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# Human resources management in small and medium enterprises

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**Abstract:** Development of small and medium enterprises (SME) represents primary goal of every modern economy. It is complex challenge which includes great number of directly concerned parties in every sector of the state and economy. SME stimulate private ownership and entrepreneurship. Their characteristic is that they are flexible and can easily adjust to changes in supply and demand on the market. At the same time they open possibilities for increase of employment, promote diversification of economical activities, support sustainable growth and give significant contribution to export, trade and increase the competitiveness of the entire economy. Importance of SME for economy is undisputable. All research show that globally, more than 90% of all business activities are realized by SME. SMEs employ two thirds of total labor of European Union. Approaching to European Union presumes harmonization of the systematic environment and improvement of the climate of entrepreneurship, private initiative, development of SME. This determination has strongpoint in current world processes that prefer the development of SME, utilizing their profit efficiency and established advantages relating to the adaptability of small business to dynamic changes in economy. Problem of Human resources management is very sensitive issue in SMEs. Namely, in big companies there are entire teams of agencies or consultants are hired for selection and education of new employees, whereas in SMEs this work is done by owner or manager. Therefore, in this paper several facts were pointed out which need to be considered in selection of new employees, since every mistake in this activity can cause far-reaching consequences on functioning of SME.

**Key words:** small and medium enterprises, human resources management.

## 1. Situation with SME in Republic of Serbia

Serbia is facing challenges of global economic trends and integration processes, on European and World market. Its priority undoubtedly is accession to European Union, with development of competitive economy based on knowledge and innovation. Numerous effects of entrepreneurship on economical and social development are expected, and therefore it becomes strong element of developmental strategy of every country, regardless of whether they are developed or countries in transition, such as Serbia. Process of fast technological changes which characterizes modern economy is mainly result of new entrepreneurship ideas. Entrepreneurship, therefore, becomes opportunity for Serbia, since entrepreneurs can contribute to higher degree of utilization of available resources and faster economical growth necessary in order to reach developed countries. Most of the countries expect from entrepreneurship solution for one of the greatest current issues – high unemployment rate. Serbia is one of the countries with the highest unemployment rate and therefore development of entrepreneurship is its great opportunity. Of total number of active enterprises in Serbia, almost 99% are SMEs, but their contribution to employment rate and economical results is considerably smaller compared to developed countries and European Union.

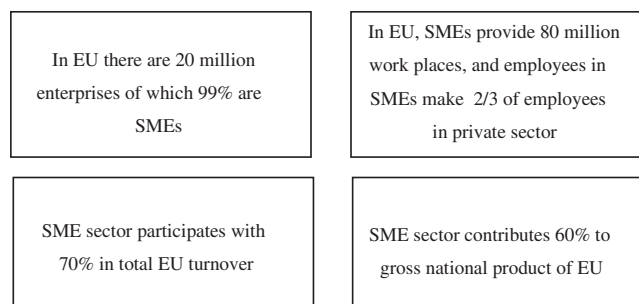


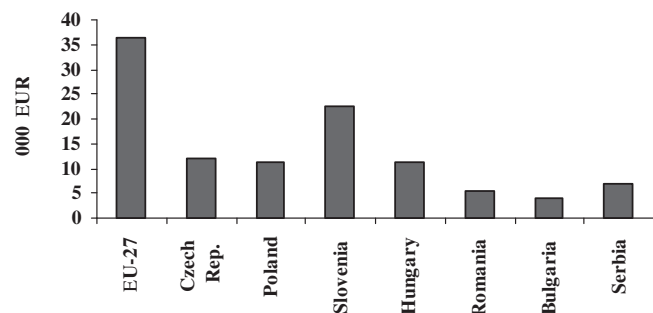
Figure 1: SME sector in European Union

Comparative analysis indicates low level of development of SME sector in Serbia in relation to EU-27 and surrounding countries – EU members.

Table 1: Comparative analysis

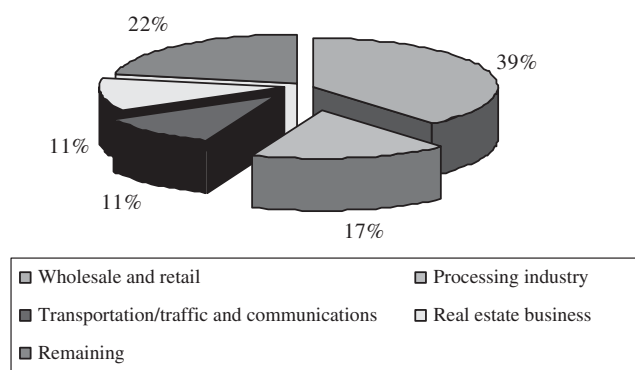
Parameter	EU-27	Czech Rep.	Poland	Slovenia	Hungary	Romania	Bulgaria	Serbia
Number of enterprises in 000	19 602	878	1 405	88	556	410	240	277
Number of employees in 000	85 000	3 461	5289	371	1 783	2 463	1 318	811
GAV in bil. EUR	3 060	30	59	8	20	13	5	6
Number of employees per enterprise	4.3	2.8	3.8	4.2	3.2	6	5.5	2.9
GAV per employee in 000 EUR	36.4	12.1	11.2	22.4	11.3	5.4	4.0	6.9

Source: EUROSTAT – Statistics in focus, 31/2008.



Graph 1: GAV per employee in year 2006.

Serbia is characterized by explicit sector concentration of SMEs since almost 80% of SMEs operates in four sectors (wholesale and retail; processing industry; transportation/traffic; storing and communications; activities relating to real estate businesses).



Graph 2: Concentration of SMEs in regard to sectors in Serbia in 2006.

## 2. Defining of SME in Republic of Serbia

Term/concept of SME has not been clearly defined. Most often, when defining small business, economists go from legally determined provisions relating to small business in specific countries. There are many such definitions and therefore there is no unique attitude/position in defining of the concept of small business. Beside considerable number of factors taken into consideration in different countries in defining of SME, the following three are common in most of the countries:

- Total annual income/revenue
- Number of employees
- Shareholders sum (invested capital by shareholders in establishing of the enterprise)

According to current/valid legal provisions<sup>1</sup> of Republic of Serbia, enterprises are classified into small, medium and big depending on the following three factors:

- Average number of employees
- Total income/revenue
- Value of assets on the day when financial report was made in the last business year.

<sup>1</sup> Law on accounting and audit, „Official gazette of SRY“, No. 71/08 from 27.12. 2002.

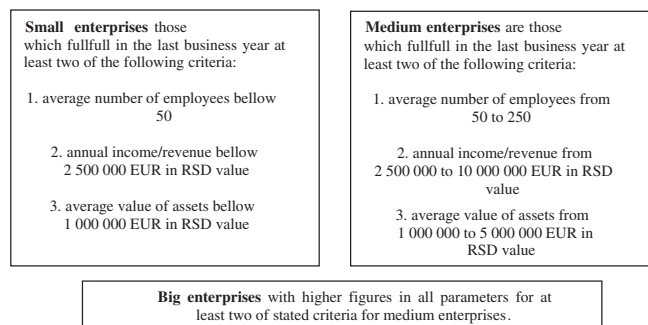


Figure 2: Defining of SME in Republic of Serbia

## 3. Human resources management in SME

Every owner of SME aspires to have successfully organized enterprise which is competitive on the market and realized high profits with employees which have high level of motivation in regard to the successful operating of the enterprise. Differences in competitiveness between SMEs today are significantly different compared to period twenty years ago. The importance of factors such as technology, finances, production process and similar is diminished, whereas more important sources of additional and newly created value of SMEs are their employees with their intellectual capital/assets, skills, creativity and information. Differences between competitive SMEs in regard to appearance, quality and functionality of products are decreasing. What differs SMEs more and more are their employees, i.e. their relation to clients, the way they solve problematic situations, speed of their reaction/response, motivation, ability to learn, etc.

At the beginning of 21<sup>st</sup> century, with dizzying development of information and communication technologies, human element became the single element which the competition could not copy. Since employees have very important role in SME which is aspiring to be distinct from competition, **human resources management** has more important role in planning and realization of SME's success compared to the past period. Strategy of human resources management has gained importance since the employees now are the most important factor of development. Intellectual capital, knowledge and competence of employees cause success or failure of SME in dynamic environment. Human resources management is potentially business function which has become a key element of the strategy of every SME in their efforts to establish and maintain their competitive edge on the market. In recent years, human resources management gained special significance, in theory and practice of SME management. Many SMEs are included in skills of human resources management and they pay more attention to development of their human potentials than ever before. Because of sudden changes and concrete conditions, human resources management is perceived as strategic factor influencing not only the success of SME but also of nations.

Human resources management relates to practice and policy necessary to execute all management tasks relating to

personnel issues, especially employment/hiring, education, evaluation and rewarding of SME employees and provision of safe, ethically acceptable and just/fair environment for them. Beside others, these practices and policies are the following:

- Work analysis (determination of the nature of work of each employee),
- Planning of work places and recruiting of candidates for the job,
- Selection of candidates for the job,
- Direction and education of new employees,
- Evaluation of the efficiency/output,
- Management of the employees' salaries,
- Providing incentives and benefits for employees,
- Communication with employees,
- Education and improvement of employees,
- Creation of the spirit of dedication in employees.

Figure 3 presents the connection of the strategy of main HR processes. It is specific connection which affects in long term employment of personnel, since this is process realized in 5 phases. So it is not important only to find personnel/employees and hire them. This approach could have permanent negative consequences for SME. Therefore, there is gradual approach, such as presented on the figure, which reflects in detailed preparation for hiring of new employees, as well as their gradual qualifying/training and introduction to their new job.

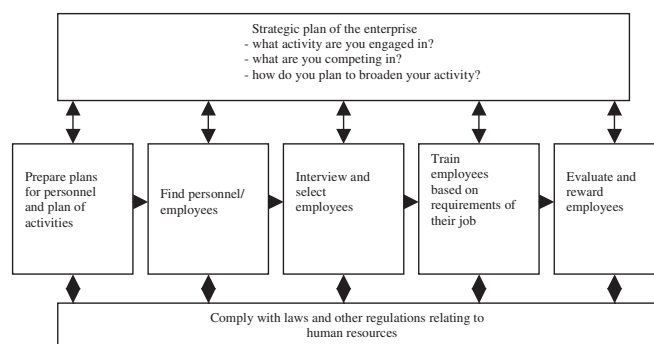


Figure 3: Strategy and main HR processes

Why are stated concepts and techniques important for managers? Answer is relatively simple, if manager does not follow with certain procedures, some of the following mistakes can easily occur:

- Hiring of wrong persons,
- Increased fluctuation of employees,
- Employees who are not „doing the best they can”,
- Enterprise can face the problem due to non-compliance with laws regulating protection of employees at the work place,
- Inadequate training of employees can endanger realization off tasks set by the management.

Planning of human resources demands constant adjustments since goals and objectives of SME can change, and development is insecure. Planning of human resources is very complex and depends on many independent factors: competition, domestic and foreign, consumer demand, new technologies, government interventions, etc. It has to contain feed back in case the plan for any reason is not feasible, SME

has to change the strategy in order to enable realization within existing human resources.

Main goal of human resources management is improvement of work efficiency/output of employees in strategic, ethical and socially responsible way. It is necessary to harmonize individual, organizational and social goals and at the same time enable realization of the strategy of enterprise and cancel negative effects from the environment. Monitoring and evaluation of the success of function of human resources management must be continuous and directed to control of realization of set goals. Result of successful human resources management is increase of profit, productivity, market share, increase of the satisfaction of clients and employees and improvement of the SME's reputation and influence. All of the stated parameters should be compared to previous situation, competition or common standards in certain activity/business in order to determine the efficiency/output of the human resources function. Monitoring of the fluctuation rate of employees, absence from work, salaries per employee, share of salaries in business costs, cost of hiring of new employee and cost of human resources management also contributes to determination of the influence of activities of human resources management on parameters of the successful SME operation.

For successful business operation and realization of set goals, organization of the function of human resources management in SME is also very important. Several different organizational forms are possible, depending on the needs and size of enterprises. It can be organized at the level of manager, department, service, sector or even center.

In SMEs, all managers are, in a way, human resource managers considering the fact that they are also included in recruiting, interviewing, selection and training of personnel. Also, SMEs should have manager responsible for human resources whose task is to advise other managers (for instance production or sale managers) during recruiting, hiring, salary determination, motivation and other activities.

Introduction and increase of availability of data base in form of software solutions for administrative affairs, on-line catalogues for development and education/training contribute greatly to the improvement of function of human resources management. Separation and entrusting activities of human resources management to independent partner institutions is also one of the alternatives for SME. Engagement of independent enterprises for certain activities of human resources management such as: recruiting and testing of candidates, training, development, calculation of salaries, etc., represents possible way for solving of tasks relating to human resource management in SMEs.

#### 4. Principles and techniques of personnel selection

In the process of selection of relevant personnel/employees for establishing of SME, there are three key phases:

1. identification of personnel,
2. evaluation of personnel,
3. selecting personnel.

Entire procedure of personnel identification takes place through following three phases:

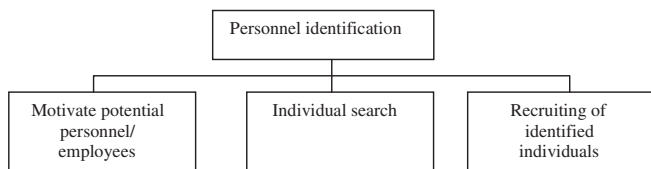


Figure 4: Procedure of personnel identification

In the evaluation phase, identification, evaluation and checking of desired knowledge, traits, skills and characteristics which are considered relevant for realization of tasks on certain position in the enterprise, are carried out.

All characteristics and traits of the individual which are subject to evaluation are divided into:

- psychological traits and characteristics,
- socio-demographic traits and characteristics,
- professional experience and quantification.

Selection phase has very important task, in the procedure of personnel selection, to bring the initial mass of all who are interested to number which is adequate for further analysis of compliance with requirements. Therefore, this phase is realized in three steps:

- preliminary selection,
- primary selection,
- secondary selection.

## 5. Conclusion

Development of SME sector, market economy, privatization and increased presence of foreign capital on the market of Republic of Serbia demand changes in the relation

towards employees, i.e. human resources management. Inadequate and insufficiently utilized work and creational potential of employees in Republic of Serbia requires improvement of human resources management in practice. More strict/severe competition on the market is characteristic of modern business, and employees with higher degree of education/training often represent competitive advantage of SMEs. Quality labor force increases the competitiveness of SME in the following way: it reacts faster on market demands and technological innovations, it improves the quality of product and services, etc. Competitive advantage of SME should be based on quality of its employees which includes human resources management in realization of the strategy of SME. Human resources management as carrier of the knowledge and skills in management of human resources has to be strategic partner that will contribute to the preparation and realization of strategic plans of the SME. This function has especially significant role in SMEs which are often forced to adjust their business policy to the market demands.

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