January-April 2016 Volume 2, Issue 1

Characteristics of Human Resource Management in SMEs in Serbia

Azra Hanić

hanicazra@ gmail.com

Živka Pržulj Marija Lazarević-Moravčević

Faculty of Banking, Insurance and Finance

Union University, Zmaj Jovina 12, 11000, Belgrade, Serbia

Abstract

The aim of this paper is to answer the question of whether the practice of small and medium enterprises (SMEs) in Serbia represents the specifics of human resource management (HRM) in this type of enterprise. The paper contains the practice analysis of the human resource management as a precondition for creating competitive advantage of small an dmedium-sized enterprises in Serbia. The paper methodology is based on appropriate empirical research using a questionnaire, where the results were analyzed by the appropriate statistical method. The paper contains original research criteria in the process HRM in SMEs compared to large enterprises in a transition country that has not joined the EU. The research contributes to confirm the theoretical assumptions about the characteristics of HRM in SMEs and could have practical implications for the search for better professional solutions within the specific characteristics of SMEs. This paper presents only a part of the obtained results, which is the most important for the elaboration of the subject of this paper.

Keywords: SMEs, human resource management, competitive advantage, development, Serbia

Intoroduction

In recent decades SMEs have become the subject of interest of economic and management theory due to many advantages they possess compared to large systems, as well as the significance they have for the development of economy. The main advantage of SMEs is their flexibility. It is primarily their internal flexibility, having in mind the fact that small firms have less control over their environment than larger organizations (Harney and Dundon, 2006). That makes them more. Compared to large systems, the benefits can be found in the simple organizational structure, flexible and informal system of internal communication, specific relationship with stakeholders, as well as the absence of bureaucracy. That increases the ability to react quickly to changing circumstances (Levy and Powell, 1998).

The development of SMEs in Serbia as a transition country, which has not yet completed the process of privatization and restructuring of large state-owned systems, has elements of many years of communist ideology, the late development of private entrepreneurship, wandering in defining and creating the institutional framework of the economic system, the crisis which the country went through during the last century due to many years of sanctions and the lack of foreign investments. Small and medium enterprises and entrepreneurs represent a significant segment of Serbian economy. According to data

from 2013, SMEs in Serbia are represented by 99.8 % of active businesses and employing about two thirds of employees in the non-financial sector (National Agency for Regional Development, 2013). In the structure of the SMEs sector the most numerous are the micro-enterprises, but a dominant share in the basic performance indicators such as employment, turnover and GVA have economic entities that belong to the very category of small and medium enterprises.

Theoretical framework

The issue of human resource management in SMEs has long been neglected in theoretical sense, as indicated by the introductory text (Heneman and Tanesky, 2002) in one of the first special issues of the magazine Human Resource Management Journal on this topic. The authors call on the academic public to intensify academic research, presentation of practice and testing of hypotheses regarding the management of human resources in SMEs. The reason for that may be found understanding of Penrose (1959) that 'all the evidence indicates that the growth of the firm is connected with attempts of a particular group of human beings to do something; nothing is gained and much is lost if this factor is not explicitly recognized.' Heneman and Tansky (2002) give a special touch in perception of the role of HRM in the growth and development of SMEs and the creation of competitive advantage, which is not less significant than in large enterprises.

In recent years, the issue of HRM in SMEs has become present in many magazines. The authors are most often concerned with identifying the specifics of HRM in SME (Brand and Bax, 2002). In addition, the complexity of the basic characteristic of HRM in SMEs is pointed out (Harney and Dundon, 2006). Brand and Bax (2002) point out several reasons why HRM has priority importance for the development of SMEs: human resources in these companies play a vital role in developing and maintaining a competitive advantage; in small enterprises it is especially notable because of the specific organization and the importance of each employee (individual), which increases the importance of each HR decisions.

Serious papers on the topic of HRM in SMEs are based on research and examples from developed countries. Unlike developed economies which have rich experience in the development of entrepreneurship, in transition countries the SMEs sector started to develop in recent decades. Due to the absence of adequate development policy and institutional support, and the backing by the state companies that have been destroyed in the privatization processes, in underdeveloped countries the development of the SMEs sector happens largely uncontrolled and without clearly defined goals. Companies are established as family businesses from an existential necessity, or are the result of carefully undertaken investments of large companies from developed countries.

Nooteboom (1994) starts from the three basic characteristics of small businesses: small scale, personality and independence. Based on these characteristics, the three key strategies are drawn: innovation, customization, and networking strategies. The diversity and flexibility are the main characteristics of the stipulated strategies (Brand and Bax, 2002), which are reflected in the human resource management in SMEs. Diversity is determined by a strong personal influence of the owners of these companies with different objectives, motivation (Baron and Kreps, 1999), value systems and habits (Brand and Bax, 2002), that shape up their behavior and key decision making. In addition, the size of these companies expressed in number of employees is determined by specific social and interpersonal relationships between employees and specific management form. Therefore, in these enterprises the following attributes are of special importance: loyalty, commitment and trust between employees and management. These characteristics of the employed often result in the lack of professionalism. Due to the practice of smaller organizations to usually hire relatives and acquaintances which the owners (managers) trust, limitation in knowledge and skills can often be found.

Company size significantly determines the way in which the division of labor is done in the organization. It also influences definition of positions in the hierarchy of responsibility, as well as implementation of the process of integration and coordination of various activities. In small-sized enterprises, which are in the early stages of growth mostly informal (simple) organizational structure is present. In fact, organizational structure, in the classical sense, does not exist in small

January-April 2016 Volume 2, Issue 1

organizations. The process of organizing is done in the presence of weak specialization and departmentalization, high centralization and a wide range of control. The manager/owner makes all important decisions, participates and monitors all business processes.

In implementing the activities of recruitment, selection and development of human resources standard methods are commonly used that do not require high costs and that can be directly controlled by the owner (manager) of the company (Cardon and Stevens, 2004). Recruitment and selection is characterized by the use of informal methods and trial period as a means of checking the abilities of the candidates (Deshpande and Golhar, 1994).

The recruitment of candidates is usually done from the circle of relatives and acquaintances or through advertising in local newspapers, personal recommendations or recommendations from the staff. The usual practice is that simpler and cheaper methods are applied in the selection of candidates. The priority is given to the criterion of loyalty to the company (Serbian Chamber of Commerce, 2012). Preferring the criterion of loyalty excludes the possibility of hiring workers with the best qualifications and experience.

Relying on research by Julien (1998), based on 104 studies of differences of HRM in SMEs, Brand and Bax (2002) distinguish the following procedures in filling job vacancies: evaluation, internal referrals, references, use of job try- outs, while the less cited are the following: tests, training & development, HRM training, external recruitment assistance.

The flexible structure of SMEs has resulted in the need for employees whose professional profile is not clearly defined, who can do multiple jobs and be quickly and easily transferred from one job to another (mobility and flexibility). With high horizontal mobility, in SMEs internal vertical mobility is limited. Unlike large systems, employees in SMEs do not have great opportunities for vertical promotion.

Training is usually done in some form of mentoring and learning by model or is organized outside the organization (external training). Taking into account all stated above, in smaller organizations problems can be expected in the segment of employee motivation, especially regarding specialized experts. Less training due to limited resources is reflected in the development of employees and increased turnover due to poor opportunities for career advancement. Arthur and Hendry (1990) emphasize that and see the solution in specific job training, which have little value for other companies.

In smaller organizations the system of performance appraisal (evaluation) is often lacking as well as the effective system of rewarding the employees. Due to the fact that there is no possibility for career development and promotion, employee motivation can be extremely low.

Characteristics of the system of earnings bear the hallmarks of greater individual influence of the owners, lower earnings which are compensated by better work atmosphere and a more direct bondwith performance (Brand and Bax, 2002). Salaries and benefits are more characterized by satisfaction and less by wages and fringe benefits, and working environment is characterized by the following: informal, personal atmosphere, open communication.

In organizations with a simple organizational structure and fewer employees (100) there is no practice of formation of separate organizational units that are responsible for carrying out activities in the field of human resources. When organization reaches a certain level in its growth and development there emerges a need to create an organizational unit that would be responsible for carrying out activities of human resource management.

By separating the department (function) for the implementation of human resource management or hiring experts in this field, human resources management gets a new dimension. In larger organizations there are conditions for more intensive

investment in staff development, career management, as well as the definition of an efficient system of incentives and rewarding.

Emphasized importance of human resources for business and competitive ability of SMEs supposes strategic approach to human resources management. Brand and Bax (2002) argue that 'HRM is a strategic factor in many small firms (although mostly not institutionalized) and that we should speak of and focus on SHRM'. That is explained by a high degree of dependence of SMEs on external environment and the need to adjust the internal environment to those requirements. In the context of all stated above, smaller organizations in relation to the larger systems dispose with a narrower range of strategic alternatives in the field of human resource management (Coulter, 2010). Due to the permanent lack of resources and small-scale business, managers of SMEs are forced to define and implement specific approaches to human resources management.

Results of the research

The practice of human resource management in Serbia is primarily associated with the problems of transition and transformation of the economic structure and characteristics of overall social development in recent decades. In addition, the modern concept of human resource management started to be implemented in the last 15 years (replacing the function of personnel). That practice was usually brought by foreign companies, while in the domestic enterprises it was applied partially or declaratively. That is accompanied with a lack of knowledge and education of experts in this field.

The survey conducted on a sample of 208 respondents employed in various positions in organizations in Serbia was aimed to check what the characteristics of the practice of human resource management are in companies of different sizes and whether the practice of SMEs has the characteristics indicated in the scientific literature in this area. The survey was conducted in 2014 on a random sample, which consisted of 52 % male and 48 % female. According to the degree of education the respondents are distributed as follows: 54.8 % BA, 19.2 MSc / MA, 7.7% high school graduates and 10.1% with secondary education. Of the total number of respondents 55.8 % were the middle and top managers, 38.5% operational executives and 5.8 % human resources managers. The survey included a set of statements about the practice of HRM with a five-item Likert scale. Independent variables included personal characteristics of respondents and specific characteristics of the organization. The data generated by the survey were processed using the statistical software package SPSS (Statistical Package for Social Science). The results obtained by method of descriptive and correlation analysis, ANOVA and MANOVA are summarized in the framework of a broader research, from which we abstracted data relating to the size of the company as one of the independent variables which was used for understanding the characteristics of human resource management in SMEs in Serbia.

The size of organization, measured by number of employees, proved to be a significant variable in explaining the diversity of HR practices in all of these fundamental aspects except for the characteristics of assessment and evaluation of employees (the level of significance 0.000 to 0.075). The high level of significance regarding the assessment of respondents on the practice of human resource management has proved to be the same with some other features of the organization as well, such as ownership structure, operating result and the way of using the services of HR professionals.

In addition to the size of organization, significant organizational variables are the ownership structure (private ownership, a mixed foreign and domestic ownership, foreign ownership and state ownership), operating results (profit vs. loss) and a way of using the services of HR professionals (separate unit, external experts, a professional person or within the responsibility of managers - the owners). The mean values of responses showed that most professional criteria and procedures are applied by foreigncompanies, successful companies and those companies that use the services of external experts for management of human resources. In consideration of the characteristics of human resource management practices by enterprise size, we used the mean values of responses. According to that statistical indicator, the main criteria

in the selection of candidates for employment in SMEs in Serbia are the knowledge and skills of candidates and recommendations from trusted people, while the political hiring is least presented, unlike large companies, in which the most commonly used criteria were political affiliation and interest (corruption) that decision makers may have.

Table 1: Application of the criteria in the selection and recruitment (mean values)

Criteria in selection of the candidates	The main criteria in the selection and election of candidates is knowledge and ability of candidates	The main criteria in the selection and election of candidates is recommendation by	The main criteria in the selection and election of carefulcates are political , kinshipor national	The main criteria in the selection and election of candidates is an interest which may gain the one who makes the decision on employment
Up to 49 employees	1.29	.92	96	40
Between 50 and 250 employees	1.04	.83	69	48
Over 250 employees	.63	.65	17	17

Source: Hanic, A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

The result of research shown in Table 1 confirms the theoretical assumption that small businesses in the selection of candidates rely primarily on the criterion of trust with the expansion of the criteria on the knowledge and abilities. In medium-sized enterprises the most common is the practice of using professional services of HR professionals. These companies are forced to rationally use existing resources, which also applies to human resources. That can help in interpretation of other indicators in this table, and in particular the degree of denial of gaining individual interests through employment and discrimination against candidates. Despite the theoretical assumption that SMEs due to the speed and dynamics of business have shown more inclination towards employment of 'ready experts', our survey showed significantly presence of the understanding that the training and development of employees is an investment, as shown in the following table:

Table 2: Relationship towards development and training (mean values)

Development and training of employees	Development and training of employees is solely in their interests and their concerns, not an obligation of the organization	Development and training of employees is treated as an investment rather	Development and training of training of employees is considered to be a privilege of specific groups of managers and employees
Up 49 employees	22	1.01	82
Between 50 and 250 employees	29	.77	56
Over 250 employees	38	.34	35

Source: Hanic, A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

Despite the appreciation of the importance of training and development of employees, the results of certain studies (Serbian Chamber of Commerce, 2012) suggest that training in smaller organizations is mainly carried out *ad hoc* and without prior defining of educational needs. Trainings are conducted by inertia and without clear insight in the effects on performance, which indicates certain irrationality in the use of the limited resources which SMEs in Serbia have on their disposal.

Improvement and career development of the employees as a process of human resource management requires a certain level of attention of managers in monitoring capabilities and operating results and the room for career paths, which is often narrow in SMEs. That often requires appropriate professional procedures and knowledge of HR professionals, which small-sized enterprises cannot provide. Yet the very application of appropriate criteria may be encouraging for the development and better use of human resources. Our results show that the criterion of operating results, knowledge and skills in promoting the career development of employees in Serbia is significantly greater in SMEs than in large enterprises, in which the criteria of obedience and closeness with the managers are more present as well as the various forms of discrimination, as shown in Table 3.

Table 3: Improvement and career development (mean values)

Improvement and career development	Promotion and career development depends primarily on their primarily on their	Promotion and career development depends on loyalty, obedience and	Promotion and career development are made ad hoc and according to the	<u> </u>
Up to 49 employees	.85	19	05	95
Between 50 and 250 employees	.62	23	01	-1.05
Over 250 employees	.34	.06	.16	57

Source: Hanic, A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

Results of this research confirmed our hypothesis that in the SMEs evaluation and assessment of operating performance is rarely done according to pre-established criteria and procedures. The problem is particularly present in the organizations that belong to the category of small enterprises. Surely, it is affected by a lack of professional systems, procedures and practices of HRM that these companies can provide mainly by the use of consulting services.

Table 4: Performance appraisal (mean values)

Performance appraisal	Assessment and evaluation is done	Assessment and evaluation is carried out according to pre-defined period, and based on the assessment system founded on adequate criteria	Assessment and evaluation is carried out periodically, in cases of punishment, dismissal and remuneration of employees
Up to 49 employees	.09	.27	12
Between 50 and 250 employees	.13	.56	39
Over 250 employees	.26	.41	25

Source: Hanic., A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

Table 4 shows that the evaluation of operating performance in small enterprises is most often done *ad hoc* and based on personal assessment by the owners. Also, compared to medium and large enterprises, in smaller organizations there is no

practice of using appropriate evaluation system requiring specific professional knowledge and training of managers. Medium-sized enterprises to a greater extent apply appropriate evaluation systems and that process is less used for the purpose of punishment, dismissal or remuneration. In addition, it has to be understood that Serbia has traditionally collectivist (Hofstede, 1994) and egalitarian culture, which is an obstacle to acceptance of the concept of individual performance evaluation. Such systems of evaluation and performance appraisal are mainly applied by foreign companies from developed economies and brought from their home countries.

The method and criteria for determining individual salaries of employees in SMEs in Serbia are under the influence of different factors (legal, traditional, individual).

Table 5: Method for determining earnings (mean values)

The way and criteria for determining earnings of the employees	Employees' salaries are determined by contracting for each individual separately	Employees' salaries are determined on the basis of a prescribed system which is known to all	yees' sala d only on	llaries of mana termined acco ixed contract,	Employees' salaries are paid irregularly and with delay
Up to 49 employees	04	.56	.39	32	-1.26
Between 50 and 250 employees	35	.52	.23	23	-1.47
Over 250 employees	34	.58	.60	04	-1.37

Source: Hanic., A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

As shown in Table 5, salaries of employees in SMEs in Serbia are mainly determined by individual contracting, unlike large companies which are more prone to use the criteria of qualification and position in the organization. These results indicate a lack of adequate wage system in enterprises of all sizes, which would be known to all employees and thus could affect their behavior and work performance. Criterion of individual performance, i.e. operational results in determining the level of earnings in Serbia is rarely used, as demonstrated by other research (Vergutungsreport, 2013).

It is assumed that the layoffs and dismissals in SMEs are simpler and faster due to the need for greater efficiency, better use of resources and flexibility to market conditions.

However, Table 6 indicates that the practice of dismissal in SMEs in Serbia is less present than in large enterprises. A possible reason for this is the restructuring of a large number of large companies. On the other hand, the results indicate that in SMEs in Serbia dismissals often occur at short notice and without warning. That can be explained by the concentration of power in decision-making and the fact that in smaller companies employees are less frequently organized in unions, and the practice of labor relations is within the competence of managers (the owner).

Table 6: The ways of dismissal and announcement of dismissal (mean values)

The ways of dismissal and announcement of dismissal	Dismissals and firings are rarely practiced due to a good business plan and the required number of employees and a careful selection at employment	Dismissals occur without explanation at short notice	Prior to the dismissed worker is warned first orally and then in writing, and thus they are given the opportunity to be improved	In case of dismissal, employees are informed in writting without any discussion	In case of dismissal, the employee is enabled discussion
Up to 49 employees	.92	-1.10	.73	-1.31	.57
Between 50 and 250 employees	.58	-1.16	.79	-1.05	.38
Over 250 employees	.29	91	.82	78	.68

Source: Hanic., A. Etički aspekti prakse menadžmenta ljudskih resursa u procesima tranzicije

Results and discussion

Results of this research show that the characteristics of human resource management in SMEs in Serbia do not differ significantly from the general characteristics highlighted in the literature on this issue. First of all, a significant correlation is confirmed between the size of the company, as independent variable, and human resource management practice. In addition, a significant difference can be identified in the practice of small, medium and large enterprises. It points to the conclusion that small and medium-sized enterprises do not have the same characteristics.

In this study the hypothesis is confirmedthat SMEs in Serbia used simpler, cheaper and less professional selection methods, such as the recommendations of people that can be trusted. However, it turned out that the knowledge and skills of the candidates in these companies are extremely important criteria in hiring, which confirms the assumption that these companies well understand the importance of human resources for competitive advantage and that they use resources rationally. The same is confirmed by the research results on the application of criteria for promotion and career development. That is confirmed by the results relating to the implementation of political, kinship and interest criteria, which are far less present in SMEs than in large enterprises in Serbia.

According to the results of this research, SMEs in Serbia give great importance to education and training of employees and consider it an investment, not a cost. However, the training is organized *ad hoc* in response to the pressing need or offer of educational content, and not on the basis of thoroughly studiededucational needs. It calls into question the rationality of spending their own funds for the training and use of possible subsidies.

Our results confirm the hypothesis that, in the absence of professional support of the HR professionals, the process of evaluating and assessing performance appraisal is done in the form of an *ad hoc* evaluation by the manager (owner), which is less prominent in medium and large-size enterprises.

Results of this research, expressed through the mean values indicate that the individual determination of earnings is usually common practice in small enterprises in Serbia, and that in these companies the least used criterion is that of the degree of education.

Our research also showed differences in the way firing employees in small, medium and large enterprises. Based on the obtained and presented results, it can be concluded that in small companies recruitment is most carefully planned and people are rarely dismissed, but that decisions on possible dismissals are made quickly and at short notice, with little possibility of discussion. This may be attributable to the power of the owner (manager), as well as the lack of formalization typical forthat type of company.

Conclusion

Human resource management in SMEs expresses certain peculiarities in relation to large systems. Although the modern concept of human resource management is unique, its application in practice of SMEs requires adapting to these peculiarities in terms of greater or lesser emphasis on specific activities and criteria.

The research outlined in this paper suggests that SMEs in Serbia, in spite of these difficulties, apply the criteria and procedures for procedures of human resource management which can provide a competitive advantage. However, and certain weaknesses proved, particularly in the field of development and utilization of human potentials, implementation of the system of evaluation and rewards. That shows the need for a higher level of education of managers (owners) of SMEs in the area of managerial skills, especially in the field of human resources management. Also, it emphasizes the need for more intensive use of consultancy services in this field.

Reference

- [1] Arthur, M.B., & Hendry, C. (1990). Human Resource Management and the Emergent Strategy of Small to Medium Sized Business Units. International Journal of HumanResource Management, No. 1(3): 233-250.
- [2] Baron, J.N., & Kreps, D.M. (1999). Strategic Human Resource Management: Frameworks for General Managers. New York: John Wiley & Sons, Inc.
- [3] Brand, M., & Bax, E. (2002) Strategic HRM for SMEs: Implications for Firms and Policy. Education and Training Journal, Vol. 44, Iss: (8/9): 451 463.
- [4] Cardon, M.S., & Stevens, C.E. (2004). Managing Human Resources in Small Organizations: What Do We Know? Human Resource Management Review, No. 14 (2): 295-323.
- [5] Coulter, M. (2010). Strategijski menadžment na delu, Belgrade: Data Status.
- [6] Deshpande, S.P., & D.Y. Golhar. (1994). HRM Practices in Large and Small Manufacturing Firms: A Comparative Study, Journal of Small Business Management, No.32 (2): 49-56.
- Hanic, A. (2016) Etički aspekti prakse mendžmenta ljudskih resursa u procesima tranzicije. Doktorska disertacija. Sarajevo: Ekonomski fakultet u Sarajevu. 194-227
- [8] Harney, B., & Dundon, T. (2006). Capturing Complexity: Developing an Integrated Approach to Analysing HRM in SMEs. Human Resource Management Journal, Vol. 16 (1): 48–73.
- [9] Heneman, R., & Tansky, J. (2002). Human Resource Management Models for Entrepreneurial Opportunity: Existing Knowledge and New Directions, in Katz, J.A. and Welbourne, T.M. (ed.) Managing People in Entrepreneurial Organizations, Advances in Entrepreneurship, Firm Emergence and Growth, Vol. 5, Emerald Group Publishing Limited, 55 – 81.

- [10] Hofstede, G. (1994). Culture's Consequences. SAGE Publications Implications for Firms and Policy, Education and Training Journal, Vol. 44, No. 8: 451-463.
- [11] Lazarević-Moravčević, M., Pantić, O., & Filimonović, D. (2015). SME Sector as a Growth Factor of Employment in Serbia. Proceedings: New Economic Policy Reforms, Belgrade: Belgrade Banking Academy, 466-475.
- [12] Levy, M., & Powell, P. (1998). SME Flexibility and the Role of Information Systems. Small Business Economics No. 11(2), 183-196.
- [13] National Agency for Regional Development, Republic of Serbia. (2013). Research on the status, needs and problems of small and medium enterprises and entrepreneurs (SMEs) in Serbia. Available: http://narr.gov.rs (November 11, 2015)
- [14] Nooteboom, B. (1994). Innovation and Diffusion in Small Firms: Theory and Evidence. Small Business Economics, No. 6:327-347.
- [15] Penrose, E.T. (1959). The Theory of the Growth of the Firm. New York: John Wiley.
- [16] Pržulj, Ž. (2007). Menadžment ljudskih resursa. Fakultet za trgovinu i bankarstvo "Janićije i Danica Karić", Beograd
- [17] Serbian Chamber of Commerce. (2012). Analysis of the results of research on the needs of the economy for knowledge and skills. Available on: http://www.pks.rs (December 5, 2015)
- [18] Stace, D., & Dunphy D. (1991). Beyond Traditional Paternalistic and Developmental Approaches to Organisational Change and Human Resource Strategies. The International Journal of Human Resource Management, No. 2(3): 263-84.
- [19] Torrington, D., Hall L., & Taylor, S. (2004). Menadžment ljudskih resursa, Beograd, Data Status.
- [20] Vergütungsreport Salary Report. (2013). Republic Serbian, Austria, Viena: Kienbaum Consultants.