

The Outsourcing Dilemma of SMEs: A Case of Five Latvian Tech Firms

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EXECUTIVE SUMMARY

It is far from uncommon for entrepreneurial SMEs to rely on outsourced labor, especially in knowledge-intensive industries. There is a plethora of benefits to doing so – quick and cost-effective access to highly skilled, self-motivated workers is certainly appealing, especially for resource-limited enterprises. That being said, outsourcing may also raise a range of issues, including loss of control, limited retention of knowledge, and communication challenges, as well as to exert unsustainable levels of pressure on a typically weak or non-existent HRM function of such organizations. This case study considers the case of five small Latvian tech firms and their relationships with outsourcing work to freelancers. The authors raise questions about the feasibility of effective HRM practices and potential for meaningful business growth, and observe how SMEs mediate their inherently precarious relationships with freelancers by bringing desired individuals into the orbit of the organization through relationship-building.

CASE STUDY BACKGROUND

In Latvia, Small and Medium Enterprises (SMEs) are the driving force behind non-financial sectors of the economy - they comprise 95% of all registered businesses, account for 70% of the total added value to the GDP, as well as provide 79% of total employment (SBA Factsheet 2018). Furthermore, according to the recent report from the Latvian Ministry of Economics (2019), 64% of new SMEs in Latvia can be considered as technologically-oriented enterprises. The technological nature of these startups is of some interest to scholars, practitioners and policy makers concerned with questions of Human Resources Management (HRM). This is primarily because digital technologies that such firms engage with, or, more precisely, the application of digitized data and digitalized processes that they build their business models around, enables SMEs to pursue new opportunities where previously there were none (Autio et al., 2018; Ranft, O'Reilly and Neufeind, 2018; Ansong and Boateng, 2019; Matzler, Veider and Kathan, 2015; Ludivine, 2017; Wood, Graham, Lehdonvirta and Hjorth, 2019); or where the barriers to entry were virtually insurmountable for SMEs (McAfee and Brynjolfsson, 2008). However, rapid proliferation of digital technologies is not only impacting the kinds of business opportunities that SMEs are able to pursue, but also the way in which they manage their resources, including the human resources.

Digital technologies notwithstanding, the debate on whether formal HRM in SMEs is of benefit or detriment to such firms was far from settled even before the advent of the so-called Fourth Industrial Revolution (Schwab, 2017). In their work on the relationship between workforce skillset and adoption of HRM practices in SMEs, Bacon and Hoque (2005) highlighted this problem and suggested that SMEs with a higher proportion of low-skilled workers were less likely to adopt HRM practices than SMEs with a higher proportion of high-skilled workers. Indeed, the notion that SMEs which rely on higher skilled labor would be more inclined to manage and develop that labor has been also echoed by Heneman et al. (2000), Andrews and Welbourne (2000), and Mayson and Barrett (2006) among others. Arguments such as these are in line with the resource-based view of HRM, where the purpose of HRM is to support and develop the human resources of the organization for the sake of achieving competitive advantage (see Barney, 1991; Dessler, 2016). To momentarily digress, it should be noted that an alternative to the resource-based view of HRM is the commitment-based view (Boxall, 1993), which conceives of HRM as a type of employee-centric management practice and which had also seen more than its fair share of criticism both on account of its foundational assumptions (e.g. Grey, 2008; Grey and Willmott, 2005) and of its practical efficacy (e.g. Wright et al., 2005). Still, the ontological focus of this case study will be on the resource-based view of HRM.

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