyzed them and then have calculated the existing correlations between the entrepreneur's training level on the one hand and the company size or the development of strategies and politics regarding the HR on the other hand.

The correlation between the company size and the entrepreneur's attendance in a management training course
Table 1

		Company size			
		1 - 9	**10 - 49**	**50 - 249**	
Taking a special managerial training course	**YES**	61	70	32	163
	NO	186	99	35	320
		247	169	67	483

In order to validate the potential link between the two characteristics we have used an associating table, which allows the application of an independence χ^2 factor test.

We consider a table of factor (rxc):

n_{11}	n_{11}	- - - - -	- - - - -	n_{11}	n_{11}
n_{11}	n_{11}	- - - - -	- - - - -	n_{11}	n_{11}
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
|	|	|	|	|	|
n_{11}	n_{11}	- - - - -	- - - - -	n_{11}	n_{11}
n_{11}	n_{11}	- - - - -	- - - - -	n_{11}	n_{11}

If the two variables are independent, then the "line i and column j frequency" is:

$$n_{i*}\, n_{*j} / n$$

In the end the value X^2 is:

$$\chi^2 = \sum_{i,j} \frac{\left(n_{ij} - np_{i*}\, p_{j*}\right)^2}{np_{i*}\, p_{*j}}$$

The value of the χ^2 test calculated results in $\chi^2_{calc} = 19{,}4$, and from the comparison with the table equivalent $\chi^2_{(3x2)1;0,05} = 11{,}07$ results the fact that it can be asserted with a 95% probability that there is a significant connection between the company size and the initiator – investor's attendance in a management course, the SME's having attended (through the entrepreneur – manager) a course within the area of interest.

The correlation between the attendance of a management training course and the development of strategies in the Human Resources domain

Table 2

		Graduation from a management course		
		YES	NO	
Developing HR Strategies	YES	85	108	193
	NO	78	212	290
		163	320	483

We have correlated the development of strategies with the (entrepreneur's) graduation of a management training course.

The results of the inquiry for the two questions are presented in table number 2.

Question is to what extent are the two aspects associated? In order to solve this problem, the association quotient can be used.

This indicator is used to measure the degree of dependency between two variables, in the case in which for each characteristic there are only two options.

We are considering that a property which ensures the division of the units according to the X characteristic in two classes, P and $\overline{P}$ is defined, and another property X that ensures the dichotomy of units for the second characteristic Y, in the classes R and $\overline{R}$. Grouping the units according to the two criteria results in defining the contingency table in the following form:

Y / X	R	$\overline{R}$	ni*
P	n_{11}	n_{12}	n1*
$\overline{P}$	n_{21}	n_{21}	n2*
n*j	n*1	n*2	n

In the contingency table the n_{11} notations have been used – the number of units that have simultaneously the properties P and R, n_1 being the sum of units that have the R property; n is the sum total.

The multiplication of the sums from the main diagonal of the contingency table expresses the relation between the two characteristics, and the multiplication of the sums from the secondary diagonal symbolizes the lack of a relation between variables. The indicators (IsaicManiu,2003) used for measuring the degree of association between the two characteristics are, basically:

- the Yullequotient**:**

$$q = \frac{n_{11}n_{12} - n_{21}n_{22}}{n_{11}n_{22} + n_{21}n_{12}} \approx 0{,}4$$

The indicator's segment is [-1;1], and 0,4 indicates a significant association between the two variables.

- the associating quotient:

$$d^2 = n\frac{(n_{11}n_{22} - n_{21}n_{22})^2}{(n_{11}+n_{12})(n_{11}+n_{21})(n_{12}+n_{22})(n_{21}+n_{22})}$$

The value of this quantitative measure of the degree of association is interpreted just like the linear correlation quotient, its values shifting within the segment [-1;1]. Based on the data from table 2, it results that $d^2 = 0{,}0016$.

- the correlation quotient**:** is obtained from the following formula:

$$r_d = \sqrt{\frac{d^2}{n}} = \frac{n_{11}n_{12}}{\sqrt{(n_{11}+n_{12})(n_{11}+n_{21})(n_{12}+n_{22})(n_{21}+n_{22})}} = 0{,}0018$$

The values that have been obtained from calculating the indicators above reveal a significant relation of correlation between the two characteristics: developing MRU strategies and graduating from a management course.

The strategy takes into consideration the attempt of having an overview insight on the phenomena that can affect the evolution of society and the decision maker's answer to its probable effects. A course generally clarifies some concepts and offers principles–instruments for evaluation and reaction. It poses the problem and it suggests ways of solving it, based on the culture that has been accumulated within the domain of interest, also specifying the limitations and the extent to which the external environment presents opportunities and barriers.

The entrepreneurs who know their problems very well can find answers much easier in an attainable and workable form. They have an instrument that they can chose to use or not, to an equal extent, as the conducted research has revealed: 45% of those who have attented courses in management develop strategies in Human Resources and the rest of 55% don't.

In the absence of training, intuition and empirical decision are used, based on the entrepreneur's previous experience. In most cases, as it can be observed (73% of those who have not attended training courses never develop strategies), such a position entails a conservative, passive attitude, that allows things to drift away: "We'll see what comes next."

On the one hand we can conclude that, at the same time with the growth in company size, the problems that the entrepreneurs-managers are facing grow in numbers and become more diverse, and they are forced to use a more "scientific", more professional management, starting to find the time that is necessary for training in management.

On the other hand, this correlation allows us to draw the conclusion that, after having attended a management training course, the entrepreneurs have improved their performance, which is reflected in the size of the company that they run.

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