

The Role of Human Resource Management in Small and Medium Sized Companies in Central-Eastern Europe

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Abstract Human resource management (HRM) in contemporary economics is linked to a company's success measured through numerous organizational measures (profitability, productivity, rate of innovation, market share, environmental performances, etc.). The role of HRM in large enterprises is relatively known, especially when the competitiveness and sustainable development are in question. On the other hand, small entrepreneurial and medium sized (SME) companies have not been greatly studied in relation to the HRM in the past. Although there is a lack of literature and empirical research in this area, several studies in the past decade and recent years emphasized the importance of the HRM for the survival and success of the SMEs. The reason why more and more authors today are arguing about the success of the SMEs is the perceived advantages of SMEs in a turbulent and unpredictable business environment. SMEs are seen as the driving force for vulnerable economies, a source of innovation, employment, and flexibility. Bearing in mind SMEs and their advantages, the authors have focused their attention on the economies in the Central and Eastern Europe countries (Slovenia, Serbia, Hungary and Bulgaria) where the SMEs are recognized as potential possibilities for economic recovery and development. Since human capital is recognized as one of the most important factors of enterprise success, the aim of this work was to explore the role of HRM in SMEs in the economies of Serbia, Bulgaria, Hungary and Slovenia, to determine the type of linkage between HRM and the success of small and medium-sized companies that operate in the CEE region, in light of the Cranet 2008/2010 survey data. The objective in this chapter was the exploration of the existence of organizations' business strategy and HR strategy in SMEs, as well as HR departments, and the role of HRM in the business of the SMEs. The special task in this research was the exploration of the HRM activities and trends (recruitment, selection, compensation, performance management, training and development, human resource information system, etc.) that are present in the SMEs in the CEE region. The ranking of the SMEs' performances is also presented and the relations between the existence of HRM and the several performance measures in

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these companies. Descriptive statistical methods, t-test of independent samples and ANOVAs tests have been used during quantitative analysis to explore the presented relations.

1 Key Concepts of a Subject Team

In the contemporary business environment, human capital is seen as a crucial factor for the success of the entire business system and development of organizations (Buller and McEvoy 2012). HRM is understood as the concept of managing organization's people which includes certain functions such as planning, staffing (recruitment, selection and orientation), training, development and career development, performance measurement, compensation and benefits, leaving the organizations, industrial relation and the like. With an adequate structuring of the HRM sector, organizations can provide significant improvements in business in terms of higher performances (Berber et al. 2012, 2014; Huselid 1995) and the competitive advantage of organizations (Campbell et al. 2012; Wright and McMahan 2011; Progoulaki and Theotokas 2010; Lado and Wilson 1994; Schuler and MacMillan 1984).

Keeping in mind the stated influence of the HRM on the organizational effectiveness, regarding researches on HRM, it is important to emphasize that the most of them have been made for large enterprises (Tanova 2003). Authors Jack et al. (2006) stated that the knowledge, experience and prescriptions for HRM are mostly formed from research in large firms. On the other hand, there is little knowledge about how the theories developed actually extend to small entrepreneurial ventures and medium firms. And why is this important? The reason why today more and more authors are arguing about the success of the SMEs is due to the perceived advantages of SMEs in turbulent and unpredictable business environment. SMEs are seen as driving force for the vulnerable economies, a source of innovation, employment, and adaptability to quickly react to changes. Since there are practical evidences for the positive influence of the HRM on organizational success (Slavić and Berber 2013; Crook et al. 2011; Zheng et al. 2006; Youndt et al. 1996; Huselid 1995), it is interesting to explore the influence of the HRM activities in SMEs and on the SMEs' success.

The purpose of this chapter is to explore the role of HRM in SMEs in the economies of Serbia, Bulgaria, Hungary and Slovenia, to determine the type of linkages between HRM and the success of small and medium-sized companies that operate in the CEE region, in light of the Cranet 2008/2010 survey data. The chapter objectives are to explore the organizations' business strategy and HR strategy in SMEs, HR departments and the role of HRM in the business of the SMEs. Special tasks in this research were to explore the HRM activities and trends [recruitment, selection, compensation, performance management, training and

development, human resource information system (HRIS), etc.] that are present in the SMEs in the CEE region. Authors decided to make this exploration for the mentioned region, since the Republic of Serbia belongs to the group of the former socialistic republics in the CEE region. Much research in the past few years (see Parry et al. 2013; Poor and Capo 2013; Poor et al. 2011, 2012; Kittler et al. 2011; Festing and Sahakiants 2010; Kazlauskaite and Buciuniene 2010; Brewster et al. 2010; Karoliny et al. 2009) has been conducted with the aim to explore and present the specific HRM practices in this region, and if we bear in mind stated sentence about the influence of the HRM on organizational effectiveness, authors of this chapter found research objectives as very important, especially in the condition of the contemporary economic, political and social challenges.

2 Problems

The two main problems in focus of this research were the analysis of the nature of HRM in small and medium sized enterprises in the region of Central and Eastern Europe and exploration of the relation between HRM and organizational performances in SMEs in the mentioned region. Namely, many SMEs perform different, ad hoc and usually informal HR activities (Saridakis et al. 2013; Slavić and Berber 2013; Greenidge et al. 2012; Mayson and Barrett 2006; Kotey and Slade 2005; Bacon and Hoque 2005). Since there is evidence of the positive influences of HRM on the performances of SMEs (Muogbo 2013; Zolak-Poljašević and Petković 2013; Galang and Osman 2013; Slavić and Berber 2013; Zheng et al. 2006; Hayton 2003), the authors decided to explore the nature of HRM in SMEs in the specific region of Central and Eastern Europe and its role in the business of SMEs regarding organizational performances measured through profitability, productivity, innovation and service quality.

Based on the stated problems of research, authors presented some theoretical evidences and developed two research hypotheses.

3 Evidence

3.1 *Informal and Strategic Approach to the HRM in SMEs*

Firstly, it is important to emphasize one common thought about HRM in SMEs. Namely, there is a common thought that many of the HRM activities in SMEs are usually informal (Saridakis et al. 2013, p. 445; Kok and Uhlaner, 2001) and ad hoc (Mayson and Barrett 2006, p. 449). This means that there is no strategic approach to the HRM in SMEs. Namely, small firms, those that are growing or growth oriented, make an important contribution to the performance of developed and developing

economies around the globe. Business growth, the key to firm sustainability and economic development, necessarily assumes the effective use of resources, including human resources, to create and exploit new opportunities. A critical issue is how to ensure the growth and sustainability of the firm if there is the informality of the HRM practice in SMEs and the absence of knowledge about the benefits of a more strategic approach to HRM (Mayson and Barrett 2006). In relation to the mentioned informality of HRM in SMEs, author Hayton (2003) found in the study of 99 SMEs that HRM practices that promote employee discretionary behavior, knowledge sharing, and organizational learning are positively associated with the entrepreneurial performances.

The most common HRM practices in small firms reflect operational needs and pragmatic concerns, such as record keeping, staffing activities and, to a lesser extent, motivation and retention activities (compensation) (Barrett and Mayson 2007). A lot of small firms rather use informal HRM activities like *training* (on the job training) (Kotey and Slade 2005) than some formal training having in mind the costs and the lack of the knowledge about the benefits that can be achieved (Mayson and Barrett 2006). Similarly, Bacon and Hoque (2005) and Greenidge et al. (2012) found that there is a far greater degree of informality in *employment* (recruitment) practices in SMEs than in larger workplaces. Barrett and Mayson (2007) found that small firms exhibit poor HRM practice regarding *recruitment and selection* process. In case of *compensation*, recognition and reinforcement, pay rises or job security were commonly used reward systems (McEvoy 1984). Compensation is a particularly important topic because often compensation significantly affects recruiting and retention efforts of small firms; if they cannot pay applicants enough, then they cannot recruit or retain critical skills or knowledge they need to operate effectively (Cardon and Stevens 2004). *Performance appraisal* practices in small firms tend to be informal and continuous and are often used for monitoring and control rather than development purposes (Gilbert and Jones 2000; Barrett and Mayson 2007, p. 310).

In relation to the informality of HRM in SMEs, authors Slavić and Berber (2013) state that modern human resource management literature and the actual management practice both emphasize the strategic approach to a company's most important assets, its human resources. This is very important for large but also for small and medium enterprises. In this sense, strategic human resource management (SHRM) is seen as "the pattern of planned human resource deployments and activities intended to enable an organization achieve its goals" (Wright and McMahan 1992, p. 298). Strategic approaches to HRM shift the theoretical focus away from examining individual HRM practices in isolation, an approach commonly found in the small firm literature, to an integrated framework for understanding the strategic contribution of human capital organized through HRM systems to enable firm growth and performance (Mayson and Barrett 2006, p. 448). As the opposite side of the informality, strategic approach to HRM, a well-planned and systematically organized functions, can be useful in achieving a higher level of performance, even in small companies. Ananthram et al. (2013) state that the maximum value of human capital is realized when 'a coherent system' of HR strategies and processes

is implemented, inferring the need for the horizontal alignment (or fit) of HRM processes and their vertical alignment with business strategies and functions. This approach accords with overall strategic HRM theory, as it reflects a focus on organizational (rather than individual) performance, emphasizes the role of HRM systems as solutions to business problems, and therefore contributes to building sustainable competitive advantage.

During the exploration of the HRM in SMEs it is also very important to investigate the factors that influence the adoption of HRM activities in these enterprises. According to Kok et al. (2003, p. 6) contextual determinants of adoption of HRM in SMEs are: *firm size, business plan, export, franchise, family business, and unionization*. In their study authors, using data on more than 700 Dutch small firms, found that, within this sample of small firms, larger firms apply more formalized HRM practices than smaller firms do. Firm size is a determinant of the probability that an HRM department is present, which in turn is related to the formalization of all HRM scales. Family businesses apply less formal HRM practices, as do businesses without a business plan. Reid et al. (2002) state that family business practices within HRM are different than their non-family counterparts. The presence of an HRM department or manager is related to more formal HRM practices, which implies that firm size, family business, and the availability of a business plan are both directly and indirectly related to the formality of HRM practices (Kok et al. 2003). According to other authors, the adoption of formal HRM practices in SMEs occurs at a rapid rate in the early stages of the growth process and in a slower rate in the later stages (Kotey and Slade 2005). Related to the sector of business, SMEs involved in exporting, franchising or cooperation with larger firms differ from the rest of the firms with respect to HRM. Exporting is positively associated with the adoption of formal recruitment and selection practices (Kok et al. 2003). The presence of a large firm associate (supplier, customer, or franchise) has significant influence on the level of formalization of training in small firms. Franchise organizations apparently stimulate the training and development of the personnel of their franchisees, but do not encourage the formalization of the other HRM categories (Kok et al. 2003). Similarly, Urbano and Yordanova (2008) proposed a conceptual model based on the resource-based view for exploring the factors that influence the adoption of formalized HRM in SMEs. This model contains the following factors related to the adoption of HRM practices: *firm size, presence of HR department, cooperation with other organizations, ownership by a larger company, and two characteristics of the person responsible for HRM within the firm (previous experience on similar positions and education and/or training in HRM)*. This model was tested with quantitative data from 164 tourism's SMEs in Catalonia (Spain). According to their results, the adoption of HRM practices is positively associated with the presence of an HRM department. Also, SMEs in which the person responsible for HRM has previous experience in similar positions are greater adopters of HRM practices. SMEs which cooperate with other organizations are more likely to implement HRM practices (Urbano and Yordanova 2008, p. 167).

3.2 The HRM Activities in SMEs and Relations with the Organizational Performances

The most important HRM activities in contemporary business are HR planning, recruitment, selection, orientation, training and development, performance management, compensation, industrial relations, retirement, etc. For the purpose of this chapter the authors emphasize those activities related to the four main areas of HRM: *staffing, training and development, motivation and retention* (Štangel Šušnjar and Zimanji 2006, p. 19).

As a process of recruitment, selection and orientation, staffing process in SMEs is usually performed in the light of informal techniques. Recruitment techniques used in SMEs were newspaper ads, word of mouth, and walk-ins while for selection techniques were application blanks, reference checks, job try-outs, and face to face interviews. Also, staffing practices are found as convenient, inexpensive and directly controllable by the firm (Barrett and Mayson 2007). Smaller organizations prefer referrals, which are recommended job applicants and/or applicants familiar to the owner/manager of the enterprise. Recommendation is one of the most prevalent forms of recruitment in small organizations. The use of more formal sources and methods of recruitment, such as agencies for employment mediation or advertising of job vacancies, increases with enterprise growth which is relatively understandable, because with business growth informal sources of potential employees (friends, relatives and acquaintances) are exhausted and cannot adequately respond to the development needs of the enterprise (Zolak-Poljašević and Petković 2013, p. 307). According to mentioned authors, it is desirable to use a combination of several selection techniques, such as standardized checking of biographical information, interviewing the candidates, and testing knowledge and skills which candidates claim to have. Regarding training practice, formal training is less likely to be provided in SMEs. It was found that recruitment processes in Barbados' small businesses are likely to rely on informal recruitment methods and informal training practices compared with large businesses (Greenidge et al. 2012). Usually the reason for informal practice of training is explained in terms that the small firm employer has not estimated the benefit of training or that costs of training are high (Storey 2004). In the research of Barrett and Mayson (2007) there was found that 45 % of the explored SMEs used off-site training or work-related education as informal training practices, while Panagiotakopoulos (2011) emphasized training seminars (private or state-funded) as a way for knowledge development in SMEs. On-the-job training was found to be a predominant method (Kotey and Slade 2005).

In relation to the compensation process, small firms' ability to attract, motivate and retain employees by offering competitive salaries and appropriate rewards is linked to firm performance and growth (Barrett and Mayson 2007). Since SMEs often cannot compete with large organizations in terms of compensation that they can offer to their employees, small and medium-sized enterprises should focus on the creation of a pleasant working environment and on the increase of employees'

satisfaction with their tasks and roles in the organization. In addition, smaller organizations have a wide variety of intangible motivation strategies such as job enrichment, participative management style, employee participation in the decision-making process, flexible working time, recognition of achievements, and other forms of raising motivation and building loyalty of employees (Zolak-Poljašević and Petković 2013, p. 309).

Based on the aforementioned, authors decided to explore literature source of HRM and organizational performances in these organizations. Namely, the main role of HRM in organizations is to improve employee's productivity and performances, and those improved performances contribute positively to the overall organization's performances.

Regarding SHRM and its role in SMEs, author Slavić and Berber (2013) showed that in the majority of Serbian small and medium-sized companies HR function is integrated into the strategy formulation process. The integrative linkage has a positive effect on the companies' success as it raises its profitability. The results of Mann-Whitney's nonparametric test used on the sample of 30 SMEs showed that there is a statistically significant relationship between the presence of the person responsible for HR function at the strategy formulation process and the profitability of the company. Namely, in case of the level of productivity, there were no significant relationships while differences between companies' profitability are significant. The obtained data proved the authors' hypothesis—there is a significant relationship between the role of HR in strategy formulation and the companies' success expressed by profitability.

Galang and Osman (2013) showed that the adoption of strategic HRM by SMEs in both Malaysia and the Philippines is predicted from the positive effect of legal and regulatory requirements, the importance of business environment challenges, and the strategic role of the HR professional. In both countries SMEs with strategic human resource management have better organizational performance in terms of human resource outcomes, operational outcomes, and financial outcomes. One similar research project was performed in Nigeria in 2013. The population of 128 workers of selected paint manufacturing firms in Anambra State was explored with the general objective to investigate the place of Strategic Human Resource Management in improving corporate performance among SMEs in the Anambra State Nigeria. The results obtained from the analysis showed that there is a strong positive correlation between strategic HRM and performance level of competition in SMEs. The major finding of the research work is that SHRM is an important and indispensable tool for any organizations' performance and for any organization that wants to gain competitive advantage (Muogbo 2013).

Zheng et al. (2006) explored the performance effects of HRM practices in 74 Chinese SMEs. Four high performance HRM practices were identified: performance-based pay, participatory decision-making, free market selection, and performance evaluation. Regression analysis results supported the conventional idea that the adoption of HRM practices generates better HRM outcomes and, in turn, better HRM outcomes contribute positively to firm performance. Among the Chinese SMEs investigated, a high level of employee commitment was identified as

being the key HRM outcome for enhancing performance. Hayton (2003) found in a study of 99 SMEs that HRM practices that promote employee discretionary behavior, knowledge sharing, and organizational learning are positively associated with entrepreneurial performance. One more interesting article examined the human resource management practices in small and medium-sized enterprises in the UK, on the basis of 336 SMEs, utilizing the Dun & Bradstreet database. Significant simultaneous and longitudinal relationships between HRM practices and specific performance indicators were found. Controlling for past performance and thus, testing for the potential for reverse causality, does not eliminate the significant relationship between human resource practices and performance. The use of human resource practices is found to positively enhance sustained competitive advantage (Sheehan 2013).

All mentioned research in the past year speak in favor of the adoption of SHRM in SMEs especially when the performances are in question, rather than informal HRM activities. These literature sources directed authors' attention to the research of the role of HRM in SMEs in specific region of Central and Eastern Europe.

4 Theme in Practice

4.1 Methodology and Hypotheses

The research was performed on the basis of the CRANET database and obtained in the research period between 2008 and 2010. The Cranfield Network of International Human Resources Management (Cranet) was established in 1989, and is now a collaboration of more than 40 universities and business schools, representing countries from all over the world. This international organization organizes comparative researches on the policies and practices of human resource management, using a standardized questionnaire, every 4 years (Steinmetz et al. 2011; Brewster et al. 2011).

In this chapter the authors analyze the data of the latest Cranet survey round (2008–2010), when the European sample was created by the respondent companies from 20 EU countries and 5 other European (Norway, Iceland, Russia, Serbia and Switzerland) countries. The total number of organizations that participated in the research was 6415 in 32 countries, while in this study authors used only data for SMEs, for four countries, Slovenia, Serbia, Hungary and Bulgaria, with total of 443 SMEs (Table 1).

For the purpose of this study authors used several statistical methods: *descriptive statistics*, *ANOVA test* and *T-test*. These tests were implemented for obtaining results related to the HRM activities in SMEs (staffing, compensation, training, career development, performance management). Also, in relation to the research, organizational performances were used as dependent variables while the existence of the HR department, HR strategy and business strategy, and several HRM

Table 1 Sample of the countries with the percentage of SMEs participated in the research

Country	Frequency	Percent	Valid percent	Cumulative percent
Bulgaria	195	44.0	44.0	44.0
Hungary	86	19.4	19.4	63.4
Slovenia	131	29.6	29.6	93.0
Serbia	31	7.0	7.0	100.0
Total	443	100.0	100.0	

Source: Authors’ research

activities were used as independent variables. Most of the variables related to the HRM activities were dummy variables (1 = yes; 0 = no) while variables related to the organizational performances (profitability, productivity, rate of innovation and service quality) were ordinal (from 1 to 5).

Based on the previous mentioned subject and goal of the research, as well as the mentioned literature sources, the authors defined hypotheses:

- *H1: There are statistical significant differences regarding organizational performances of SMEs between SMEs that have formal HRM and those that do not have it.*
- *H2: SMEs from the CEE region use informal HR activities more than formal ones regarding staffing, training and development, compensation, and performance management.*

5 Outcomes

5.1 The Nature of the HRM in SMEs in the CEE Region

The first important result was obtained through the usage of the descriptive technique. Authors explored the existence of the HR department, HR and business strategy and the role of HR manager in most important HRM activities.

From Table 2 it is obvious that in the observed sample of SMEs more organizations do not have an HR department (58.7 %). The smallest percentage was found in Bulgaria (35 % of organizations), while Slovenian SMEs in 52.3 % of organizations have an HR department, which is usually unfamiliar for this kind of organizations.

From Table 3 it can be concluded that the executive manager (almost 68 % of organizations) has the main role in HR issues if there is no HR department in SMEs in the CEE region. The second person is the general manager, in 11.9 % of organizations. These results are expected, since in SMEs there is a narrower range of management, and usually, the general manager manages the entire firm.

From Table 4 it is obvious that in the observed sample of SMEs more organizations have HR strategy in written form (31.2 %) and in unwritten form (38.3 %),

Table 2 The existence of the HR department in SMEs (%)

Country	Do you have an HR department?		Total
	No	Yes	
Bulgaria	65.1	34.9	100.0
Hungary	61.6	38.4	100.0
Slovenia	47.7	52.3	100.0
Serbia	56.7	43.3	100.0
Total	58.7	41.3	100.0

Source: Authors' research

Table 3 Responsibilities for HRM if there is no HR department (%)

Countries	Chief executive/ managing director	Administrative director	Finance director	Production director	Marketing/ sales director	General manager
Bulgaria	73.5	6.2	1.8	1.8	2.7	14.2
Hungary	81.1	1.9		1.9		15.1
Slovenia	47.5	9.8	1.6	4.9		
Serbia	62.5	6.3				31.3
Total	67.9	6.2	1.2	2.5	1.2	11.9

Source: Authors' research

Table 4 The existence of HR strategy in SMEs (%)

Country	Does your organization have a personnel/HR strategy?			Total
	No	Yes, unwritten	Yes written	
Bulgaria	38.2	34.1	27.6	100.0
Hungary	36.1	36.1	27.7	100.0
Slovenia	16.9	44.6	38.5	100.0
Serbia	20.7	41.4	37.9	100.0
Total	29.9	38.3	31.8	100.0

Source: Authors' research

which means that 70 % of organizations from the sample have HR strategy. Approximately 30 % of respondents do not have HR strategy. These unwritten forms of HR strategy may refer to the improving role of HRM function and predict future domination of companies with a detailed written HR strategy (Slavić and Berber 2013). Again, Slovenia has the largest percentage of SMEs which have written and unwritten HR strategies (about 79 % of organizations). Having in mind previous tables, it can be concluded that SMEs in Slovenia, the most developed country regarding sample, definitively reached the highest level of HRM development.

In Table 5, the authors presented issues related to the presence of HR manager in top management of SMEs. In 56 % of SMEs in CEE region person with HR responsibilities has its place in top management of the organization. This

Table 5 The presence of the HR manager or person who is responsible for HRM in top management of the organization (%)

Country	Does the person with responsibility for HR issues have a seat on the Board or equivalent?		Total
	No	Yes	
Bulgaria	69.9	30.1	100.0
Hungary	13.2	86.8	100.0
Slovenia	23.8	76.2	100.0
Serbia	33.3	66.7	100.0
Total	44.0	56.0	100.0

Source: Authors' research

Table 6 The primary responsibility for major policy decision making on compensation (%)

Country	Who has primary responsibility for major policy decisions on pay and benefits?				Total
	Line management	Line management in consultation with HR	HR in consultation with line management	HR	
Bulgaria	80.7	15.5	3.7		100.0
Hungary	78.6	13.1	8.3		100.0
Slovenia	53.6	24.8	16.0	5.6	100.0
Serbia	77.4	19.4		3.2	100.0
Total	72.1	18.0	8.0	1.9	100.0

Source: Authors' research

Table 7 The primary responsibility for major policy decision making on staffing (%)

Country	Who has primary responsibility for major policy decisions on recruitment and selection?				Total
	Line management	Line management in consultation with HR	HR in consultation with line management	HR	
Bulgaria	63.8	26.5	8.1	1.6	100.0
Hungary	65.1	20.5	10.8	3.6	100.0
Slovenia	29.7	35.2	26.6	8.6	100.0
Serbia	61.3	19.4	16.1	3.2	100.0
Total	53.6	27.4	14.8	4.2	100.0

Source: Authors' research

percentage of SMEs is the largest in Hungary, followed by Slovenia and then Serbia. Only Bulgarian SMEs showed that only 30 % have HR manager who is present in the top management of the organization.

Tables 6, 7 and 8 presented responses of organizations related to the question of primary responsibility regarding decision making in compensation, staffing, training, and development. It is obvious that out of four countries usually the line manager is responsible for these activities. This is somewhat expected since in

Table 8 The primary responsibility for major policy decision making on training and development (%)

Countries	Who has primary responsibility for major policy decisions on training and development?				Total
	Line management	Line management in consultation with HR	HR in consultation with line management	HR	
Bulgaria	62.7	24.9	10.2	2.3	100.0
Hungary	61.9	15.5	21.4	1.2	100.0
Slovenia	25.0	39.1	28.1	7.8	100.0
Serbia	58.1	22.6	12.9	6.5	100.0
Total	50.7	27.1	18.1	4.0	100.0

Source: Authors' research

Tables 2 and 3 organizations emphasized that a majority of them do not have an HR department and that the chief executive is responsible for HRM. Also, it is interesting to see once more that Slovenia has more SMEs where HR manager cooperate with line manager during decision making process regarding HR activities. In case of staffing, in Slovenia there were 29.7 % of SMEs where the line manager is making decisions, while in almost 60 % these decisions are made in consultation between HR and line manager. In 8.6 % of SMEs HR department is making decisions about staffing alone. This trend is similar for training activities in SMEs in Slovenia, while in the case of compensation, all countries pointed to the line manager as decision maker. This can be explained with the problem of scarce financial resources and the need of very careful cost management, since employees' compensation can come up to 60 % of total operational costs in companies (Štangl Šušnjar and Leković 2009).

5.2 HRM Activities in SMEs in the CEE Region

After the first part of the analysis, dedicated to the formalization of HRM in SMEs, the authors explored the HRM activities in SMEs:

- Staffing (Recruitment and Selection);
- Performance management;
- Training;
- Compensation;

From Table 9 it can be seen that SMEs from the CEE region mostly use *advertising* as the recruitment method (77.8 % of organizations use this technique when recruiting professional workers), *internal recruitment* (66.3 %) and *word of mouth* (60.7 %). There were present differences between countries. For example, while in Bulgaria word of mouth is used only in 44.3 % of companies, in Serbia this recruitment method is used in 87 % of organizations (it is also the most used

Table 9 The usage of recruitment techniques in SMEs, for recruiting professional workers (%)

C	Internal recruitment	Recruitment agencies	Advertising	Word of mouth	Company website	Commercial jobs site	Educational institutions	Speculative applications	Jobs centers
Bul	61.4	29.1	78.0	44.3	23.1	33.6	15.8	30.4	48.5
Hun	57.6	35.9	68.6	56.9	53.7	33.3	39.4	50.0	40.0
Slo	78.7	24.0	83.6	77.9	55.3	58.5	41.7	59.6	59.8
Ser	62.5	35.3	76.0	87.0	35.0	41.2	50.0	47.1	69.6
Total	66.3	29.2	77.8	60.7	41.2	42.3	31.7	45.2	52.0

Source: Authors' research

technique in Serbian SMEs). As it is said in the introduction and theoretical part of the chapter, SMEs usually use some informal recruitment methods, and in this case, advertising, internal recruitment and word of mouth are also informal methods. The formal recruitment method is the usage of recruitment agencies, and SMEs stated that only 29 % of them (in total sample) use them for recruitment.

Table 10 presents the mostly-used selection techniques in SMEs. It is obvious again that the informal techniques are used in advance. One to one interviews (89.2 % of organizations), references (71.8 %), and application forms (54.7 %) are used most in this sample. Some more formal techniques (which imply knowledge and skills for usage) like different types of tests (ability, technical, psychometric) or graphology are used at a very low level, or not at all in Serbian SMEs. Again, between countries there is a large diversity—but generally all countries show a low level of the usage of the more complex techniques.

From Table 11 it is interesting to see that about half of all organizations from the sample have a formal system of appraisal. This is very important since the appraisal of performances is one of the most important HRM activities. Only Bulgarian SMEs showed a lower level of formal appraisal systems. In the case of techniques for formal appraisal, it is obvious from Table 11 that the most used formal appraisal is done by an immediate supervisor (90 % of all organizations) and the supervisor's supervisor (61.7 %). Peers and subordinates are scarcely used.

Regarding training activities, from Table 12, SMEs showed that around 4.5 % of total payroll costs are spent on training and that there is an average of 8.24 days spent annually for training of professional worker. Serbia has the lowest percentage of annual payroll costs spent on training, which stands at 2.5 %. On the other hand, while spending less money on training, Serbian SMEs offer more days for training in contrast to other countries. This can be explained by the fact that usually SMEs use some informal, on-the-job training methods, so they do not need to spend lot of money on it.

From Fig. 1 it is clear that Slovenia has a higher average regarding the usage of career development methods (grades from 0 = not used at all to 4 = used to a very great extent). The most used is project team-work (1.52), followed by special projects (1.38) and then mentoring (1.17). As in other activities, there is diversity between countries. Bulgarian SMEs use all mentioned techniques in figure at very low level, while Hungarian and Serbian SMEs have somewhat similar results in this area of HRM in SMEs (Table 13).

In the case of compensation system, SMEs in the CEE region follow trends of the total CRANET sample from the research period 2008/2010. Performance-based pay is mostly used in almost all countries, 58.9 %. Besides performance-related pay, bonuses based on individual goals are used in 52.9 % of organizations, and those bonuses are used more than team bonuses, which stand at 34.5 %. Flexible benefits are used to some larger extent in Hungary and Slovenia (around 42 %), while in Bulgaria and Serbia those benefits are used less. Financial participation (stock options, profit sharing, and share schemes) is used at a very low level while only profit sharing is used in more than 10 % of SMEs.

Table 10 The usage of selection techniques in SMEs, for selection of professional workers (%)

C	Interview panel	One to one interviews	Application forms	Psychometric tests	Assessment centers	Graphology	References	Ability tests	Technical tests
Bul	12.3	95.1	54.9	3.7	3.8	0.9	59.4	30.3	23.1
Hun	22.1	76.7	44.2	9.3	9.3	1.2	60.5	22.1	17.4
Slo	60.9	89.4	57.0	17.3	3.0	3.0	90.7	18.4	9.7
Ser	29.4	91.7	85.0	38.9	0.0	0.0	88.0	47.1	41.2
Total	32.1	89.2	54.7	11.7	4.8	1.6	71.8	25.3	18.3

Source: Authors' research

Table 11 The existence of formal appraisal system in SMEs and techniques for performance appraisal for professional workers (%)

Country	Formal appraisal system	Immediate supervisor	Supervisors supervisor	Employee	Subordinates	Peers	Customers
Bulgaria	37.5	98.2	67.5	34.4	14.3	28.1	21.4
Hungary	50.0	90.2	47.2	36.8	8.1	13.5	26.3
Slovenia	67.3	86.0	66.0	24.4	7.1	17.1	20.5
Serbia	62.5	66.7	71.4	33.3	–	33.3	42.9
Total	50.7	90.1	61.7	31.4	8.8	19.8	23.9

Source: Authors' research

Table 12 Percentage of annual payroll costs spent on training in SMEs and average days per year training for professionals (%)

Country	Annual payroll costs for training		Days per training for professional yearly	
	Mean	Std. deviation	Mean	Std. deviation
Bulgaria	4.70	10.253	9.37	18.612
Hungary	5.42	6.879	7.15	9.462
Slovenia	3.90	3.675	7.00	11.254
Serbia	2.54	4.998	11.50	11.594
Total	4.46	7.589	8.24	14.107

Source: Authors' research

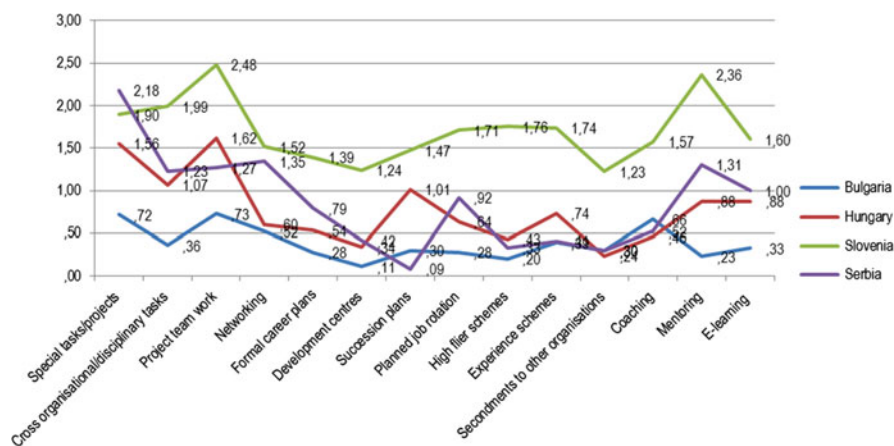


Fig. 1 The level of the usage of methods for career development in SMEs (average). Source: Authors' research

Table 13 The usage of variable pay in SMEs (%)

Country	Employee share schemes	Profit sharing	Stock options	Flexible benefits	Performance related pay	Bonus based on individual goals	Bonus based on team goals
Bulgaria	3.5	11.7	4.9	18.5	53.8	44.2	34.7
Hungary	9.3	16.3	2.3	44.2	40.7	43.0	25.6
Slovenia	10.0	15.1	3.8	42.6	76.3	72.5	43.1
Serbia	5.0	5.0	5.0	10.0	70.4	45.0	25.0
Total	7.0	13.4	4.0	31.4	58.9	52.9	34.5

Source: Authors' research

5.3 HRM and Organizational Performances in SMEs in the CEE Region

In this part of the chapter authors performed the t-test and ANOVA test. The authors explored differences in performances between SMEs that have an HR department, an HR strategy and the presence of an HR manager in the top management of the company.

Tables 14 and 15 show that there is a significant difference between SMEs that have an HR department for the *rating of profitability* ($M = 3.36$, $SD = 0.905$) and those SMEs that do not have an HR department ($M = 3.02$, $SD = 0.874$), $t(364) = 3.543$, ($p < (0.00)$ two-tailed). SMEs with an HR department have a higher rating of profitability. Also, there was a significant difference between SMEs that have an HR department for the *rating of rate of innovation* ($M = 3.28$, $SD = 0.995$) and those SMEs which do not have an HR department ($M = 3.00$, $SD = 1.029$), $t(363) = 2.546$, ($p < (0.011)$ two-tailed). Those SMEs with an HR department have a higher innovation rating. In the case of service quality and productivity there were no statistically significant differences.

From Tables 16 and 17, it can be concluded that only in case of innovation there is a statistically significant difference between those SMEs which have a written HR strategy, an unwritten strategy, and those SMEs that do not possess an HR strategy at all. Statistically significant differences can be seen in case of *rating of rate of innovation* ($F(2,352) = 3.588$, $p < 0.029$). The application of Turkey's post hoc test showed that SMEs which possess unwritten HR strategy ($M = 3.24$, $SD = 0.967$) and written strategy ($M = 3.21$, $SD = 1.065$) have a higher rating of rate of innovation than SMEs that do not have an HR strategy ($M = 2.90$, $SD = 0.974$).

Tables 18 and 19 reveal that there is a significant difference between SMEs where HR managers are present on the board in case of *rating of productivity*

Table 14 Group statistics for the exploration of the existence of HR department and performances of SMEs

Group statistics				
	Do you have an HR department?	Mean	Std. deviation	Std. error mean
Rating of service quality	No	3.85	0.665	0.043
	Yes	3.92	0.724	0.057
Rating of level of productivity	No	3.51	0.697	0.047
	Yes	3.53	0.848	0.070
Rating of profitability	No	3.02	0.874	0.059
	Yes	3.36	0.905	0.075
Rating of rate of innovation	No	3.00	1.029	0.070
	Yes	3.28	0.995	0.082

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

Table 15 Independent t-test for the exploration of the existence of HR department and performances of SMEs

		Levene's test for equality of variances		t-test for equality of means		
		F	Sig.	t	df	Sig. (2-tailed)
Rating of service quality	Equal variances assumed	0.007	0.936	-0.970	401	0.333
	Equal variances not assumed			-0.954	322,511	0.341
Rating of level of productivity	Equal variances assumed	4.484	0.035	-0.255	367	0.799
	Equal variances not assumed			-0.245	267,235	0.806
Rating of profitability	Equal variances assumed	5.586	0.019	-3.569	364	0.000
	Equal variances not assumed			-3.543	297,778	0.000
Rating of rate of innovation	Equal variances assumed	0.607	0.436	-2.546	363	0.011
	Equal variances not assumed			-2.563	318,093	0.011

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

Table 16 Descriptive statistics for ANOVA test

	Do you have HR strategy	N	Mean	Std. deviation	Std. error
Rating of service quality	No	107	3.77	0.653	0.063
	Yes, unwritten	152	3.92	0.724	0.059
	Yes written	125	3.95	0.670	0.060
	Total	384	3.89	0.690	0.035
Rating of level of productivity	No	96	3.38	0.684	0.070
	Yes, unwritten	140	3.58	0.778	0.066
	Yes written	117	3.56	0.770	0.071
	Total	353	3.52	0.754	0.040
Rating of profitability	No	94	3.01	0.836	0.086
	Yes, unwritten	140	3.24	0.910	0.077
	Yes written	118	3.21	0.914	0.084
	Total	352	3.17	0.895	0.048
Rating of rate of innovation	No	94	2.90	0.974	0.100
	Yes, unwritten	142	3.24	0.967	0.081
	Yes written	119	3.21	1.065	0.098
	Total	355	3.14	1.010	0.054

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

Table 17 ANOVA test for the exploration of differences in performances of SMEs regarding HR strategy

		Sum of squares	df	Mean square	F	Sig.
Rating of service quality	Between groups	2.261	2	1.131	2.394	0.093
	Within groups	179.924	381	0.472		
	Total	182.185	383			
Rating of level of productivity	Between groups	2.725	2	1.363	2.416	0.091
	Within groups	197.405	350	0.564		
	Total	200.130	352			
Rating of profitability	Between groups	3.197	2	1.598	2.007	0.136
	Within groups	277.914	349	0.796		
	Total	281.111	351			
Rating of rate of innovation	Between groups	7.212	2	3.606	3.588	0.029
	Within groups	353.745	352	1.005		
	Total	360.958	354			

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

Table 18 Group statistics for the exploration of the presence of HR manager in top management and performances of SMEs

	Does the person with responsibility for HR issues have a seat on the Board or equivalent?	Mean	Std. deviation	Std. error mean
Rating of service quality	No	3.81	0.742	0.060
	Yes	3.93	0.650	0.046
Rating of level of productivity	No	3.44	0.719	0.062
	Yes	3.61	0.749	0.054
Rating of profitability	No	3.05	0.828	0.071
	Yes	3.22	0.942	0.068
Rating of rate of innovation	No	3.08	1.047	0.089
	Yes	3.13	1.007	0.073

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

($M = 3.61$, $SD = 0.749$) and those SMEs where HR managers are not on the board ($M = 3.44$, $SD = 0.719$), $t(327) = 2.074$, ($p < (0.039)$ two-tailed). SMEs with HR managers in their top management have a higher rate of productivity.

Table 19 Independent t-test for the exploration of the presence of HR manager in top management and performances of SMEs

		Levene's test for equality of variances		t-test for equality of means		
		F	Sig.	t	df	Sig. (2-tailed)
Rating of service quality	Equal variances assumed	7.318	0.007	-1.644	356	0.101
	Equal variances not assumed			-1.614	304,823	0.108
Rating of level of productivity	Equal variances assumed	0.477	0.490	-2.074	327	0.039
	Equal variances not assumed			-2.089	295,750	0.038
Rating of profitability	Equal variances assumed	9.240	0.003	-1.695	323	0.091
	Equal variances not assumed			-1.730	310,178	0.085
Rating of rate of innovation	Equal variances assumed	0.022	0.881	-0.453	326	0.651
	Equal variances not assumed			-0.450	288,588	0.653

Source: Authors' research

Bold values in Table are statistically significant at $p < 0.05$

6 Chapter Summary

In contemporary economy entrepreneurship studies, SMEs are recognized as a driving force, especially in countries with lower levels of development (Ateljević 2013). On the other hand, HRM is seen as a function for creating a sustained competitive advantage. Having these thoughts in mind, authors of this chapter have explored several common ideas about the role of the HRM in the SMEs.

The research conducted allowed the authors to obtain information about the formal existence of HRM in SMEs. In most of the SMEs explored in the CEE region, authors found that there was no HR department. Also, more SMEs have some kind of HR strategy, written or unwritten, which can be described as a wish of SMEs to perform some more detail HRM practices in their own organizations. Also, in the case that SMEs do not have an HR department, the person who is engaged in HR issues is usually the chief executive manager. Besides these findings, the authors explored the presence of an HR manager in the managing board. More SMEs have an HR manager present in their top management board. In regards to responsibilities about staffing, the line-manager makes decisions about training and compensation, not by the HR manager.

As a special part of the research the authors explored HRM activities in SMEs based on the obtained sample. The authors found that SMEs mostly use informal

HR activities in all activities including recruitment, selection, performance management, training and development and compensation.

The first and second part of the analysis was performed in order to test the first hypothesis (H2). SMEs in the CEE region use informal rather than formal activities for staffing, training, performance management and compensation. Furthermore, it is important to emphasize the differences between four countries, Serbia, Slovenia, Hungary and Bulgaria. Slovenian SMEs showed a higher level of HRM development since those organizations have more companies with HR departments. Moreover, the HR manager mostly cooperates with line manager in the decision-making process, and uses some formal methods in the HRM. This is explained by the fact that Slovenia reached the level of development of some other EU countries, and successfully surpassed the transition period. Bulgarian, Serbian and Hungarian SMEs showed somewhat similar, but also diverging HRM development. For example, Hungarian SMEs also practice informal HR activities, but in the case of compensation those organizations use flexible benefits, which are recommended by the theory for SMEs since they usually cannot offer high financial rewards. A country like Serbia, which is in the process of accession to the EU, should monitor and follow good practice and experience of more developed countries regarding SMEs development.

The third part of the analysis was dedicated to the exploration of the differences between SMEs regarding their organizational performance and existence of HRM (H1). After the t-test and ANOVA test the authors found that there were statistically significant differences in terms of organizational performance. Furthermore, SMEs which possess an HR department have a higher level of profitability and innovation, while SMEs with an HR strategy tend to have a higher level of innovation. The presence of an HR manager in the top management board was statistically significant in the case of productivity. Generally, SMEs which possess an HR department, HR strategy and HR manager who is present on the board rated their performance at a higher level.

Based on the research in this chapter, the authors have proposed directions for further research initiatives. Namely, in this chapter there has only been analysis of the differences between groups, whereas deeper statistical analysis related to the measurement of the influence of formal HRM activities on organizational performances was not conducted. The next stage of this research should be a development of a regression model that would measure the influence of mentioned HR variables based on organizational performance (profitability, innovation, productivity and service quality). Furthermore, it would also be interesting to compare results from this stage of development of HRM in SMEs in the CEE region with the new data that will be gathered in new round of Cranet research (in autumn of 2014). This will enable a comparative analysis of HRM practices for two time periods, resulting in a trend analysis of the development of HRM in the CEE SMEs.

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