

## Chapter 6

# Placing SMEs at the Forefront of SHRM Literature

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### **ABSTRACT**

*High Performance Work Practices (HPWPs) provide firms with resources to improve employee- and firm-level outcomes. While recent literature in this field begins to explore the role and benefits of HPWPs in Small- to Medium-Sized Enterprises (SMEs), much remains unknown. To address this deficiency, the authors explore the dominant HPWPs used by SMEs, demonstrating that in some U.S. firms SMEs are just as human resource savvy as their larger counterparts. Ultimately, they both advance the SHRM literature and provide a better understanding of the common HPWPs (e.g., compensation, training, development, etc.) used by U.S. SMEs.*

### **INTRODUCTION**

Scholars and practitioners have long recognized the importance of small- and medium-sized enterprises (SMEs) in the stimulation of economic development (e.g., Schumpeter, 1934; Birch, 1987; Mazzarol, Volery, Doss, & Thein, 1999; Baumol & Strom, 2007). To illustrate the magnitude of the impact of SMEs, consider that in the United States SMEs are responsible for over 80% of new jobs created annually (Hisrich & Grachev, 1993). Despite this importance of SMEs to the economy, strategic human resource management (SHRM) scholarship remains focused on larger corporations and does not provide enough emphasis on SMEs (Klaas, Semadeni, & Ward, 2012). For example, Huselid's (1995) seminal study on high performance work practices (HPWPs) excluded firms with fewer than 100 employees, an approach

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that is all too common in the HPWPs literature. Way (2002) is a notable exception in that it focused on organizations with more than twenty employees. While this is certainly important, relevant, and a step in the right direction, organizations with fewer than 20 employees vastly outnumber those with more than 20 employees, and labor laws vary greatly in many locales for an organization with more than 25 employees compared to an organization with fewer than 12 employees. This legal disparity, along with the general lack of empirical investigation of SMEs in SHRM, illustrates the critical need for further research of this type.

In general, HPWPs use tactics such as staffing, self-managed teams, decentralization, training, flexible work assignments, communication, and compensation to better develop, train and motivate workers (Evans & Davis, 2005). Thus far, the HPWPs literature has enlightened scholars and practitioners alike to the fact that these human resource practices profoundly impact employee and organization performance, and while most studies focus on larger firms, the relationships can be applied to SMEs as well.

Past research demonstrates that as firms embrace HPWPs they experience higher levels of economic and social performance (Combs, Liu, Hall, & Ketchen, 2006; Crook, Ketchen, Combs, & Todd, 2008). Yet, HPWPs are often costly, require highly dense networks of employees, and require a fully committed, staffed human resource (HR) department with top management support (Cappelli & Neumark, 2001; Collins & Clark, 2004; Nahapiet & Ghoshal, 1998). As SMEs often lack the resources to maintain a HR department and bear the costs involved, it would appear that a “one size fits all” approach is not feasible for SMEs. In fact, SME employees are often more interconnected due to the smaller organizational size, and therefore SME management can more easily foster commitment from individual employees via flatter organizational structures and fewer degrees of separation from ownership. Thus, while size may in some ways limit the application of HPWPs in SMEs, it may also in some ways amplify the impact as well.

In this chapter we examine the human resource practices of SMEs using U.S. data from a national sample collected by the National Federation of Independent Businesses (NFIB; N=755). Figure 1 presents a visual theoretical overview of the HPWPs topics. Ultimately we take a realistic look into the practices of U.S. SMEs, discussing each from a HPWPs perspective. To begin, we define HPWPs, explain why they lead to higher degrees of performance, and provide a theoretical rationale for this higher performance. We then discuss how contingencies such as firm size influence the deployment of HPWPs, asking the following questions in the process: To what extent are HPWPs amicable to a small business, and to what extent do HPWPs need to be adapted to fit the SME? In doing so, we address the following: (1) the need for SME-centric HPWPs, (2) some specific HPWPs (e.g., compensation considerations, training and development, payroll, equal opportunity, workforce behaviors), (3) an overview of the data collected and results, (4) solutions and recommendations, and (5) study limitations and future research directions.

### **Background: What Are High Performance Work Practices?**

Traditionally, neither scholars nor managers focused on the role that human capital could play in obtaining higher firm performance, and from a strategic standpoint, the HR function was the least influential (Snell, Shadur & Wright, 2001). Indeed, as Snell, Youndt and Wright (1996) argued, the goal for most firms was to take out the human factor in terms of strategy, substituting capital for labor and separating those who work from those who think. This distinction began to blur over time as both scholars and managers began to realize how important human resources were to firm profitability. From this perspective, although workers were the most difficult asset of the firm to control, they were also potentially the most profitable and important resource (Pfeffer, 1994; 1998). Realizing this, scholars began to study the role of

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