

## Strategic Human Resource Management at Small and Medium- Sized Enterprises in Serbia

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*Abstract: The modern human resource management (HRM) literature and the actual management practice both emphasize the strategic approach to company's most important assets, its human resources. The human resource management activities are nowadays linked to company's mission, vision and strategy, and its success is measured through numerous organizational measures. Many authors agree that there is a significant difference in the HRM practice of small and medium sized organizations and those large ones. As management practice depend on context, it is important to understand the internal and external challenges of companies in different countries and to adopt the adequate techniques in achieving the HRM's double aim: the companies' success and the employees' satisfaction.*

*The aim of this work is to present the strategy formulation process, the role of HR in it, to determine the type of linkage between HR and strategic management function and its influence on the success of small and medium-sized Serbian companies in light of the Cranet1 2008/10 survey data. The paper will present the existence of the organizations' mission statement, business strategy and HR strategy, as well as the existence of HR department and the presence of HR manager at the Board of Directors and its involvement in the formulation of the organization's business strategy. We will present the interviewees' ranking of their productivity and profitability and the correlation between the role of HR in strategy formulation and the productivity and profitability. For data analysis, descriptive statistical methods and nonparametric test will be used and the data will be presented graphically.*

*Key words: strategic human resource management, SME, Serbia, Cranet*

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<sup>1</sup>The Cranfield Network on International Human Resource Management (Cranet) is collaboration between over 40 universities and business schools which carries out a regular international comparative survey of organizational policies and practices in comparative human resource management across the world.

## 1 Teoretical background

In the 21<sup>st</sup> century when the companies' success mainly depends on the competences and innovativeness of their employees, training and development, as one of the key HRM functions becomes more and more important.

Hendry and Pettigrew (1990) as well as Karami, Jones and Kakabadse (2008) state that the strategic aspect of human resource management refers to matching HR policies and activities to some explicit business strategies. According to Armstrong (2007) human resource management is a strategic and coherent approach to the management of an organization' most values assets – the people working there, who individually contribute to the achievement of its objectives. Strategic human resource management is an approach that defines how the organization's goals will be achieved through people by means of HR strategies and integrated HR policies and practices. Armstrong (2008) highlights that strategic HRM is based on three propositions:

- The human resources of an organization play a strategic role in its success and are a major source of competitive advantage.
- HR strategies should be integrated with business plans (vertical integration).
- Individual HR strategies should cohere by being linked to each other to provide mutual support (horizontal integration).

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.

Rasmussen et al (2010) emphasize that HRM's vertical alignment with organizational strategy may support effective organizational change, but may also increase the professional standing of HRM practitioners, a development captured in the idea of HRM being a 'business partner' (Ulrich, 1997). The devolution of HRM functions to line managers has been advocated as a way of making people management strategic, allowing HR managers time to focus on more strategic issues and fostering greater business relevance for HRM through the engagement with line managers (Ryan, 1998). Ross (2006) adds that the growth of interest in strategic human resource management (SHRM) has been linked to increased competition, globalization, changing markets, new technologies, and the notion that a firm's performance is linked to its organization. Teo et al's (2008) research results support the centrality of the HR department in assisting a firm gain competitive advantage. Generally, both the status and influence of the HR department are critical in linking the people management function and the strategic management process (Ulrich, 1997).

Noe et al (1997) defined four types of linkage between strategic management and HR function:

- Administrative linkage – the HR function is focused on day-to day activities, the strategic business planning exists without any input from the HR department.
- One-way linkage – the firms’ strategic business planning function develops the strategic plan and then informs the HR function from the plan. The role of HR function is to design HR programs that implement the strategic plan.
- Two-way linkage – the formulation of business strategy occurs in three sequential steps. First, the strategic planning team informs the HR department of the various strategies, the company is considering. Then, the HR executive analyzes the human resource implications of various strategies and presents the results to the strategic planning team. Finally, after the strategic decision has been made, the strategic plan is passed on to the HR executive, who develops HR programs to implement it.
- Integrative linkage – it is a dynamic and multifaceted linkage based on continual rather than sequential interaction. In most cases, the HR executive is an integral member of the strategic planning team, giving input in the whole process. HR function is built right into the strategy formulation and implementation processes.

Often the researchers’ understanding of the strategic human resource management activities adopted by smaller firms remains incomplete, partial and biased. Smaller firms are perceived as a deviant case, purposefully judged as a recipient of, rather than a valid contributor to, HRM’s universalistic project. Karami et al (2008) elaborate that even the basic strategic HRM process can be similar for both large and small firms, there are several important differences between them. These differences are based on the small business manager’s personal goals and values. They are also related to the objectives they seek, the way they perform, and the people who participate in the business. Roca- Puig et al (2012) draw attention to the fact that a growing number of researchers argue that because small firms are not simply “scaled-down” versions of large firms, human resource practices that are effective in large firms may not automatically work in small firms. They argue that although investment in progressive human resource practices generates substantial benefits, it also involves costs, which are particularly significant in small firms. Cunningham and Harney (2012) note that features that shape and impact on strategy in smaller firms include the liability of smallness and newness, the informality, the concentrated ownership and control, and the environmental uncertainty. In terms of strategic management, the tension is focused on the deliberate and emergent nature of the strategy. Given the size and limited managerial capabilities, small firms sometimes cannot see the utility of strategic management techniques. The domain question of the corporate strategy and the market questions of business strategy are usually conflated into one. The research results of Karami et al (2008) show that human resources are more involved in strategy activities in high performance SMEs rather than low performance SMEs. Those small and medium-sized firms which routinely involve HR in strategic

management, and which therefore have governance structures which facilitate this, enjoy higher levels of performance than those whose governance structures fail to recognize the competitive advantage that SHRM can confer.

According to Mayrhofer, Sparrow and Brewster (2012) HRM practices always depend on the context. Considering the various elements of external context (national cultures, institutional environment, economic factors, social characteristics, education and political systems) and internal context (company' size, structure, demography and strategy) Europe offers a mix of heterogeneity and homogeneity leading to a unique context for organizational decision makers about HRM matters. Based on a longitudinal study conducted in 18 European countries Nikandrou, Apospori and Papalexandris (2005) emphasize that European HRM is characterized by internal variations among clusters of countries and at the same time by external uniformity compared to the rest of the world.

The Republic of Serbia is located at the crossroads of Central and Southeast Europe, covering 88 361 km<sup>2</sup>. According to the results of the Census performed in 2011, Serbia has 7 120 666 inhabitants. While the Serbian economy suffered from isolation during the 1990s, the last ten years of political and macroeconomic stability have rapidly transformed Serbia into the most attractive business environment in Southeast Europe. In 2011 the GDP of Serbia was 45 064 million \$, while the GDP per capita add up to 6080 \$. Last year the inflation was 12,5, while the unemployment rate 22,4%. The presented data undoubtedly show that Serbia is facing serious economic and social problems.

Milikić, Janićijević and Petković (2008) analyzed the position of HRM in Serbia based on interviews with HRM managers and HRM directors in 38 selected Serbian companies. They found that the role of HRM function is very weak, but a growing number of companies are introducing HRM departments. The majority of these recently established HRM departments have limited functions – mostly performing administrative tasks. Based on Serbian Cranet data from 2008 Leković and Šušnjar (2009) claim that the majority of HRM responsibilities (staffing, compensation) are in the line managers' authority, but the main responsibility for these HRM issues is, indeed, in the hands of top managers.

## **2 Research methodology**

This current research is based on the Cranet data obtained in 2008/10. 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 a country from all over the world. In this paper 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 four other European ( Norway, Russia, Serbia and Switzerland) countries.

In 2008/10 research period 50 Serbian companies' HR managers filled in the Cranet questionnaire concerning various aspects of HRM function. The respondents of the Serbian sample were made of companies mainly from manufacturing and service sector in private ownership, with less than 1000 employees.

The aim of this paper is to determine the role of strategic human resource management and the type of linkage between the company's business strategy and its human resource plans based on the answers of 30 small and medium-sized companies took part in the Cranet research.

Our hypothesis is that a strategic role of HR in small and medium sized companies contributes to organizational success expressed by profitability.

The paper will present the following data concerning small and medium sized companies in Serbia:

- About the strategy formulation process: the existence of the organizations' mission statement, the existence of business strategy, HR strategy and HR department.
- About the role of HR in strategic management: the presence of HR manager at the Board of Directors and its involvement in the formulation of the organization's business strategy. Based on the obtained data the authors will determine the type of linkage between the HR function and the strategic management.
- The companies' success expressed by the interviewees' ranking of their productivity and profitability and the influence of the role of HR in the strategic management on the companies' success.

As the sample is made of 30 companies for data analysis, descriptive statistical methods and Mann-Whitney's nonparametric test will be used, and the data will be presented graphically.

### **3 Research results**

#### **3.1 The strategy formulation process**

The first figure presents the data about companies' mission statement.

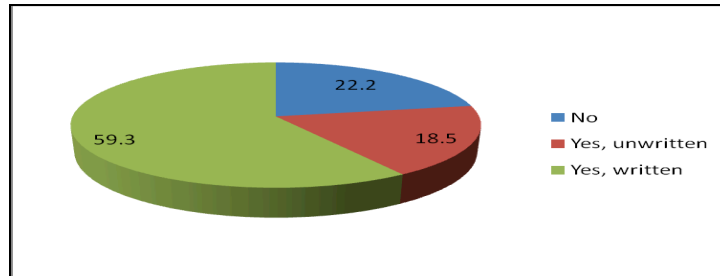


Figure 1  
The existence of mission statement

The majority of Serbian small and medium-sized companies have developed a mission statement, most of them a written one. It proves that the majority of SMEs has understood the importance of strategic approach to its goals.

Figure 2 shows the percentages of companies that have a formulated business strategy.

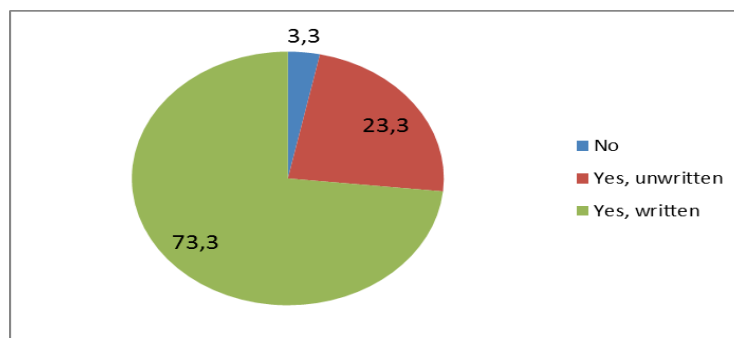


Figure 2  
The existence of business strategy

Almost all of the interviewed small and medium-sized companies have a business strategy. About three-quarters of them written, while 23,3% of them unwritten one. The domination of a detailed, written business strategy indicates a more sophisticated approach to the strategy formulation process.

The figure below shows data about the companies having formulated particular HR strategy.

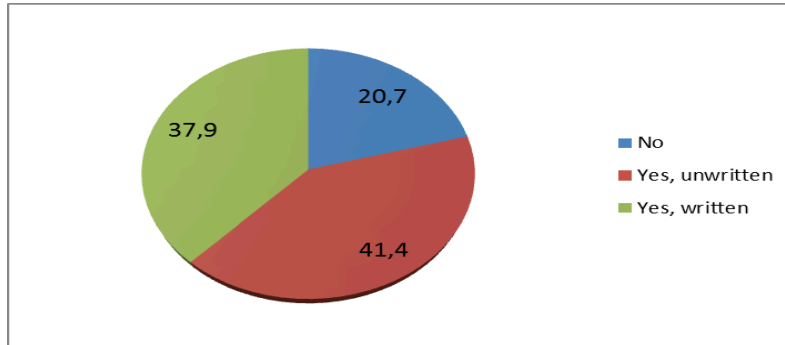


Figure 3  
The existence of HR strategy

The obtained data show that only about 38% of small and medium-sized companies have formulated a written HR strategy, while about 41% of them have an unwritten HR strategy. The fact that about 40% of companies have an unwritten HR strategy may refer to the improving role of HRM function and predict future domination of companies with a detailed written HR strategy.

Figure 4 presents the data about whether small and medium-sized companies have a HR department.

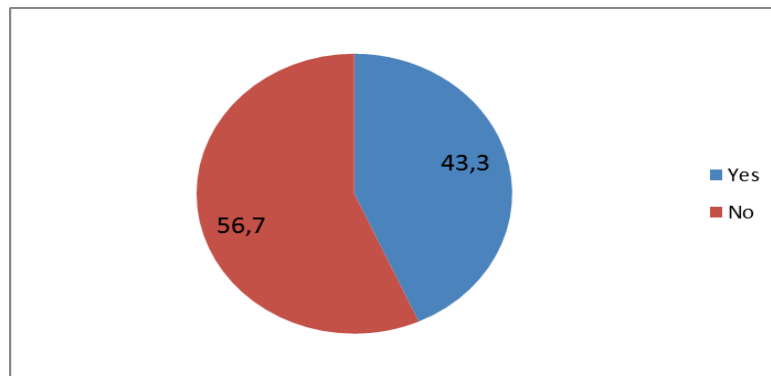


Figure 4  
The existence of an HR department

Only about 43% of small and medium-sized companies have a separate HR department, but it was welcome news that even then the majority of them are aware of the importance of human resources and have a HR strategy.

### 3.2 The role of HR in strategic management

To determine the role of HR in the strategic management in Serbian small and medium-sized companies first we analyzed the presence of the HR manager' on the Board of Directors or similar strategic planning group.

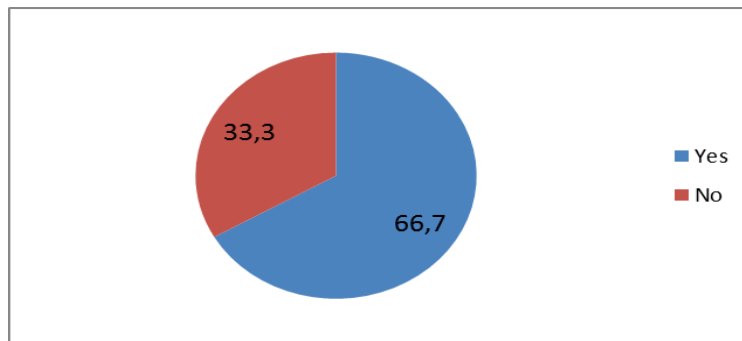


Figure 5

The presence of the HRM manager on the Board of Directors

In two-thirds of small and medium-sized companies in Serbia HR manager or person with responsibility for HR issues have a seat on the Board or equivalent meaning that top management views HR as an important function, having the possibility to influence the companies' success and become the top management' strategic partner in the process of strategy formulation.

Figure 6 shows the HR managers' involvement in the strategy formulation process.

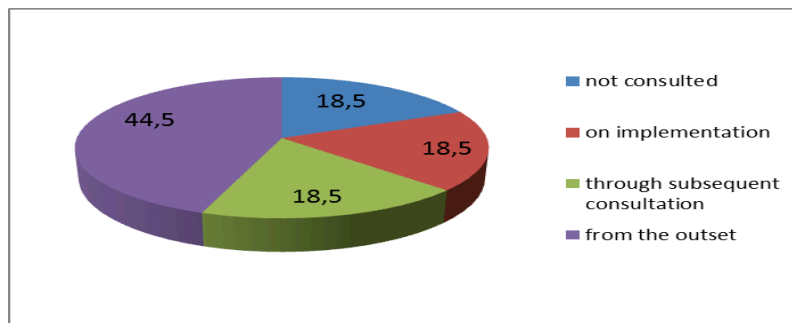


Figure 6

The HR manager's involvement into the strategy formulation

The obtained data show that in a great part of companies (44,5%) HR is involved from the outset to the development of a business strategy.



It indicates that there is an integrated linkage between the strategic planning function and the HRM department, so it is already, or soon will become a strategic partner of the top management. The other three forms of linkage between strategic planning and HRM function are present in the analyzed companies, too, but in a minor part. About 18,5 % of the companies use two-sided, one-sided or administrative linkage, respectively.

### 3.3 The companies' success

To measure the interviewed companies' success the authors asked them to rate their level of productivity and profitability. The person responsible for the HR function had to determine if their productivity and profit was poor, below the average, as average, better the average or superior.

Figure 7 shows the respondents' rating of the level of their productivity.

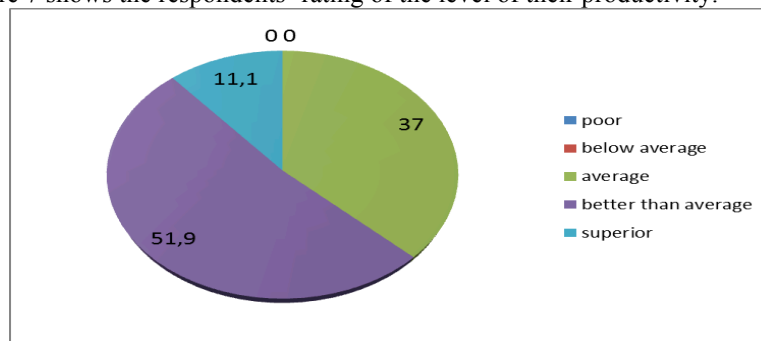


Figure 7  
The ratings of the productivity

The productivity of the majority of the interviewed small and medium-sized companies is better than average or superior. It is positive that there were no companies considering their productivity as poor or below the average.

The next figure shows the respondents' rating of the level of their profitability.

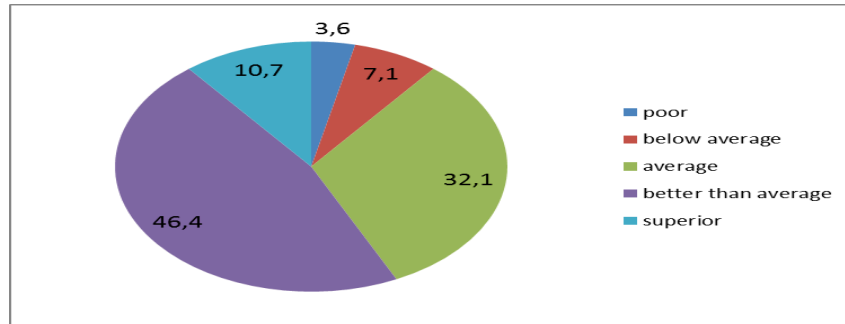


Figure 8  
 The ratings of the profitability

The obtained data show that the majority of companies have better than average or superior profitability, similar to the rating of productivity, but there is a small segment of respondents who consider their profitability as below the average or poor.

For the determination of the influence of the level of integration between HR function - expressed by the fact that if the person responsible for HR function has a seat on the Board of Directors or equivalent - and strategic management function to the companies' success Mann-Whitney's nonparametric test was used. The results are shown in Table 1 and 2.

Ranks				
	Does the person with responsibility for HR issues have a seat on the Board or equivalent?	N	Mean Rank	Sum of Ranks
Rating of level of productivity	No	9	<b>10.11</b>	91.00
	Yes	17	<b>15.29</b>	260.00
	Total	26		
Rating of profitability	No	9	<b>8.00</b>	72.00
	Yes	18	<b>17.00</b>	306.00
	Total	27		

Table 1  
 Results of Mann-Whitney's nonparametric test - Ranks

<b>Test Statistics<sup>b</sup></b>		
	Rating of level of productivity	Rating of profitability
Mann-Whitney U	46.000	27.000
Wilcoxon W	91.000	72.000
Z	-1.836	-2.992
Asymp. Sig. (2-tailed)	<b>.066</b>	<b>.003</b>
Exact Sig. [2*(1-tailed Sig.)]	<b>.107<sup>a</sup></b>	<b>.004<sup>a</sup></b>
a. Not corrected for ties.		
b. Grouping Variable: Does the person with responsibility for HR issues have a seat on the Board or equivalent?		

Table 2

Results of Mann-Whitney's nonparametric test -Test statistics

The results of Mann-Whitney's nonparametric test show 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 (U=46; p=0.066) while differences between companies' profitability are significant (U=27; p=0.03). Companies where HR manager has a seat on the Board of Directors have a greater Mean rank (MR=17.00) than those companies where HR manager is a member of the strategic planning team (MR=8.00).

Based on the conducted research and statistical analysis it can be concluded that in the majority of the interviewed Serbian small and medium-sized companies there is an integrative linkage between HR function and the strategy formulation process, the HR manager is a member of the top management team and is involved into the strategy formulation from the outset.

The obtained data proved the authors' hypothesis, as there is a significant relationship between the role of HR in strategy formulation and the companies' success expressed by profitability.

### **Conclusions and limitations**

Nowadays in developed market economies, human resource management function is gaining strategic approach: the HR function is progressively integrated with the strategic management function and becomes the strategic partner of the top management. In the HR literature, there is a debate about the strategic approach of small and medium-sized companies, which often do not have separate a HR department and the HR function is not so developed as in large companies.

Since Serbia's economy is weak and is facing serious problems, accompanied with the short HRM tradition and mainly autocratic leadership style, human resource management function is underdeveloped compared to the HR practice of EU and other matured economies?

The aim of this paper was to present the research results concerning the strategic role of HR in Serbian small and medium-sized companies.

The obtained results may raise hope in HR practitioners and academics as it shows 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, too, as it raises its profitability.

Before concluding the paper, it is important to point out its limitations: the 30 responding Serbian small and medium-sized companies do not represent the average Serbian small and medium-sized employer. According to the authors' estimation, the majority of Serbian SMEs does not have a real HRM approach, and did not find it important to participate in this research. It must be pointed out that their HR practice may result in the domination of administrative or one-way linkage between HR function and strategy formulation process.

In order to develop successful country-specific HRM practice local HR managers and academics, as well as foreign investors and HRM managers of multinational companies planning to collaborate with Serbian partners are advised to consider the above described characteristics of Serbian small and medium-sized companies and their approach to strategic human resource management.

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