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MAIN HR CHALLENGES FOR SMALL BUSINESSES IN REPUBLIC OF NORTH MACEDONIA: A QUALITATIVE RESEARCH

Abstract

This paper analyses the specifics of human resource management in small businesses in North Macedonia and identifies the main challenges faced by small business regarding people management aspects. A qualitative research using semi-structured interviews with business owners and managers of selected small businesses in the Republic of North Macedonia provided an in-depth understanding of major issues in human resource management. Research findings¹ reveal that vaguely defined structures and job descriptions pose significant challenge to management, particularly in growing small businesses, due to overlapping of job tasks and reluctance of managers to delegate bigger responsibility to employees. The recruitment process represents an increasing challenge for small businesses, regardless of the recruitment method used, as the number and profile of applicants often do not meet the goals or expectations of the firms. Employee training has also been identified as one of the challenges that small businesses face. Small business owners see a direct benefit from training only when it comes to upgrading job-specific skills of employees and are not familiar with the necessary steps of the training needs analysis.

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Employee performance is the main determinant of compensation level in small businesses however, the only criteria considered are sales targets and generated profit. Most of the managers consider that it is extremely important to be competitive in terms of the pay and rewards level, as a way to motivate and retain employees.

Keywords: small business, human resource challenges, qualitative research
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Introduction

Human resource management in small business has received a growing attention in last years, yet research in this area is still insufficient to advance the understanding of HRM aspects in small business context. Recent attempts to examine academic papers on HRM in small business reveal that the “literature base remains fragmented and variable, comprising a plurality of definitions, explanations, and methods”.² Many scholars argue that the universalistic perspective of HRM is not appropriate in small business and HR models developed in the context of large organizations cannot be merely replicated in small firms. Previous research on HRM in small business have shown that small firm characteristics along with contextual conditions and the specific conditions of each organization create different HRM approaches in small businesses as compared to large ones.³ Based on these variables, HRM systems can take different forms in small business, making the investigation quite a challenge.

Due to limited resources and lack of HR expertise, with all HR issues undertaken and implemented by business owners, informal approaches become viable solution for managing human resources in small businesses. On the other hand, small business sustainability and development is heavily reliant on its human capital and employee performance⁴ thereby giving the management of human resources critical importance. Resource constraints and lack of HR expertise often dictate HR approach and create additional challenges for small

2 Harney, B. & Alkhalaf, H., “A quarter-century review of HRM in small and medium-sized enterprises: Capturing what we know, exploring where we need to go”, *Human Resource Management*, Vol. 60, 2021, pp. 5–29

3 Kroon, B. & Paauwe, J., “HRM in 21st century small organizations: a midrange typology to describe, contrast and contextualize the phenomenon”, *The International Journal of Human Resource Management*, Vol. 33 No.16, 2022, pp. 3224-3251

4 Patel, P. C. & Cardon, M. S., “Adopting HRM practices and their effectiveness in small firms facing product-market competition”, *Human Resource Management*, Vo. 49 No. 2, 2010, pp. 265–290

business owners in managing their human resources. Therefore, it is essential to identify the key HR prospects and challenges for small businesses in Republic of North Macedonia. The main objective of this paper is to examine the specifics of human resource management in small businesses and to identify the main challenges faced by small business regarding people management aspects. The qualitative research provides an in-depth understanding of major HRM issues in small businesses in North Macedonia. Most of the general conclusions drawn from the interviews on the specifics of human resource management practices in small businesses have also been confirmed with the quantitative research of the project⁵, but have provided additional extensive knowledge on the main challenges that small business owners face in managing their human resources.

1. HRM CHALLENGES FOR SMALL BUSINESSES

Informal relationships and less sophisticated practices are main characteristic of the HR approach in small business.⁶ The HR approach is in fact dominantly reliant on small business owner/manager, due to resource constraints and lack of HR expertise, thereby producing varying management styles and different levels of sophistication of HR practices. These variations are mainly a result of business owners' recognition of HRM significance for business success and their knowledge of people management issues. As Dundon and Wilkinson argue the 'informal routinisation' plays a large part in the day-to-day running of the firm and it is present both in an autocratic as much as in a harmonious firm.⁷ Lack of formalized HRM practices however becomes a challenge for growing firms, with the increase of the number of employees.

The informality of HR approach is generally translated in all HR practices in small firms. The recruitment patterns are very similar in most small businesses. Small businesses use informal methods including word-of-mouth recruitment referrals^{8,9} as more cost effective in the short term and

5 See Piperkova, I., Djambaska, E. & Lozanoska, A., "Human resource practices in small businesses in Republic of North Macedonia, *Economic Development*, No.1-2/2023, 2023, pp.20-36

6 Kotev, B. & Slade, P., "Formal human resource management practices in small growing firms", *Journal of Small Business Management*, Vol.43 No.1, 2005, pp.16-40

7 Dundon, T. & Wilkinson, A., "HRM in small and medium sized enterprises (SMEs)" in Collings, D.G. & Wood, G.T. (Eds), "*Human resource management: A critical approach*", Routledge, London, 2009

8 Carroll, M., Marchington, M., Earnshaw, J. & Taylor, S., "Recruitment in small firms: Processes, methods and problems", *Employee Relations*, Vol. 21 No. 3, 1999, pp. 236-250

9 Mani, V., "The effectiveness of employee referral as a recruitment source", *International*

unstructured interviews as predominant selection tool¹⁰. In addition, small businesses do not conduct training as much as their larger counterparts. Previous research has outlined various factors that explain the reluctance to employee training. Indeed, small business owners are interested in employee training, only if acquired skills are directly applicable to the current situation in their business, and if the training process is carefully structured in terms of location and length of session.¹¹ Pay schemes that entail multiple performance benchmarks against which employee performance is measured are generally regarded as too complex, while informal approaches prevail. Pay and rewards practices lack transparency¹² and are mainly determined by business owners, ad hoc and on individual level. This is especially present in micro firms, with less than 10 employees.¹³ The informality of HR approach and the reliance of firm's people management issues on business owner's views create different HR practices in small businesses. Therefore, the investigation of HR issues in small business remains underresearched area of study.

2. RESEARCH FINDINGS: QUALITATIVE INSIGHTS INTO HRM IN SMALL BUSINESS

2.1. Research Methodology

Qualitative research of human resource management practices provides a more detailed insight into the state of HRM practices in small businesses, the manner and type of implementation, as well as the main challenges faced by businesses in regard to human resource management aspects. The research was conducted through semi-structured in-depth interviews with managers/owners of 8 selected small businesses from different sectors, in particular, services (3 firms), trade (4 firms) and manufacturing (1 firm). Regarding the number of employees, three firms were micro, with less than 9 employees, while five firms employed between 9 and 50 employees. The interview questions were

Journal of Management Sciences and Business Research, Vol.1, Iss.11, 2012, pp.12-25

10 Bartram, D., Lindley, P.A., Marshall L. & Foster, J., "The recruitment and selection of young people by small businesses", *Journal of Occupational and Organisational Psychology* Vol. 68, 1995, pp. 339–358

11 Walker, E., Redmond, J., Webster, B. & Le Clus, M., "Small business owners: too busy to train?", *Journal of Small Business and Enterprise Development*, Vol. 14 No. 2, 2007, pp. 294-306

12 Gilman, M., Raby, S. & Pyman, A., "The contours of employee voice in SMEs: the importance of context", *Human Resource Management Journal*, Vol. 25 No.4, 2015, pp. 563–579

13 Carrasco-Hernandez, A. & Sanchez-Marin, G., "The determinants of employee compensation in family firms: empirical evidence", *Family Business Review*, 20(3), 2007, pp. 215-228

concentrated around four major HR practices pertaining to attracting and retaining employees and employee performance management, specifically recruitment and selection, employee training, employee participation and compensation systems. It is also important to note that in all businesses included in the research, business owners held the position of general manager.

2.2. General aspects of HR

Regarding the general aspects of human resources management in small businesses, the research revealed that none of the surveyed businesses has an employee responsible for HRM practices. In fact, all human resource management issues are handled solely by the general manager and/or business owner. Also, in line with previous research, it was found that small businesses do not have formalized HRM practices¹⁴. The interviewed small business managers confirmed that there are no formal HRM practices in their companies, that is, they do not have established written system of practices that is applied consistently and transparently in the company. All decisions relating to various human resource aspects are made by the general manager. This is especially pronounced in micro businesses that employ less than 10 employees. In addition, in small firms, very often there are vaguely defined job descriptions, and thus lack of predefined job tasks and goals. This in turn directly affects other HRM practices in terms of lack of solid base for establishing proper policy and standards for different HR practices such as, for example, the recruitment process, employee performance evaluation, pay and rewards system, and alike. Therefore, in growing firms, that is, firms that have registered an increase in the number of employees in recent years, loosely defined structures become significant challenge to management. Indeed, most of the interviewed managers, especially managers of growing firms confirmed the need to define and formalize certain practices of HRM especially in terms of organizational structure and design, job description, employee performance evaluation system and compensation and reward system. In these firms, the managers pointed out that the main challenges in human resource management were experienced following the increase of the number of employees, leading to problems in delegation of tasks, overlapping duties and responsibilities, challenges in conducting daily operational activities and subsequently in the communication between management and employees and among employees in the firm. Interestingly, despite facing difficulties in managing and controlling day-to-day operations, most small business owners revealed reluctance to

14 Although there is no commonly accepted definition of formal practices, most scholars agree that practices can be regarded as formal when they are in written form and are implemented on a regular basis. See for example, Barrett, R. & Mayson, S.E., "Human resource management in growing small firms", *Journal of Small Business and Enterprise Development*", Vol.14 No. 2, 2007, pp.307-320

delegate bigger responsibility to employees, even in growing firms. Small business owners have overseen each and every aspect of the business operations over the years. Even with the increase of the daily activities they prefer to continue to do so as a result either of fear of losing control, lack of trust in employees or fear of failure.

2.3. Recruitment and selection process

Regarding the recruitment and selection process, the qualitative research confirmed that in most cases, small business owners/managers prefer to hire through referrals by employees, partners or friends. According to small business owners, such recruitment method allows greater certainty in choosing a candidate. In addition, the process is less complex and intensive, so it does not require great commitment or too much time on the part of the management. Despite the managers' awareness that this method actually initially narrows the candidate pool and thus limits the selection, there is still a belief among business managers that the advantages of this recruitment method outweigh the disadvantages. Another common recruitment method used by small business owners is job postings mainly on online employment portals. Universities and career centers have never been considered a potential source of applicants by small business owners. Even more, most of the interviewed managers confirm that they have never considered student's internship as an option for attracting potential candidates for their future needs. For small businesses, the recruitment process represents an increasing challenge, regardless of the recruitment method they implement. Business owners assert that in most cases, the number and profile of candidates do not meet firm's goals and expectations, so the effort, time and costs of implementing this process are often not justified. It is for this reason that managers still prefer recruitment based on referrals, especially for jobs that do not require specific skills or qualifications. Also, job-specific skills and previous work experience in the same or similar position and/or industry remain among the priorities as compared to other employment criteria. Indeed, although soft and digital skills are increasingly recognized by managers, job-specific skills remain to be crucial in the selection process.

Regarding the selection process, small business owners consider assessment of candidates' CVs and interviews to be sufficient tools for determining the desired candidate. All interviewed managers confirm that they would continue to use the same selection method in future as well. It is interesting to note that managers prefer that candidates provide references from previous employers, but many of them admit that they have never done reference checks so far. Small business owners believe that the employee's trial period allows them greater insight into candidate's skills and abilities, as

opposed to any other selection method. Therefore, they almost always practice the trial period as part of the employment process. Recruitment tests are not practiced in the selection process since their use requires expertise that small businesses do not possess. Managers state that they would consider using external testing centers, only in case of recruiting candidates for jobs that require specific skills and for managerial positions.

2.4. Employee training

Training and employee upskilling is also an important HR practice for small businesses. There is a general consensus among scholars that small businesses invest much less in employee training compared to large firms.¹⁵ Job-specific upskilling at the workplace is the most common form of training conducted by small businesses. Small business managers report that they can see a direct benefit from training only when it comes to upgrading job-related skills. However, when asked about the potential benefits of training for upgrading soft and digital skills of employees, managers could not clearly define multiple benefits for the firm. Also, most of the small business owners are not familiar with the necessary steps to define the training needs of the employees. The prevailing method for training needs assessment is the observation method, carried out by the managers themselves. Namely, managers state that they determine the need for employee training based on the observed employee performance, including employee underperformance and detected challenges in executing daily operations. In addition, ad hoc employee training is conducted based on current needs, usually as a result of introduction of new products/services that require upgrading employee knowledge on the specifics of the product/service or introduction of new software for business operations.

There are several reasons for significantly less investments in employee training by small businesses among which, previous research most frequently underlines high training costs per employee and lack of time due to workloads¹⁶, lack of training budget and recognition of the importance and need for training by management¹⁷, lack of training designed so as to match the needs of the

15 Storey, D., "Exploring the link among small firms, between training and firm performance: A comparison between UK and other OECD countries", *International Journal of Human Resource Management*, Vol. 15 No. 1, 2004, pp. 112-30

16 Kitching, J. & Blackburn, R., "The nature of training and motivation to train in small firms", Research Report RR330, Small Business Research Centre, Kingston University [<https://core.ac.uk/download/pdf/4154524.pdf>]

17 Stone, I., "Upgrading workforce skills in small businesses: Reviewing international policy and experience", Report for Workshop on Skill Development for SMEs and Entrepreneurship, OECD/LEED, 2012 [https://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report_Stone.pdf]

businesses, and alike. In this regard, business managers also point to the same challenges commonly faced by small businesses. They report that the high training costs per employee and lack of time are the biggest barriers to training. Indeed, in small businesses, the employee's absence from work directly affects the company's daily operations due to the small number of employees. Lack of customized training in the market is also detected as a problem by businesses. Some of the managers emphasize that as a result of constant changes in the business environment, acute financial challenges as well as ever-increasing pressure from competition in recent years, upgrading employee skills remains at the bottom of their priority list.

2.5. Employee participation

The possibility for encouraging employee participation in work processes, which is by far greater for small businesses - considering their flatter organizational structure, is not fully explored by small firms. This is primarily due to the centralized decision making, an important characteristic of small businesses. Small business owners assert that all relevant decisions related not only to the company's strategic directions but also to business operations are made solely by themselves. Thus, small businesses fail to fully use employees' skills to their benefit, through bigger responsibilities of employees and their active involvement in the decision-making process related to business operations. Surprisingly, many small business managers regard employee participation as employee willingness to go an extra mile and take initiative on new tasks. On the other hand, those that fully comprehend the concept of employee participation also reported that they would be very cautious to delegate bigger responsibilities to employees if such necessity arises. These findings clearly indicate that small business managers are either not fully aware of the concept and the potential benefits of encouraging higher employee participation or they view it as a risk of being unable to oversee all the aspects of the operations. In fact, loosely defined job descriptions provide more opportunities for job enrichment and enlargement through a greater variety of tasks and greater independence in performing them, which directly contributes to bigger employee involvement in firm's business operations, and hence greater utilization of firm's human capital.

2.6. Pay and rewards system

Small businesses usually do not have formal pay and rewards system¹⁸ and introducing such a system presents a significant challenge to them, mainly as a result of lack of expertise in this area. Setting an appropriate pay and rewards system entails clearly defined job descriptions and job evaluation, transparent rules as well as objective and measurable criteria for employee performance evaluation. Our research showed that small business owners are the ones who define employee pay and rewards levels, usually on an individual basis. In most cases, business managers seek to set pay and rewards range relative to those of the direct competition. Most of the business owners believe that it is extremely important to provide competitive pay and bonuses, as a way to motivate and retain employees. Also, in all small businesses included in the research, the compensation system consisted of base salary and performance-based bonuses, with sales targets or generated profit as main criteria for employee performance. The research also revealed that small business owners point to employee performance as the main criterion in determining pay and rewards levels. However, none of the interviewed managers consider introducing a system that will include more parameters, both in terms of employee performance criteria and reward methods. Small businesses often lack clearly defined goals and criteria for employee performance evaluation, based on which employee compensation would be determined. In fact, performance appraisal in small firms is generally informal.¹⁹ In addition, mere reliance on sales targets and generated profit for employee performance evaluation could prove to be insufficient, especially for growing firms. Without a well-defined system of criteria for employee performance, small firms may be faced with employee dissatisfaction, lower productivity or higher employee turnover.

Conclusion

The informality of HR approach and the reliance of people management issues solely on business owner's views create different HR practices in small businesses. The overall findings reveal that the informality of HRM practices poses a challenge mainly for growing small businesses. Namely, in micro firms, most of the HRM aspects, in terms of defining job activities and responsibilities,

18 See for example Hornsby, J. & Kuratko, D.F., "Human resource management in U.S. small businesses: A replication and extension", *Journal of Developmental Entrepreneurship* Vol.8 No.1, 2003, pp.73-92

19 Cassell, C., Nadin, S., Gray, M. & Clegg, C., "Exploring human resource management practices in small and medium sized enterprises", *Personnel Review*, Vol. 31 No. 6, 2002, pp. 671-92

reward methods, communication techniques and job delegation are usually informal and managed ad hoc, considering the small number of employees. However, for small businesses that employ more than 10 employees, the challenges arising from lack of formal practices, that is, practices that would be clearly defined, transparent and consistently applied, have already been noted by the management since they affect the daily business operations. Aside from the informal character of HRM, as small business sustainability is reliant on human capital and employee performance, business owners should seek to explore more sophisticated HR systems.

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