Chapter 8

The Role of Human Resources Practices in Conflict Management:
Implications for Small-Medium Enterprises

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ABSTRACT

The aim of this chapter is to provide a conceptual basis on the role of HR (Human Resources) practices in conflict management in the context of small business. However, conflict management is not accounted as a formal function of HRM (Human Resources Management) such as selection, performance appraisal, or administrative services. Besides, HR functions in Small-Medium Entreprises (SMEs) are usually carried by owners or line managers while some practices might be outsourced, as well. Consequently, managing human resources is different in SMEs due to firm size, priorities of the owner, and informality. Therefore, the challenge is to build the link between HR functions and conflict management in the context of small business. In this respect, the chapter emphasizes the importance of managing human capital effectively in terms of managing conflicts.

INTRODUCTION

SMEs can be conceptualized as entrepreneur or family owned, small and flat organizations, characterized by informality. An owner's basic concern is the survival of the enterprise. In addition to survival, striving for financial effectiveness would enable the firm growth and increase profitability. Thus, priorities of the organization shape the mission, vision and purposes at first hand. In such cases, the context of small business is likely push for efficiency through the inbalance of minimum input and maximum outcome controversy. Therefore, it is evident that contextual and entrepreneural characteristics influence human resources management. When it is all about the financial capital, human capital might be ignored. It is for sure, small business is challenging from the standpoint of entrepreneurs. However, human capital needs attention, especially when organizational goals would be reached through their contribution.

In this respect, this chapter addresses the conflict phenomena in organizations; starting from

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the human resources management in SMEs and nature of conflict in small business in relation to human resources management perspective. After providing the background in conflict research, the HRM functions' contribution to conflict management will be presented. Finally, recommendations for potential small business related problems in conflict management and future research directions will be discussed.

In this framework, the objectives of this chapter are, as follows:

- Discuss issues related with human resources management in small business.
- Discuss conflict phenomena in small business to sharpen the focus on work conflict.
- Identify the sources of conflict in small business.
- Build the link between human resources management functions and conflict management.
- Suggest solutions for conflict resolution through the implementation of HR functions.

HUMAN RESOURCES MANAGEMENT IN SMALL-MEDIUM ENTERPRISES

SME Growth

In general, small-medium enterprises are known to be companies that have less than 250 employees. However, number of employees for SMEs differs from country to counrty; depending on the characteristics of the economy (Gibson & Van der Vaart, 2008). For instance, in Albania, a SME is defined as a company that has six to 80 employees while in United Kingdom SMEs are defined to be companies with less than 50 employees (Kushnir, 2010). Thus, no clear definition of SMEs exist as there are many criterion used to define SMEs; such as profitability, sales turnover or size (Storey, 1994), that would again vary among countries. To

overcome this confusion, we will use the term SME to refer to companies with less than 50 employees throughout the chapter.

It is a well known fact that a large percentage of newly established small firms die in the first five years, and solely the ones that can adjust to their environment are likely to survive. Once the firm has survived, external and internal barriers to growth come up as new challenges. Therefore, one can think that SMEs make transitions through stages of growth and every stage requires different management techniques (MacMahon & Murphy, 1998).

According to organizational life cycle models, there might be many stages of growth. However, growth stages are not stable with well-defined characteristics. (Kazanjian, 1988). For instance, at the first stage, informality and little planning would exist in a newly established firm. The entrepreneur could adapt formal procedures and establish a solid organizational design to pass through stage two; of which is concerned with growth. Management becomes more professional at this stage. Finally, the firm gets mature at the third step; by implementing rules and regulations while becoming more long-term oriented with planning and strategies (Smith, Mithcell & Summer, 1985). One can think that most SMEs could be at stage one or in the middle of stage one and two; of which seems to be important in terms of firm growth.

SME growth depends on the amount and effective use of financial resources, product development and effective management of human capital through formally established HRM functions (Dobbs & Hamilton, 2006). In this respect, human resources should be concerned as the internal capability of the SMEs and the source for competitive advantage (Katz, Aldrich, Welbourne & Williams, 2000). However, survival needs push for more concern over finance and marketing functions, hence to the underestimation of human resources management. As such, workers in SMEs are described as the invisible workforce (Wilkinson, 1999).

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