

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

## **A Three-fold Framework for Understanding HRM Practices in South-Eastern European SMEs**

### **Abstract**

**Purpose** – We study particular structural and organisational factors affecting the formality of human resource management (HRM) practices in small and medium-sized enterprises (SMEs) in South-Eastern European (SEE) post-communist countries, in particular Serbia, Romania, Bulgaria and the Former Yugoslav Republic of Macedonia (FYROM) in order to understand the antecedents of formalization in such settings.

**Design/methodology/approach** – Adopting a quantitative approach, this study analyses data gathered through a survey of 168 managers of SMEs from throughout the region.

**Findings** – The results show that HRM in SMEs in the SEE region can be understood through a three-fold framework which includes: degree of internationalisation of SMEs, sector of SMEs and organisational size of SMEs. These three factors positively affect the level of HRM formalisation in SEE SMEs. These findings are further attributed to the particular political and economic context of the post-communist SEE region.

**Research limitations/implications** – Although specific criteria were set for SME selection, we do not suggest that the study reflects a representative picture of the SEE region because we used a purposive sampling methodology.

**Practical implications** – This article provides useful insights into the factors which influence HRM in SMEs in a particular context. The findings can help business owners and managers understand how HRM can be applied in smaller organisations, particularly in post-communist SEE business contexts.

**Originality/value** – HRM in SMEs in this region has hardly been studied at all despite their importance. Therefore, this exploratory research seeks to expand knowledge relating to the application of HRM in SMEs in SEE countries which have their business environments dominated by different dynamics in comparison to western European ones.

**Keywords** – HRM, SMEs, South-Eastern Europe, Internationalisation, Sector, Organisational Size

**Article Classification** – Research paper

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## Introduction

Small and medium-sized enterprises (SMEs<sup>1</sup>) are considered to be the backbone of both developed and developing economies, with the potential to stimulate economic expansion and to act as stabilizers in downturns (Varum and Rocha, 2013). In the European Union (EU) there are approximately 20 million SMEs representing 99% of all businesses and they represent key drivers for economic growth, innovation, employment and social integration (European Commission Enterprise and Industry, 2015). Because of this, SMEs attract a lot of attention in terms of policy development and implementation. There is still, however, only limited empirical research on how HRM, in particular, is practiced in such organisations (Massey and Campbell, 2013; Messersmith and Wales, 2013; Parker and Verreyne, 2013; Varum and Rocha, 2013).

HRM in SMEs has mainly been studied in western countries (Psychogios and Wilkinson, 2007; Szamosi *et al.*, 2010; Tsai *et al.*, 2007) or in large economies of the East (Bae *et al.*, 2011; Zheng *et al.*, 2009; Zheng *et al.*, 2006). Although some European research focuses on understanding 'the periphery' with a focus on the specific conditions affecting management practices (Prouska and Kapsali, 2011) and HRM practices in particular (e.g. Apospori *et al.*, 2008; 2000; Clark, 1996; Nikandrou *et al.*, 2005; Papalexandris and Panayotopoulou, 2004), peripheral countries are often seen as passive recipients of HRM expertise, partly because of a belief that HRM theories originating from research conducted in large multinational organisations can be universally applied (Brewster, 1999; Tsai *et al.*, 2007). SMEs in transition and peripheral economies work under weak infrastructure and market conditions (Hoskisson *et al.*, 2000; Prouska and Kapsali, 2011) which significantly impacts business practices. In addition, the financial crisis that began in 2008 has disproportionately impacted many countries operating in the European periphery. Given that for such businesses the cost of labour is nearly always their primary operating cost, it is

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<sup>1</sup> The EC commission recommendation (96/280/EC) of 3<sup>rd</sup> April 1996 [Official Journal L 107 of 30.04.1996] defines organisational size as follows: micro (less than 10 employees); small (10-49 employees); medium (50-250 employees); large (more than 250 employees).

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important to explore how SMEs in these business environments practice HRM (Doherty and Norton, 2013).

This study, therefore, explores HRM in SMEs operating in four post-communist countries in peripheral south-eastern European (SEE): Serbia, Romania, Bulgaria and the Former Yugoslav Republic of Macedonia (FYROM). We investigate two issues in relation to these peripheral business environments; firstly, the importance and formality of HRM in these SMEs; and, secondly, the structural and organisational factors determining HRM practice within them. This paper examines the literature concerning the formalisation of HRM practices in SMEs and provides the rationale and context of the study. We then successively present the research methodology, the research findings, and we discuss these findings and draw conclusions for HRM theory and practice.

## **Research background**

SMEs are widely known for their informal, emergent and reactive approach to managing HRM issues (Harney and Dundon, 2006; Kok and Uhlener, 2001; Kotey and Slade, 2005; Marlow, 2000, 2002), partly because of the owner-manager's role in HRM decisions (Singh and Vohra, 2009). HRM in smaller organisations is differently applied than in larger organisations; and formality of HRM policies and practices increases with organisational size (Cardon and Stevens, 2004). It is, therefore, important to explore the factors affecting formalisation of HRM practices in SMEs if we are to understand the challenges they face.

### ***Formalisation of HRM practices in SMEs***

SMEs do not generally have HRM departments and major decisions are usually made solely by the owner or managing director (Fabi *et al.*, 2009; Kotey and Slade, 2005; Marlow and Patton, 2002). Even in the minority of cases where HRM specialists are employed, it is still the owner or managing director who is generally seen to be in charge of HRM (Kroon *et al.*, 2013; Singh and Vohra, 2009).

SMEs are more likely to rely on informal management practices (Behrends, 2007). In the context of HRM, formalisation refers to the extent to which policies and procedures are written down (Nguyen and Bryant, 2004), the degree to which policies are regularly applied,

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the degree to which the employer has given assurances that an activity should take place and the extent to which HRM practices conform to legal requirements (Kok and Uhlaner, 2001). HRM in SMEs is often informal, emergent and reactive, fairly piecemeal and 'hands on', rather than applied through a holistic or systematic approach (Harney and Dundon, 2006; Kok and Uhlaner, 2001; Kotey and Slade, 2005; Marlow, 2000, 2002; Singh and Vohra, 2009). As a consequence, HRM in SMEs has been seen through either a 'small is beautiful' or a 'bleak-house' perspective (Wilkinson, 1999). 'Small is beautiful' explanations point out that less bureaucratic control builds up better social relations and make it easier to change work assignments (Dietz *et al.*, 2006). It is assumed that SMEs develop healthier employee relations than larger organisations and possess more devoted and committed employees. Forth *et al.* (2006) argue that workers are highly satisfied by working in SMEs and that among the advantages is that they have a more pleasant work environment. Tsai *et al.* (2007) explain that in SMEs job satisfaction is achieved partly through informal employee relations. In the 'bleak-house' view (Sisson, 1993) employees in SMEs face inadequate working conditions, poor health and safety, and have limited access to trade unions, leading to higher levels of potential conflict, higher turnover and more absenteeism (Rainnie, 1989). Since SMEs are not a homogenous category there is evidence for both viewpoints. These two polarized perspectives have been labelled as exaggeratedly simplistic (Marlow, 2002) and the recent HRM literature is more nuanced.

Informal management practices are often utilized by SMEs in order to control their employees and formal communication and control structures do not exist (Wilkinson, 1999). Owners / managing directors perceive formal HRM as just bureaucracy (Katz *et al.*, 2000). It may be that it is not the extent to which HRM practices are formalized that is important, but the way in which they are implemented. SMEs may avoid implementing formal HRM practices since they do not possess the resources required (Marlow, 2002). Business owners do not consider such practices to be contributing to the company's competitive advantage and know they would increase costs (Bartram, 2005; Matlay, 1999). Despite this, because of legal requirements and external expectations, SMEs require a combination of different, and to some extent formalized, HRM practices, in areas such as recruitment, selection, training and compensation in order to maintain business operations (Cardon and Stevens, 2004).

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Informal management practices may also be related to the initial stages of their development: as companies grow, they build formal regulations and policies to 'control' employees (Kotey and Slade, 2005; Marlow, 2002; Nguyen and Bryant, 2004). Generally, as organisations grow, their management has to become more professionalised and structured (Loan-Clarke *et al.*, 1999).

The workforce skill-mix is a particularly strong influence on the extent to which a range of HRM practices are adopted in SMEs (Bacon and Hoque, 2005); SMEs with a higher proportion of low-skilled workers are less likely to adopt certain HRM practices, whereas SMEs with a higher proportion of skilled workers are more likely to invest in such practices in order to retain and develop their talent.

Studies reviewing the antecedents of HRM in SMEs show three major approaches. Firstly, there is a concentration on the sector and industry in which SMEs operate, often linking organisational size to specific sectors and industries (Curran and Stanworth, 1981; Hey *et al.*, 2001). Secondly, it is suggested that management style and organisational/ family culture dominate (Rodriguez and Gomez, 2009). For example, a supportive organisational culture (Cegarra-Leiva *et al.*, 2012) and the predominance of particular family values (Edwards and Ram, 2009) may be important. Thirdly, attention has been paid to other factors that affect HRM in SMEs (Rainnie, 1989), such as the extent to which they are linked to larger companies through strategic alliances and organisational networks. These larger organisations may have significant control over managerial decisions in SMEs (Bacon and Hoque, 2005).

Alongside these antecedents the business environment within which a SME operates is crucial. Budhwar and Debrah (2001) discuss how different configurations of cultural, institutional, sector and business dynamics alter the impact of individual contingency factors (e.g., age, size, nature, life-cycle stage, level of technology, presence of unions and HRM strategies, business sector, stakeholders) on HRM policies and practices. The role of context in analysing organisations is crucial if we are to move towards an open systems approach to understanding the complex interaction of both internal and external factors shaping HRM in SMEs (Dundon *et al.*, 1999; Harney and Dundon, 2006; McMahon, 1995) and move away from exploring organisations as sealed entities (Scott, 2003). We explore the SEE context in more detail next.

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### ***HRM in the South Eastern European Context***

The business systems literature (Whitley, 1999) and the varieties of capitalism literature (Amable, 2003; Hall and Soskice, 2001) are two examples of how context can be studied and how we can understand business and management practices in organisations. There is a growing literature that specifically explores the SEE context under these theoretical approaches although research still remains largely fragmented in this area. For example, Lane and Myant (2007) discuss the transformation of communist countries in east-central Europe from a 'varieties of capitalism' perspective using an approach based on institutional economics. Similarly, Hancké *et al.* (2007) discuss varieties of capitalism in Europe's SEE economies. There are also other country specific studies, such as Upchurch and Marinkovic's (2011) research on wild capitalism in Serbia and Wood *et al.* (2014) who explore the impact of variations in institutional regimes in the SEE region, focusing on foreign direct investment (FDI) and employment rights. Our aim is to add to this growing body of knowledge by exploring the application of HRM in SMEs operating in Europe's peripheral business systems in South-East Europe (SEE). In particular, our study explores the importance and formality of HRM in SMEs in the SEE region and the structural and organisational antecedents that determine that. We study four post-communist countries; Serbia, Romania, Bulgaria and the Former Yugoslav Republic of Macedonia (FYROM).

There is a growing body of research focusing on the SEE region but there is still great scope for new research to explore this under-studied geographical area. Szamosi *et al.* (2010) argue that the economic integration of the European peripheral economies continues to proceed at an uneven, haphazard and experimental pace. The process has not been an easy one, involving deregulation, external shocks, increased capital mobility, and the challenges of coping with heightened competition (Cooke *et al.*, 2011). Cook's (2010) work on this region provides some insights into these countries, which share similar economic and political history, especially in the period following World War II. She argues that these economies operated in an autarchic environment of state control, with high levels of employment and labour force participation and low compressed wages leading to inefficient labour use and poor health and safety conditions. In addition, membership in officially sponsored unions was mandatory and independent employee bargaining was

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prohibited. The collapse of communism in Europe in 1989 led to declines in GDP, privatizations and integration in international markets. Politically, these countries began to move towards democracy with the process of joining or aiming to join the EU starting in the mid-1990s. The transitions were anything but smooth, with the main characteristics of this period being the rise of large informal competitive labour markets, growing inequality, a decline in real wages and high levels of unemployment, all of which led to a long period of extreme recession.

It has been argued that SEE countries have been experiencing continuous and dramatic change since 1989 in their political, social, economic, institutional and cultural systems (Sahadev and Demirbag, 2010; Upchurch and Marinkovic, 2011). Dittrich *et al.* (2008) found that businesses in the SEE region started developing after the end of communism mainly through the establishment of the now dominant SMEs. There has been some evidence to suggest that pre-1989 informal (previously underground) economic practices have become an integral component of their economy (Brewster and Viegas-Bennett, 2010; Williams, 2010; Williams and Round, 2009), with poor enforcement of regulations, particularly in smaller enterprises (Cooke *et al.*, 2011). However, despite the fact that these countries have similarities in their political history, they differ in size, political importance and economic performance (Schwartz and McCann, 2007). This affects the nature and application of HRM and that has led to calls for further research on HRM issues there (Zupan and Kase, 2005).

Initial research on management practices in larger organisations in the SEE region has shown that HRM practices are linked to the economic transition from post-communist to pre-mature capitalist systems (Psychogios *et al.*, 2014; Tung and Lazarova, 2006), mainly based on the notion of central bureaucratic control of employees, although there is some evidence of a move towards more flexible practices (Ivanova and Castellano, 2012; Michailova *et al.*, 2009). Bogićević Milikić *et al.* (2008) argue that formalised HRM systems and policies are becoming institutionally accepted and that HRM systems in some post-communist countries have undergone transformation from systems focused primarily on an administrative-traditional approach (bureaucratic monitoring of procedures and maintaining personnel records) to more advanced systems with HRM having a key role in strategy, policy and operational HRM decision-making. Although this constitutes a positive indicator that

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HRM is developing in this region, there is great need and scope for further research to explore the state of HRM in SEE countries.

This literature is indicative but limited, producing few and fragmented results. There are only a small number of articles examining HRM practices individually in Serbia, Romania, Bulgaria and FYROM and may not be generalizable to the region.

Research on Serbia's transition economy (Bogićević Milikić, (2009) covered a wide range of HRM issues and found that Serbian companies have recently established specialist departments and improved the professionalization and experience of HR managers, and made HRM more strategic. Compensation and benefits, particularly the use of employee share options, profit sharing, group bonus or performance-related pay, was identified as a weak area, partially due to the underdevelopment of the Serbian financial market. The use of in-house trainers was rare, increasing the cost of training and development. Finally, the level of employee participation in decision-making was found to be low, with weak trade unions. Upchurch and Marinkovic (2011), also examining Serbia, found employment relations to be fragmented; state-owned enterprises were retaining some level of collective regulation, whereas newly privatised enterprises were marginalising union activity. More recently, Bogićević Milikić *et al.* (2012) found that HRM in Serbia is still in a transition process and that HRM changes are not homogenous. Clearly, more research is needed on a wide range of HRM practices in Serbia to establish factors causing homogeneity/heterogeneity of practices in different firms.

There is equally little research on HRM practices in Romania. Constantin *et al.* (2006) concluded that it is still facing 'post-communist period' challenges. They found a large degree of informality and many companies without a formal HRM department or HRM specialist. Chirtoc's (2010) work highlights the key changes to the labour market caused by the Romanian economic transition, the reduction in employment and the changes in employment structure. Dalton and Druker (2012) argue that HRM in Romania is a lower level administrative process without any acknowledgement of its value, largely due to the legacies of communism when personnel administration was part of the centralised planning and control system designed on the Soviet model. But given the limited nature of this data, there is a need for more research on HRM in the country.



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Literature on Bulgaria and FYROM is even more limited. Vatchkova (2009) explored the strong trade union representation present in large corporations in Bulgaria and Williams *et al.* (2013) discuss the informality of the industrial system in the country. In FYROM, Svetlik *et al.* (2010) is the only recent source dealing with HRM which explores differences in HRM formality between domestic SMEs and foreign companies and discusses the greater degree of formalisation in foreign enterprises.

Overall, the literature relating to HRM in the SEE region is sparse and fragmented and, as such, must be treated with caution. More research on HRM is, evidently, badly needed to address this gap in the literature. Our study contributes to addressing this need by providing additional data on HRM in this region.

### **Research methodology**

Our study adopted an exploratory quantitative research design aiming at identifying the importance and degree of formality of HRM practices within SMEs in SEE and exploring the factors that influence it. An exploratory research design was appropriate because it involves a first investigation into a topic and is a valuable means of finding out what is happening in organisations in an under-researched area lacking prior knowledge (Saunders *et al.*, 2012). Within this exploratory design we employed a quantitative research strategy because we wanted to collect a wider volume of data allowing a possible generalisation of outcomes for SEE as well as gaining a comparative overview of the issue in question. Our approach is similar to previously published exploratory quantitative studies in other areas which utilise a survey for exploring under-researched areas (e.g. Campos *et al.*, 2012; Chell, 1985; Fernandes *et al.*, 2014; Kraus *et al.*, 2012; McMahon, 1996).

The study used purposive sampling involving a subjective selection of the sampling units based on the researchers' experience and judgment (Bernard 2006; Guarte and Barrios, 2006; Tongco, 2007). Although there are no design-unbiased variance estimators for this type of sampling procedure, this method remains very popular among researchers in the social sciences (e.g. Guarte and Barrios, 2006). The target was to gain the participation of SMEs from different industries, sizes, and SEE countries, in order to cover the main

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features of SMEs operating in this region (Dittrich *et al.*, 2008; Szamosi *et al.*, 2010) increasing generalisability of results.

Initially, 246 SMEs were approached and identified as appropriate to participate in the study. The criteria set for the selection of the companies were: (1) their size (the study focused on 'medium-sized' enterprises of between 50 and 249 employees – according to EU definition of SMES – attempting to avoid investigating very small companies where HRM can be less clearly defined; (2) their country of origin; (3) their geographical level of operation (local, regional, international), attempting to identify any differences among them; (4) the type of SMEs, covering all major industries (services, manufacturing, retail) of the economies of these countries and identifying potential differences among them; and (5) the organisational life cycle (years of operation), attempting to identify any difference between recently founded and well-established SMEs. Moreover, all SMEs identified were operating in the main metropolitan centres of each country, namely, Sofia (Bulgaria), Skopje (FYROM), Bucharest (Romania) and Belgrade (Serbia). We have focused on SMEs operating in the capital cities in order to reduce possible variations existing between metropolitan centres and the peripheries within SEE countries (Dittrich *et al.*, 2008). One manager from each SME participated in the research; the main criterion for selecting the managers was their involvement in HRM within their companies. From the 246 managers in SMEs surveyed, 168 responded, providing a response rate of 64%. The response rate yielded by our study is higher than average for surveys of this type (Baruch and Holtom, 2008). This was not surprising as the sample consisted of organisations known to the researchers through their networks. Checks were conducted throughout the data collection process to ensure good representation of businesses of varying geographical operation, sector, size, organisational life cycle, and country of origin. Table I demonstrates the main features of the responding companies.

**--Table I about here--**

Our questionnaire had three sections. First, we asked for demographic information (gender, age, education, position, number of years in current organisation, number of years in current position, years of HRM experience, years of other experience, field of expertise,

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number of employees in the organisation, number of people in the HRM department). Second, we asked participants to assess the existence and degree of implementation of HRM practices (personnel administration activities, organisational design, recruitment and selection, training and development, succession planning, communication of business and individual objectives, and corporate social responsibility). Cooke *et al.* (2011) suggest that these particular HRM practices provide a useful comparison with HRM practices applied by SMEs in (mainly) western European countries (Edwards and Ram, 2009). Five-point Likert scales were used to determine the relative importance of the list of items, with 1 indicating little or no formalisation and 5 indicating that the practice was always formalised. Third, we asked participants to assess the HRM department's contribution to the overall business at present and for the future. Five-point Likert scales were used in this section, with 1 indicating strong disagreement and 5 indicating strong agreement. In the majority of the tables below, the responses are presented with mean scores.

Initially, Exploratory Factor Analysis (EFA) (Pearson, 1901; Spearman, 1904) was used in determine whether the series of HRM items could be grouped. After the purification procedure, three main factors emerged (see Table II), namely *Personnel Function* (alpha: 0.690), *Competency & Training Systems* (alpha: 0.8790) and *Communication, Planning & Compensation* (alpha: 0.790), with reasonably reliability (Robinson *et al.*, 1991). Personnel Function included HRM items relating to HRM processes and procedures. Competency & Training Systems included items relating to competencies, skills and training. Communication, Planning & Compensation included items relating to overall business communications on objectives and strategies, HRM planning/ succession planning and employee rewards. After the emergence of the consolidated HRM factors, different non-linear regression models were used aimed at investigating their potential impact on the HRM practices applied by SEE SMEs.

--Table II about here--

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

## Results

The presentation and analysis of the findings is structured in terms of the research objectives of the study.

### *Degree of formality of HRM practices*

Table III presents the mean scores of the overall sample presented according to the three main factors which resulted from our analysis.

### **--Table III about here--**

Managers were initially asked to evaluate ten elements of HRM. These explored the degree of formality of the HRM function in terms of standardised or bureaucratic processes of administration; for example the existence of HRM policies and procedures and personnel dossiers and databases, or standardised administration and HRM practices. Table III shows that standardised personnel administration is relatively common (4.10) along with clearly defined organisational strategies (3.90), charts of authority (3.81) and policies and procedures (3.78). Standardised recruitment and selection procedures (3.12) and job descriptions (2.98), however, were less utilised.

These findings suggest that these SMEs value a certain level of formality in terms of HRM administration, policies, procedures and authority relationships. The formality that our study found can be explained through the particular SEE context, which has been discussed in the literature as heavily reliant on the notion of central bureaucratic control of employees, although there is some evidence of a move towards more flexible practices (Ivanova and Castellano, 2012; Michailova *et al.*, 2009). In addition, authority relationships are important in smaller organisations particularly because organisational structure is likely to be in accordance with the owners' and/ or manager's preferred problem-solving strategies (Johnston, 2000). Given these informal organisational structures of smaller organisations we can explain why job descriptions were not considered as important in our study. Similarly, recruitment and selection in such enterprises is often simple and informal, relying on existing channels and contacts and not on specialist expertise (Carroll *et al.*, 1999).

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

The nine issues associated with competencies and training systems seem to be significant for SMEs' performance (Hornsby and Kuratko, 1990) but are less formalised in these countries. Although skills and competencies are generally well defined (3.86) and induction for new employees is present (3.63), positions are not often publicly available (2.76) and nor are training plans (3.05) or training budgets (3.05). This may partly explain why, according to our respondents, many talented employees do not pursue employment in such organisations and instead show a preference for well-established large or multinational organisations, either in the region or beyond. The fact that skills and competencies are well defined is linked to the bureaucratic control of employees characterising this region (Ivanova and Castellano, 2012; Michailova *et al.*, 2009), whereas, the fact that positions are not publicly advertised is another indication of the informal recruitment practices characterising smaller organisations (Carroll *et al.*, 1999). Many family-owned businesses are pressured to employ extended family members (Reid *et al.*, 2002). The fact that training budgets or plans were not widely used reflects the fact that training in SMEs is informal and only becomes formal as organisational size increases (Kotey and Folker 2007).

The final area of HRM practices, communication, planning and compensation activities, included sixteen issues. Communication of business objectives (3.98), defined skills and competencies (3.62), benefit systems (3.53), reward systems (3.44) and performance management (3.43) seem to be important. But these SMEs do not base their compensation systems on points (1.97) or grades (2.05), while performance-related pay (2.92) and overtime pay (2.50) were also weak. There was also a lack of formalised succession planning (2.61). These results emphasize the *ad hoc* nature of HRM typical in SMEs, particularly the limited reward strategies (Mayson and Barret, 2006).

The level of formality was further explored through a series of questions asking participants to identify the person responsible for HRM within their organisations. Table IV shows their responses separated according to the organisation's business sector. It should be noted that half of manufacturing companies in our sample have HRM specialists, while less than one-fifth of both service and retailing organisations do so. This reflects our sample, as we have identified that, on average, manufacturing organisations are larger in comparison to service and retail organisations and the larger an organisation is, the more formalised HRM practices tend to be (Brewster *et al.*, 2006).

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**--Table IV about here--**

In the great majority of cases examined, the Chief Executive/ Managing Director is in charge of the HRM function, though less in manufacturing than in retail or services, which is also the case for other aspects of management in SMEs (Flannagan and Deshpande, 1996), given that the chief executive/ managing director is often also the owner of the business. HRM decisions are legitimised when they are taken by the owners themselves (Williamson, 2000). Half of manufacturing SMEs, however, have appointed an HRM specialist. The reliability analysis, though, showed that the variation among SME types is not statistically significant.

### ***HRM practices in SMEs***

Different non-linear regression models included various control variables: country of location and geographic level of operation, sector, size and organisational life cycle. A test of the inter-correlation of the independent variables was undertaken. As shown in Table VI, a highly significant bi-variate correlation was found between organizational size, sector, and geographic scope of operations. Limited to no significant correlation was found on country of origin of the SME and organizational life cycle.

**--Table V about here--**

Table VI demonstrates the statistical significance these factors for four major HRM elements: degree of formality of HRM practices (the EFA confirmed that only one factor emerged for this variable); personnel functions; competencies and training systems; and communication, planning and compensation systems.

**--Table VI about here--**

It seems that the geographic operation of SMEs plays a significant role in the formalisation of HRM within SMEs in the SEE periphery. The more international an

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organisation is, the more likely it is to have a formal HRM department. International SMEs are more likely to have training programmes and to adopt formal communication and compensation systems. This finding supports Svetlicic *et al.* (2007) and Kohont and Brewster (2014) also researching the post-communist countries of Central and Eastern Europe. The more organisations develop their international operations, the more they adopt and use formalised HRM policies and practices as a response to the increased complexity of operating across national borders.

Sector (e.g., manufacturing, services, or retail) also plays an important role. Manufacturing SMEs are more likely to develop HRM departments with paid specialists and to adopt basic formalised systems, similar to findings in other business contexts (Kerr *et al.*, 2007). There is a strong correlation between SMEs' size and HRM (Brewster *et al.*, 2006). The smaller the company is, the more likely it is for HRM to be fully controlled by top management (the owner) and HRM to be more informal.

Country of origin, however, does not have any statistical significance in the application of HRM. This raises the question as to whether this is an indication of common HRM practices in the SEE region characterised by developing economies and fluid institutional arrangements, or whether this is rather an indication of how HRM practices are applied in SMEs. In other words, is national context the unifying factor or is it organisational size? Our findings can be interpreted in both ways. Firstly, the fact that we found no significant difference in HRM application in the specific SEE countries may help us understand how HRM is applied in turbulent economies with weak institutional infrastructures. Countries in the SEE region share a similar economic and political history, especially in the period following World War II. But more research needs to be conducted in order to explore similarities and differences in HRM application between countries of this region if we are to generalise our findings. Secondly, the fact that we found no difference in the countries we examined may be because we studied smaller enterprises. The SME literature has explored how the unique characteristics of smaller enterprises make HRM more informal, emergent and reactive in such enterprises (Harney and Dundon, 2006; Kok and Uhlaner, 2001; Kotey and Slade, 2005; Marlow, 2000, 2002; Singh and Vohra, 2009). Therefore, organisational size may be the unifying factor and not context. Perhaps the common past that these countries share, particularly for the SMEs that were at one time the

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

only (if illegal) way of flexing the economic system other than corruption, may have created a greater uniformity of practice than might be expected. It is also possible that research using larger samples that could be manipulated statistically in ways that were not open to us would show country differences, thus indicating the need for further research here.

The SMEs' years of operation do not appear to have any particular statistical importance on HRM formalisation.

### **Discussion: Towards a three-fold framework of HRM in SEE SMEs**

Studies on this periphery (e.g. Psychogios *et al.*, 2010; Psychogios, 2010) have shown that there are structural and organisational factors that need to be taken into account in order to understand the impact of management concepts. These factors include organisational size, business sector, degree of business growth, workforce skill-mix, organisational culture, management style, family culture, available resources, and alliances with larger or multinational firms (Edwards and Ram, 2009; Harney and Dundon, 2006; Kok and Uhlaner, 2001). These features of the SEE periphery create pressures which either hold back or promote the sophistication of HRM implementation within SMEs. For example, a number of authors have looked at the degree of formality of HRM practices in SMEs and have described HRM practices in SMEs as informal, emergent, reactive, piecemeal, and pragmatic (Harney and Dundon, 2006; Kok and Uhlaner, 2001; Kotey and Slade, 2005; Marlow, 2000, 2002; Singh and Vohra, 2009).

Our findings show that the degree of formality of HRM depends on three key factors: the geographic operation of SMEs (international vs. local range of operations), the sector (manufacturing vs. services and retail), and organisational size (large vs. small). Similar findings have been reported in other studies of communist or post-communist economies (King-Kauanui *et al.*, 2006; Taylor and Walley, 2002). Our study, however, expands this body of knowledge by arguing that it is the presence of all three elements at the same time which affects the level of HRM formalisation in SEE SMEs.

Where HRM formalisation was present in our sample this related to personnel functions, particularly in terms of HRM administration, formulation / communication of strategies, authority structures and policies and procedures. Less importance was placed on other aspects of HRM administration, such as job descriptions, standardised resourcing



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processes or the existence of personnel databases and dossiers. Competencies and training systems are less developed or applied, while communication, planning, and compensation activities also lack formalisation. Strategic HRM practices, such as talent management, staff development, planning and compensation are not formalised.

These findings imply that HRM in SMEs in this region is in a state of development partly explained by the particular post-communist past of our sample. Thus our findings support the contextual rather than universalistic paradigm in HRM and the divergence rather than convergence perspectives (Dewettinck and Remue, 2011). Research has shown that the European HRM module is different to the US model (Brewster, 1999, 2007; Gooderham and Nordhaug, 2010), although any discussion of 'European' approaches to HRM involves a substantial generalization (Brewster, 2007), since a diverse range of HRM models can be observed within Europe, shaped by differences in the micro, meso and macro environments within which organizations operate (Brewster, 2007). This range of models has been discussed both within a 'business systems' approach (Whitley, 1999) and a 'comparative capitalisms' approach (Amable, 2003; Hall and Soskice, 2001). Regional clusters within Europe have been found in previous HRM studies (e.g. Due *et al.*, 1991; Ignjatovic and Sveltic, 2003; Sparrow *et al.*, 1994; Tregaskis and Brewster, 2006) and individual country studies have also shown the distinctiveness of HR management in each country (e.g. Brookes *et al.*, 2005; Lane, 1989; Luthans *et al.*, 1997; Ramirez, 2004; Thompson *et al.*, 2001; Tregaskis and Brewster, 2006).

Bogićević Milikić *et al.* (2008) place emphasis on the particular context characterising SEE transition economies and discuss the divergence of the HRM function and HRM strategy from the North-American model. They attribute this divergence partly to the distinctive cultural context of the region and partly to other factors, such as the roles and competences of HRM professionals. The SEE region experienced the transition from communist central planning to capitalist markets, which was characterised by a decline in GDP, privatizations and integration in international markets (Cook, 2010). The post-communist business environment of the SEE region has created a distinct HRM model different from other models applied in market-based economies (Anglo-Saxon), social-democratic European economies, continental European capitalist economies, or south European capitalist economies (Amable, 2003).

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

Our study, therefore, adds to current literature by exploring the SEE region in terms of HRM application. Countries in the SEE region are still experiencing great pressures from the economic crisis which are inhibiting their development. In the small enterprises, business and management practices are not influenced by foreign models of organisation; they are, instead, informal, combining business ownership and control over managerial decision making (Prouska and Kapsali, 2011). As organisational size increases and the geographic range of operations widens, there is a greater need for HRM formalisation and businesses start developing HRM functions (Bayo-Moriones and Merino-Díaz de Cerio, 2001). These findings are promising in terms of HRM application in the SEE region and demonstrate the current state of HRM in post-communist countries.

## **Conclusion**

The past autarchic environment of state control in these countries means that entrepreneurial development has been slow and foreign MNC investment limited. Where MNCs operate they can influence local business practices by importing management thinking (Kahancová and van der Meer, 2006; Bogićević Milikić *et al.*, 2008; Zupan and Kase, 2005). Local businesses, however, particularly small ones, usually managed by the owner, develop their own informal way of working based on resources and expertise (Prouska and Kapsali, 2011). Unregulated informal economic activities are a common feature of the region (e.g. Cooke *et al.*, 2011; Williams, 2010; Williams and Round, 2009).

Our findings support the well-known fact that smaller businesses do not have formalised HRM functions, but we note the additional influence of the specific business context in which the SMEs operate. Beyond this, our evidence suggests the existence of three antecedents of the formalisation of HRM practice in SMEs operating in a post-communist context (Smallbone and Welter, 2001; Varum and Rocha, 2013): degree of internationalisation of SMEs, sector of SMEs, and organisational size of SMEs. These findings can help guide theory in understanding HRM models applied in Europe and offer new insights on a potential SEE post-communist regional cluster. Our findings can also assist business owners and managers understand how HRM can be applied in different organisations operating in the post-communist SEE region beyond this framework CEOs and

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business owners appear to be able to both have responsibility for, and ownership of, formal HR management in retail / service business orientations while this is less clearly defined in manufacturing ones suggesting the need for more specialised HR personnel in such cases. There also appears the need to understand formal HR management in the region from a three-fold perspective in terms of personnel functions, competency and training systems, and communication and compensation suggesting the need to develop expertise in these areas.

Our study has some limitations. For instance, although specific criteria were set for SME selection, we do not suggest that our purposive reflects a representative picture of the SEE periphery. Representative surveys within the SEE context are difficult owing to: a) limited access offered by organisations, b) unwillingness of people in SMEs to participate in research, and c) difficulties in identifying a randomly selected sample of SMEs across countries.

Our study indicates avenues for further research. Firstly, the informality of HRM practices in SMEs needs to be explored further, particularly the way in which HRM practices are implemented, often by the owner, perhaps using qualitative studies to explore how owners make HRM decisions and how these activities are monitored. Secondly, there is a need to further explore HRM practices in SMEs generally. This paper has examined only a limited number of possible factors and others may include country specific factors affecting business practice in SMEs and the extent of MNCs' influence on local HRM practice. Thirdly, there is a need to explore variations of organisational size within the SME categories and to explore patterns in HRM practice. This may include issues such as controlling for business sector and geographic scope of operations which have been seen to be closely linked to organization size in countries outside SEE; a comparative analysis may shed further light on whether this contextual difference applies in this region.

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

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**Table I:**  
**Main Features of SMEs Selected**

<b>Control Variables</b>		<b>N=168</b>	<b>%</b>
Geographical Operation	National	98	58.6
	Regional	45	26.7
	International	25	14.7
Sector of SMEs	Services	87	51.6
	Manufacturing	51	30.4
	Retailing	30	18.0
Organisational Size (employees)	50-100	78	46.7
	101-150	31	18.3
	151-200	30	17.8
	201-249	29	17.2
Organisational Life Cycle (years of operation)	1-5	42	25.3
	6-10	29	17.3
	11-15	36	21.3
	16-30	36	21.3
	31-50	5	2.7
	50 and over	20	12.1
Country of Origin	Bulgaria	48	28.8
	FYROM	27	15.7
	Romania	51	30.5
	Serbia	42	25.0



Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

**Table II:**  
**Exploratory Factor Analysis Loadings**

<b>HRM Items</b>	<b>Personnel Function</b>	<b>Competency &amp; Training Systems</b>	<b>Communication, Planning, &amp; Compensation</b>
Standardised personnel administration	0.798		
Clearly defined organisational strategy	0.609		
Policies and procedures	0.789		
Chart of authority	0.604		
Personnel dossier exists	0.559		
Safety and loss prevention in place	0.498		
Detailed personnel database	0.786		
Standardised R&S processes	0.805		
Code of business conduct	0.708		
Job descriptions	0.454		
Defined skills and competencies required		0.789	
Internal trainings in place		0.723	
Induction training in place for new employees		0.346	
On the job training is in place		0.879	
External trainings in place		0.727	
Training budget		0.715	
Training plan exists		0.478	
All positions are publicly open		0.780	
Customised R&S for managerial levels		0.895	
Business objectives			0.754
Benefit systems exist			0.576
Individual objectives			0.407
Reward system for employees			0.803
Defined skills and competencies for each position			0.795
Performance management			0.469
Pay for performance compensation system			0.795
Internal PR			0.469
CSR program development			0.780
Employee satisfaction survey regularly in place			0.705
Professional advice to line managers on specific HRM issues			<b>0.779</b>
Succession planning			<b>0.601</b>
Paid overtime			<b>0.559</b>
Compensation system based on grading			<b>0.407</b>
Compensation system based on points			<b>0.780</b>
Program to assist those with personal problems			<b>0.705</b>

Extraction Method: Principal Components Analysis – Rotation Method: Varimax with Kaiser Normalization

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

**Table III:**  
**Formality of HRM Practice Applied by SMEs in the SEE periphery**

<b>Personnel Function</b>	<b>Mean Scores</b>	<b>Competencies &amp; Training Systems</b>	<b>Mean Scores</b>	<b>Communication, Planning &amp; Compensation</b>	<b>Mean Scores</b>
Standardised personnel administration	4.10	Defined skills and competencies required	3.86	Business objectives	3.98
Clearly defined organisational strategy	3.90	Induction training in place for new employees	3.63	Defined skills and competencies for each position	3.62
Chart of authority	3.81	On the job training is in place	3.51	Benefit systems exist	3.53
Policies and procedures	3.78	External training in place	3.43	Reward system for employees	3.44
Personnel dossier exists	3.50	Internal training in place	3.42	Performance management	3.43
Detailed personnel database	3.45	Training budget	3.05	Individual objectives	3.33
Safety and loss prevention in place	3.38	Training plan exists	3.05	Pay for performance compensation system	2.92
Code of business conduct	3.38	Customised R&S for managerial levels	2.90	CSR program development	2.90
Standardised R&S processes	3.12	All positions are publicly open	2.76	Professional advice to line managers on specific HR issues	2.85
Job descriptions	2.98			Internal PR	2.73
				Succession planning	2.61
				Paid overtime	2.50
				Employee satisfaction survey regularly in place	2.39
				Program to assist those with personal problems	2.36
				Compensation system based on grading	2.05
				Compensation system based on points	1.97

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

**Table IV:**  
**Degree of Formality of HRM in SMEs**

<b>Degree of Formality of HRM Function</b>	<b>Sector of SMEs</b>		
	<b>Services</b>	<b>Manuf.</b>	<b>Retailing</b>
<i>There is a formal HRM department within the</i>	22.0%	41.7%	18.2%
<i>HRM is undertaken by the owner of the organisation</i>	68.3%	50.0%	72.7%
<i>HRM is undertaken by a senior manager of the</i>	2.4%	0.0%	9.1%
<i>HRM is undertaken by a middle manager of the</i>	7.3%	8.3%	0.0%
<b>[<math>\chi^2=6.41</math>, DF=6, p=.383]</b>			
<b>Responsibility of HRM Function</b>	<b>Services</b>	<b>Manuf.</b>	<b>Retailing</b>
<i>Chief executive/managing director</i>	65.9%	41.7%	81.8%
<i>HR Manager</i>	19.5%	50.0%	13.6%
<i>Other Managers/Directors (Finance,</i>	14.6%	8.3%	4.5%
<b>[<math>\chi^2=15.96</math>, DF=12, p=.171]</b>			

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**Table V:**  
**Correlation of Independent Variables**

	<i>Geographical Operation of SMEs</i>	<i>Country of Origin of SMEs</i>	<i>Sector of SMEs</i>	<i>Size of SMEs</i>	<i>Organisational Life Cycle</i>
<i>Geographical Operation of SMEs</i>					
<i>Country of Origin of SMEs</i>	.163				
<i>Sector of SMEs</i>	.481*	.078			
<i>Size of SMEs</i>	.523*	.101	.498*		
<i>Organisational Life Cycle</i>	.124	.185	.214	.455*	

\* significant at  $\alpha < 5\%$

Psychogios, A., Szamosi, L., Prouska, R. and Brewster, C. (2016): 'A three-fold framework for understanding HRM practices in south-eastern European SMEs', *Employee Relations*, Vol. 38, Iss. 3, pp. 310-331.

**Table VI:**  
**Structural and Organisational Effects on HRM Practices of SMEs**

<b>Ordered probit estimates</b>	<b><i>Degree of Formality of HR Practices</i></b>	<b><i>Personnel Functions</i></b>	<b><i>Competency &amp; Training Systems</i></b>	<b><i>Communication Planning, &amp; Compensation</i></b>
<b>Independent Variables</b>	N=168	N=168	N=168	N=168
<b>Structural Factors</b>				
<b><i>Geographical Operation of SMEs</i></b>	**	**	**	***
<b><i>Country of Origin of SMEs</i></b>	ns	ns	ns	ns
<b>Organisational Factors</b>				
<b><i>Sector of SMEs</i></b>	*	**	ns	*
<b><i>Size of SMEs</i></b>	**	**	**	*
<b><i>Organisational Life Cycle</i></b>	ns	ns	ns	ns
<b><i>R<sup>2</sup></i></b>	0.018	0.068	0.161	0.079

\*\*\*significant at  $\alpha=1\%$  (0-.01); \*\*significant at  $\alpha=5\%$  (.01-.05); \*significant at  $\alpha=10\%$  (.05-.1); ns: not significant