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Strategic Staff Management in SMEs to Support Lifelong Learning: A Literature Review

Strategic Staff Management in SMEs to Support Lifelong Learning: A Literature Review

A report for the ILO SKILLS Branch by Chris Percy
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Foreword

Small and medium enterprises constitute over 90% of businesses and employ over 70% of the global workforce. Despite their enormous importance as value and employment generators, SMEs tend to have a weaker grasp of strategic management of staff and to be less equipped to deal with structural changes and large systemic shocks including the challenges brought upon by global trends such as digital innovation, automation and greening of the economy. Many SMEs have also suffered direly the effects of Covid-19 due to shifts in demand and restructuring of global supply chains, forcing businesses to make difficult choices in terms of staff management. If smaller firms are to successfully position themselves during the recovery period and seize the economic opportunities that will emerge, they will need to develop forward-looking strategies to plan, develop and manage their workforce.

This literature review provides an entry into the relatively under-researched area of staff management in SMEs by taking stocking of existing theories, research and relevant policy initiatives. It discusses what staff management is in SMEs, which barriers does it face, as well as its main enablers, particularly from the perspective of national skills systems and efforts to support lifelong learning. Its conclusions provide practical suggestions that will inform future research and the development of practical tools for SMEs

The ILO's Centenary Declaration expresses a commitment to support the role of the private sector as a principal source of economic growth and job creation particularly in micro, small and medium-sized enterprises, cooperatives and the social and solidarity economy. The Human Resources Development Recommendation (2004, No. 195) invites Member States to promote lifelong learning, in cooperation with social partners, encouraging enterprises to promote skills development and taking into account the challenges faced by workers in small and medium-sized enterprises. It explicitly invites Members to urge private and public employers to adopt best practices in human resources development (IV, g). These key policy references guide the work of the ILO and position this study as an important step in our journey towards understanding the nexus between strategic HR management and lifelong learning in SMEs.

The Skills and Employability Branch conducts comparative research and provides policy guidelines and technical assistance to help ILO constituents integrate skills development into national and sector development strategies. As part of its work on skills policies and systems the Branch promotes the development of frameworks, policies and measures which can support enterprises in achieving better strategic positioning and performance, through improved and forward looking staff management practices that support lifelong learning. Skills policies that promote more effective staff management are instrumental to achieving human centred and sustainable growth in SMEs, a key source of employment in our economies.

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Introduction

Strategic staff management (SSM) in SMEs has the potential to support a key growth driver of the global economy and help provide access to decent work for billions of employees. This literature review, commissioned by the SKILLS Branch of the ILO's Employment Policy department, explores six key questions about staff management in SMEs, in order to inform the future development of an intervention model that adopts a whole-system perspective.

A whole-system perspective explores interactions between firm-level practices, the role of intermediaries and sector associations, the national and sectoral ecosystems, and the skills system more broadly. Staff management practices also interact with broader policy goals of the ILO and its partners, such as the role of enterprises in supporting lifelong learning. Understanding how enterprises think about HR and developing an evidence base of good practice staff management is important for exploring how skills policies and systems might support and shape HR practices in SMEs in ways that support lifelong learning

Methodology

The literature review adopts a systematic approach to academic articles published since 2014, supplemented by targeted engagement with seminal literature. Key sectoral studies and HR handbooks from organisations like the ILO, IES, OECD, CIPD and SHRM are also used to ensure a broad coverage of the practitioner perspective.

While global in scope, this review prioritises evidence from lower and middle income countries and insights on SMEs with approximately 10 to 100 employees, acknowledging that much of the research does not analyse SMEs with sufficient detail to allow a targeted approach. New analysis was also conducted on The World Management Survey dataset (Bloom et al, 2012) in order to explore variations in practice across countries on a consistent basis.

Q1. What is strategic staff management from an SME perspective?

Staff management strategy and theory have been dominated by references to large enterprises. The large enterprise literature typically differentiates long-term, reflective strategic work from the day-to-day operational tasks of HR. From this perspective, formal process and documentation becomes important for the effective development and delivery of strategy. However, most SME theorists are sceptical that large enterprise HR, particularly its more formal elements, translate well to SMEs.

Small organisations in particular are considered to have distinctive features that shape their HR practices. For instance, features like the tightly-knit environment of SMEs, the greater opportunity for visibility of whole firm operations and across external partnerships, and the potential for greater agility can enable certain practices, including informal practices, to work particularly well in SMEs (see Table 2 in Section 1.4). A bounded rationality approach to strategic decision-making also applies more strongly in the SME case – capacity constraints are an important consideration in why some SMEs do not explore or experiment with different staff management approaches.

Allowing for a flexible interpretation of strategy more flexibly, field research affirms that strategic staff management is likely to be important for SMEs, even if its practice is distinct in some ways from larger enterprises. For instance, Marlow (2000) interviewed managers from 64 SMEs at length, finding that some SMEs adopt informal practices in a strategic manner. She argues that "firms which do utilise a strategic approach, however informal, are more likely to endure."

Acknowledging a need for greater theorisation of SME staff management, this review develops a working definition of strategic staff management (SSM) for SMEs, that allows for flexibility in the adoption of formal or informal techniques, but is sufficiently directive and practical that it could be measured and inform an intervention model. The definition is based on five widely-applicable principles that leaders and managers deploy when considering how to organise, manage, recruit, deploy, and develop their workforce:

i. **Value staff:** Organisational success in the short-, medium-, and long-term is influenced by present-day decisions about staff management, recognising the possible roles of human resources at different levels of distance from management, from employees and internal stakeholders, through to contractors and key service providers;

ii. **Be proactive:** Leaders should adopt a proactive approach to considering the wide range of approaches and specific practices available for staff management (see Table 1 in Section 1.4), in order to decide what approach to adopt in the present;

iii. **Understand the options:** Leaders should be aware of the broad span of activities across staff management, know how to learn more about particular options, and understand when it might be useful to invest time in doing so;

iv. **Review regularly:** As an organisation grows or circumstances change, there come important review points for reforming prior staff management practices and consciously over-coming the friction of present-day practice;

iv. **Invest when possible**: Greater investments in staff and engagement of staff in organisational management typically result in long-term benefits, when done deliberately, with an awareness of costs, and in line with organisational needs.

Q2. What staff management practices are present in SMEs today?

The diversity of SMEs, spanning an estimated 70% of all employment globally (ILO, 2019), represents a necessary limitation on the ability to generalise about staff management practices. As well as size, age, and sector, SMEs vary in many important ways with respect to their staff management practices, along such axes as family vs non-family SMEs and lifestyle vs growth businesses discussed further in Chapter 5. Nonetheless, within the literature reviewed for the paper, there are four key points to draw out as stylised observations that are useful, if imperfect generalisations:

1. Some SMEs prioritise staff management below other productivity-enhancing initiatives or view HR work with some scepticism. Many owner-managers have an incomplete understanding of the potential approaches and benefits of staff management.
2. Smaller firms typically have less formal implementation of practices. For instance, smaller firms are less likely to have job descriptions, HR plans, HR information systems, or regular, documented performance reviews, and typically provide less formal training per employee.
3. Analyses of emergent HR practices often identify strategic thinking in informal practices and small firms have a number of strengths, such as close relationship building, greater flexibility, and better whole-firm visibility. Such strengths enable some SMEs to differentiate themselves positively from larger enterprises. There is also evidence that it is possible to adopt formal practices too early, to the detriment of business performance, or that informal practices can achieve comparable outcomes to formal practices in some circumstances.

4. While larger firms tend to have higher quality people and talent functions, as measured through qualitative interviews and case studies, analysis within the manufacturing sector shows there is more variation within size categories than between them. Smaller firms also tend to receive higher scores on outcome quality rather than formal process adherence.

Q3. Does greater investment in staff management improve SME performance?

If we are to promote investment in staff management to SMEs as part of a strategic, long-term approach, it is important to understand whether such investment does in fact improve performance. A large number of studies, including a meta-analysis and a small number of studies designed to identify causality, show that greater investment in staff management, including the adoption of more formal practices, typically does result in improved performance for SMEs. For instance, a large scale UK dataset found that SMEs are less likely to use formal management practices than larger firms, but that such practices were positively associated with firm survival, growth and productivity for those who did use them (Forth & Bryson, 2019).

The meta-analysis by Rauch & Hatak (2016) identifies a higher effect size from staff management on perceived and objective measures of business performance than for drivers of SME performance in other studies, such as business planning and innovation. For smaller organisations in particular, they note the value of empowerment-enhancing practices, such as those around employee autonomy, decision-making involvement, and devolved responsibility, which can be lower cost to implement in smaller firms while retaining significant benefits.

The presence of a positive average effect disguises some cases where more informal approaches can be more beneficial for SMEs, whether due to being a better fit for their needs or simply having lower costs compared to formal approaches. The definition of a strategic approach to staff management reflects this, being broad enough to allow circumstances where the benefits of informal approaches are deliberately leveraged. Given the uncertainty involved in assessing benefits of investment, particularly when weighed against the relative precision of short-term costs and the variation from case to case, SMEs may wish to draw on practical methods for conducting cost-benefit analysis (CBA) in-house, such as the breakeven-driven method of directional CBA outlined in Section 3.3.

The evidence for average benefits, alongside the uncertainty over costs consistently outweighing benefits at the individual firm level, also suggests the importance of developing low-cost solutions and promoting system-level reform, and points towards a possible role for government support.

Q4. What is the theoretical case for state intervention to promote SME staff management?

If strategic staff management and investment in staff management practices brings benefits to SMEs, it is reasonable to ask why such activity should be subsidised by the state – under some assumptions, SMEs can be relied upon to act in their own best interests. There are several interconnected reasons why those assumptions may not consistently apply and why the state might wish to promote staff management among SMEs. These reasons can be loosely grouped under 'enabling strategic decision-making', 'responding to positive externalities', 'mitigating missing markets', and 'driving national progress'.

The state may wish to provide information and training programmes that improve SMEs understanding of staff management, enabling firms to better decide what practices to implement to support growth. From a neoclassical economics perspective, state intervention is warranted to address the positive externalities of staff management. For instance, employers may under-invest in staff training, networking and skills partly due to uncertainty over whether staff will remain at the firm. SMEs may also be less able to invest for long-term benefits, due to vulnerability to short-term shocks and limited access to credit, motivating state intervention to unlock long-term gains. High transaction costs and competitive constraints may limit SME cooperation in some sectors, resulting in missed opportunities for innovation, collaboration and growth.

Inefficiencies caused by missing markets is a further neoclassical motivation for state intervention. In this case, staff management support to SMEs may be stuck in a low-volume, low-quality equilibrium, which state intervention can catalyse into a higher impact equilibrium. State intervention might be motivated by incomplete credit markets failing to serve SMEs. Finally, the state may wish to intervene in order to increase competitiveness and accelerate short-term growth by enabling innovation and diffusion of technologies and methods, generating fiscal returns in the future and improved workforce conditions.

Q5. What internal and external factors influence SME staff management?

A wide range of internal and external factors influencing strategic staff management have been specified or analysed in different papers, but with little consistent, quantitative focus on when and how they might apply. Such factors can inform the design and targeting of interventions intended to support SMEs.

Analysis of internal factors typically identifies that smaller, newer firms have less capacity to invest in staff management practices. The experiences, ambitions and idiosyncrasies of owner-managers also shape their approach to HR, with more educated owner-managers being more likely to invest in staff management. HR practices may be more important in high-skill or export-oriented sectors. Research has also identified that staff attributes and behaviours interact with HR practices as part of a complex system that drives firm performance. The growth stage/state of a firm and to what extent it is a family-centred firm can also shape staff management practices.

External factors are also significant driver of staff management practices in SMEs. National culture and institutions, such as SME-related public policies and initiatives and prevailing preferences around workplace norms, influence the prevalence and efficacy of HR practices. For instance, New Zealand has strengthened its focus on SMEs as a distinct policy area since the late 1970s, with a Minister for Small Business and various tools, booklets and policy work aimed at small businesses. A further channel for influence is an SME's external interactions with supply chains, social partners, intermediaries, and strategic alliances. From a systems perspective, external factors also form part of the overall operating environment which gives raise to internal factors. For instance, a stronger skills system will generally result in more educated founders and provides greater opportunity for employers to purchase higher quality education and training for their staff. Conversely, a recession or poorly-managed economy will more often result in greater resource constraints on SMEs.

Catalytic moments and business crises often present an opportunity for change, providing strong evidence to owner-managers of the necessity of investing in staff management. Examples of such moments include change of ownership, succession, the introduction of professional managers, corporate shocks, underperformance and intensified competition.

Q6. What interventions might target more strategic staff management in SMEs?

This report argues for analysing strategic staff management as a system-level, opening up a broader range of possible interventions and considerations for supporting SMEs. From this perspective, there are many possible opportunities for state intervention, with a high- level taxonomy addressing opportunities at the micro, meso and macro levels of the system (see, e.g., the levels of system analysis discussed in Serpa & Ferreira, 2019):

Strategic approach/practice adoption: SME Journey

System-level for intervention

1. Awareness → **2. Prioritising** → **3. Initiating** → **4. Maintaining** → **5. Monitoring**

Macro

- Via regulation/legislation
- Via fiscal instruments
- Via funded programmes
- Via voluntary accreditation schemes
- Via education/exhortatory campaigns

Meso

- Via employer associations
- Via strategic alliances
- Via supply chain (customers, partners)
- Via public employment services
- Via education & training providers
- Via SME support market

Micro

- Via owner-manager
- Via HR lead
- Via employees

Considerations

- Time to impact (e.g. skills pipeline vs. on-site consultancy)
- General vs. targeted interventions
- Level of subsidy or intervention required to shift behaviour
- Temporary (e.g. catalysing investment) vs ongoing state role

Possible opportunities

- Look to reference or capitalise on catalytic moments
- Find ways to lower costs and simplify practices
- Allow space for informal practices
- Relate staff management to the impact of popular initiatives
- Focus on behaviours and beliefs more than knowledge

In Chapter 6, the review provides examples of interventions at the macro level, such as voluntary accreditations and fiscal subsidies; at the meso level, such as technical assistance via public employment services, government-facilitated links between SMEs and the skills system, and subsidised technical secondments; and at the micro level, including a wide range of needs assessments, training initiatives, and communication activities that are often strengthened through the involvement of employer associations or SMEs working in local clusters and strategic alliances.

High-quality evaluations of training and consultancy initiatives point towards the power of SME-level interventions, but incomplete research on the possible intervention levers and the diversity of SMEs argues for the importance of a "test & learn" approach (see Chapter 6 for details). The review closes by listing priority avenues for further research to support the development of an intervention model, with the potential for systems-level analysis and a fieldwork approach to address key questions on topics like informal practice adoption and evolution, sector variation, and intervention ROI.

Introduction: Purpose and structure of the review

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Strategic staff management in SMEs has the potential to support a key growth driver of the global economy and help provide access to decent work for billions of employees

The ILO's mandate acknowledges the role of sustainable enterprises as generators of employment, promoters of innovation, and providers of decent work, aligned with a human centred approach to the future of work. This approach has at its heart the acquisition of skills, competencies, and qualifications for all workers throughout their working lives, as portrayed in ILO's Centenary Declaration[1].

Survival, growth and daily operation of SMEs is dominated by availability of resources and well known global trends: automation and digitalisation of production; environmental technologies and regulations; shifts in globalisation of production and trade; and demographic pressures. The global pandemic caused by COVID 19 has also disrupted global supply chains, affected consumption and forced many enterprises to reorganize their workplaces. The subsequent sectoral restructuring may not reverse, at least not back to its pre-pandemic structure, creating a need for SMEs to adapt to new sectoral structures. The reduction in employment in certain labour intensive industries, such as physical retail and overseas tourism, creates significant challenges in the short-term, just as renewed investment in contact-free technologies boosts the potential for roboticisation in certain workplaces.

To be able to respond to these challenges, SMEs need to strategically invest in skills development and training reflecting long-term concerns linked to business sustainability, diversification and expansion. In many low and medium income countries short-term concerns dominate business operations, at the expense of long-term sustainability and employee well-being, with frequent reliance on informal and non-standard forms of employment.

Enabling SMEs to adopt a more strategic approach to staff management requires concern for both the development of a favourable business environment and an effective skills and lifelong learning ecosystem that engages, incentivizes and supports enterprises, including social, political and economic settings, within which skills are developed and deployed. Such ecosystems include sector level policies, as they also consider long term development of needs, a responsive labour supply, and life-balanced career ladders for individuals.

This literature review addresses key questions about staff management in SMEs, in order to inform the future development of an intervention model

In late 2020, the SKILLS Branch in the ILO's Employment Policy Department commissioned this literature review to inform the development of a policy intervention model to promote the development of strategic staff management attitudes in SME's, building on the ILO's long-running programmes of work in this area, such as the SCORE training programme (ILO, 2020).

This review is designed to take a broad scan of key questions that are relevant to the development of a possible intervention model. It is organised around the following six

1 Published in 2019, available via https://www.ilo.org/moscow/news/WCMS_712047/lang--en/index.htm.

questions, each addressed in a separate chapter with a working view on the likely answers and key areas of uncertainty:

1. What is strategic staff management from an SME perspective?
2. What staff management practices are present in SMEs today?
3. Does greater investment in staff management improve SME performance?
4. What is the case for state intervention to promote SME staff management?
5. What internal and external factors influence SME staff management?
6. What interventions might target more strategic staff management in SMEs?

While global in scope, this review prioritises evidence from lower and middle income countries and insights on SMEs with approximately 10 to 100 employees

Reflecting the breadth of ILO operations, the review adopts a global perspective, prioritising lower and middle income countries that are often less well-covered in structural reviews. The cited literature has strong coverage for S/SE Asia, e.g. Indonesia, Malaysia, India, Viet Nam, Thailand, and Pakistan, as well as research focusing on transition economies, such as Russia, Poland, and the Czech Republic. Key studies from developed economies, especially the UK, US, Australia, Germany and Spain, are also drawn on. Diverse other countries with less English-language research coverage are also included in the review, such as China, South Africa, Nigeria, Ghana, Jordan, and Mexico.

SMEs are not consistently defined across countries or across research practice, with variation both in metrics used (turnover, employee numbers, etc.) and in specific thresholds (Harney & Alkhalaf, 2020). The boundary for formal government statistics between SMEs and large enterprises is commonly, if arbitrarily[2] placed at 250 employees in much of Europe and 500 in much of North America. This study is more interested in smaller non-micro firms, ranging from 10 to 100 employees, but treats this as a soft indication of focus, reflecting an awareness of the limits of formal definition and the vagueness around SME size that is present in much of the literature.

The literature review adopts a systematic approach to articles published since 2014, supplemented by targeted engagement with seminal literature and key sectoral studies

Recent years have seen several major literature reviews and meta-analyses published which reflect academic literature published since the late 20th century (Harney & Alkhalaf, 2020; Armstrong & Brown, 2019; Nyamubarwa & Chipunza, 2019; Rauch & Hatak, 2016; Nolan & Garavan, 2016a, 2016b; Astrachan, 2010; Dalziel, 2010). This report draws on these major reviews to ensure sufficient coverage of the historical debate, complemented with a systematic literature review to capture recent publications. Key sectoral studies and HR handbooks from organisations like the ILO, IES, OECD, CIPD and SHRM are also used to ensure a broad coverage of the practitioner perspective.

The systematic review used broad query terms in Scopus to capture publications with content covering both SMEs and staff management published since 2014. [3] Abstracts and titles were

2 Some evidence from Sweden suggests that standard administrative size thresholds do not necessarily line up with distinctions in important analytical topics, such as barriers to growth (Karlsson, 2020).

3 SME keywords via: SME, SMEs, "Small business", "Small enterprise", "Medium-sized business", "Medium-sized enterprise", "Family-run business", "Family-owned business" or "Family business". Staff management keywords via: "Staff management", "Staff development", Training, HR, "Human resources", Skills, Workforce, Employees, "Lifelong learning", "Human capital" or "People management".

scanned to prioritise[4] a short-list of 108 papers for detailed review and a further 337 for selective review, based on topics of interest less well-covered in the short-listed papers. New analysis was also conducted on The World Management Survey dataset (Bloom et al, 2012) in order to explore variations in practice across countries on a consistent basis.

4 A citations hierarchy technique was used to reduce an initial 3.9k papers to 2.0k, in which publications between 2014 and 2018 required at least 10 citations to be reviewed and those published in 2019 required at least 1 citation. All publications from 2020 or 2021 were reviewed. The resulting long list was prioritised based on strength of focus on: 10-100 person SMEs; lower or middle income countries, esp. SE Asia / S Asia / Africa; addressing key sectors that reflect large SME populations in the target countries (e.g. garments, electronics, leather, IT, agriculture); priority topics (e.g. policy interventions, skills/training interventions, systemic perspective, group learning/ informal practices); and quality (e.g. depth/breadth for empirical work, influence or novelty of theoretical pieces).

1 What is strategic staff management from an SME perspective?

1. What is strategic staff management from an SME perspective?

This section develops a working definition for strategic staff management that can be usefully operationalised from an SME perspective (1.4). The definition emerges from the discussion in the literature, both the focus of SME research to date (1.1) and the generic or large enterprise research which has theorised strategic approaches in more detail (1.2). SME researchers argue that the strategic approach as framed for large enterprises is inappropriate for a direct transplantation onto SMEs, especially smaller organisations. This case, synthesised in section 1.3, draws on the principles of bounded rationality that inform practical decision-making and the distinctive features of small organisations, leading the way for the working definition set out in 1.4.

1.1 SME research discussion of strategic approaches

Staff management strategy and theory have been dominated by references to large enterprises

Researchers of SME staff management emphasise that the theoretical frameworks used to discuss HR in SMEs, including possible distinctions between types of operational and strategic practices, have been primarily driven with reference to large enterprises.

For instance, Nyamubarwa & Chipunza (2019:2) consider that "most HR literature view SMEs as scaled-down versions of big enterprises". Knezović et al (2020: 115) agree, stating that "strategic human resource management (SHRM) is a field that has been analysed mostly in large companies, while SMEs were treated as second-class citizens". Harney & Alkhalaf (2020:6), in their 25-year systematic literature review, explain that "overall, HRM in SME research generally draws on large firm HRM theory, with limited evidence of the extension of existing theories, or the adoption of new ones." Even in Germany, where SMEs and SME-related thinking is generally held in high regard (Herr & Nettekoven, 2018), researchers have been critical: "In Germany the requirements for strategic HR operations are predominantly to be found in large enterprises, the aim being an increased contribution to added value. As far as German small and medium-sized enterprises (SMEs) are concerned however, this subject seems to hardly exist." (Hirsch & Nachtwei, 2020:1).

The majority of SME research does not address strategy directly, although strategy is occasionally referenced in terms of intersections with other topics. For instance, Harney & Alkhalaf (2020) stress that HR practices are, in general, strategic for basic viability as well as competitive advantage, as opposed to specifying a subset of practices or a particular approach as strategic. Instead, strategic choices are considered a determinant of HR practices more generally, such as approaches to quality management, product/service differentiation and entrepreneurial orientation.

Empirical papers on SME practices typically conflate strategic approaches with a set of specific practices, often based on good practice definitions derived from larger enterprise operations

Individual empirical papers that explicitly target strategic staff management in SMEs often refer to individual practices as strategic, typically adopting a best fit definition, rather than problematising what it means to be strategic. For instance, some approach SME HR from the perspective of formal systems and IT, such as management systems (Curado, 2018), E HRM systems (L'Écuyer et al 2019), or big data approaches to HR management (Verma et al, 2020). Knezović et al (2020) analyse SMEs in Bosnia and Herzegovina, defining "strategic HR" as a set of good practice practices that are based on common practices in larger enterprises or textbook exposition, e.g. internal career development, training, appraisal, job security, employee participation, and job descriptions. Similarly, Anjum et al (2019) analysed the relationship between service behaviour in Pakistan SMEs and training, participation, job descriptions, result-oriented appraisals, internal career opportunities, employment security and profit sharing. From a large enterprise perspective, several of these practices would be described more commonly as day-to-day operational management as distinct from strategy (see 1.2).

One influential theoretical paper explicitly relates a strategic SME approach to formal practices

Mayson & Barrett (2006), drawing primarily on studies of SMEs in the UK, US and Australia, define strategic HR management (SHRM) both in terms of general principles and specific practices. They highlight principles like recognising the contribution of HR management to firm performance and sustainability by linking labour management practices to business objectives, viewing employees as a source of value and competitive advantage. The main practical consequence is that individual HR practices should not be viewed in isolation, but as part of an integrated framework for organising human capital to enable performance in ways that go beyond cost reduction. On its own this does little to inform behaviour in practice, but the authors go on to argue for formal HRM practices, noting that "the existence of formal HRM practices is indicative of some strategic thinking about how employees' skills, attitudes and behavior contribute to achieving the firm's purpose [...] nonstrategic practices, characterized by informality do not necessarily recognize the value of employees." (ibid: 448).

This direct association between strategy and formalisation provokes a backlash among other SME-focused researchers, as set out in section 1.3, but resonates closely with the discussions of strategy from a large enterprise or generic perspective.

1.2 Large enterprise discussion of strategic approaches

The large enterprise literature differentiates long-term, reflective strategic work from the day-to-day operational tasks of HR

Strategic staff management has been primarily discussed with reference to larger enterprises (e.g. Armstrong & Baron, 2002; CIPD, 2020a, 2020b), even if this focus is primarily implicit, such as the four "deliberately very different" case studies chosen by the IES (Brown et al, 2019:4) where the smallest was a chain operating 79 bars or the very limited reference to SMEs in Kaufman (2015) or Jackson et al (2014). Although explored in more detail for larger enterprises, the research has not necessarily resulted in clarity or consensus: "Strategic human resource management (SHRM) is not an easy concept to define or to deliver and that helps to explain the continuing controversy about its aims and impact." (Armstrong and Brown, 2019:2).

A 30-year review of 'strategic HR management' (SHRM) notes that, having emerged as an explicit research field in the early 1980s, best-practice success stories from particular large and profitable firms remain influential (Kaufman, 2015). The author calls for a rebalancing towards "more representative if less inspiring examples, such as call centers, hotels, poultry processing plants, and big box stores" and a renewed emphasis on field investigation and participant-observer methods (ibid: 405). While definitions are rarely explicit, the review suggests that

SHRM research positions HR management "as the people management component of organizations, a holistic system's view of individual HRM structures and practices, a strategic perspective on how the HRM system can best promote organizational objectives, HRM system alignment with organizational strategy and integration of practices within the system, and emphasis on the long-run benefits of a human capital/high-commitment HRM system." (ibid: 396).

Once various widely-applicable principles have been stated, such as the important contribution of human resources to business performance, it is common for discussions to contrast a strategic approach against day-to-day operational work, focused more on the mechanics of job advertisements, hiring, performance management, payroll, dispute management and legal compliance. The exact emphases vary, but discussions of strategy often include a long-term focus, measuring business outcomes (rather than process completion), partnership relationships between HR leads and other managers (rather than a service relationship to them), conscious integration with organisational strategy/values, consideration of the wider environment for doing business (e.g. market/competitor analysis, political considerations, trends in regulation), and a reflective, analytical approach, often built around a regular planning cycle underpinned with budgets, metrics and formal documentation.

Formal process and documentation is important for the effective development and delivery of strategy in large enterprises

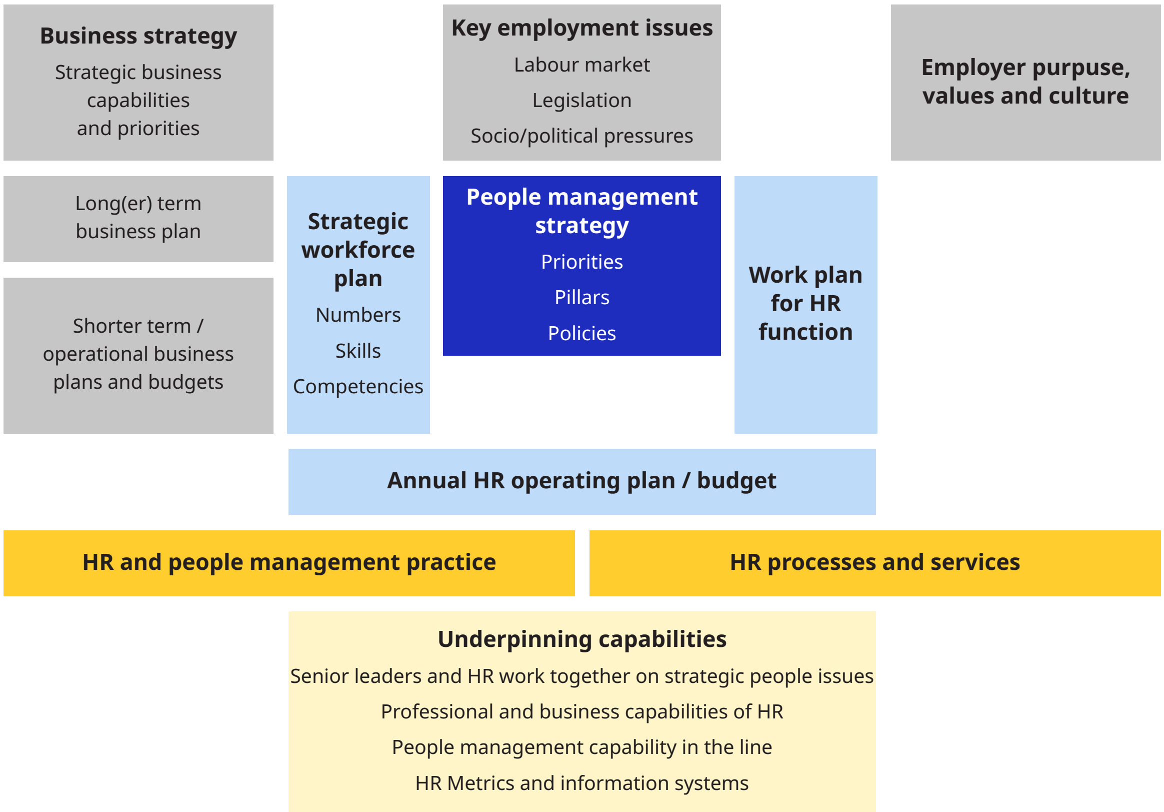
The importance of process and documentation is revealed in the IES (Brown et al, 2019: Table 1) case studies, which typically emphasise a detailed hierarchy of defined plans from operational to strategic, documentation of policies and priorities, regular metric-based reporting, external HR quality accreditations, and regular staff surveys. This approach is captured in their model of strategic people management (Figure 1). Other models of strategic HR management, also shown in Figure 1, are less explicit in terms of process and documentation, but nonetheless capture a complex system of considerations to address.

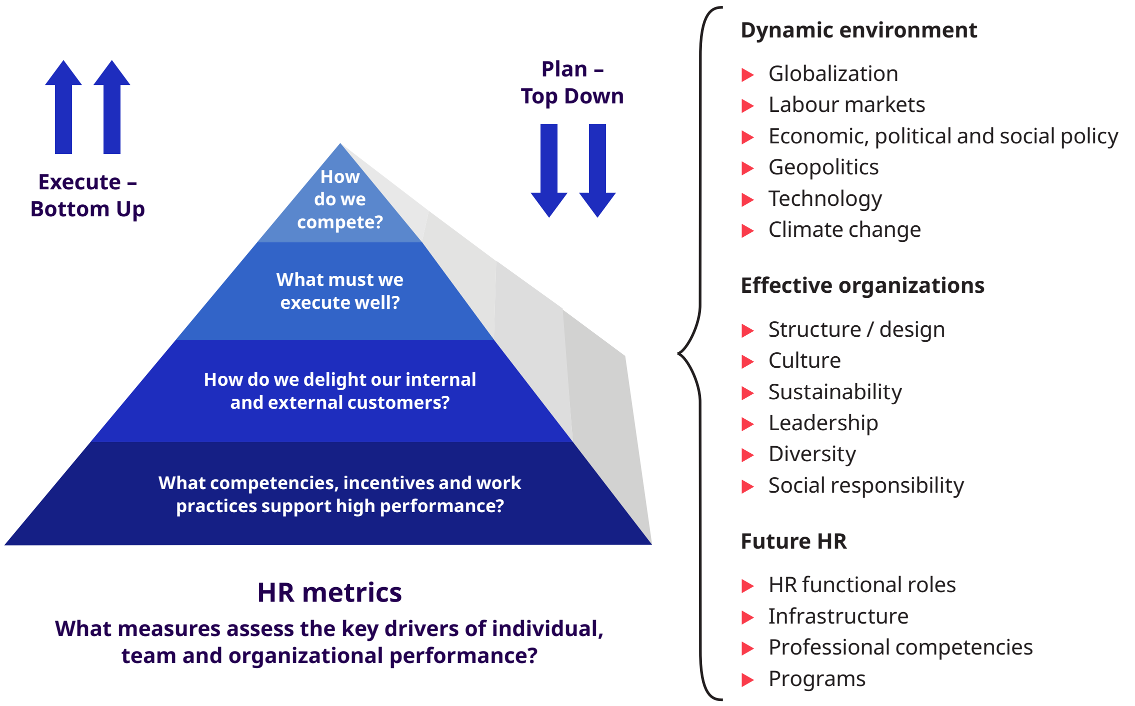
Most SME theorists are sceptical that large enterprise HR, particularly its more formal elements, translate well to SMEs

The approach to strategic people management outline above resonates poorly with a number of SME researchers, whether addressing SMEs in general (e.g. Vaughan, 2002; Nyamubarwa & Chipunza, 2019; Harney & Alkhalaf, 2020) or in specific contexts (e.g. Cunningham & Rowley, 2007; Susomrith et al, 2019). Nonetheless, some researchers have found it useful to think of SMEs as smaller versions of large enterprises, in which broadly similar practices would in principle have broadly similar benefits, being appropriately scaled-down or prioritised given limited capacity (e.g. Mayson & Barrett, 2006; as well as earlier authors cited in Welsh & White, 1981).

For instance, highlighting the importance of cultural diversity, Cunningham & Rowley (2007) argue that strategic HRM as traditionally defined, implicitly via western terms, applies only weakly in China. They suggest that while HR development in Chinese SMEs remains in its infancy, it may not develop in ways that involve adopting western practices, identifying instead a series of differences between common Chinese HR practices and common western practices (ibid: Table V). Such differences include reduced emphasis on interviews and increased emphasis on personal networks in selection processes, stronger emphasis on hierarchy in staff management, and reduced use of individual pay incentives. This discussion connects to the broader literature on cross-cultural differences in leadership styles and workplace

▶ **Figure 1: Models of SHRM: IES model of strategic people management (Brown et al, 2019), followed by the Aspirational Framework for Strategic HRM (reproduced from Jackson et al, 2014, with permission of the Academy of Management)**





External environment

- Industrial relations and unions
- Industry and market conditions
- Labour markets
- National and regional cultures
- Laws and regulations
- Technologies

Internal environment

Strategic objectives, e.g.

- Diversification
- Growth
- Innovation
- Cost control

Organization culture, e.g.

- Leadership
- Values

Organization biography, e.g.

- Ownership
- Manager characteristics
- M&A history
- Layoffs

Organization structure, e.g.

- Geographic scope
- Divisionalization
- Structure of HRM function

HRM system

Elements

- Philosophies
- Policies
- Practices
- Processes

Types

- High performance
- High commitment
- High involvement
- Strategically targeted

Implementation

- Transparency
- Accountability

Segmentation

- Occupational groups
- Locations
- Status

Outcomes for internal stakeholders

Employees, e.g.

- Human capital
- Economic gain
- Employment security
- Fairness
- Engagement
- Psychological well-being
- Health and safety

Line managers, e.g.

- Employee performance and citizenship behavior
- Employee turnover
- Organizational capabilities
- Social capital development
- Flexibility
- Ambidexterity

HR professionals

Outcomes for external stakeholders

Owners / investors, e.g.

- Financial performance
- Corporate reputation
- Productivity

Customers, e.g.

- Product quality
- Customer service
- Innovation
- Cost
- Convenience

Other org's, e.g.

- Reliability
- Trustworthiness
- Collaborative problem-solving

Society, e.g.

- Legality
- Social responsibility
- Environmental sustainability

preferences, and the implications for staff management, discussed further in Section 5.2 (e.g. House et al, 2004; Vaiman & Brewster, 2015).

1.3 Limitations of the large enterprise approach

Large enterprise approaches may in general feature some practices that are inappropriate for SMEs, due to the distinctive features of particularly small organisations and considerations of bounded rationality that frame decision-making. For instance, researchers have argued that the knowledge base on HR development in SMEs is flawed as research has not moved beyond the deficiency model to explore, accommodate, and explain it in the SME setting, considering distinctive SME features and the role of informal practices without constant reference to practice in larger enterprises (Nolan & Garavan, 2016b). Rauch & Hatak (2016) similarly argue against a universalistic interpretation of strategic HR management, in which the same principles should apply to organisations of all sizes, in favour of a contingency perspective.

Small organisations have distinctive features that shape their HR practices

Susomrith et al (2019), investigating training and development practices in firms with fewer than 50 staff, argue that "large and small firms are fundamentally different, thus findings from studies in large firms may not extend to small firms". Addressing the barriers to formal training uptake, Vaughan (2002) argues that SMEs are not simply scaled-down versions of large enterprises, and that their different characteristics and patterns of daily operation are such that they often do not engage smoothly with training programmes oriented to large enterprises.

Writing from a South African context via a global literature review, Nyamubarwa & Chipunza (2019) stress that the best practice approach (BPA) to HR is insufficient for capturing the peculiarities of HR practices in SMEs, which often have distinct circumstances and ways of operating that open up alternative, potentially more strategically viable choices. Harney & Alkhalaf (2020) agree that SMEs, particularly small organisations, can have advantages in some areas of operation, that open up other approaches, even if they face disadvantages in other areas.

Such distinctive features of small organisations include advantages such as agility in the face of uncertainty due to the presence of a clear decision-maker, reduced weight of pre-existing systems, and fewer people to realign; greater familiarity between the average employee and the owner-manager; and greater knowledge of the firm's people and processes lodged in a single person.

Distinctive features also include those that are neutral in nature, but might constitute an advantage in some circumstances. For instance, smaller organisations typically have a more hierarchical structure with a tighter span of control; a tendency towards empirical knowledge as point of reference for management practices and the role of older/more experienced workers as guardians of those practices; they more typically operate labour-intensive processes; and have greater proximity or sensitivity to the external environment. The dominance by the owner-manager in HR decision-making can result in "owner-manager imprinting", the notion that early owner-manager decisions and philosophy have significant influence on the future evolution of HR practices in the SME even as it grows, which might be positive or negative depending on the circumstances (Mayson & Barrett, 2016).

Several other distinctive features are typically disadvantageous, but nonetheless shape business decision-making. Smaller organisations are less likely to have in-house HR expertise[5], more likely to have limited budgets, have less easy access to credit, and can have greater vulnerability to changing events, often necessitating a strong focus on short-term performance (Lai et al, 2016).

These distinctive features are thought to typically translate into a more informal approach that can be personalised to individual employees, draws more on personal networks than open labour market recruitment, builds loyalty more through relationships than short-term compensation, and emphasises a narrative rather than quantitative approach to performance management (Nyamubarwa & Chipunza, 2019).

The "distinctive features" lens suggests one further explanation, beyond the lack of competence or lack of capacity highlighted by Mayson & Barrett (2006) for the limited uptake of formal HR practices by SMEs. SMEs might have alternative options open to them that prove more effective in their circumstances. Mayson & Barrett (2006) recognise these possible advantages, but suggest that the downsides more commonly dominate and suspect that where SMEs are able to exploit such features for benefit, they do so more commonly out of luck than strategy. One possible synthesis, explored further in Section 2, is that more formal approaches might be an improvement on average relative to current practice, but there will be cases for individual SMEs in which an informal alternative is strategically better.

A strategic approach to decision-making needs to treat rationality as bounded

All individual decision-makers, including SME owner-managers, have to operate within their constraints of their decision-making capacity, as well as the constraints on the option set they are choosing within. A purist, unbounded approach to rationality considers only the constraints in the option set, the costs and benefits of which rational agents are asked to analyse in full, in order to arrive at an optimal choice: "optimising". However, in practice, decision-makers – particularly when operating individually or in small groups – are limited by the time available to develop and analyse the option set, the tractability of the problem, and their collective cognitive capability (e.g. Simon, 1955; Kahneman, 2003). Decision-makers might be more sensible to aim for satisfactory rather than optimal decisions: "satisficing".

The key insight is that, once decision-making constraints and the uncertainty of processes/outcomes are incorporated into the overall thinking, the strategically optimal choice can change – in the sense of the choice whose full benefits are most likely to outweigh the costs, including the costs of decision-making. This typically shifts decision-making towards simpler options, options already familiar to the decision-maker, or options with information and support readily available. Nolan & Garavan (2016a) describe similar principles in terms of strategic choice theory (SCT), arguing that the vulnerability and external uncertainty SMEs often face can mean a short-term, informal approach to HR development may represent an appropriate and strategic response in that particular context.

The bounded rationality perspective is useful in contributing an additional explanation for why some SMEs may choose not to implement an array of formal HR processes and structures. Rather than placing the emphasis on some owner-managers' ignorance of the options, this perspective emphasises that it may be rational for them to decide not to investigate those options further. The policy implications recognise that the bounded rationality approach is understandable, even optimal given the prevailing constraints, but that there may be better

5 Experience from the US suggests that organisations tend to hire their first HR lead at between 20 and 50 total employees, although they may have other tasks outside of HR. Above this level, firms with fewer than 100 staff have a median ratio of 3 HR staff per hundred employees, whereas firms with over 500 staff might have a median ratio just below 1. The specific ratios vary widely (e.g. even within the US, the interquartile range for firms with fewer than 100 staff was 1.7 to 7.7) and may not apply in other countries. US data are drawn from the SHRM Human Capital Benchmarking Study, 2009 and 2017, available via www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys.

outcomes for SMEs if certain constraints can be overcome – and that some constraints can be tackled structurally through policy intervention. Indeed, there is a danger in SMEs that satisficing results, in some cases, in lower quality outcomes that might be relatively easily avoided. In this light, policy might focus on simple options for staff management support first and aim to reduce the frictions involved in understanding and assessing options.

A further important consideration of decision-making in practice is recognising that owner-managers may be aiming for different goals or operating under different risk tolerances. The evidence that a particular set of practices might support long-term growth or success after an IPO (e.g. Chadwick et al, 2016) may be of little interest to an owner-manager seeking to build a lifestyle business with minimal risk and acceptable profits in the short-term.

A need for greater theorisation of SME staff management

As noted by Harney & Alkhalaf (2020), the SME research literature is still emerging and additional theoretical constructs are needed to better capture their operating environment. For instance, focusing on the staff development aspect of HR work, Nolan and Garavan (2016a) are critical of the narrow base of theoretical lenses that have driven empirical work in SME HR development and the lack of rigour and consistency in definitions used across the field. Out of 117 articles they reviewed in depth, only three explicitly defined HR development with no consistent focus on strategic approaches. However, the authors suggest that a new focus on “strategic choice theory” (Child, 1972; 1997) and “complex resource-based view” (Colbert, 2004) would help address key questions in the field, such as how SME HR practices often emerge informally over time, rather than being planned or strategically implemented by an owner-manager.

Acknowledging this context, the next section proposes a definition of strategic staff management from an SME perspective, seeking to abstract key principles beyond specific practices of formalisation, while remaining practical enough to inform intervention models.

1.4 A working definition of strategic staff management for SMEs

A strategic approach to business does not require complex templates or processes, although these can be useful tools in some circumstances. Rummelt (2017) is critical of the complexity placed around “doing strategy”, often accessible only to large enterprises or teams of trained consultants. Instead, he argues that “good strategy is coherent action backed by argument”, built around a diagnosis (a usefully-simplified explanation of an issue), a high-level guiding notion or policy, and a set of coherent actions to implement that guiding notion. The key point is that good strategy is the result of a deliberate and thoughtful process, rather than being reactive. Strategy can take place in the context of bounded rationality (indeed it almost always does) and it does so effectively when the decision-maker is aware, in broad terms, of the constraints they are operating under and the limits of their knowledge.

To be useful in an intervention model, a definition of strategic staff management must be sufficiently directive and practical that it can be measured

In the context of this report, a definition of strategic management needs to broad and flexible enough to accommodate the diverse circumstances that SMEs operate in, while being sufficiently directive and practical that it delineates a certain approach that can be measured, at least by proxy or through fieldwork interviews. Such measurements are important for supporting a practical model of intervention that can help firms and stakeholders identify how well they are doing, prioritise where support might be beneficial, where limited resources might best be applied, and test whether the support is helping improve practice.

While no set of principles can be truly universal, we propose that strategic staff management is characterised by five widely-applicable principles that leaders and managers deploy when considering how to organise, manage, recruit, deploy, and develop their workforce:

i. **Value staff:** Organisational success in the short-, medium-, and long-term is influenced by present-day decisions about staff management, recognising the possible roles of human resources at different levels of distance from management, from employees and internal stakeholders, through to contractors and key service providers;

ii. **Be proactive:** Leaders should adopt a proactive approach to considering the wide range of approaches and specific practices available for staff management (see Table 1), in order to decide what approach to adopt in the present;

iii. **Understand the options:** Leaders should be aware of the broad span of activities across staff management, know how to learn more about particular options, and understand when it might be useful to invest time in doing so;

iv. **Review regularly:** As an organisation grows or circumstances change, there come important review points for reforming prior staff management practices and consciously over-coming the friction of present-day practice;

v. **Invest when possible:** Greater investments in staff and engagement of staff in organisational management typically result in long-term benefits, when done deliberately, with an awareness of costs, and in line with organisational needs.

SME's circumstances and priorities vary widely, both between organisations and over time, such that a strategic approach to staff management does not translate into a single, fixed set of recommended practices. Nonetheless, a strategic approach will always be deliberate, proactive, long-term and holistic in consideration, aware of the span of activities and options that make up staff management functions (see Table 1) and know how to investigate specific practices further should it prove strategically relevant. Strategic SMEs will review and prioritise the staff management practices with most potential to add value, ensuring the chosen practices are well-designed to suit their circumstances and that implementation is sufficiently supported to permit success.

A strategic approach assesses the costs as well as benefits of implementing specific practices, considering the merits of informal and formal approaches in different circumstances

The implementation and maintenance of new practices typically comes with time, cost and communication/training implications, which need considering against the benefits they might bring. Where such benefits have the potential to operate into the long-term, they are likely to significantly offset their costs. Indeed for the majority of SMEs, survey evidence and evaluation data set out in Section 2 suggest that many organisations will see long-term benefits as a result of more management attention towards staff management, better staff conditions, and more employee engagement, along with greater investment of time and money in staff management, recruitment, deployment, and development functions. Nonetheless, SMEs can adopt a strategic approach, reflecting the principles above, without necessarily committing to large amounts of investment. Given the uncertainty involved in assessing benefits of investment, particularly when weighed against the relative precision of short-term costs, SMEs may wish to draw on practical methods of cost-benefit analysis (CBA), such as the breakeven-driven method of directional CBA outlined in Section 3.3

▶ Table 1. Staff management functions overview

Table 1 provides an overview of the types of functions that make up staff management, with common activities and example practices. Table 2 contrasts example informal and formal approaches in each functional area, illustrating how the strengths of small organisations can – in some circumstances – be used strategically as part of effective practice, alongside some example pitfalls in which approaches can fail to be strategic. As section 1.4 notes, a strategic approach to staff management requires a high-level understanding of the functions of staff management, how they can be carried out, and the advantages and disadvantages of different approaches, drawing on frameworks like this taxonomy and the subsequent examples.

Function	Common activities*	Example practices**
Workforce management	▶ Co-define organisation objectives and strategy ▶ Design target operating model & organisation design, e.g. how business needs are served by a mix of employees, contractors, partnership working, and third party service providers, considering labour market trends and the evolving competitive picture ▶ Evaluate HR needs relative to current mix given target operating model, e.g. hiring/training needs or restructuring initiatives, and the scale and scope of any staff dedicated to HR work ▶ Develop, implement and monitor an HR plan	▶ Structured employee engagement for input into plans ▶ Structured planning, documentation and review cycles ▶ Metric/KPI definition and monitoring ▶ Shared expertise / joint procurement among a cluster of SMEs ▶ Vertical vs horizontal vs mixed organisational structures ▶ Varying spans of control and flatness of hierarchy ▶ Decentralised, devolved decision-making ▶ Analysing and planning for employees/roles at risk of future disruption or redundancy
Recruitment	▶ Define role (e.g. key duties, salary, conditions, requirements) ▶ Design selection process ▶ Disseminate role among potential applicants/communities ▶ Conduct applicant screening / selection ▶ Make and negotiate offer ▶ Manage contracting ▶ Induct new employees	▶ Documented job descriptions / selection criteria ▶ Realistic job previews ▶ Screening tests ▶ Referral programmes ▶ Formal orientation programme ▶ Employee handbook ▶ Early pipeline development (e.g. community outreach to increase awareness and suitability among potential future applicants) ▶ Work experience, apprenticeship, internship programmes
Staff deployment	▶ Design and implement task flow processes ▶ Design and implement reward structures ▶ Design, introduce and sustain the working environment ▶ Manage or mediate grievances / complaints / conflicts ▶ Manage payroll and regulatory reporting	▶ Staffing plan ▶ Standardised roles ▶ Involvement in innovation, e.g. semi-autonomous problem-solving teams ▶ Flexible working conditions (hours, leave, telecommuting etc.) ▶ Documented, transparent and standardised policies*** ▶ e-HRM / staff management databases / process digitalisation ▶ Employee voice systems / regular staff meetings / staff suggestion schemes ▶ Facilities (e.g. sports, childcare, ergonomics in workplace) / Social gathering ▶ Transparency for employers regarding organisational plan/performance
Staff development	▶ Design and implement training initiatives ▶ Support informal, on-the-job training ▶ Monitor and manage staff performance	▶ Internal skills/competency matrix ▶ Documented, regular performance management / individual training plans / talent management ▶ Career progression structure with frequent promotion/change opportunities ▶ Peer-led learning / job rotations / work practices to encourage interaction ▶ Performance related pay or gainsharing ▶ Career development support / coaching ▶ Sabbaticals / secondments / sideways moves / redeployment / second career initiatives ▶ Manager delegation, accountability and empowerment initiatives ▶ Values & culture management (e.g. to promote collaboration, innovation)

Function	Common activities*	Example practices**
		▶ Group problem solving practices to promote learning organisation mental models among staff ▶ Designing tasks/roles with variety, enrichment, learning and progression ▶ Increased employment security ▶ Training leave / training budgets that staff can spend or bid for ▶ Incentives for training ▶ Validation of learning
Transfer & Separation	▶ Manage employees' departures ▶ Support former employees' references	▶ Exit interviews ▶ Fair treatment and support for leavers ▶ Formal performance review and time for improvement efforts prior to dismissal ▶ Alumni community management ▶ Employee termination checklists ▶ Succession planning

* Activities are typically necessary in organisations that employ staff, but may exist with different degrees of scale, formality and thoroughness; ** Organisations can choose to adopt specific practices, being ways of carrying out an activity or set of activities. There are typically multiple ways of addressing a particular activity and leaders' explicit or implicit selections among these constitute their approach to staff management; *** Policies may cover many topics, including holiday entitlement / parental or special leave; rights to collective association; discrimination; safety and security at the workplace; rights for non-permanent staff etc.

Sources: ILO (2011); CIPD (2020b); Storey (2007); Rauch & Hatak (2016); Bella-Pintado & Garces-Galdeano (2019); Messersmith e al (2011); Tamkin (2004); Senge (2006); Percy & Nguyen (2019); CSR Europe (2021)

For instance, examples of strategic practice that do not necessarily require formalisation or standardisation of processes could include frequent conversations with individual employees to discuss interests, development needs, and career progression; fostering an open culture in which team members can raise suggestions with each other and with the owner-manager; adopting a long-term and holistic perspective when considering whether the benefits of training and development activity are likely to outweigh costs; gradually but deliberately developing a network of peers or experts as accessible sources of information on HR practices, and so on.

As organisations grow, a more standardised approach, underpinned by appropriate policies and documentation, typically helps gain the most value out of staff management, but standardisation can also be introduced prematurely. Small, early-stage SMEs in particular may be able to leverage close working relationships among a small team to implement a personalised, high-touch approach to staff management that can outperform the structured, standardised processes that become necessary to reduce friction and ensure fairness among organisations operating at scale.

Mayson & Barrett (2006) provide several examples of poor practice that would not qualify as strategic, because they fail to consider a broad range of options or the interdependencies between activities. For instance: firms that complain of consistent difficulties recruiting yet rely on the same venues and networks for raising awareness of vacancies (e.g. a lack creative thinking about how to source applicants from new channels). Firms that provide on-the-job training and performance appraisals, but do not link the two. Firms that do not consider benchmarking in thinking about salary levels necessary to attract and motivate staff, yet face significant costs in regularly replacing staff.

Strategic SMEs will also consider how their practices conflict or reinforce each other. For instance, introducing performance-related pay or incentives for process improvements can backfire if not combined with sufficient delegation and training to empower behaviour. Regular performance management conversations can backfire if opportunities are not

▶ Table 2: Example informal and formal approaches to staff management functions

Function	Example informal approaches (leveraging the strengths of small SMEs)	Example formal approaches (leveraging the strengths of larger firms)	Example failures of strategy (not addressing interconnections in SSM)
Workforce management	▶ Ability to adjust individuals' responsibilities more flexibly as external circumstances change, with less concern about duties specified in a job description. ▶ Can work well with high visibility of performance, sense of shared ownership, and intra-team trust.	▶ Operating at scale enables metrics to be better tracked over time (without excessive short-term volatility) and can justify investment in in analysis to assess metrics, evaluate improvement initiatives, and analyse external trends. ▶ Can work well if good metrics are available.	Decentralising accountability without decentralising authority for decision-making or supporting staff to use the newly devolved powers.
Recruitment	▶ Use of personal, trusted networks to recruit staff, resulting in reduced search costs and greater confidence in performance (with human relationships in and outside the firm to draw on) ▶ Can work well if skills required are more generic and motivation to learn on the job is more important than rare or specialised skills that may not be sufficiently available in the network.	▶ Large local employers have more capacity and incentive to engage more and earlier in the local skills system, raising awareness among future recruits, explaining skills needs, and providing experiences to help inform career choices. ▶ Can work well if the skills system is open to employer engagement, local area retention is high, and employers can plan their future needs.	Consistent difficulty securing applicants for vacancies, without considering changes in job title/positioning, use of new venues/networks for awareness raising, or opportunities to reconfigure the team to change the mix of roles in the hard-to-recruit for positions.
Staff deployment	▶ Ability to provide a view of the whole operation and how functions connect, empowering staff to make better decisions with less standardisation because they understand the firm. ▶ Can work well if the person with greatest visibility, e.g. the owner-manager, invests time in sharing perspective with the rest of the staff.	▶ Scale can enable firms to deploy e-HRM systems and standardised processes that reduce the unit cost of providing core HR services (e.g. leave, payroll, performance management). ▶ Can work well if firms' business processes naturally result in large cohorts performing similar, standardised roles.	Consistent difficulty retaining staff, incurring the costs of recruiting/retraining new staff, without calculating the approximate lost value of turnover against the potential for this value to be invested in higher salaries, training and development, or promotion pathways that might improve retention.
Staff development	▶ Use of a narrative, personalised approach to performance appraisal/feedback, with fewer metrics, reducing the cost of metric collection and mitigating the risk of perverse incentives from poor metrics. ▶ Can work well if a shared narrative is developed with regular informal discussions about progress.	▶ Larger employers have a greater diversity of internal roles and more external links, which they can leverage to provide additional career pathways and opportunities for learning. ▶ Can work well if the firm is willing to provide flexibility, e.g. secondments, job-shares, etc.	Failure to capture, channel, and reward on the job training, e.g. with links to recognition and performance appraisal (informal or otherwise) for both OJT 'trainer' and 'trainee'.
Transfer & Separation	▶ Staff departures might be averted by adjusting roles or terms & conditions that might be difficult in large organisations due to implications for other roles (standardisation, fairness, precedent setting). ▶ Can work well if there are high levels of familiarity and trust to support open conversations	▶ Scale of former leavers can support a thriving alumni community. ▶ Can work well if there is transactional value to both sides in remaining in touch, such as a programme of events or intersecting business development pipelines / supply chain services.	Failure to build trusted relationships with staff beyond an immediate role, such that conversations about career pathways and possible departures do not happen, resulting in minimal notice periods for role filling, weak relationships with alumni, and fewer development opportunities for staff.

Sources: Mayson & Barrett (2006); Percy & Nguyen (2019); Dalziel (2010); Nyamubarwa & Chipunza (2019)

created to explore new tasks and roles or if there is differential treatment among employees. Such considerations lie behind the "bundle" approach to HR (ILO, 2013; Allen et al, 2013), in which certain practices are recommended to fit particularly well with each other in order to promote certain organisational cultures. For instance, firms might choose to promote a staff empowerment culture, a motivation and performance culture, or a maintenance and retention culture, each with a different mix of practices and emphases (e.g. Bella-Pintado & Garces-Galdeano, 2019). In an SME context in particular, complex bundles of HR practice do not need to be rigidly defined, but the principle around understanding conflicting and reinforcing practices remains helpful (Harney & Alkhalaf, 2020).

2 What staff management practices are present in SMEs today?

2. What staff management practices are present in SMEs today?

The diversity of SMEs, spanning an estimated 70% of all employment globally (ILO, 2019), represents a necessary limitation on the ability to generalise about staff management practices. As well as size, age, and sector, SMEs vary in many important ways with respect to their staff management practices, along such axes as family vs non-family SMEs and lifestyle vs growth businesses discussed further in Chapter 5. Within the literature reviewed for the paper, there are four key points to draw out as stylised observations that are useful, if imperfect generalisations:

1. Some SMEs prioritise staff management below other productivity-enhancing initiatives or view HR work with some scepticism.
2. Smaller firms typically have less formal or less explicit implementation of staff management practices than larger enterprises.
3. Informal approaches to staff management can work well in some situations.
4. The differences between small and large enterprises are less distinct when measures of functional quality are used, as opposed to measures of practice implementation.

In presenting these stylised observations, it is important to emphasise the diversity both across firms and between sectors and countries. For instance, 300 SMEs were analysed in Pakistan identifying differences between HR practices in the services, manufacturing and trade sectors (Burhan et al, 2020). The researchers found that practices were most formal in the services sector, followed by the manufacturing sector, followed by the trade sector. Average employee preferences also vary by country, as shown by comparative research on employees in the Czech Republic and China (Ližbetinová & Hitka, 2020, also revealing gender differences) and the different preferences for clan corporate cultures vs market/hierarchy corporate cultures (Hitka et al, 2018). Variations between firms and across countries is explored further in Section 2.4.

2.1 SME scepticism towards staff management

In some SMEs, staff management is seen as less important than financial, operational, sales, and marketing work, and is often incompletely understood by owner-managers

Mayson & Barrett (2006) argue that SME owner-managers, especially in new firms, are likely to prioritise aspects like dealing with production, marketing, sales, and cash flow, such that HRM can be seen as a less important. The Ardichvili et al (1998) study of 576 US start-ups over a 10 year period showed that the engagement of experts in the delegation of HR management issues happened more slowly than the delegation of accounting, production, and information systems.

A causal mapping interview technique with 37 CEOs of SMEs identified that managers' beliefs in HR management as a performance driver vary substantively (Viitala et al, 2020). Around three quarters of the interviewees exhibited ways of thinking about HR as a performance driver that the authors characterise as either scattered, narrow or vague, with only the remaining minority exhibiting "mature HRM thinking".

The pattern of training uptake by firms providing an insight on which topics have more demand from SMEs. For instance, the SCORE training for SMEs, provided by the ILO at scale in a large number of countries, typically makes four modules available on an optional, highly-subsidised basis, following the completion of a first compulsory module (ILO, 2017a, and supporting evaluation reports). Module 4, staff management, generally had low levels of uptake compared to modules on quality, productivity & cleaner production, and safety & health (6% of 79 SMEs in Ghana; 5% of 119 in Viet Nam; 22% of 46 in India). The most popular module had 30%+ participation, whereas staff management had the lowest uptake in two of the three countries evaluated. Internal ILO experience also reports similar results from the Expand Your Business (EYB) initiative from 2000 to 2010. EYB was typically a 1-2 week course providing business and management training, with various obligatory modules including marketing, operations, HR, and finance. Participants' evaluations were typically less positive about the utility of the HR module compared to other modules, often because participants felt they already knew how to deal with people and did not need further development in what they regarded as soft skills.

In fieldwork with four European SMEs, Sardi et al (2020) argue that SMEs prioritise financial and operational aspects ahead of human resource aspects when they create organisational performance management systems, despite evidence in the literature that this can reduce effectiveness. Even in Germany, where the SME sector is considered an example of good practice (Herr & Nettekoven, 2018), researchers have raised concerns about high levels of scepticism. Hirsch & Nachtwei (2020) describe a perceived negative attitude towards strategic HR management in SMEs, noting that there are even practitioners who call for HR to only concentrate on administrative HR work, arguing HR managers are not able to discuss strategic issues with executives on an equal footing.

This scepticism may partly reflect an accurate ranking of priorities and risks, as well as reflecting prejudices or a lack of awareness. For instance, Novita et al (2019) worked deeply with ten SMEs in Indonesia to understand the balance of financial, marketing and human resource challenges at three different stages of development: entrepreneurial, start-up and ongoing. Marketing and financial issues were typically more serious challenges than human resources. For instance, in the entrepreneurial stage firms struggled most due to inadequate financing. At the start-up stage, SMEs faced complicated problems primarily in marketing and finance. Staff management may be an important success factor, but it is not necessarily the most important one.

2.2 Less explicit staff management practices

Smaller firms typically have less formal or less explicit implementation of staff management practices than larger enterprises

The vast majority of theoretical or summative writing describes SMEs, particularly smaller organisations, having more ad hoc and informal practices than larger enterprises, whether they describe this positively (Nyamubarwa & Chipunza, 2019), pejoratively (Mayson & Barrett, 2006) or neutrally (Harney & Alkhalaf, 2020).

If the average of small enterprises is compared with the average of large enterprises, this finding is broadly consistent between countries and over time, albeit with variations in extent. For instance, Australian research using a 1995 dataset found that small firms were "generally less likely to adopt 'formal' HRM practices, including recruitment and selection procedures, written OH&S guidelines, and performance evaluation practices. In contrast, small firms were just as likely as medium and large firms to utilise workplace innovations such as TQM" (Bartram, 2005:1). Bartram (2005) noted differences by sector, but the variation between small firms and large firms remained generally present. Interestingly, despite differences in practice uptake, management were described as having similar views regarding the importance of devoting resources to HR management regardless of establishment size.

Recent empirical papers reinforce this picture of low levels of provision in SMEs. Bilan et al (2020) study SMEs in the Ukraine, focusing on the problem of how local SMEs might retain skilled workers in the face of emigration opportunities. The authors conclude that the problem is strongly linked to profitability – unprofitable businesses struggle to retain staff, contributing to low profitability – and that the practices of HR management in Ukrainian SMEs are "largely built chaotic, without analysing the impact on the efficiency of the use of other resources and without providing links with the overall economic efficiency of enterprises." (ibid: 1).

The low levels of management and employee training in SMEs has been discussed by a number of authors (e.g. in a UK context: Zhao & Thompson, 2019; in a Spanish context: Castany, 2010; in a New Zealand context: Vaughan, 2002). SMEs have been described as sluggish in their response to innovation, in analysis of HR information system uptake of SMEs in developing countries (Noutsa Fobang et al, 2020, examining Cameroon) and in analysis of lead benchmarking techniques (Zeinalnezhad et al, 2014, examining Malaysia). A large scale UK dataset found that SMEs are less likely to use formal management practices than larger firms, but that such practices were positively associated with firm survival, growth and productivity for those who did use them (Forth & Bryson, 2019).

2.3 Informality as a strength

Nolan & Garavan (2016a, 2016b) argue that informality is not only an inevitable aspect of HR development in SMEs, but may also represent an important resource. Increased flexibility and responsiveness to an external environment can, if well managed, be a strategic advantage. Studies that explore qualitatively how HR functions in practice in SMEs often result in a different emphasis to the surveys referenced in section 2.2, which typically ask respondents whether they use a specific practice.

Analyses of emergent HR practices often identify the potential for strategic thinking in informal practices

The seminal paper on emergent HR practices by Marlow (2000) interviewed managers from 64 SMEs at length, finding that some SMEs adopt informal practices in a strategic manner. She argues that "firms which do utilise a strategic approach, however informal, are more likely to endure." (ibid:1). The need for a strategic approach was noted by the majority of interviewees, even if many felt unable to act on it. She concludes that policy makers and those who seek to support SMEs should build on this latent desire to be strategic and support them with flexible, adaptable, and lighter practices selected and implemented in a strategic manner. Gilbert & Jones (2000:1) interviewed 80 small business owner-managers in New Zealand, with the same finding that there can be "sound reasons for the informal approaches in the context of the small business and 'mainstream' HRM practices [can be] inappropriate".

More recent qualitative research has reinforced these findings. A mixed methods exploratory study, based on interviews with both employees and managers from 50 small Australian firms, was favourable towards informal practices (Verreynne et al., 2012). The authors found that higher performing firms had better rated employment systems, with a cluster of human resource practices which included greater informality, employee engagement and participation. Another example, with eight family businesses in Western Australia, revealed strategic considerations of the relationships between organisation finance, innovation, future growth, operations and HR management (O'Shea & Duarte Alonso, 2020).

The conclusion is not that informality consistently works well, but that it can be reasonable strategic choice that owner-managers adopt in some circumstances. Indeed, qualitative work has also found that informality can be insufficient in some case studies.

For instance, eight semi-structured interviews with small manufacturing companies in South Africa found that limited budget, lack of resources and capacity, inadequate systems, ineffective employment relationships, lack of knowledge and understanding of HRM functions and business instability negatively affected the firms' ability to implement HR functions and business performance (Potgieter & Mokomane, 2020). Voss & Brettel (2014) analyse 314 SMEs in order to understand how small firms' human resource management systems influence the effectiveness of their formal and informal management controls, concluding that HR management helps management controls translate into performance in general and that firms should employ a portfolio consisting of both formal and informal controls.

Close relationship building can be a strength of SMEs

De Grip & Sieben (2009) analyse small Dutch pharmacies, concluding that firms' formal HR practices are less important than personal relations between the employer and his or her employees. More advanced HR systems did not seem to have any link to firm productivity, although there was some evidence of benefit for employees. The authors note that these results might particularly apply to micro and small firms where personal relationships can be strong enough to take the place of formal systems.

A number of studies focus on the importance of relationship ties and informal networks more broadly for SMEs, spanning a range of cultures and contexts both within the firm and with its key customers or suppliers. For instance, studies have focused on *yongo* practices in South Korea and its influence on recruiting practices and career progression (Horak, 2017), the role of *guanxi* in China for shaping the adoption and impact of informal training practices (Suseno et al, 2019), and the role of *wasta* in Tangier for recruiting staff, accessing trade credits and gaining relevant timely information (Sefiani et al, 2018). These studies tend to emphasise the importance of building strong, personal relationships, which requires a level of authenticity and informality and is strengthened by direct access to the owner-manager, being more accessible in SMEs. Gift-giving in SMEs has also been described in more authentic terms, with more support for relationship building, than the generic perks that some larger enterprises adopt to motivate employees (Adla & Gallego-Roquelaure, 2019, studying a French SME over three years).

A matched employee–employer dataset from Britain finds a positive relationship between the use of certain formalised human resource practices and SME performance, measured by financial performance and labour productivity (Lai et al, 2017). However, this relationship was only material in SMEs whose employees had lower job satisfaction. In other words, where employees have high job satisfaction, SMEs do not necessarily need formal HR practices in order to achieve comparable levels of business performance.

Small firms, even if adopting a strategic approach to staff management, will typically have less structure around competencies and fewer promotion opportunities than larger firms, limiting the power of some of the traditional motivational HR practices recommended for large firms. In this context, other aspects of motivating and engaging employees can become more important, e.g. emotional links, participation in decisions, and colleague relationships. For instance, a study of job embeddedness in Indonesian SMEs found that participants perceived the psychological costs associated with severing ties with co-workers as a more salient embedding force than the material costs associated with leaving a job (Martdianty et al, 2020). Nonetheless, there is also evidence that humour/informality as a bonding tool in the workplace has its limits and can cause management difficulties (Mallett & Wapshott, 2014).

It is possible to adopt formal practices too early

Lopez et al (2019) investigate the relationship between various formal approaches to HR in Portugal and financial results two years later. Considering such practices as a formal performance appraisal, a formal R&D function, and formal training activity, emergent firms mostly saw no benefit or, in the case of formal training activity, saw negative outcomes. Established firms, by contrast, saw positive effects from adopting a formal performance appraisal and a formal R&D function. The authors conclude that while formal practices can be beneficial for firms, it is possible for emerging firms to adopt such practices too early in their development.

In some cases, informal practices can function similarly to formal practices

Csillag et al (2019) adopt an exploratory interview approach to investigate workplace learning processes among small Hungarian firms. The results suggest that while small business owners may not explicitly describe their practices using the formal language of learning, they nonetheless consciously develop and manage their firms' learning processes and environments. Similarly, Urbancová & Hudáková (2015) analyse age management, employee development, and succession planning among 432 SMEs in the Czech Republic. The authors conclude that while age management is not an official primary focus of SME strategy and practices are not generally formalised, SMEs nonetheless naturally operate informally in line with good practice age management approaches. Similar insights have been found in the field of corporate social responsibility, where interviews with Finnish and Chinese SME managers showed that firms adopted informal strategies to meet the expectations of their stakeholders, targeting similar goals as more formal approaches (Li et al, 2016).

One of the objectives of recruitment policy is to test the "fit" between a prospective employee and the culture at the new organisation. For large enterprises, they might adopt multiple face-to-face interviews, reference checks and job try-outs as formal practices to test fit (Mayson & Barrett, 2006). In small firms, with fewer people, a similar benefit might be gained from relying less on formal job descriptions and more on informal, relationship building with a recruit fitting into a small work group, testing the fit over a period of time, and potentially flexing the role and team structure to something that results in a more functional overall team given the individuals available (Marlow & Patton, 1993). A longer period of socialisation supporting better choices around job fit and mutual commitment also resonates with successful practices in apprenticeships (Eberl et al, 2012). Given evidence that unstructured interviews and light-touch recruitment methods tend to work poorly (Azarpazhooh et al, 2008[6]), more positive outcomes might be gained from an approach that extends the time available for assessment and builds in more flexibility. Nonetheless, Mayson & Barrett (2006) question whether this is the result of "strategy" by the SME or simply luck. Using the working definition from Section 1.4, we can argue that this approach becomes strategic when adopted deliberately and thoughtfully by the owner-manager, being aware in broad terms of its advantages and disadvantages relative to other approaches to recruitment and induction.

Informal approaches may be particularly viable in family firms. Pittino et al (2016) analyse a sample of 232 companies with more than 10 and less than 250 employees, operating in Austria and Hungary. The authors find that the relational mechanisms originating from family social capital may act as substitutes for formal practices aimed at fostering employee involvement and commitment, noting that those mechanisms depend on the extent family involvement in the governance of the business. Family firms are discussed further in Section 5.1.

6 Noting that unstructured interviews have some advantages that can be drawn upon selectively and strategically (Chauhan, 2019).

2.4 Measures of function quality in staff management

The previous section argued that, in some cases, informal practices can work well for SMEs. This section explores how the practices of small, medium and large enterprises translate into functional outcomes. For instance, when firms are asked to provide examples and explain how they manage talent and retention, do they describe a function that is performing well and achieving its desired goals?

The largest cross-country analysis that attempts to measure the quality of staff management comes from the World Management Survey, run by Nick Bloom of Stanford University. This study has sufficient coverage of manufacturing companies to permit some high level comparisons by size across countries. This novel method relies on qualitative open questions, which are scored based not on "what practices are present" but on whether or not the particular aspect of the business is managed well. This approach adopts a best approach perspective on management, but recognises different organisations may adopt different practices to achieve the same broad goal. To generate comparable data at scale from qualitative research, the researchers rely on interviewers who are trained against a corpus of examples until they all provide consistent answers. Interviewers are often MBA students, who may have greater or more recent familiarity with formal approaches, but this approach nonetheless provides a bridge between the large-scale survey data that addresses the presence of specific practices and deep qualitative studies that seek to understand performance. A key underlying assumption is that best practices are those that "continuously collect and analyse performance information, that set challenging and interlinked short- and long-run targets, and that reward high performers and retrain/fire low performers." For methodology, see Bloom et al (2012).

Larger firms tend to have higher quality people and talent functions

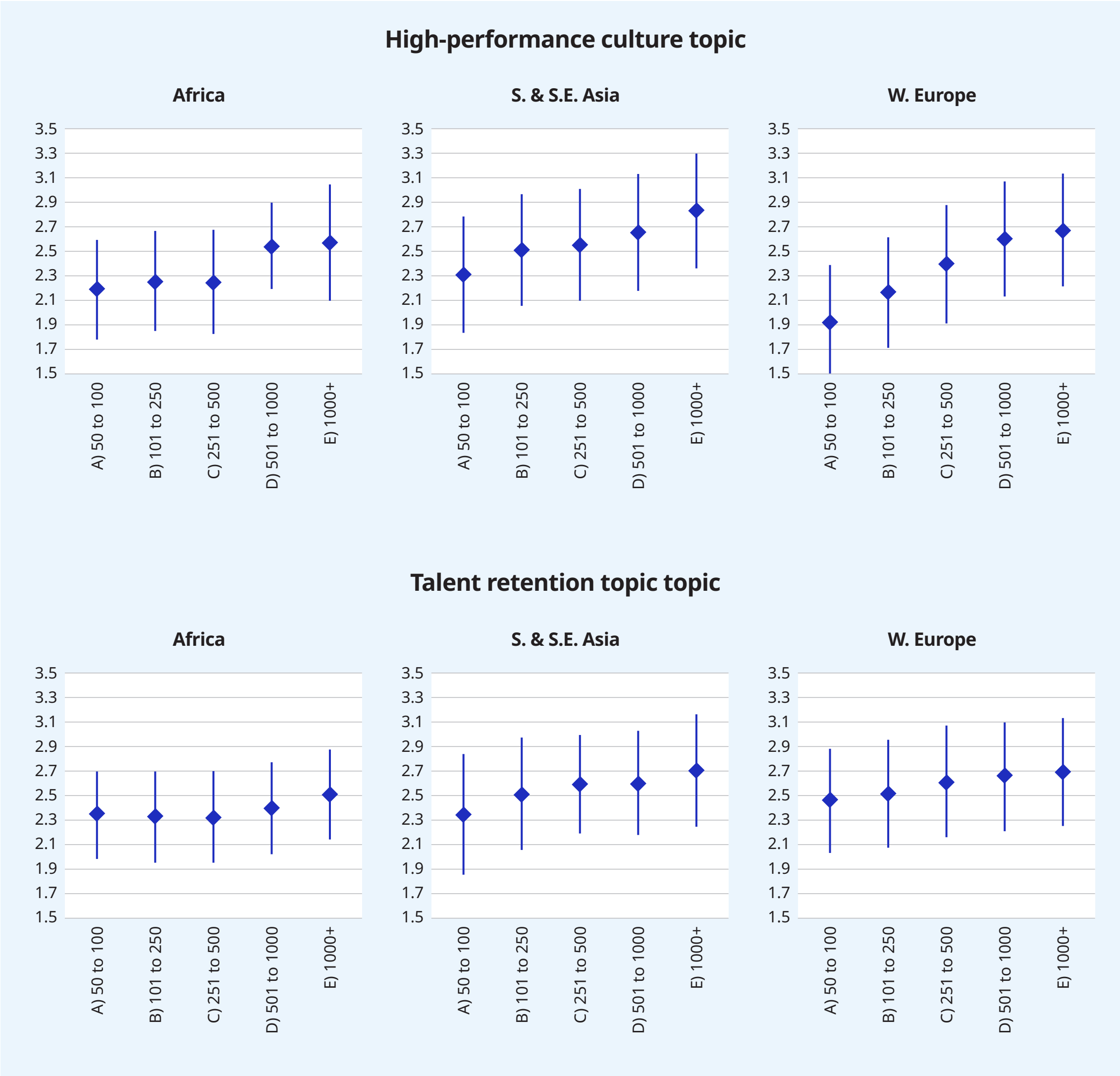
In support of the findings from sections 2.1 and 2.2, larger firms tend to score more highly on the aggregate people and talent scores. In all 35 countries with World Management Survey data for the manufacturing sector between 2004 and 2015 (the latest publicly available), large firms with over 1000 employees have a higher average score for people and talent management than firms with 50 to 100 employees (the smallest analysed). The gaps are starkest in China, S. America, W. Europe and the US; smallest in Africa, S.E. Asia, and E. Europe, but with significant variation within regions.

However, there is more variation within size categories than between them

Size is only a small driver of difference between firms, with much larger variations within size categories than between them. The gap in the average performance for the largest firms analysed and the smallest firms ranges from around 0.1 to 0.7 across countries, on a scale of 1-5 with standard deviation of 0.6 and an average of 2.7. The full range of performance within each country can be examined within the set of 13 countries with at least 25 respondents in each size category.[7] Across these countries, the minimum score in each size category always falls between 1.0 and 1.8, and the highest score always exceeds 3.0, and often exceeds 4.0, even in the smaller size categories. In other words, in companies of any size category in any country, there are examples of poor practice and strong practice, as measured through the WMS interview methodology. Diversity within size categories is reinforced by examination

7 Argentina, Australia, Brazil, Canada, Chile, China, France, Great Britain, India, Italy, Mexico, Singapore, & United States.

▶ **Fig. 2 Regional scores on people/talent management topics by size of company**



* Chart displays one standard deviation around the average value. Total sample size 4,567 firms, range of 53 – 1,054 firms between individual region-size subgroups.

of constituent topics within talent management (see Fig 2; grouping countries by region to support sample size[8]).

Smaller firms perform better when topics focus on outcome quality rather than formal processes

Analysis of individual topics within the people and talent management category reveals that size is a particularly weak differentiator of performance on topics which do not explicitly emphasise more standardised, formal processes. For instance, the "high-performance

8 Africa: Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Tanzania, and Zambia. S. & S.E. Asia (excl. Singapore): India, Myanmar, and Vietnam. W. Europe: France, Germany, Greece, Italy, Northern Ireland, Portugal, Republic of Ireland, Spain, and Sweden.

culture" topic (Figure 2) asks interviewers to probe on the following three questions, which are likely to be hard to address in more informal systems:

a. How does your appraisal system work? Tell me about the most recent round?
b. How does the bonus system work?
c. Are there any non-financial rewards for top performers?
d. How does your reward system compare to your competitors?

By contrast, the "talent retention" topic is framed in a way that is more neutral regarding the presence of formal processes, even if standardisation and structure may be one way in which some firms choose to deliver high performance against those topics. Interviewers are asked to probe the following three questions:

a. If you had a star performer who wanted to leave what would the company do?
b. Could you give me an example of a star performers being persuaded to stay after wanting to leave?
c. Could you give me an example of a star performer who left the company without anyone trying to keep them?

In "talent retention", some of the strengths of SMEs may come into play for some firms – such as an easier ability to personalise roles, compensation and conditions, and closer relationships between the owner-manager and the employee enabling greater potential individual employee influence over direction.

Bloom et al (2012) use their database to show positive links between higher management scores, including scores for people and talent management, and a range of performance metrics across firms in general, using such metrics as sales per employee, return on capital employed, growth and survival rates. The next section will explore to what extent greater investment in staff management can be tied to corporate performance in SMEs in particular.

3 Does greater investment in staff management improve SME performance?

▶ 3. Does greater investment in staff management improve SME performance?

Section 1 proposed a definition of strategic staff management that requires a deliberate choice of management practices, backed by a coherent argument, based on a broad understanding of the options available, and aimed at promoting favourable short-term and long-term consequences for the firm.

Section 2 identified opportunities for greater investment in staff management practices for the majority of SMEs, noting that practices are less frequently adopted than with larger organisations and that some SMEs prioritise other topics ahead of staff management. Additional investment might take a wide variety of forms, such as the money to purchase support, training, dedicated HR staff/contractors or systems; the time to develop, socialise, and enforce new processes, policies, and standards; or using interpersonal capital to engage employees in changing their approach. Given evidence from Section 2 that informal, typically lower cost, practices can also work for some SMEs, particularly smaller organisations, it is important to understand whether such investments tend to improve SME performance on average, and as such might be reasonably recommended to SMEs and facilitated via policy interventions and the skills system.

This section argues that greater investment in staff management typically does result in improved performance, but that this is not deterministic and the limitations of the empirical research base temper any conclusions. Furthermore, whether the investment returns outweigh the costs has only rarely been analysed. For this reason, it is important to emphasise that a strategically viable – even a strategically optimal – choice for SMEs in some circumstances may be to manage their business with low levels of investment in staff management. On average, the reverse is more likely to apply: greater investment will generally enable SME owner-managers to better achieve their goals.

3.1 Empirical evidence of impactful staff management practices

Recent studies associate more formal HR practices with better average performance in SMEs

Empirical research in recent years has reinforced previous findings that greater effort and investment into staff management tends, on average, to yield better business performance for SMEs. Such recent research covers a range of countries and sector coverage, including:

- **Export-oriented SMEs in Indonesia:** Gede Riana et al (2020) interviewed 126 SME managers at in Bali and found statistically significant correlations from HR practices to innovation and organisational performance (effect sizes 0.4 and 0.2; p-values < 0.001 respectively). Higher HR practice scores were gained by providing better compensation, training, performance assessment and opportunities for employee participation.
- **Manufacturing SMEs in N. Thailand:** Potjanajaruwit (2020) surveyed 269 SMEs finding a positive association between reported productivity and good practice approaches to recruitment, reward and maintenance (p-values < 0.05) and weakly for HR development practices (p-value 0.07). The author concludes that practices of selection of personnel, training, assignment of responsibility, performance evaluation, job design, and incentive compensation decrease the loss of production and support labour productivity in the electrical and electronic appliance manufacturing.

- **SMEs in Poland and the Czech Republic:** Łobos et al (2020) surveyed 383 companies operating in Poland and 381 in the Czech Republic, identifying a positive link between HR practices and growth. Four practices are highlighted as particularly valuable: attracting talented people to the company; rewarding well; ensuring employees know their tasks, decision areas and responsibilities; and running the firm in such a way as to promote cooperation between employees and to create a good working climate.

Other recent studies include those that address links between high-performance work system practices and employee creativity among SMEs in Jordan (Al-Aljouni, 2020), links between managerial capabilities and innovation in Anhui, China (Khan et al, 2020), multiple HRM practices in Bosnia and Herzegovina (Knezović et al, 2020), and links between profitability and seven HRM practices, such as performance appraisal, training and development, and employee engagement sessions among 269 SMEs in Brunei (Wuen et al, 2020). A minority of studies find no relationship between HR practices and performance, such as a study of recruitment/selection and training for Albanian tourism SMEs (Domi & Domi, 2020). Acknowledging the risk of publication bias and the possible use that some authors use academic outlets to promote specific support programmes for SMEs, the majority of associations tested and reported in recent studies are positive and statistically significant.

Meta-analysis of historical studies confirms the value of HR practices, especially practices designed to empower employees

Collectively, studies of this type contribute to the evidence base drawn on by Rauch & Hatak (2016) in the meta-analysis of 56 studies that address what they term "HR-enhancing practices" in SMEs. The authors identify a moderate positive effect size firm performance overall[9], both for perceived performance and, to a lesser extent, for objectively measured performance.

The authors argue that they find a higher effect size for HR-enhancing practices than for drivers of SME performance found in other studies, such as those focusing on business planning and innovation. The effect size is similar to the one found between HR practice and performance among large enterprises. They find stronger effect sizes for "empowerment-enhancing HR practices" than "motivation-enhancing practices". The authors conclude that "HR practices that enhance employee autonomy, decision-making involvement, and responsibility levels are generally more important in the SME context than directing employee behavior through oftentimes costly incentives and rewards." (Rauch & Hatak, 2016:499). This distinction is found to be more important for small firms than for those with over 50 employees.

The authors suggest that empowerment-enhancing practices may be more cost-effective to introduce in smaller firms where there are fewer workers and thus less time required to collate ideas and mediate discussion. As such, while the benefits of empowerment-enhancing practices might apply more generally, the average net benefits vary meaningfully with the size of the organisation. For instance, hypothesised benefits are less strongly size dependent: promoting individual self-efficacy, supporting employees' collective perceptions that lead them to take responsibility for goal-setting and task completion, and inducing reciprocal positive emotional bonds with the firm via upward feedback mechanisms and seeing the impact of such feedback.

Partially addressing concerns over publication bias, the authors find that studies with higher methodological rigor reported higher correlations than studies with lower methodological quality.

9 Sample size weighted and reliability corrected correlation of 0.2.

3.2 Limitations of the evidence base

Despite such recent progress, the evidence base continues to have similar limitations to those that prompted Guest (2011:11) to conclude, with reference to HR management in general, that "after hundreds of research studies we are still in no position to assert with any confidence that good HRM has an impact on organisation performance" and prompted Harney & Alkhalaf (2020:12) to state, with reference to SME HR, that "despite some progress, research on the HRM–performance relationship in SMEs remains limited and equivocal." Ongoing progress, such as future field research initiatives, longitudinal research, and robust comparison group studies, is important for continuing to improve our collective understanding.

The main limitations of the evidence base, each discussed below, are that the empirical evidence base provides insight on standardised, formal approaches to HR management more confidently than the full range of good practice that might apply in particular contexts; that causality is rarely directly addressed; that outcomes focus on business benefits rather than a staff or multi-stakeholder perspective; and that in the rare studies which address the costs of HR practices, net benefits sometimes reduce towards insignificance or turn loss-making.

The empirical evidence base has a structural bias towards more standardised, formal approaches to HR management, and does not rule out that informal practices can be effective

Driven by cost, speed, and practicality considerations, empirical studies that are large enough to drive statistical analysis typically rely on a tick-box survey methodology to collect data on HR practices, rather than qualitative interviews, fieldwork, or in-depth analysis of organisational practice. In pursuit of more objective answers, particularly as SME surveys are typically addressed to owner-managers, survey questions often focus on the presence of specific practices, processes, or policies. As a result, question phrasing favours firms that have more explicit, documented, and standardised approaches to HR, i.e. the "formal" approach to HR becomes an implicit proxy for higher quality practice in general.

The empirical results support the general conclusion that more formal approaches are on average associated with higher performance, but do not rule out that informal approaches can be an appropriate fit in some circumstances. The diversity of SME circumstances, motivations and drivers of success is also one possible contributor to the lack of replication across studies, as noted by Harney & Alkhalaf (2020:14).

Studies are overwhelmingly correlational in nature; only few address causal relationships

Rauch & Hatak (2016), Harney & Alkhalaf (2020), and others point out the reliance on cross-sectional survey data to inform evidence of impact. While some studies apply sophisticated statistical modelling of such data, such as structural equation modelling designed to unpack the directionality of relationships, cross-sectional surveys are ultimately limited in their ability to comment on causality.

This limitation is mitigated by the presence of some studies that have been able to implement more rigorous techniques. Rauch & Hatak (2016) note that six out of the seven longitudinal studies in their meta-analysis found a causal path from HR-enhancing practices to SME performance. For instance, Sheehan (2013) analyses UK-based SMEs using longitudinal data to demonstrate that bundles of improved HR practices, which she describes as "strategic people management" precede improved performance.

In other research, different HR practices in two Mexican garment factories were shown to contribute to enterprise-level outcomes, using a comparative mixed methods approach underpinned by fieldwork and internal management information data (Locke & Romis, 2010). Specifically, there was higher productivity and lower total labour costs in the factory that had practices like higher average pay, worker choices about overtime, autonomy, participation in decision-making, independent collective voice, and training to support lean manufacturing processes. As discussed by the ILO (2013), the more productive plant was wary of mistreating highly skilled and trained workers who could easily leave for competitors; managers feared losing training investment. Workers were trained to stop production when they saw defects. They worked in relatively autonomous production cells. In terms of compliance with Nike's corporate code of conduct for suppliers, more frequent visits to the more successful plant and more open communication between management and Nike's regional staff led to the development of greater trust between the company and the supplier, which in turn contributed to the upgrading of the supplier's production system and positive outcomes.

Correlational studies provide more confidence in a causal relationship when underpinned by a theory of change. Theorists have proposed a large number of approaches whereby HR practices support performance, e.g. Armstrong & Brown's review (2019) references the resource-based view (RBV), the human capital perspective, the behavioural perspective and the AMO model. Nolan & Garavan (2016a) emphasise the value of the complexity frame on RBV for SMEs, along with strategic choice theory. However, empirical studies on SMEs tend to make little use of such theoretical frames. In Harney & Alkhalaf's review (2020), about half of their reviewed articles (52) did not explicitly discuss the adoption of a particular theoretical perspective. Nolan & Garavan (2016a) similarly reviewed 117 papers, complaining that many did not explicitly highlight a theoretical anchor.

Theoretical underpinnings for causality are nonetheless limited by the possibility of confounders. For instance, successful firms may have more spare resources to invest in HR and may do so motivated by external pressures, external enablers, or worker preferences, rather than benefits for the business. Similarly, workers with more human capital may have greater choice of where to work, choosing more successful workplaces, which may contribute towards part of the correlation between success and the recruitment / talent management practices aimed to hire and retain workers with high human capital.

The focus on outcomes is primarily from a business performance or shareholder perspective, rather than a staff or multi-stakeholder perspective

Both SME literature reviews (Harney & Alkhalaf, 2020) and large enterprise reviews (Armstrong & Brown, 2019) have argued that the majority of empirical research focuses on the managerial or owner perspective, both in terms of desirable business outcomes and the assessment of HR practices. This matters both from the perspective of gaining a true picture of what HR practices are present and in understanding the consequences of particular practices.

Some studies have shown that employees present different descriptions of HR practices than managers. Verreynne et al (2012) conducted qualitative multilevel interviews with staff about the quality of HR and employment systems, arguing that the views of employees were more discriminating and diagnostic than those of CEOs. In another example, a study comparing management views with employee views across 311 Finnish SMEs found that the two groups had different average perceptions on what aspects of innovation capability affect performance (Saunila, 2017).

There is also significant concern among some researchers that certain HR practices might enhance firm performance at the cost of increased employee stress and reduced job satisfaction (Delery, 1998; Marchington, 2015; Sparrow; 2015). These are important areas for further study, particularly where interventions to enhance HR practices are motivated in part by improving workforce conditions. Reflecting more on a large enterprise perspective, Armstrong & Brown (2019) point towards a growing number of studies over the last decade that address employee wellbeing, suggesting that the future is positive for researcher attention on this topic.

The costs of implementing changes in HR practice or strategy are not addressed and some evidence presents a mixed picture

From the perspective of encouraging SMEs to invest more in staff management or of designing interventions and system-level reforms to encourage such investment, the greatest limitation is that research does not demonstrate that the benefits of different practice outweigh the costs (Way, 2002; Mayson & Barrett, 2006; Harney & Alkhalaf, 2020). As Rauch & Hatak (2016) demonstrate, HR practices are linked more strongly to perceived improvements in firm performance than actual measures in firm performance.

Sels et al (2006) is one of the rare studies that explicitly explores the cost-related effects of implementing new practice, differentiating direct costs like recruiting an HR officer, staff benefits, or performance-related pay from indirect costs, such as releasing staff from ordinary duties to execute HR related tasks. For SMEs in particular, there is an additional opportunity cost for the owner-manager in investigating, selecting and developing a specific set of practices to implement. The authors analyse 416 Belgium firms with 10-100 staff, finding that cost-increasing effects entirely cancel out productivity gains related to the same HR practices. The overall effect on profitability is positive, indicating that there are gains outside of productivity or value-added related to improved HR practices – the authors suggest customer satisfaction and innovation rhythm among other possible factors. Another contributory factor, since productivity and value-added have been ruled out, is that reverse causality is contributing to the positive association, in that more profitable firms may choose to invest more in their HR practices, perhaps due to personal preferences or worker demands, rather than because of the positive impact on profit of such practices.

The costs of practices are more commonly addressed implicitly in correlational studies that relate practices to overall firm profitability. Such studies reveal a mixed picture of impact, although the average remains positive as shown in Rauch & Hatak's 2016 meta-analysis. For instance, one South Korean study finds that the majority of measured HR practices were negatively associated with profitability and return on assets (Khan et al, 2020). The authors analyse 99 companies, with a total of 2.1k employees. They find that having an HR Development plan, a core HR concept consensus, and HR information systems had statistically significant negative associations; providing evaluation feedback while not statistically significant, was also directionally negative for profitability. The only positive association was found with conducting job analysis. The authors suggest that SMEs need to consider the effect of their HR practices in an economically strategic manner, assessing costs and probable benefits.

A rare replication study reinforces the potential value of investments in HR, as well as the potentially complex pattern of financial consequences. Chadwick et al (2016) replicated Welbourne & Cyr's 1999 study on the positive correlation between the presence of HR executives on subsequent post-IPO survival, focusing on generally small, newer firms. The studies show that financial performance does not improve with HR executive presence, but the company is more likely to survive for longer. In another study of IPOs, Welbourne & Andrews (1996) find that firms scoring more highly on HR practices had an increased chance of survival, but that high employee value was negatively associated with short-term performance. Presumably, over a sufficiently long-time span and considering sufficient costs of failure, the net results may turn financially positive, but not all studies are constructed to examine long-term, multi-parameter outcomes. In a similar spirit, Mayson & Barrett (2006) argue that HR functions can perform an important role in preventing major errors that might threaten firm survival, noting that managerial incompetence in handling HRM issues is considered a major source of small firm failure (Hornsby & Kuratako, 2003).

3.3 Directional cost-benefit analysis as a practical tool for SMEs

Investment decisions often involve more uncertainty around future benefits than the short-term costs, making it harder for some firms to commit to investments and reducing the frequency with which value-adding investments take place. In the context of multiple uncertain strands of benefit and cost, cost-benefit analysis (CBA) is typically recommended to support decision-making. However, standard CBA methods often endorse an analytically-intensive process (e.g. HMT, 2020) in order to estimate uncertain values, discount future incomes, and generate a specific, predicted investment return. This approach can be off-putting for non-specialists and disproportionate for the modest scales at which the majority of SME staff management investments operate.

A more practical approach for SMEs, particularly for smaller investments in terms of time or money, is a directional cost-benefit analysis. Directional CBA intends to help owner-managers gain directional confidence on whether the costs are either unlikely, likely or near-certain to be recouped – sufficient to combine with non-financial considerations and make a rapid go/no-go decision.

An example approach, which the author has used with small businesses in the UK, might follow the following seven high-level steps. Rapid assessments can be possible in a few hours using this technique. This approach works well for comparing a single investment or set of investments against a single baseline, typically maintaining the status quo. The approach needs to be adapted if seeking to choose the best single initiative out of several mutually-exclusive options, many of which are anticipated to be highly positive relative to a status quo scenario.

The seven steps are summarised in Table 3, with each step explained in more detail in the following text.

▶ Table 3: Seven step process for directional CBA

Step	Name
1	Assess what level of analysis/confidence is needed to support the decision
2	List the possible costs and benefits
3	Rapidly assess which costs and benefits are most likely to be material in scale
4	Approximately quantify the largest costs – add an approximate uplift for smaller costs
5	Identify an example unit value for the benefit most likely to be large in scale
6	Calculate the breakeven point for that benefit alone
7	Consider the feasibility of achieving that breakeven point and decide whether further analysis would be helpful for decision-making

Each step is described in more detail below:

1. **Assess what level of analysis/confidence is needed to support the decision**
   a. Are you able to start incrementally? E.g. if small time/cost investments enable you to get started and rapidly see whether the initiative is helping, then less analysis is needed upfront and direct experimentation may be more effective.
   b. Is the decision reversible? For more reversible decisions, less analysis and less upfront certainty in a positive return is needed.
   c. How small is the investment? For smaller investments, less analysis is needed.
   d. Does analysis help you to choose between meaningfully different alternatives? For instance, if there are external pressures or non-financial motivations compelling a particular choice, up-front analysis might only add cost and delay.
   e. Are other SMEs confident they have achieved positive returns from the initiative? If the circumstances of SMEs addressed in such intelligence, whether research data or personal testimony, are sufficiently close to your circumstances and you trust the commentary, less analysis may be needed.
2. **List the possible costs and benefits**
   a. Typical example costs include a financial cost (for a new system, for training, for external support, new hires), direct time cost to introduce the change, indirect management time to oversee that could be spent on other priorities, and process costs (inefficiency in the short-term transition, any ongoing maintenance costs).
   b. Typical example benefits include reduced turnover, increased productivity, higher quality products or services (lower failure/reject/return rates), and reduced risk exposure (e.g. to legislative/tribunal challenge), which might be driven by a diverse range of factors including reducing hiring costs, hiring better fit staff, more skilled staff, more engaged staff, more standardised processes, greater adherence to process, unlocking ideas from staff for business improvements and so on.
   c. At this stage, costs and benefits should be listed rapidly, without quantifying or analysing them. Costs and benefits suspected to be very minor can be discarded.
3. **Rapidly assess which costs and benefits are most likely to be material in scale**
   a. Rapid assessments might draw on the owner-manager's experience and judgement, discussions with the team, conversations with local SMEs in your network, or short conversations with external experts.
4. **Approximately quantify the largest costs – add an approximate uplift for smaller costs**
   a. This might involve requesting an indicative quote, asking other SMEs how long a process took, researching online, or brainstorming with your team. The value of staff time or owner-manager time can be approximately quantified in terms of the implied daily rates given by salary costs.
   b. Costs that have been identified in step 2 but not quantified can be approximately adjusted for, based on a percentage uplift that feels reasonable. The intention here is to progress the analysis rapidly, so it might be easiest to try two uplifts, one that feels optimistic and one that you are confident will be too high. If your ultimate CBA or decision proves sensitive to where the true value might fall, it is an indication that further research might be warranted.
5. **Identify an example unit value for the benefit most likely to be large in scale**
   a. For the benefit most likely to be material in scale, as identified in step 3, consider what example unit might be easy to estimate. At this stage, we are not suggesting that the staff investment will achieve this benefit.

b. For instance, a high-level measure of productivity is gross value add (e.g. revenue minus input material costs) divided by labour costs, which can be calculated in a straightforward way from annual accounts or management information. A single percentage point change in productivity is a useful unit value for directional CBA.

c. Another common example is reduced staff turnover. You might identify the average value of an example worker staying for eight years instead of two years. On a steady state basis, this reduces by 75% spend on recruitment for that position, productivity loss in training new recruits, the costs of vacant positions and so on (see Table 3). One example benchmark from the UK is 120% of annual salary for losing someone in an early/mid-career role, with the cost of turnover being 3%-4% of total industry output (Oxford Economics, 2014).

d. The purpose is to get approximately useful values that feel plausible to the owner-manager, perhaps to within 25% or 50% of the true value, and move on quickly to the next stage of the process, rather than investing time in detailed analysis.

e. This is a valuable stage in the process, as these example unit values can typically be re-used in future analyses with only minor adjustments.

6. Calculate the breakeven point for that benefit alone

a. Calculate the level of success necessary for the most likely benefit alone to fully cover the likely costs estimated in (4).

b. For instance, if the total costs, including an uplift for staff time, are estimated at US$ 10,000 at the top end of likelihood and the profit value of a 1% increase in general productivity across the business is US$ 4,000, the breakeven point after a single year is a 2.5%pt increase in productivity – likely lower as costs have been estimated at the top end. Most staff investment initiatives should provide benefits for at least a few years, recognising that staff turnover, business process change, sectoral trends, and new technologies mean that benefits should not be projected too far into the future.[10] Allowing for benefits over approximately five years, the breakeven point becomes a 0.5%pt increase in productivity.

c. Alternatively, the full cost of losing a member of staff who would otherwise have become a long-term member of the team might be estimated conservatively at US$ 20,000. The breakeven point here is whether you might be approximately 50% confident that at least one member of the team might be inspired to stay long-term at some point over the next five years.

7. Consider the feasibility of achieving that breakeven point and decide whether further analysis would be helpful for decision-making

a. The feasibility of the breakeven point identified in (6) should be assessed at a high-level, based on the instinctive judgement of the owner-manager, drawing on internal and external discussion to support that assessment. It may also be possible to identify benchmarks for likely levels of success from fellow SMEs or the research literature, accessible from online searches.

b. A high-level assessment can consider whether the breakeven is very unlikely to be achieved, feels uncertain, or is a highly likely to be exceeded. In the latter case, there is no need for further analysis. From a financial position, you can be sufficiently confident to proceed.

c. If the benefits analysed to date are highly unlikely to produce breakeven, you can consider the other benefits in step (3). Are there still significant benefits to analyse?

10 Future income streams can be discounted, e.g. using the rate at which the SME can borrow money, but this level of analysis is more suited to large scale studies than directional CBA. If the business decision resulting from directional CBA proves sensitive to the use of a discount rate of, e.g. 5%-10%, further analysis is needed.

Are the extra benefits collectively likely to be materially important compared to the one you already analysed in step (5)? If so, you might add the next benefit down the list and apply steps (4) – (7) again on the combined figure for benefit value, applying caution for possible double-counting.[11] Or, if you already feel confident enough that the costs would ultimately be exceeded or not exceeded, that may be enough to inform a business decision.

d. If the feasibility is borderline or uncertain at this point, you might consider whether non-financial motivations or the considerations from step (1) are such that a borderline result is sufficient to go ahead with the initiative. If borderline feasibility is insufficient to motivate proceeding, then additional benefits should be considered as in point c above and/or further analysis conducted to refine the estimate.

The costs of turnover are typically a key component for the benefits of staff investment. The costs typically significantly exceed the direct costs around recruitment and inducting the new team member, with example considerations summarised in Table 4.

▶ Table 4: Example considerations for turnover cost (ILO, 2011)

Separation Costs	Costs of fill-in worker while position vacant
	Reduced productivity of fill-in worker vs departed colleague
	Exit interview (manager's time, worker's time)
	Cost of previous training provided to now departed-colleague
	Severance and benefits
	Lost knowledge, skills, and contacts
	Administrative functions of separation
Replacement costs	Agency / recruitment fee
	Internal staff time for recruiting, sifting, and interviewing
	Employment checks (references, medical checks etc.)
	Travel / relocation benefits
	Start-up administrative functions
Training costs	Induction / departmental training – lost worker time
	Cost of training provision (trainer time, salary)
Productivity costs	Lost customers, business ideas, sales
	Lost productivity for the departed worker
	Lost productivity among co-workers / managers (disruption)
	Mistakes made by the new worker

11 or instance, a benefit in "more skilled staff" might already be mostly captured in a breakeven analysis on "higher productivity" in general. Hiring better fit staff might be partly captured in reduced turnover and partly captured in higher productivity. For a directional CBA, it is normally sufficient to focus on the breakeven rates of common benefits or to adjust manually for likely overlap, using high/low estimates to capture uncertainty.

3.4 Implications

The above discussion suggests a synthesis view that on average benefits exist where SMEs invest more in staff management, including where such investment is reflected in or proxied by more formal, standardised approaches compared to informal approaches. However, the presence of a positive average effect disguises cases where more informal approaches might be more beneficial for SMEs, whether due to being a better fit for their needs or simply having lower costs compared to formal approaches. The definition of a strategic approach to staff management reflects this, being broad enough to allow cases where the benefits of informal approaches are deliberately leveraged.

Noting that SMEs are highly heterogeneous, it is likely that different SMEs will have different good fit bundles of HR practices. The specifics are not well understood or well investigated empirically, but researchers have commented on the probable key parameters of variation, emphasising that none of them are individually deterministic and that researchers have not generally felt able to comment on specific thresholds. The main such parameters are size, newness, owner-manager ambition, growth stage/state, familiness, and country/sector, discussed in more detail in Section 5.

The evidence for average benefits, alongside the uncertainty over costs consistently outweighing benefits at the individual firm level, suggests the importance of developing low-cost solutions and promoting system-level reform, the value of high-level, directional cost-benefit analysis to inform SME business decision-making, and a possible role for government support in this sector, alongside ongoing field research to develop the academic and practical evidence base.

4 What is the theoretical case for state intervention to promote SME staff management?

4. What is the theoretical case for state intervention to promote SME staff management?

Section 3 argued that, despite limitations in the evidence base, it is likely that many SMEs would benefit from an increased focus on staff management. A strategic approach to staff management, as defined Section 1, would not necessarily result in more investment, but is expected to do so on average given the generally low levels of investment today outlined in Section 2. At the same time more formal approaches to staff management are not always necessary for SMEs to thrive and costs do not always outweigh benefits at the firm level, particularly under the bounded rationality considerations of an owner-manager with limited capacity.

In this context there are several connected reasons why the state might wish to promote staff management among SMEs, which can be loosely grouped under 'enabling strategic decision-making', 'responding to positive externalities', 'mitigating missing markets', and 'driving national progress'. These arguments draw on widely-used principles for state intervention in the fields of education, training, skills and productivity, explored in more detail in Costa et al (2018), Oldsman (2017), and the OECD/ILO (2017), as well as being referenced in passing in the context-setting or conclusion sections of several recent papers identified by this review (e.g. Nwokocha & Madu, 2020; Van Song et al, 2020; Zhao & Thompson, 2019).

4.1 Enabling strategic decision-making

State-supported information and training programmes can improve understanding of staff management, enabling firms to better decide what practices to implement to support growth

The principles for strategic staff management, outlined in Section 1, rely on owner-managers understanding different approaches to HR management and knowing how to investigate and implement options when appropriate. Owner-managers' expertise and capacity is typically distributed across the full range of functions in their business, such that they are limited in their ability to address each area in full.

State intervention can reduce the frictions involved in decision-making by building awareness and understanding of HR practices, thereby encouraging more strategic, better decision-making across firms. This case for state intervention recognises the constraints of bounded rationality that owner-managers are operating under, needing to prioritise their time, knowledge and learning across a wide portfolio of activities, but knows that the boundaries of those constraints are not fixed over time. Some SMEs may be in a position to benefit from certain staff management practices, but not understand them well enough in order to engage. Market forces may naturally address some of this deficit, with training providers able to sell services at a profit (given the future gains to firms), sufficient to invest in awareness-raising campaigns to drive demand. However, if awareness is particularly low or the benefits only modest or uncertain in scale, there may not be enough value or visibility of value to trigger market action without support (Zhao & Thompson, 2019).

Triggering a self-sustaining culture change through raising general levels of community awareness is powerful motivation for state intervention. If the majority of firms are sufficiently aware of the benefits of HR practices that it is frequently discussed, implemented. and reported on through sector media or community groups, momentum can be generated such that the insights reach the remaining firms as well as new firms that emerge over time.

4.2 Responding to positive externalities

Investments of any kind occur suboptimally when the distribution of costs and benefits are uneven across market stakeholders, resulting in externalities. Diverse positive externalities exist with staff management, of which two are particularly relevant at the firm-level: investing in staff capital and overcoming barriers to cooperation (Brunello & De Paola, 2004).

Employers may under-invest in staff training, networking and skills partly due to uncertainty over whether staff will remain at the firm

For employer investment in staff, particularly gaining human, social, and cultural capital through activities like training, networking, and diverse experience, the benefits are borne not only by the current employer but also by future employers – a positive spillover or externality of the original investment. If staff are supported to perform 'too well', they may also be more likely to leave, triggering costly replacement processes and perhaps the loss of a valued personal relationship. As result, firms may prefer to invest first in other productivity initiatives, such as new equipment.

This market failure is exacerbated in small firms. By definition, smaller firms represent a smaller share of employment in their sector than larger firms. Smaller firms often also have higher turnover: structurally they are less able to offer the same diversity of promotion options and people management opportunities as larger firms, and they are often more resource-constrained for compensation flexibility, particularly with respect to being able to survive periods of variable and poor business performance. SMEs that are family firms can also manifest bifurcated HR practices, in which non-family members are treated differently to family members, potentially facing a ceiling in their progression whether explicitly or otherwise (e.g. Jennings et al, 2018). Such practices have been related to inefficient outcomes in some studies, pointing towards increased market failures and missed potential innovation, although such inefficiency is not guaranteed in family firms and can depend on other factors, such as the firm's entrepreneurial orientation (Jocic et al, 2021).

Discussing barriers to SMEs participating in formal training, Vaughan (2002) notes the conflicting evidence about demonstrable benefits in terms of profit and growth from training to the SME itself, arguing that benefits tend to be most clearly seen in terms of the individual employee or the economy generally, motivating state support.

SMEs may be less able to invest for long-term benefits, due to vulnerability to short-term shocks and limited access to credit, motivating state intervention to unlock long-term gains

Resource constraints can naturally translate into a more short-term focus. Smaller organisations are more vulnerable to external shocks (Lai et al, 2016), such that even profitable firms can see significant variance in performance and need to maintain a short-term focus and a resource buffer in order to survive through periods of challenging performance. Without business stability, it is harder to invest in activities whose pay-offs are weighted towards the medium and long-term. Small SMEs in particular are unlikely to have sufficient staffing activity to justify a dedicated HR lead, such that the owner-manager has to draw on their own, typically non-specialist experience and many will not have a full appreciation of the different staff management approaches available.

This positive externality can result in a negative spiral, in which SMEs may under-invest in staff due to (fears of) high turnover, short time horizons, or limited resources, resulting in dissatisfied staff leaving to seek opportunities elsewhere and more costly processes for the SME, due both to under-trained staff and the frequent recruitment costs. SMEs rarely state this motivation explicitly, perhaps due to its pejorative implications, but low levels of training nonetheless result in SMEs. There are many interventions that can resolve this market failure, such as state activity to subsidise provision through revenue collected (ultimately) from all firms in the sector or mandated minimum levels of activity.

High transaction costs and competitive constraints may limit SME cooperation in some sectors, resulting in missed opportunities for innovation, collaboration and growth

The second externality concerns barriers to cooperation. The state may wish to facilitate a mediating role, in order to reduce transaction costs, competitive constraints, and other barriers to cooperation between SMEs. For instance, increased cooperation between SMEs, supported by a more strategic approach to staff management, might support innovation, joint ventures, or pooling of HR resources. This may be particularly important in sectors which tend to have fewer or less strong employer associations, resulting in fewer mechanisms to support cooperation. Sector associations, for instance, often respond most strongly to the interests of larger firms, who constitute a larger share of their funding and have more capacity to engage in sector-level dialogue.

4.3 Mitigating missing markets

Where markets are missing or operating at a suboptimal equilibrium, there is an incentive for the state to intervene to regulate the market into operating smoothly or to kick-start it into a better equilibrium (e.g. Mendoza & Thelen, 2008; Johnston & Girth, 2012). Two key markets that can affect SME staff management are service provision and credit.

Staff management support to SMEs may be stuck in a low-volume, low-quality equilibrium, which state intervention can catalyse into a higher impact equilibrium

One reason SMEs may invest less in staff management consultancy, staff training, or HR processes/systems than larger firms is that the market that serves them may be low quality. This in turn can result in a suboptimal equilibrium.

There may only be few or low value for money providers of services to SMEs on account of the small size of the market, reflecting both SMEs' limited budgets and the low awareness among SMEs of the services and their potential. However, with only few suppliers, there is little aggregate investment in demonstrating impact and raising awareness among SMEs and little competitive pressure improving supplier performance. Volumes of activity remain low, meaning little ability to reduce cost through volume or incentivise innovation.

It is possible that a high equilibrium exists, with a vibrant marketplace providing value for money staff management services to SMEs, including strategy support, but it can only be reached with an initial catalytic investment; such catalytic investment may only be possible via joint sectoral action (where the sector has high capacity for cooperation), long-term loans to innovators, or by government intervention.

State intervention might be motivated by incomplete credit markets failing to serve SMEs

Even if the provider market exists, SMEs may be unable to access it to due to difficulties accessing credit. Such difficultiees have been widely identified for smaller and new firms, for whom banks have a higher cost to serve relative to loan size, as well as higher levels of uncertainty, given the lack of deep or historic participation in credit markets. In this case, the state might intervene to create the missing market for credit provision, either by directly providing loans that are attractive to SMEs or by regulating the market to enable funders to participate. The role of the state in managing incomplete credit markets in developing countries has been widely analysed (e.g. see discussion in Beck, 2007).

A range of government intervention options exist for tackling missing markets. Options include direct government provision of the missing market, subsidy to providers or firms, short-term funding injections e.g. via challenge funds or grants to support innovation and the growth of new providers, or government promotion of existing opportunities. This might be particularly important for sectors where SMEs are poorly served by employer associations.

4.4 Driving national progress

State support to increase competitiveness may accelerate short-term growth, generating fiscal returns in the future and result in improved workforce conditions

The state may wish to increase productivity and competitiveness among its resident businesses more rapidly than the businesses might naturally invest in reform, even if those businesses are aware of the potential benefits, have access to a marketplace of support, and access to finance. For instance, the state may perceive a time-bound opportunity for its firms to establish export-worthy competitiveness, gaining economies of scale and moats at a sector-level that support continued growth in the future.

The state may also be willing to invest for longer-term futures than owner-managers, as its access to capital is such that it has a lower time-cost of money and it lacks the lifecycle, generational constraints of owner-managers. In this way, the state may choose to see investments in human capital in a similar way to investments in other forms of capital building or R&D, which commonly attract policy support and subsidy.

Outside from motivations intended to correct market failures, the state may wish to support staff management practices to serve its own ends. For instance, short-term growth might generate fiscal returns in the future that more than compensate for the initial policy cost. Similarly, the state may wish to promote better staff management as a lever to improve workforce conditions, motivated by moral considerations, the priorities of their electorate, or the spillovers from workforce conditions to other aspects of the state, such as healthcare provision or community cohesion.

5 What internal and external factors influence SME staff management?

5. What internal and external factors influence SME staff management?

A wide range of internal and external factors influencing strategic staff management have been specified or analysed in different papers, albeit with little consistent, quantitative focus on when and how they might apply.

Internal factors are those which are related to the SME itself or within the influence of the owner-manager, focused particularly on resource-constraints and the owner-manager's characteristics. External factors are those that affect the environment the SME operates in, including the intermediary organisations, supply chains, and external support that the SME can access. Connected to both internal and external factors is the observation that certain catalytic events can be key in triggering owner-managers to take a more strategic approach to staff management, considering which investments are in the best long-term interests of their firm.

Relationships around internal and external factors are generally weakly indicative, contingent, and variable, rather than strongly determinative and consistent in nature. For instance, analysing 227 respondents from 24 SMEs in Eastern and Western China, Li & Rees, 2020 find that a complex pattern of relationships between firm size, sector, location, firm age and presence of an HR department in formalising HR practices. In general, location and presence of HR were found to exert a stronger influence than size and sector, but other researchers have found size and sector to be important (e.g. Chandler & McEvoy, 2000; Rauch & Hatak, 2016) and the variation in the Chinese data also points towards highly contingent and idiosyncratic patterns of behaviour.

5.1 Internal factors

Smaller, newer firms typically have less capacity to invest in staff management practices

One key constellation of factors is the size, age, and access to resources of SMEs. On average, smaller, newer, and more resource-constrained SMEs are understood to have less time, money, and strategic capacity to invest in staff management practices.

SME resource constraints have been captured by some researchers in the phrase "liability of smallness", building on early work by Arthur Stinchcombe (e.g. Abatecola et al, 2012). This perspective argues that smaller firms are often more financially constrained, for instance because it is harder for them to acquire credit, more constrained in their ability to attract skilled workers (e.g. perceived as riskier employers with fewer career advancement opportunities), and more constrained with regard to budget flexibility, driven for instance by the reduced economies of scale over which to distribute costs such as compliance with regulations. Conversely, as organisations become larger, informal approaches to management become less viable and increase legal risks to the organisation.

A corresponding "liability of newness" (Abatecola et al, 2012) reacts to the high failure rate of new firms and is closely associated with size, in that new firms are often small firms. Example structural factors driving this include the need for new firms to interact more often with unknown third parties (since they have fewer historic relationships to draw on), the need to spend time developing new processes with untested levels of suitability for their situation, and the reduced access to credit, customers, and potential employees given their shorter track record.

These factors are widely analysed and relate to lower average uptake of staff management practices (Harney & Alkhalaf, 2020) but are not deterministic. In some cases, these same factors can be construed as an opportunity for interventions and support to improve staff management. For instance, new organisations may be particularly open to new practices, since they may more often still be in search of solutions and have less institutional legacy. In more recently founded organisations, greater levels of informality might be viable, driven by an overall person-organisation fit, as staff appreciate the start-up trajectory and flexibility required to survive. Smaller firms can be more nimble in their decision-making (Nyamubarwa & Chipunza, 2019). Resource-constrained firms can be more motivated by practices that potentially support profitability or growth, particularly where they have short-term benefits or where short-term costs can be delayed or derisked.

The experiences, ambitions, and idiosyncrasies of owner-managers shape their approach to HR

Another constellation of factors focuses on the owner-manager's characteristics and approach to business strategy. SMEs are more likely to engage successfully with staff management if the owner-manager has higher emotional intelligence (Cuéllar Molina et al, 2019), is more highly educated (Brinckmann et al, 2019; Mckenzie & Woodruff, 2017), is more positive and understanding about HR (Garavan et al, 2016; Greer et al, 2016; Garengo et al, 2005), or more charismatic in their leadership style (Morched & Jarboui, 2020; Yelamanchili, 2019; McClean & Collins, 2019).

Where owner-managers adopt specific strategic management methods, such as Total Quality Management (TQM) or lean six sigma (LSS), there is often evidence that investment in HR practices and skilled staff supported by HR practices are important success drivers for the management method (Chandler & McEvoy, 2000; Gil-Marques & Moreno-Luzon, 2013). For instance, Dubey et al (2015) analyse Indian manufacturing SMEs, finding that leadership, a quality culture, and HR practices mediate whether introducing TQM improves business performance. A systematic literature review of LSS by Singh & Singh (2020) identifies 13 success factors, of which several relate to HR practices, such as training and organisational infrastructure, reinforcing empirical work on German SMEs' LSS practices by Shokri et al (2016) which surfaces the importance of organisational culture and staff core competences.

Management preferences that drive higher, pre-existing levels of worker participation or consultation may also support in the introduction of staff engagement, given evidence that HR practices can sometimes benefit employees more than managers (De Grip & Sieben, 2009). Insights on this topic are limited, as researchers have tended to analyse employee participation as an example of staff management practices, rather than a mediating factor between practices and uptake or outcomes.

The owner-manager's personal ambitions are also important (Harney & Alkhalaf, 2020). An owner-manager aiming to create and sustain a minimum viable lifestyle business may prefer more informal staff management at lower levels of investment than an entrepreneur hoping for an IPO or acquisition. At different points in time, the strategic focus may shift between survival, scale-up, or succession planning, resulting in different focuses for HR activity.

Family-firms and level of 'familiness' can also influence practices and outcomes

Writing in the launch of the Journal of Family Business Strategy, Astrachan (2010) notes that strategies characterising successful family businesses are often quite different from other companies. For instance, family businesses are often considered to be more values-driven, to have more non-financial goals, to rely more strongly on networks and altruism, and to adopt longer-term perspectives built around a family brand identity in the local area. Owner-managers have also been found to persist with underperforming, unprofitable firms longer in the case of family firms. Some studies have shown that CEOs in large, public businesses earn less than CEOs of other businesses (Gomez-Mejia et al, 2003).

These features, among other distinctive aspects of family businesses, can influence the prevailing staff management practices in SME family firms. For instance, some studies have found evidence of "bifurcated" practice in family firms, where different HR practices are applied to family members (Jennings et al, 2018; Hoon et al, 2019). However, other research suggests such differences do not always apply (Samara et al, 2021; Horváthová et al, 2020 examining the Czech Republic). It is possible that family dynamics play out differently as firms scale, with key transition points when non-family staff first began to have some responsibility for HR and when the first tensions arise due to observed differences in treatment, and at succession stages (Venter, 2003). In general, family firms with more progressive, inclusive HR policies tend to have higher performance and longevity (Astrachan & Tolenko, 1994).

Where differentiated practices do apply in family firms, it has been related to inefficient outcomes in some studies, such as missed potential innovation, although such inefficiency is not guaranteed in family firms and can be mediated by other factors, such as the firm's entrepreneurial orientation (Jocic et al, 2021).

There is also some early evidence that different types of staff management practice are more important in family firms. Bello-Pintado & Garces-Galdeano (2019) analysed manufacturing plants in Uruguay and Argentina, finding that practices focused on enhancing abilities and employee participation supported performance in family firms but not in non-family firms, where motivation-focused practices were more impactful.

Staff attributes and behaviours interact with HR practices as part of a complex system that drives firm performance

A number of studies have sought to understand the mediating and moderating factors through which HR practices shape performance. The diversity of these factors and the inconsistencies with which particular factors dominate points towards a complex system effect, in which HR practices interact in various reinforcing and conflicting patterns with other factors. A complex system model also helps to explain the diversity of behaviours and relationships observed across SMEs in different studies and the low replication rate in cross-sectional survey analyses (Harney & Alkhalaf, 2020).

For instance, in a sample of 133 Vietnamese SMEs, Do & Shipton (2019) find that employee creativity mediates the pathway between HPWS and firm innovation and that learning goal orientation moderates the HPWS–employee creativity relationship. A similar study in Pakistan found that human capital, motivation and employee voice fully mediate the relationship between HPWS and innovation performance in SMEs (Shahzad et al, 2019). Coder et al (2017) suggest that intellectual capital is a key mediating factor between HPWS and small firm performance. Structural equation modelling for Malaysian SMEs concludes that human-capital enhancing HR practices strengthen SMEs' learning capability and that SMEs' learning capability in turn mediates the effect of the HR practices on firm performance (Hooi & Ngui, 2014). Other studies have examined employee commitment (Lechuga Sancho et al, 2018), employee involvement and quit rates (Allen et al, 2013), and strategic orientation or flexibility (Teo et al, 2011; Patel, Messersmith, & Lepak, 2013; Xiu et al, 2017).

HR practices may also be more important in high-skill or export-oriented sectors

Some researchers have argued that more highly skilled workforces benefit more from HR practices (Bacon & Hoque, 2005; Barrett & Meyer, 2010; Wu et al, 2014). Different sectors also have different traditions in their approach to training, such as their use of apprenticeship, which are likely to influence their approach to HR. Such traditions typically need to develop gradually over time building awareness among the broader prospective workforce of applicants and students.

Researchers have also argued that HR practices are likely to be more important and typically more widespread in high-skill sectors (Georgiadis & Pitelis, 2012), high-tech sectors (Rauch & Hatak, 2016; Tsai, 2010), or for firms facing skill shortages (Bilan et al, 2020). Some of the empirical research identifying links between HR practices and benefits also focuses on export-oriented sectors (e.g. Gede Riana et al, 2020; Ferligoj et al, 1997; Francioni et al, 2016), suggesting levels of uptake are likely to be more widespread or easier to motivate than in domestically-oriented businesses.

5.2 External factors

National culture and institutions, such as public policies and initiatives, influence HR practices and impact

Rauch & Hatak (2016) find that HR-enhancing practices are found to be more relevant in country contexts characterised by what they call "rigid labor regulations", such as the Netherlands, Germany, S. Korea, Taiwan, or France. They define such regulations based on the Index of Labor Freedom, which is derived from the ratio of minimum wage to the average value added per worker, hindrance to hiring additional workers, rigidity of hours, difficulty in firing redundant employees, legally mandated notice period, and mandatory severance pay. Countries with flexible labour market regulations by this measure include the United States, Australia, Belgium, Vietnam, China and India. The authors argue that where SMEs cannot change their employee base as easily, they are likely to benefit more from investments in practices like training, performance appraisals, and participative decision-making (ibid:501).

Other aspects of national institutions have been less rigorously analysed, as relatively few studies have been able to compare a large number of countries. Nonetheless, individual country studies qualitatively identify the importance of national policies and institutions for HR uptake. Van Song et al (2020) surveyed SMEs in Vietnam to identify the drivers of increased levels of HR development activity, arguing that state and provincial policies supporting activity was the most influential factor. The local system of training/vocational institutions and the level of development of science and technology were also identified as strong factors, along with internal factors within the SMEs.

New Zealand has been analysed as a case study in how SME-focused policy went from being an ad hoc, inconsistent strand of policy work in the late 1970s to being firmly institutionalised as a subsystem within the wider economic policy framework by 2008 (Jurado & Battisti, 2019). Such a focus can result in tangible policy actions to support SMEs with staff management. For instance, the New Zealand government now provides various templates, tools, and advice documents on issues around hiring and managing people, including tools to create legally compliant employment agreements and employee cost calculators (available via www.business.govt.nz), along with support on hiring staff from overseas, recognising that these processes can be particularly challenging for small businesses.[12] New Zealand also participates in one of the few free trade agreements with an explicit chapter on SMEs with a focus on training and support to SMEs to help them export under the new agreement (CPTPP[13]).

12 Government information booklet May 2018: New Zealand's Support for Small Business. Available via https://www.mfat.govt.nz/assets/Trade-agreements/CPTPP/New-Zealands-Support-for-Small-Business.pdf.

13 https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/supporting-smes/.

Different preferences and HR practice uptake between countries and sectors have also been widely observed (e.g. in Pakistan: Burhan et al, 2020; in the Czech Republic and China: Ližbetinová & Hitka, 2020). The quality of staff management functions in manufacturing firms has also been shown to vary widely between firms and across countries, as explored further in Section 2.4, although the exact drivers of this variation are hard to unpack. As well as the differences in labour market regulations described by Rauch & Hatak (2016), other possible sources of inter-country variation might be found in different environmental regulation, different approaches to and rates of progress in digitalisation and automation, different skills systems, and different fiscal policies, among others.

The importance of differences in culture between and within national boundaries has been explored in a number of major studies. The GLOBE 2020 project[14] is gathering data on cultural practice, leadership ideals and trust across over 120 countries, building on predecessor work such as the 2004 study which addressed mid-level managers from 62 countries (House et al, 2004). Cross-cultural variation is identified in what are considered important leadership qualities, with potential implications for staff management, performance appraisals, career development planning, and owner-manager leadership style. Some features, like favouring a performance orientation (rewards for success) and not favouring power distance (acceptance of status privileges), are relatively consistent between countries – in terms of the approach preferred by respondents, as opposed to the actual approach respondents observed around them. Other features vary more widely, such as tolerance of uncertainty, gender egalitarianism, or institutional collectivism. Alternative frameworks for identifying key differences between cultures include Hofstede's (1980) work comparing IBM employees across c. 70 countries and Schwartz's (1994) work on teachers and students in different countries.

Analysing culture is a fraught process, whether addressed via survey instruments or other techniques (Tung & Verbeke, 2010). Such studies cannot capture the full complexity and diversity of culture that an individual SME operates in. Nonetheless, comparative studies can help identify example features of variation that can be important for the types of staff management practices that emerge, which practices work well, and which policies designed to support strategic staff management might be effective.

For instance, Vaiman & Brewster (2015) explore certain implications for HR management, depending on the perspective adopted on culture differences. The authors note that while differences in national institutions are typically more important for HR - such as the wealth of the country, fiscal regime, employment law, the mix of formal and informal economies, the education system, social security system, prohibition or necessity of unionisation, among others – individual organisations typically have more influence over culture and how culture affects their HR practices than they do national institutions. For instance, organisations can choose to hire people with a different set of values to those embodied in the dominant or average national culture. In another example, they discuss how organisations navigate redundancies, which is influenced by acceptable business norms in the national culture, but also by specific practices in the firm and the external economic environment.

Vaiman & Brewster (2015) also note how constellations of national institutions and culture can also come together to promote investment in long-term training, as opposed to favouring lower levels of training, more focused on short-term or narrow technical skills. The latter may be more likely in countries with higher rates of turnover, less protection for employees, and cultures less focused on collectivism, trust-based (rather than contract-based) employer-employee relationships, and a long-term perspective. The authors relate this difference to liberal market economies, such as the UK and Australia, vs coordinated market economies, such as Germany and the Netherlands, building on the discussion of variegated capitalism captured by Hall & Soskice (2001) and critically explored by Peck & Theodore (2007).

14 Global Leadership and Organizational Behaviour Effectiveness: https://globeproject.com/.

A further channel for influence is an SME's external interactions with supply chains, social partners, intermediaries, and strategic alliances.

Participation in supply chains, particularly with large international buyers, is one channel through which SME HR practices can be adjusted, whether influenced by buyers' desire to increase the efficiency and sustainability of their suppliers or by their desire to respond to stakeholder concerns about workforce conditions in their supply chain. This influence has been observed in direct relationships, which might be coercive in requiring practices to change (Bacon & Hoque, 2005); or voluntary and supportive, such as the subsidised provision of SME training by some large customers in the ILO's SCORE program (ILO, 2017b); or cooperative, such as when new products are developed in cooperation. Influence has also been observed indirectly, in that more export-oriented companies typically have more formal HR practices and see more benefit from them (Khavul et al, 2010; Newman & Sheikh, 2014). Supply chains do not need to be international to drive change, as relationships with large firms in general have also been identified as predictors of HR formality (de Kok & Uhlaner, 2001).

For social partners such as trade unions, the direct relationship on HR practices appears to be weaker (Bacon & Hoque, 2005; de Kok & Uhlaner, 2001), although countries with strong roles for social partners are also likely to be countries with greater regulatory protection for workers where HR practices have been shown to have greater benefit (Rauch & Hatak, 2016; discussed above). Wager (1998) showed that organisations with unions were more likely to have employee assistance programs and HR departments, but were not necessarily likely to have broader adoption of HR practices or a strategic approach. Bacon & Hoque (2005) note that unions have the potential to act as coercive partners, requiring certain changes, which has greater potential to drive change than advisory networks, even if this potential is only modestly realised in the majority of cases. For SMEs, sector-level or national-level unions may more be relevant, as the small scale of SME workplaces limits the potential for firm-level unionisation in some cases. Such overarching unions potentially bring both advantages to SME workers, such as knowledge of practice between firms, the authority of an external voice, and more scale to provide resources, as well as disadvantages, such as fewer personal links to workers reducing their accessibility, less intimate knowledge of the specific SME, and fewer personal links to leadership at the firm, reducing the opportunity for informal influence and relationship building over time.

Intermediary organisations also have a role to play. Such organisations act as brokers, consultants, or advisors for SMEs seeking to access HR support or services. Access to such organisations, as well as directly with suppliers, is often facilitated by SMEs working in partnership with each other, overcoming the limited networks, limited capacity to research HR practices, and limited bargaining power they might have individually as small organisations. Such partnership working might be light-touch, mediated by employer associations as discussed (but not explicitly analysed) by Bartram (2005) or managed via tight-knit, dedicated strategic alliances. For instance, large development institutions may also be funded to support subsidised intermediary type activities, such as the ILO's SCORE program (ILO, 2020), leveraging sector associations, geographic clusters, and strategic alliances to raise awareness, promote good practice, and target SMEs most likely to benefit from support.

Focusing on strategic alliances, Ferriera & Franco (2019) address technology-based SMEs in Portugal, finding that strategic alliances are a way for SMEs to overcome resource constraints in terms of human capital. Examining SMEs in Indonesia, Idris et al (2020) similarly identify that alliances are positive for the competitive advantages of entrepreneurship as long as the alliances emphasise improving skills, the application of technology, and reducing transaction costs. Nwokocha & Madu (2020) look at SMEs in Enuga State, Nigeria, using regression analysis to quantitatively relate participation in strategic alliances to sales growth, market share, product success, profit, number of employees, and labor productivity. The article suggests that institutionalisation of strategic alliances would encourage cooperation and interfirm linkages among SMEs.

Extending the importance of access to external perspectives, Wu et al (2014, 2015) found that external advisors have more influence on the uptake of HR than HR managers. This finding is reinforced by mixed evidence on the role on internal HR leads, while noting that having an HR lead in-house is itself a sign of investment. Higher productivity was reported in firms with HR departments by Chadwick & Li (2018), with other research finding no evidence of impact for HR specialisation in family firms (de Kok et al, 2006). Way & Thacker (2004) found that HR staff can encourage formal training but have little other effect on HR practices. This phenomenon may have multiple drivers, which might include an external advisor being typically higher quality than in-house staff (e.g. accessed at higher cost per hour), having greater insight across multiple firms (being typically part-time for many firms, rather than dedicated to one), and having greater independence (being less reliant on any single firm). Access to more external and more diverse perspectives may help to explain the benefits associated with other sources of external input, such as supply chains and strategic alliances.

5.3 Catalytic moments

Catalytic moments and business crises often present an opportunity for change, providing strong evidence to owner-managers of the necessity of investing in staff management

Harney & Alkhalaf (2020:15) provide an initial discussion of catalytic moments, or "presenting issues". The authors cite literature arguing that such moments can trigger a change in approach to HR, with such diverse causes as a change of ownership, succession, the introduction of professional managers, a decline of performance (Bacon et al, 1996), corporate shocks (Cassell et al, 2002), underperformance and intensified competition (Harney & Dundon, 2006), venture capital influence (Dietz et al, 2006), or the perception of HR as a problem or challenge (Barrett & Meyer, 2010; Festing et al, 2013; Tocher & Rutherford, 2009; Werner & Herman, 2012).

It is often unclear whether the changes triggered by such catalytic moments represent a shift towards a strategic approach as defined in this paper or a reactive approach. For instance, a proactive, deliberate consideration of the diverse options available might be catalysed by the crisis. Alternatively, owner-managers might simply be reaching for the nearest solution to hand, hoping to manage a specific crisis or stakeholder criticism, or to mitigate the risk of the same problem re-occurring. Nonetheless, such moments represent possible opportunities for change, where organisations may be more open to support than before or after. A more strategic approach and better long-term outcomes might also be gained when using these opportunities to deploy a needs assessment process, potentially with support, and holding a reflective discussion about next steps among internal staff and external experts.

5.4 Implications

From the point of view of intervention design, these factors provide useful indications of where to target support, depending on the objectives of the initiative, as well as ideas for how such support might be usefully provided.

Considering where to target support, if stakeholders wish to see a high volume of firms experiencing benefits, then rapid incremental progress across many firms might be more easily achieved by targeting SMEs with internal or external factors that are associated with more general openness to staff management practices or a greater likelihood of benefitting from them. Such an approach might help generate momentum and culture shift within an SME community. Alternatively, interventions may wish to target the opposite end of the spectrum, working with SMEs that appear least likely to invest in staff management practices or gain benefits from them, provided such firms are viable businesses in their own right. This may result in less rapid change in terms of number of firms adopting new practices, but might drive step change behaviour in firms that would not have otherwise done so.

The factors can also inform the possible design of support programmes or system-level interventions. For instance, the disadvantages of smallness or newness might be reframed as opportunities. Where access to credit and ability to bear risk are key mechanisms through which smallness and newness reduce uptake, programmes can be offered on the basis of a long-term loan, repayable contingent on a mutually agreed measure of business success.

From a system perspective, external factors also form part of the overall operating environment which gives raise to internal factors. For instance, a stronger skills system will generally result in more educated founders and provides greater opportunity for employers to purchase higher quality education and training for their staff. Conversely, a recession or poorly-managed economy will more often result in greater resource constraints on SMEs.

6 What interventions might target more strategic staff management in SMEs?

▸ 6. What interventions might target more strategic staff management in SMEs?

There are many possible opportunities for state intervention, with a high-level taxonomy identifying opportunities at the micro, meso and macro levels of the system

Evidence of the benefits of increased investments in strategic staff management (Sections 2 & 3), the case for government intervention (Section 4), and the factors influencing SME behaviour (Section 5) point towards possible opportunities for intervention that might aim to increase the number of SMEs adopting a strategic approach to staff management (Section 1), which often coincides with increased investments of time and resources into managing staff, whether via informal practices, formal practices, or a mixed model.

This taxonomy (Figure 3) can be presented in terms of the level of intervention in the system (y-axis, see, e.g. Serpa & Ferreira, 2019 for a discussion of system levels) and in terms of which blockages or opportunities to target in an example SME's journey towards increased levels of strategic staff management (x-axis). Considerations and particular opportunities for intervention angles suggested by the discussion to date are included as prompts for exploration.

▸ Fig 3. Taxonomy of possible state interventions

Strategic approach/practice adoption: SME Journey

System-level for intervention

1. Awareness → **2. Prioritising** → **3. Initiating** → **4. Maintaining** → **5. Monitoring**

Macro

- Via regulation/legislation
- Via fiscal instruments
- Via funded programmes
- Via voluntary accreditation schemes
- Via education/exhortatory campaigns

Meso

- Via employer associations
- Via strategic alliances
- Via supply chain (customers, partners)
- Via public employment services
- Via education & training providers
- Via SME support market

Micro

- Via owner-manager
- Via HR lead
- Via employees

Considerations

- Time to impact (e.g. skills pipeline vs. on-site consultancy)
- General vs. targeted interventions
- Level of subsidy or intervention required to shift behaviour
- Temporary (e.g. catalysing investment) vs ongoing state role

Possible opportunities

- Look to reference or capitalise on catalytic moments
- Find ways to lower costs and simplify practices
- Allow space for informal practices
- Relate staff management to the impact of popular initiatives
- Focus on behaviours and beliefs more than knowledge

An SME's journey towards adopting a strategic approach and investing in whichever practices are appropriate in its situation can be structured in five stages. Initial awareness (Stage 1) and appreciation of the potential value of staff management allows for an open exploration of specific practices which then might be selected and prioritised for the SME (Stage 2). These prioritised practices are then adapted and implemented as part of an initial phase of work (Stage 3), which needs to be maintained over time (Stage 4). The practice itself and the SME's evolving circumstances are then monitored, to consider when it might be appropriate to change approach (Stage 5). External support has the potential to play a catalysing or supportive role at any of these stages.

One common, widely-evaluated intervention category is the provision of training or consultancy to SMEs. Such support can be delivered in a wide variety of ways. It can tackle any stage of the customer journey and operate via any level of the system. For instance, the state might run a delivery programme of training (macro), intervene in the market to create approved supplier lists or channel opportunities via associations (meso), or provide funds directly to owner-managers to purchase training (micro). Among other reasons, the uncertain benefits and opportunity costs involved in training participation motivate state intervention (Zhao & Thompson, 2019). Employer associations are often a key route through which SMEs access training, as shown by the OECD's research in New Zealand (Dalziel, 2010:42).

Training can also be facilitated by the state in a wide range of ways. Oldsman (2017) identifies case studies from the USA (Manufacturing Extension Partnership), Singapore (SPRING – ICV Scheme), Ireland (Skillsnet), and Malaysia (HRDF), with different sources of government funds (general revenue vs national training levy) and different types of support (grants directly to SMEs vs grants to intermediary organisations that serve SMEs). Training on staff management can either be provided as stand-alone modules or integrated into broader programmes focused on productivity enhancement; it can also be provided as a bundled service as part of government funds or contracts such as the UK Challenge Funds run by Nesta (e.g. challenges.org/what-are-challenge-prizes).

Without seeking to provide a comprehensive list, other example interventions can be mapped against intersections in this taxonomy:

- **Macro (1): Voluntary accreditations for employers who invest in their staff.** The Investor in People (IiP) initiative, launched by the UK government in 1991[15] raises awareness of opportunities through its scale, PR activity, and award nights. It also encourages uptake through the customer journey, providing a framework of good practice for firms to work to and an in-built monitoring approach via 1- or 3-year accreditation periods (Wu et al, 2014). Some business opportunities require firms to demonstrate IiP or equivalent accreditation, further embedding staff management into the ecosystem. Such voluntary accreditations are an alternative to strengthening regulation mandating minimum standards, or can be seen as testing the ground for future regulatory change in this direction.
- **Macro (3; 4): Fiscal subsidies to investments in human capital.** Costa et al (2018) have argued for the extension of R&D tax credits to human capital investments and training, in order to address market failures in training provision. The authors note that several US states already apply fiscal incentives and allowances for employer based training (e.g. Connecticut, Georgia, Kentucky), as does Austria, which provides a 120% tax allowance in real terms. Fiscal subsidies motivate firms to initiate practices and make it easier to maintain them over time. Fiscal subsidies are one example of a wide range of possible incentives.
- **Meso (1; 2): Government-facilitated links between SMEs and the skills system.** In the late 2010s, the New Zealand government ran a three-year "regional facilitation"

15 www.investorsinpeople.com/purpose.

programme to foster connections between tertiary educators and other stakeholders in the local labour market, including SMEs (Dalziel, 2010). Stakeholder discussion facilitated by the OECD after the process ended suggested the exercise had produced a better understanding of local skill needs, potentially leading to more appropriate skills provision and promoting awareness and understanding of the benefits of participation. However, the global financial crisis had reduced focus on the topic in the immediate short-term and participants acknowledged the difficulty in engaging SMEs directly in the process. Industry-level partnerships between businesses and training providers have been described as effective by participants in certain sectors in New Zealand, such as the Trades Innovation Institute at the CPIT and the SiteSafe programme, initiated by four large companies to set up a non-for-profit organisation supported by the Department of Labour and the Accident Compensation Corporation (Dalziel, 2010).

- **Meso (3): Technical assistance via public employment services.** Tailored services and advice can be developed to help SMEs recruit, providing support with job descriptions, legally compliant advertising, and screening, as well as broader services around SME networking, accessing multiplier organisations, and intermediary organisations (European Commission, 2013, providing good practice examples from Austria, Slovenia, Belgium-Flanders and other countries).
- **Meso (1; 2; 3): Technical secondments between research institutes and SMEs.** Ho et al (2016) discuss Singapore's T-Up programme, which temporarily places researchers from public institutions into SMEs to support technology transfer and business process upgrading. By being embedded with the SME, the secondment builds relationships and allows the researchers to move beyond simply raising awareness of particular management approaches or technologies towards supporting firms prioritise, adapt, and initiate practices that fit their circumstances.
- **Micro (1; 5): Administrative communication with owner-managers.** Communication between owner-managers and government institutions can be used to promote and monitor investments in staff. For instance, information can be requested by the state via accounts or tax submissions. Communications with registered company directors can also be used to raise awareness of particular topics or to promote avenues of support.

High-quality evaluations of training and consultancy initiatives reveal the power of SME-level interventions

Higuchi et al (2019) address a feature of the randomised control trial (RCT) evaluations of management training, coaching, or consultation programs: such interventions often show positive impact on management knowledge and practices, but not necessarily on measures of performance, such as revenue or profit. The authors argue that inadequate content in some programmes and short time horizons for impact measurement explain the mixed findings on business performance. Their own RCT on 113 small manufacturers in Tanzania focused on training aimed at helping firms select, adapt, and implement practices that suited them, out of a mix of topics including quality control, production management, entrepreneurship, marketing, and record keeping. This diversity of topics and the focus on adaptation increases the chance that SMEs change their behaviours, contributing to statistically significant impacts on business performance.

A multi-year, multi-country programme of RCTs focuses on increasing personal initiative in owner-managers, identifying impressive results on business performance. For instance, an RCT by Campos et al (2017) in Togo assigned micro-enterprise owners to a control group (n = 500), a leading business training program (n = 500), or a personal initiative training program (n = 500). Four follow-up surveys tracked outcomes for firms over 2 years and showed that personal initiative training increased firm profits by 30%, compared with a statistically insignificant 11% for traditional training. The training was described as cost-effective, paying for itself within 1 year. Positive outcomes from similar interventions, such as three days of proactivity training focusing on planning, innovation, time management, and goal-setting, have been identified for German SMEs, increasing employment by 20% in the intervention group (Frese et al, 2016) and for SMEs in Uganda which reported greater entrepreneurial success (Glaub et al, 2014). Keith et al (2016) build on this work with a longitudinal study of German SMEs showing the benefits of informal "deliberate practice", i.e. effortful practice activities specifically designed to improve one's performance. Collectively, this programme of work shows the potential of carefully constructed training targeted to specific groups that focuses on attitudes and behaviours, in addition to support that might focus on technical skills.

The value of intensive consultancy on management practices is revealed by a large-scale RCT with large Indian textile firms. While productivity gains are shown to decline over time, they remain material to shifting business outcomes. Bloom et al (2013) provided free management consultancy to randomly-chosen firms, finding improved productivity of 17% in the first year and increased opening of new plants within three years. A follow-up study nine years later showed that while half of the practices adopted in the original experimental plants had been dropped, there was still a large and significant gap in practices between the treatment and control plants (Bloom et al, 2020).

Incomplete research on the varied possible intervention levers and the diversity of SMEs points to the importance of a "test & learn" approach

Different studies of training initiatives, being the most extensively evaluated lever in the intervention model, point towards diverse channels for impact and possible success factors. Such studies and insights include the following:

- Analysis of targeted training initiatives has suggested they can support SMEs to participate in public procurement programmes, thereby providing access to larger buyers, one of the factors promoting greater uptake of HR practices (Saastamoinen et al, 2017).
- An RCT on a policy intervention to provide training to SMEs in the UK accommodation and food service sector identified that training for employees had a stronger positive impact on firms' labour productivity and profitability than training for managers (Georgiadis & Pitelis, 2016).
- A study of managerial and technical assistance provided to US small businesses found differential impacts depending on whether the firms initially had low or high financial performance (Seo et al, 2014). HR support, capital raising, and other secondary business functions had most impact on firms with medium or high levels of initial financial performance. Meanwhile, primary business functions, such as marketing strategy, promotional strategy, financial management, and general management, were more effective for firms with lower levels of financial performance.
- Analysis using data from World Bank Group enterprise surveys in Viet Nam emphasises the mediating role of innovation in future growth (Yen et al, 2019). The authors found that HR training had the strongest impact on innovation changes (+56%), having considered a range of barriers including financial capacity, trading regulations, and customs.
- Zhao & Thompson (2019) use longitudinal data from the UK to identify when managers are more likely to invest in training, identifying opportunities via promotion-focused employees and prevention-focused owner-managers who have recently suffered a loss.

Individual studies often argue for greater impact via one possible intervention angle over another, but such insights should be considered a soft indication of possible areas to focus on, rather than used to drive intervention design. For instance, external advisers have been found more impactful on HR practice uptake than internal HR staff (Wu et al, 2014, 2015); coercive networks such as large customers and unions have been described as more impactful than advisory networks like employer associations (Bacon & Hoque, 2005). However, most individual effects are modest on average, disguising some SMEs which are materially affected and others which see very little change. A multi-lever approach is likely to be necessary to make significant change at the national scale.

The diversity of SME circumstances, the limited scope of individual studies, the low replication rate, and the limited coverage of research across the wide range of possible intervention levers, all indicate there is far more we do not know than what is addressed in the existing research. Stakeholders seeking to improve strategic staff management in SMEs would be advised to draw inspiration from the research base, but not direction: a test & learn approach not only contributes to the research base, but recognises that different target SME groups, in different countries, and different priority outcomes are likely to benefit from different configurations of intervention. The importance of experiments for understanding entrepreneurship in developing countries is emphasised by Quinn & Woodruff (2019) who reinforce the above observation that many forms of delivering training to SMEs can prove ineffective.

Researchers and practitioners have developed a rich set of methodologies that can be drawn on in developing a test & learn approach. For instance, at the individual organisation level, the practice of action research (Revans, 1982) has been applied to improving HR practice and organisational development in a range of circumstances, including the UK Civil Service (Hale & Saville, 2014) and in e-Learning (Waddill, 2004). At the heart of the method is identifying the topic or problem of interest, becoming aware of your personal boundaries of uncertainty, discussing with like-minded practitioners, potentially structured with a specified set of questions, all while taking action on the topic and reflecting on the process and its results, potentially facilitated by a coach.

Practitioner-led research is a related approach, aimed at empowering individuals or teams to conduct research in a thoughtful, action-focused, and constructive manner. The research is typically experimental in nature, contrasting two or more approaches to see which works better. Lopes et al (2019) explored practitioner research with 21 Dutch HR practitioners, developing recommendations for practitioner research in an HR context. Modest amounts of funding can also be used to spark practitioner research, build links with researchers and universities, and coalesce communities of practice, potentially generating improvements in the research base and in actual practice for low total investment. For instance, small amounts of funding to cover transport costs or attendance costs at conferences to present a paper, academic mentoring, survey dissemination, or backfilled time, can be sufficient to unlock significant amounts of additional practitioner time and organisational investment in the research. Example programmes that focus on building of practitioner research communities include the Education and Training Foundation[16] and the Tavistock Institute[17] in the UK.

At the sector or policy initiative scale, a test & learn approach can involve the rapid iteration of initiatives based on feedback, such as post-event insights or small-scale, comparative analyses. This approach retains flexibility about specific programmes that draws on good practice from other jurisdictions, but recognises the likely need to adapt it (and continue adapting it) to local context.

16 https://www.et-foundation.co.uk/supporting/professional-development/practitioner-led-development-and-research/.

17 https://www.tavinstitute.org/what-we-offer/research-and-evaluation/research/.

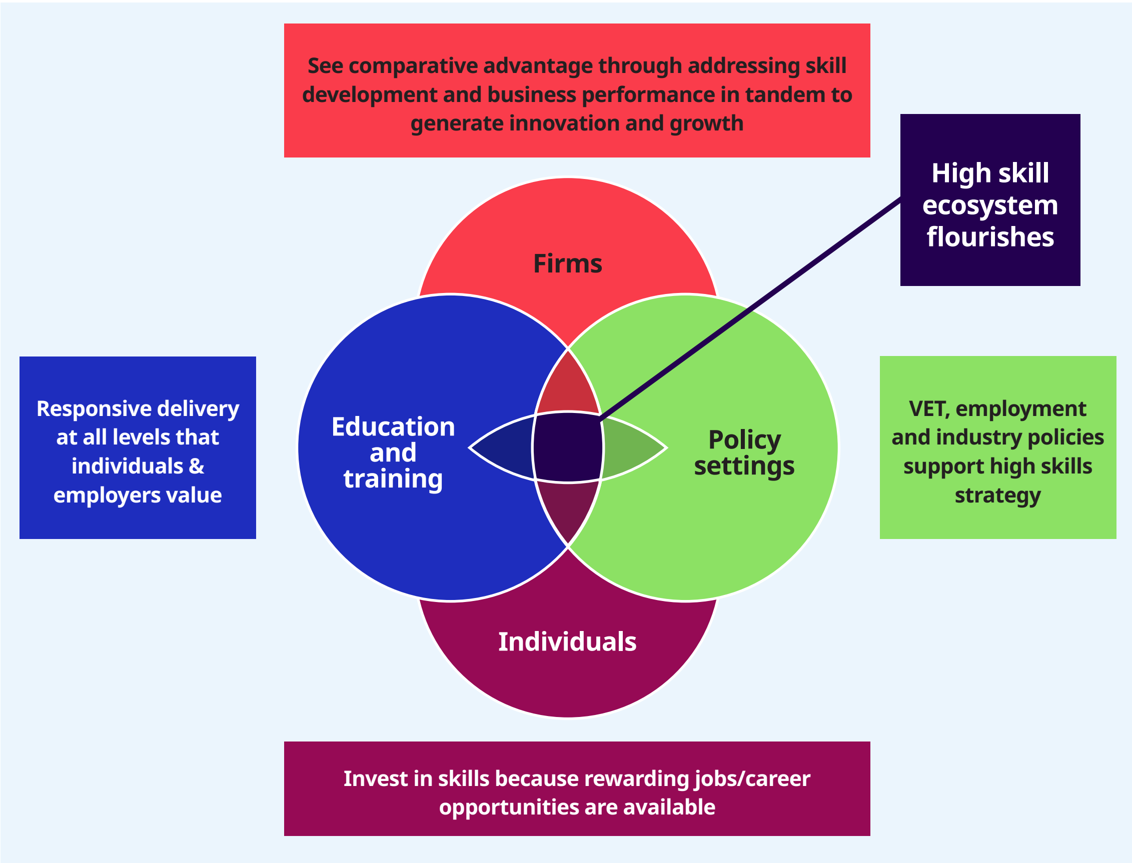
Self-sustaining change at scale is hard and a systems-level approach may be necessary to generate significant impact

Large national and international programmes of support to SMEs demonstrate not only impressive levels of benefits for participants (e.g. ILO, 2017b) but also the limitations of such approaches for becoming self-funded.

Even with evidence of impact and government/network support, it proves hard to sell management-effectiveness training to SMEs in developing countries without significant subsidy and hard to engage corporate sponsors at scale, as described in the SCORE 2019 annual report (ILO, 2020). For instance, lead buyers sponsoring training for their supply chain or SME partners works well, but only for a small number of reputation-sensitive lead buyers and likely a small proportion of the market. Similarly, the UK Growth Hub network support for SMEs struggled to access, encourage, and support SMEs to engage at scale in new government-run or centrally-encouraged initiatives to improve staff quality and talent pipelines (BEIS, 2019).

Faced with the challenge of initiating sustainable change, a systems-level approach acknowledges the interconnected nature of the issues facing SMEs and the broader skills and regulatory ecosystem that SME staff management is embedded in. It also helps respond to the limited gains and reach of firm-level interventions, arguing that such interventions need to be complemented by system-level reform and initiatives. Analysis of high skills ecosystems (see Figure 4) emphasises the interconnectivity of individuals, education & training providers, firms, and policy settings.

▶ **Fig. 4: A High Skills Ecosystem (Windsor & Alcorso, 2008:5)**



There are diverse and indirect relationships between the broader skills ecosystem and SME staff management practices, pointing towards possible novel opportunities for intervention. For instance, analysis of World Bank Enterprise Survey data spanning 141 developing countries between 2008 and 2018 shows the connections between the level of education in SME workforces and firm-level access to credit (Jabbouri & Farooq, 2020). The authors also show that firms with inadequately educated workforce are more likely to seek informal credit for financing their short-term (working capital) and long-term (capital expenditures) capital requirements.

In another example, factors analysing the uptake of HR practices consistently reveal the importance both of the owner-manager's level of education (see section 5.1) and that of their staff, being the strongest factor analysed by Bacon & Hoque (2005). Evidence, case studies, and theory for the benefits of staff management could be threaded through relevant qualifications, to support a broader population understanding of benefits. A stronger skills system that covers more of an employer's basic requirements for its staff (e.g. literacy, numeracy, commercial awareness) may also enable an employer to invest in more targeted, job-relevant or sector-relevant training that has a more immediate payback. Stronger connections between these policy areas across government, typically based in different departments, could help drive a more coordinated, strategic, and cost-effective approach, that recognises downstream benefits of early investments.

Vaughan (2002) conducted a literature review identifying many barriers to SME engagement with formal training, including a propensity for training to be oriented to large enterprises, failing to build courses around the characteristics, organisation, and daily operation of SMEs. Formal training is typically not flexible enough in timing, access, or convenience for SMEs, yet customisation of training is typically too expensive for the scale that SMEs operate at. Dalziel (2010) notes the important role for government agencies (or other coordinating players, such as employer groups) to play in improving the efficiency of the skills system in addressing market needs. For instance, a coordinating role can add value in communicating to SMEs about what training options are available, especially from smaller, private training enterprises, facilitating long-term partnerships between SMEs and training providers to help improve course-market fit and defray the costs of customisation, and in providing information to SMEs about how best they can liaise with providers to encourage supply of education that meets their demands.

Broader system considerations are also important. Fiscal incentives, rules around unionisation, and social protection systems (like unemployment insurance) all shape an environment that might shift the negotiating power between owner-managers and employees and shift the incentives and opportunities shaping the make-up of the economy with respect to enterprises of different sizes. Public pressure and social dialogue also play important roles in the evolving set of legislative, worker, and consumer expectations around working conditions.

A systems-level perspective has proved productive in related domains, such as innovation and the contributions by private sector enterprises. For example, the work of Freeman and Lundvall in the 1980s led to the "National Innovation System" concept, as discussed by the OECD (1997) and the Levy Economics Institute (Vertova, 2014), influencing systems-level thinking by major funders of R&D, such as the Wellcome Trust (2014). A key insight is that policies, institutions, and actors interact across public and private spheres to create an overall ecosystem in which innovation takes place. Reforms can improve the functioning of the ecosystem, but given the complexity of the system, consequences can be hard to predict and sustained impact typically requires a significant, multi-lever, and integrated approach to change.

A coordinated systems approach to SME staff management might anchor multiple initiatives around a common goal of empowering owner-managers to adopt a strategic approach, based on the principles outlined in Section 1.4 and underpinned by practical decision-making about likely returns on investment, drawing on tools like directional CBA outlined in Section 3.3.

For instance, connections might be made as part of diverse touch points with firms in discussions and communications about apprenticeship support, engaging with qualification design or student learning enrichment, and about subsidised training. If universities, colleges, and schools are engaging local employers to connect them with learners or provide work insights and work experience, there may be an opportunity to leverage around providing and tailoring training, consultancy, or action-learning support to the employer. Administrative requirements and public subsidy for skills provision might be examined to foster flexible, short-term, light-touch programmes that can work in and alongside the workplace, leveraging links to on-the-job training and practical experience. Additional data collection, ideally built into existing national firm or worker surveys, can provide baseline and progress metrics for how SMEs approach staff management, informing and evaluating policy initiatives. Obligatory reporting functions, such as annual accounts, might be expanded to collect additional details on staff turnover, practices, and investments, improving transparency for recruits, awareness among owner-managers, and providing data to drive higher quality research.

Among diverse avenues for further research, systems-level analysis and a fieldwork approach will help address key questions on topics like informal practices, sector variation, and intervention ROI.

Academic reviews identify many avenues for future research, emphasising that our collective understanding of staff management in SMEs remains nascent (e.g. Harney & Alkahaf, 2020; Nolan & Garavan, 2016a). In the context of developing an intervention model, there are five key questions to address as a priority, recognising that there remains much to learn outside of these topics:

1. **Informality and strategy:** What types of low-cost, informal practice work well? Under what circumstances do they work well? Is the working definition of strategic staff management operationalisable with SME support programmes? What survey methods can be developed to assess the current levels of strategic staff management without conflating strategy with formal practices?
2. **Costs and practical guidelines:** What are the costs of implementing different formal HR practices in SMEs? How can these costs be reduced? When are the costs consistently outweighed by the benefits, sufficient to motivate a shift away from informal approaches? What practical guidelines might inform decision-making, even acknowledging that specific thresholds will always vary from case to case?
3. **System-level interactions:** How can we best map the system-level interactions between SME staff management and the broader skills ecosystem, considering both the role of the skills system in providing the workforce pipeline and in providing training and support to those already in the labour market?
4. **Variations and generalisations:** What variations by sector or target group exist that can reliably inform the development of interventions in new environments? Or is an environment-specific test & learn approach always called for? To what extent do existing sector arrangements, such as business associations or SME-focused policy initiatives, support small enterprises and emerging niches, rather than medium-sized enterprises who might have greater visibility in the skills system?
5. **Returns on investment:** What levels of state investment are warranted? What are the likely fiscal returns on investment at a systems-level considering approaches to accelerate market development?

Some of these questions are best addressed via systems-modelling, whether drawing on new sophisticated techniques like "system twin modelling" or traditional methods like workshop-driven systems mapping. Others are best addressed via deep fieldwork techniques, investigating how SMEs operate in practice and understanding the costs, considerations and benefits as different SMEs navigate a journey towards greater investment in staff management.

Concluding thoughts on future development and the importance of strategic staff management

Any strategy for economic growth, resource sustainability, or improving workforce conditions is incomplete without a consideration of SMEs, accounting for an estimated 70% of all employment globally (ILO, 2017). The ILO's mandate acknowledges the role of sustainable enterprises as generators of employment, promoters of innovation, and providers of decent work, aligned with a human centred approach to the future of work. This approach has at its heart the acquisition of skills, competencies, and qualifications for all workers throughout their working lives, as portrayed in ILO's Centenary Declaration.

This literature review helps to prepare the ground for the future development of an intervention model, to guide policies and investments in SME strategic staff management towards more productive directions in pursuit of these important ambitions.

The review has laid out the prevailing discussion concerning what strategy means in the context of SME staff management, suggesting a definition that can be operationalised in intervention development and evaluation (Section 1.4). The review has also summarised the case for government intervention (Section 4), based on an understanding of the low levels of formal practice and staff training present in SMEs today (Section 2) and the evidence that suggests increased investment in staff management typically drives benefits (Section 3), while recognising that informal practices can prove effective for some SMEs at particular points in their journey. Given the difficulty around understanding which investments are likely to prove beneficial in any particular case, this review outlines a directional approach to cost-benefit analysis, that can support owner-manager decision making without requiring extensive analysis or financial modelling (Section 3.3). Finally, this review has summarised the key internal and external factors influencing the uptake and impact of staff management practices among SMEs and the catalysing moments that present a particular opportunity for change (Section 5), alongside an initial system-level taxonomy for potential government-supported interventions (Section 6).

There remains much to do in pursuit of strategic staff management in SMEs. With billions of workers in SMEs across the globe, there is every reason to do so with vigour and thoughtfulness in equal measure.

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