

# Chapter 4

## Human Resource Management in SMEs: Action Referential Definition

**Pedro Manuel Ribeiro Novo de Melo**  
*University of Minho, Portugal*

**Carolina Feliciano de Sá Cunha Machado**  
*University of Minho, Portugal*

### ABSTRACT

*Although small and medium size companies perform a relevant role in world economies, the authors conclude that research in this field focuses more attention on bigger organizations in seeking to understand what happens about the HRM function. However, and looking to the special characteristics of SMEs, it becomes critical to carry out a study, focused particularly on its characteristics, which allow for drawing a conceptual framework capable of helping managers of this kind of organizations to implement HRM practices consistently and adjusted to organizational objectives. The purpose of this research is to develop a conceptual framework which allows a better understanding of the main HRM research lines in SMEs and the underlying importance to HRM professionals.*

### INTRODUCTION

Micro, small and medium enterprises (SMEs) play a central role in the global economy. These constitute an important source of entrepreneurial skills, innovation and employment. The world business community is made up mainly of SMEs. For example, SMEs in the enlarged European

Union are around 23 million and provide approximately 75 million companies and 99% of the total enterprises. Contextually, The economic and social crisis evident acrossed several public debates underlies the importance of SMEs for the Portuguese business. For current year, millions of euros have ben spent in European funds for the modernization of SMEs. Programs such as SMEs

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training or QI-SMEs are just a few examples. For decades, SMEs were seen as companies with manpower deficiencies, mainly family businesses with largely rudimentary/fundamentals management embeddedness.

Today the image has tended to change, especially following the various economic crises that have plagued the world which adversely impacted the mediocre companies, thus enabling the development of innovative and other capacity development initiatives in growth-oriented SMEs in order to remain competitive in the global market. The search for competitive factors has led businessmen to invest in their employee training and in quality processes, encouraging the formalization of all critical business processes. Areas such as marketing and human resources, once overlooked by businessmen have gained importance in the business world.

With the existence of a global economy, very dynamic and demanding, SMEs are struggling with the need for constant change to be able to adapt and survive in the market. All the important components of a company need to find ways to increase their competitiveness and efficiency. Human resources can not be removed from those changes. As a vital part of an organization, human resources need mechanisms, processes and practices that make them more productive, motivated and committed.

Consequently, there are growing interests in policies and practices of human resource management (HRM) with the objective of convert human capital resources into strategic assets and which more snugly aligns with corporate strategies. It emerges the discussion of a strategic human resource management, a strategic integration with business policies (e.g. Legge, 1995). The approach of the impact of HRM on organizational performance, so far reported in the literature, has been based on research conducted in large companies. Few studies address the idiosyncrasies of small businesses. Studies of HRM in SMEs focus

on HRM practices used in large enterprises, but adapted to the size, resources and culture of small businesses.

HRM is gaining visibility in SMEs. There is a change of mentality within business and the proof is in increasing use of recruitment and selection, investment in training and development and greater relevance in the evaluation of employee performance. In the case of Portugal, the role of HRM has gone through an evolutionary process, as in other countries, which has been described and analyzed by some academics. However, little or nothing is known about the HR function, as mentioned by Cabral-Cardoso (2006). Studies focusing on HRM are rare and those that exist are associated with large enterprises. The choice of subject and its relevance to some extent are linked to the low investment in research in the management of SMEs. Another interesting aspect is that in SMEs, although the organizations are smaller in size, HRM is frequently presented as informal and less sophisticated and therefore less complex and structured.

The study aims to contribute to a better understanding of HRM in SMEs, something overlooked by the main studies. It mainly serves as a starting point for future research focusing more on specific aspects of HRM in SMEs. This study intends to establish a benchmark of action in relation to HRM policies and practices that will enable researchers and practitioners to better understand the conditions for the development of a model of HRM in SMEs. More specifically, it aims to: (a) Identify the key studies of people management in SMEs; (c) Build an explanatory model of HRM in SMEs; (d) and define modes of action for policies and practices of HRM in SMEs. The aim of the study is not to develop a standardizing model of HRM, but rather presenting a series of information, scientifically based on enabling the leaders of companies a better and more efficient decision-making capabilities in the implementation of HRM.

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