

**STRATEGIC HRM FOR SMEs:
IMPLICATIONS FOR FIRMS AND POLICY**

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Abstract

This paper is on the growing importance of Strategic Human Resource Management (SHRM) for small and medium-sized enterprises (SMEs). Many small firms encounter serious human resource problems, while at the same time these human resources play a vital role in developing and sustaining their competitive advantages.

In (S)HRM literature specific issues concerning small firms are rarely addressed. This paper explores this issue further. We conclude that the available knowledge on HRM in small firms is highly descriptive and fragmented. We propose the application of the Strategic Labour Allocation Process – model (SLAP) as a tool to analyse HR-problems in SMEs. This model focuses on the balance between the supply of and the demand for labour on a firm level. The application of the SLAP-model produces two strategic scenarios for Dutch SMEs presently confronted with a tight labour market. In the first scenario, the small firm chooses for labour supply oriented policies, that lead to a corrosion of the firms distinctive competencies. In the second and more optimistic scenario, the small firm creatively organises its labour demand. The latter turns out to strengthen the small firm's position on the labour market, ultimately sustaining its competitive advantage.

1. Introduction

This paper is on the growing importance of Strategic Human Resource Management (SHRM) for small and medium-sized enterprises (SMEs) in industrialised high growth countries. More specifically, it will take the Dutch situation as a case to demonstrate the

relationship between on the one hand major economic, technological and social changes in the SMEs' environments and, on the other, the urge to a more strategic thinking on the management of the human resources of this type of firms (Lever and Peters, 1998).

From a SME-perspective, the study of Human Resource Management (HRM) is relevant for several reasons. First, it is observed that SMEs consider their HRM problems to have top priority (McEvoy, 1984; Hess, 1987; Hornsby and Kuratko, 1990; Huang and Brown, 1999; Dorst and van Meteren, 1999). Secondly, HRM is of special interest to SMEs because for these firms human resources play a vital role in developing and sustaining competitive advantage (Lado and Wilson, 1994; Duberley and Walley, 1995; Huiban and Bouhsina, 1998; Flanagan and Deshpande, 1996; Ferligoj, Prasnikar, and Jordan, 1997). In small firms this is even more relevant as a result of their specific work organisations and because SMEs are relatively labour intensive (Flanagan and Deshpande, 1996). Moreover, as a direct result of the small scale, each individual employee represents a substantive part of the SME's workforce (Bacon and others, 1998), thus increasing the importance of every single HR-decision.

As to the developments in HRM, we observe a shift from HRM to strategic HRM. However, precision is lacking about the status and the definition of SHRM (McMahan, Virick, and Wright, 1999: 101) even to the extent that it blocks the development of systematic theory (Dyer and Kochan, 1994). For example, Brewster (1999) pointed to the different perspectives of universal and contextual models of (S)HRM, while accepted definitions vary from emphasising the elements of HR planning (Wright and McMahan, 1992; Lundy, 1994), the management of organisational changes (Hendry and Pettigrew, 1990; Hendry and Pettigrew, 1992) and co-ordination mechanisms of the organisation (Watson, 1986), to highlighting HR policies as a tool for business strategy

(Beer, 1984; Truss and Gratton, 1994; Ulrich, 1997; Dyer and Holders, 1988; Boxall, 1999; Guest, 1987; Lengnick-Hall and Lengnick-Hall, 1990; Schuler, Dowling, and De Cieri, 1993). Whatever the differences in definition, most contributions to the literature stress the relation between business strategy and HR practices as the core of SHRM. In this paper, we broadly share this latter type of definition; our specific interpretations will be discussed in section 4.

The aim of this paper on SHRM in SMEs is to explore if and to what extent the distinctive characteristics of small and medium enterprises (SMEs) lead to the necessity of specific HR strategies. We will enlighten this issue by analysing SMEs' SHRM problems by the application of a SHRM model developed by Bax (1998). In particular, we are interested in what policy options this model will produce for the solution of dominant (S)HR problems in SMEs. As a case we restrict the analysis to the Dutch context because the Netherlands is a rather interesting case of a tight labour market with which Dutch SMEs have to cope.

In the next section of this paper we will define the distinctive characteristics of SMEs. Section three is devoted to an exploration of the HR policies in SMEs. In section four the SHRM model will be presented while the Dutch context and actual HR problems of Dutch SMEs are discussed in section five and six. In the last section conclusions are drawn and suggestions for further research are presented.

2. Distinctive characteristics of SMEs

Small business literature offers much discussion about the definition and (supposed) attributes of small firms (Storey, 1994; Bolton, 1978; Julien, 1998). For our purposes, we are not interested in the variable size per se, instead we will look at strategic HRM

and its implications for smaller versus larger firms. Nootboom (1994) developed a profile of the identity of small firms using three core characteristics: small scale, personality, and independence. Together they constitute a qualitative definition of SMEs, which we will build upon in this paper. Consequently, a whole array of characteristics can be derived from this 'definition' (cf. Nootboom 1994), leading to three core strategies, viz. innovation, customisation, and networking strategies. Two of these characteristics should be stressed, i.e. diversity and flexibility.

Let us first discuss *diversity* (Nootboom, 1994). The personal influence of one or a few individuals on a small firm, i.e. personality, implies that a broad variety of personal goals and motivations determine the behaviour of the firm (cf. Duberley and Walley, 1995; Wagar, 1998; Bacon and others, 1998; Baron and Kreps, 1999; Koch and De Kok, 1999). Because the small firm is independent, the owner has the opportunity to actually pursue his/her diverse goals, while the firm's small scale yields the manoeuvrability to actually succeed (cf. Baron and Kreps, 1999).

The second important feature often attributed to SMEs is *flexibility* (Storey, 1994; Levy and Powell, 1998). *Internal flexibility* (Ansoff, 1965) is the firm's ability to adapt the organisation itself. Small scale, personal involvement and independence all lead to an absence of bureaucracy, creating the SMEs' reputation of being able to respond readily to changing circumstances (Levy and Powell, 1998). *External flexibility* is the ability to influence the firm's environment. Obviously small scale almost automatically leads to little power, hindering active *influence* on the environment (Arthur and Hendry, 1990; Kitching, 2000). On the other hand, the core characteristics enable small firms to change their environment by changing their strategic niche (Koch and De Kok, 1999).

Although these arguments sound reasonable and are widely used, empirical evidence on flexibility is disappointing (Levy and Powell, 1998; Young and Francis, 1993). Probably small firms often do not fully use their flexibility potential (Volberda, 1998). It is the personal attitude of the small business owner that determines whether the flexibility potential that is definitely present in every small firm gets used, or whether small firm myopia gets the upper hand. Probably, the latter is often the case.

3. Human resource management in SMEs

Reviewing the literature on HRM in SMEs we find that one theme is dominant: the actual use of HRM instruments by SMEs. Other relevant topics that have received much less attention are the quality of SME-jobs (including the evaluation of the nature of industrial relations in SMEs) and the possible link of HRM with strategy and competitive advantage and firm performance.

Regarding the use of HRM instruments, a first observation is that authors do not agree on the relevant elements of HRM in SMEs (cf. Duberley and Walley, 1995; Wagar, 1998; Benmore 1995). Research shows that HR-practices vary highly between small firms (Duberley and Walley, 1995; Julien, 1998; Bacon and others, 1998), are often determined by the ideology and pluralistic goals of the small business owner (Duberley and Walley, 1995; Wagar, 1998; Bacon and others, 1998; Koch and De Kok, 1999), and, as a result of its informality, are more sophisticated than usually expected (Julien, 1998).

Julien (1998) provides an extensive overview of 104 studies on a wide variety of HRM related topics in SMEs. Table 1 illustrates the main findings of Julien, who concludes that: "*HRM practices do exist and are applied in small businesses, even though they are generally not formalized and extremely diverse, and thus resist*

generalization” (Julien 1998:332). This diversity is not only a size effect; other specific factors may be very important, for example country specific (legal) factors that largely determine health and safety policies of all firms.

Table 1 General differences in HRM practices between smaller and larger firms

	HRM practices in small firms as compared to larger firms	
	lower in small firms	higher in small firms
Formality	<ul style="list-style-type: none"> manpower need planning introduction new staff appraisal and evaluation training 	
Frequency of use	<ul style="list-style-type: none"> tests training & development HRM training external recruitment assistance 	<ul style="list-style-type: none"> evaluation internal referrals references use of job try-outs
Employee benefits	<ul style="list-style-type: none"> wages and fringe benefits 	<ul style="list-style-type: none"> satisfaction
Work environment	<ul style="list-style-type: none"> participatory management 	<ul style="list-style-type: none"> informal, personal atmosphere open communication

Based on Julien (1998).

We will exemplify some of the findings mentioned in table 1 with specific studies. One of the elements mentioned very frequently is the relative lack of training in smaller firms (e.g. Kitching, 2000). Arthur and Hendry (1990) and Storey (1999) explain this ‘economies of training’ by the fact that small firms have a higher probability of labour turnover, because they offer less opportunity to career development. As a result, better

trained employees will choose for opportunities elsewhere leaving the small firm behind with its less trained employees and a depleted training budget. A proposed solution to this problem would be to use company specific (on-the-job) training, which has little value to other firms.

Other interesting differences concern small firm recruitment policies. Small firms make extensive use of job try-outs (Duberley and Walley, 1995), which are inexpensive and very well suited to evaluate the actual fit of a person with the (implicit) demands of the job. The personal atmosphere of small firms is reflected in the high use of informal procedures like job posting and bidding (Deshpande and Golhar, 1994; Bax and De Bruin, 1993).

With respect to the other topics, empirical proof is unfortunately scarce. In general, SME-jobs tend to have somewhat lower employee benefits (Storey, 1994; Van der Meer and Wielers, 1998). Some authors think that the latter is compensated for by a better working atmosphere (Laroche, 1989; Wagner, 1997), while others point to a supposed traditional and relatively backward nature of SMEs' industrial relations (Wilkinson, 1999; Holliday, 1995). With respect to motivation of the employees, Kamien and Schwartz (1982) and Zenger (1994) found a positive effect in smaller firms because compensation was more directly related to employees' performance.

As to the existence of a relation between HRM, business strategy and firm performance, three main arguments can be discerned. The first one relates to our earlier observation that HRM aims at attracting, developing and retaining human resources, and for many small firms human resources are the core of their competitive advantage (e.g. Huiban and Bouhsina, 1998).

The second argument is that implementation of modern management approaches such as JIT and TQM largely depend on HRM factors (e.g. Deshpande and Golhar, 1994; Wagar, 1998; Van der Bij, Broekhuis, and Gieskes, 1999). The implementation of such management approaches is a strategic choice, thus leading to a need for strategic human resource management (SHRM).

The third and final argument is that in smaller firms strategy development is often an emergent process in contrast with a deliberate and planned process in which supporting functions such as HRM only come into the picture after the strategic decisions have been made. Such an interactive continuous process calls for HRM thinking to contribute as a full partner to strategic decision making as it unfolds (Arthur and Hendry, 1990; Duberley and Walley, 1995; Koch and De Kok, 1999).

Consequently, considerable support exists for the argument that HRM is a strategic factor in many small firms (although mostly not institutionalised) and that we should speak of and focus on SHRM. However, as to the relation between HRM and small firm performance no empirical proof has been found yet. According to Storey (1999), this could be explained by the dependence of SMEs on external developments, that outshine possible internal (e.g. HRM) efforts.

Overlooking the extant literature reviewed above, we conclude that most studies concentrate on description and lack theoretical explanation. Consequently, we miss adequate theory based guidelines systematically prescribing how (S)HRM could help small firms to successfully adapt to the new demands they are confronted with. In the remainder of this paper, we present a model that may provide just that.

4. The strategic labour allocation process model (SLAP-model)

4.1 Introduction of the SLAP-model

The basic assumption underlying the model formulated by Bax (1998) is that the core business of HR managers is to engineer a balance or fit between the supply of and the demand for labour. That is to say, every production process demands a certain number of specific tasks for people to fulfil. These are the quantitative and qualitative dimensions of the demand for labour. On the supply side the HR manager needs a number of people with the required skills and capacities in order to perform the tasks required: the quantitative and qualitative dimensions of the supply of labour. In order to meet the demands of the tasks to be performed, the HR manager can use people already employed by the organisation or (s)he can recruit people from the external labour market (Strober, 1990; Snell and Dean, 1992). In fact, modern HR managers are constantly engaged in managing processes of allocating labour within the organisation. As the model is about the strategic dimensions of these processes, it is called *Strategic Labour Allocation Process Model (SLAP)* (see figure 1).

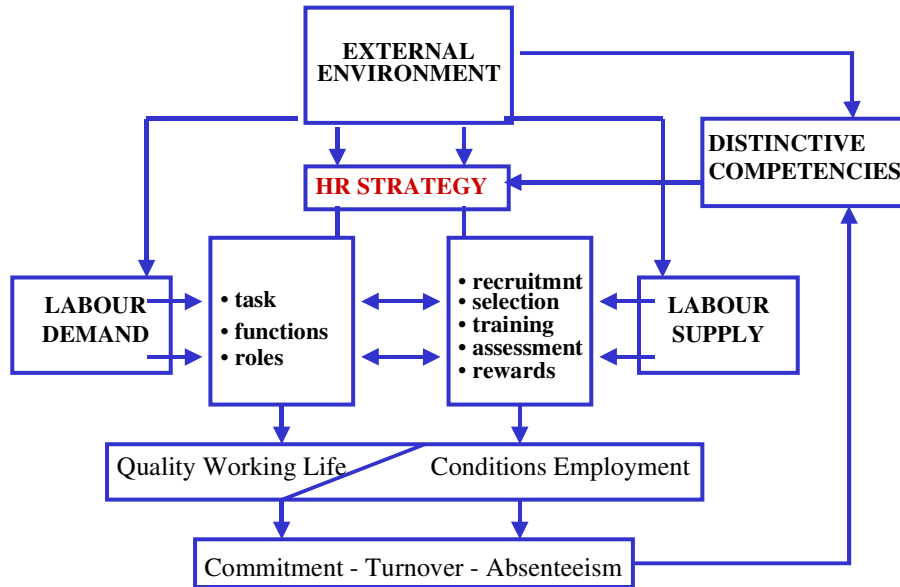
HR managers are not free in choosing their ways to bring about the desired balance in the labour allocation process. A diversity of external forces determines the degrees of freedom to manipulate the variables that shape the supply and demand side of the process (Pfeffer and Salancik, 1978). So HRM has to deal with constraints produced by other organisations (Greening and Gray, 1994; Oliver, 1991; Taylor, Beechler, and Napier, 1996) and by institutions (Judge and Zeithaml, 1992; Meyer and Rowan, 1977). Next to these organisational and institutional forces one can also distinguish economic, socio-cultural and technological variables (Adler, 1992; Bax and De Bruin, 1993; Bax,

1994) which affect the labour allocation process inside the firm. All these factors have in common that they can not - or only marginally - be manipulated by the individual firm. The latter has to accept this external environment as given and must plan its internal policies in order to adapt to it.

Supply and demand are rather abstract terms originating from the economist's vocabulary. The supply of labour - be it from resources internal or external to the organisation - is moulded into the needs of production by instruments like recruitment, selection, training, assessment and rewarding. In the design of organisations, the demand side is translated into structures, culture and production technology. On the lowest level of abstraction, structure and culture are expressed in task, functions and social roles.

It is important to see that according to the basics of the SLAP-model and contrary to more traditional conceptions of 'personnel management', the fit between supply and demand is not only to be achieved by manipulating the supply side of the labour allocation process. Recruitment, selection, training, assessment and rewarding are only one side of the story: HR management should also redesign (parts of) the production process in an attempt to close the gap between supply and demand.

Figure 1: The Strategic Labour Allocation Process Model (SLAP)



Source: Bax (1998)

In terms of the SLAP-model, we conceive as a first meaning of human resource strategy the set of ideas concerning both the direction of redesigning the organisation and the application of instruments like recruitment, selection, training, assessment and rewarding. This should lead to an equilibrium between the supply and demand side of the labour allocation process given the prevailing goals of the organisation (e.g. maintaining profit potential) and the expected changes in the external environment. The latter points to the introduction of the time factor as one of the core elements of the model: one of the emphases in strategic HRM should be on the *anticipation* of expected changes in the external environment of the organisation.

The second meaning of human resource strategy relates to business strategy as a more general phenomenon. Here the argument is that for a business strategy to be successful the condition must be fulfilled that it should be congruent with HR practices that promote the appropriate patterns of employee behaviour (Huselid, 1995, Youndt and others, 1996; Delery and Doty, 1996; Fisher, 1989; Schuler, 1989; Kamoche, 1994; 1996; Schuler and Jackson, 1987; Schuler and MacMillan, 1984; Huselid and Becker, 1997; Schneider and Bowen, 1985; Johnson, 1996; Sanz-Valle, Sabater-Sánchez, and Aragón-Sánchez, 1999; Keng-Howe Chew and Chong, 1999). By the strategic use of human resources firms can develop 'sustainable competitive advantage' (Barney, 1991; Swiercz and Spencer, 1992). In the SLAP-model this 'resource-based' perspective is specified by means of the concept of distinctive competencies as defined by Van der Heijden (1996). In his approach to strategy, value creation is the ultimate aim. Whether or not the organisation will succeed in creating value depends on its distinctive competencies such as e.g. company know-how, knowledge of customer values, shared assumptions and values, leadership style and commitment, staff identification and commitment, culture and internal communications (Van der Heijden, 1996: 61-66).

Concerning the SLAP-model two important remarks are left to be made. First, distinctive competencies are no static entities. Changes in the external environment may not only have their effects on the labour allocation process of the organisation itself, but may also positively or negatively affect the degree of distinctiveness of its competencies.

Secondly, an essential trait of the SLAP-model is that it has an output in terms of the quality of working life and the conditions of employment. In turn, these determine largely workers' commitment, labour turnover, (sickness) absenteeism and the like. Here the model builds on the so-called 'bundling hypothesis' (MacDuffie, 1995) which

states that ‘HR practices affect performance, not individually, but as interrelated elements in an internally consistent HR bundle or system’ (a.o. McMahan, Virick, and Wright, 1999: 103).

We stated earlier that HR management is not completely free in engineering the equilibrium of the supply and demand sides of the labour allocation process: the degrees of freedom management has are largely determined by the nature and strength of the relevant forces in the external environment. Next to these, an issue of utmost importance is *how* the prospected outputs of the planned adaptation process relate to the organisation’s distinctive competencies. Furthermore, distinctive competencies are directly linked to the way the labour allocation process is shaped. To make this clear we will introduce a distinction between type of organisation, ‘hard’ and ‘soft’ contracts and type of business strategy.

4.2 Type of organisation, type of contract and business strategy.

We can put every organisation on a continuum ranging from mechanical to organic. These two terms are derived from the works of Émile Durkheim (1893) who distinguished between social entities that can be classified as borrowing their social cohesion from social hierarchy (mechanical solidarity) and those of which social cohesion is the product of (inter)dependencies produced by the division of labour (organic solidarity). Mechanical organisations stand for standardisation and hierarchy. Max Weber’s bureaucracy concept is the model of a mechanical organisation. Conversely, organic organisation means the absence of standardisation (Mintzberg, 1983: 35-36) and is characterised by mutual dependencies of the participants, a

diffusion of power and commitment to the goals of the organisation (Bax, 1991). Of the latter, the professional organisation is a good example.

Type of organisation is a variable that belongs to the demand side of the labour allocation process. This variable can be matched with type of contract, a supply side variable because it relates to recruitment, assessment and rewarding. Williamson and Ouchi (1983:26) distinguish ‘hard’ and ‘soft’ contracts. Hard contracts emphasise transaction costs, apply ‘Taylorism’ in reward policies and employ people in jobs rather than in careers. Soft contracts on the other hand, focus on vision and values of the organisation, support a ‘clan’ culture, are characterised by long-term socialisation processes, and reward experience and length of service while employing people in careers rather than jobs (Tyson, 1995: 93). Hard contracts match the characteristics of mechanical organisations; organic regimes rely more on soft contracting.

Table 2 Business strategy, type of organisation and type of contract.

Business Strategy	Type of Organisation	Type of Contract
Defender Organisation <ul style="list-style-type: none"> niche market defended by pricing or quality 	Mechanical/Organic	Hard/Soft
Prospector Organisation <ul style="list-style-type: none"> innovation, flexible, decentralised 	Organic	Soft
Analysers Organisation <ul style="list-style-type: none"> risk reduction by imitation, efficiency and stability 	Mechanical	Hard
Reactor Organisation <ul style="list-style-type: none"> reactions to short term pressures: no clear strategy 	????	????

Table 2 shows the links between business strategy, type of organisation and type of contract. Here we use the well-known typology by Miles and Snow (1978) in order to classify business strategies. From table 2 it becomes clear that in two cases the links are not self-evident. Defender organisations may be more oriented either to pricing or to quality. If they choose for pricing a more mechanical and hard contract orientation is likely. In the case of quality directed policies we may expect organic organisation and soft contracting. The dominant trait of reactor organisations is that they do not have a clear strategy; therefore, we cannot put forward any proposition as to links with type of organisation and type of contracting.

Further, the SLAP-model states that outputs like turnover, productivity, commitment and the like may have negative or positive effects on the very nature of the organisation's relevant distinctive competencies. For example, if an organisation follows a business strategy of innovation, it needs an organic structure and a well-trained and committed workforce in order to reach its goals. If for whatever reason such an organisation decides to 'rationalise' and to introduce hard contracting, we may expect employees' commitment to deteriorate and labour turnover to rise (*ceteris paribus*). Gradually the nature of the organisation will change into a more mechanical direction as management is forced to put more emphasis of external controls because of a decreasing intrinsic motivation of the workers. In the end this process will lead to a corrosion of the organisation's related distinctive competencies and, consequently, to an undermining of its innovative power.

5. The Dutch situation

Industrial relations in the Netherlands are considered to be different from what is found elsewhere in the Western industrialised world. In the so-called Dutch "Rhineland"

model, legislation, institutions and stakeholders all play an important role in shaping HRM policies and practices. Boselie, Paauwe, and Jansen (2000) demonstrate that due to these institutional pressures 12 out of 16 Pfeffer's so-called best practices (Pfeffer, 1994) are rather common in the Netherlands, also among small firms.

The last decades, within this socio-cultural setting, Dutch SMEs* gained substantially from a relative abundance of labour supply. Relatively low wages, a high unemployment level and many newcomers (especially female part-time workers) on the labour market, provided SMEs with relatively cheap and flexible employees. This gave SMEs a relative advantage over larger firms since SMEs are traditionally more labour intensive (Thurik, 1998). However, the last few years things are changing, mainly as a result of changes in the labour supply.

First, a significant shift in the age distribution of the total population is diminishing the *quantity* of labour, i.e. the volume of the available labour force. In 1970, one in ten Dutchmen were over 65 years old, in 2000 this ratio had grown to one in seven (ING, 2000). Secondly, as unemployment levels go down, the average *quality* of the unemployed falls sharply; only 'difficult' cases are left over on the labour market. Thirdly, while labour demand rises both in large and smaller firms, the nature of knowledge and skills required change as a result of the so-called 'new economy'. This has led to growing *recruiting competition* between organisations.

The developments just described have led the Dutch labour market into serious unbalance. The last few years, actual job growth recurrently exceeded the estimates. In 1999, the expected job growth for 2000 was 37,000 jobs (EIM, 1999). At the beginning

* In the Netherlands SMEs are usually statistically defined as having less than one hundred employees.

of 2000 the estimates were raised to 54,000 (EIM, 2000a), and the most recent estimates indicate 84,000 new SME jobs in 2000 and another 75,000 in 2001 (EIM, 2000b). Net job growth in the larger Dutch firms (employing about 54% of the workforce, (EIM, 1999)) is limited to about two thirds of these numbers.

The level of vacancies is another relevant indicator. In august 2000, the total number of jobs in small and large private enterprises amounted to 4,813,000. The ratio of unfulfilled vacancies to jobs was 1 to 27 in large firms, and 1 to 21 in small firms (estimates based on EIM, 1999 and CBS, 2000). The Dutch SME-employers' organisation warns that this labour shortage makes small firm owners choose stagnation strategies instead of growth (Het Financieele Dagblad, 2000a; Het Financieele Dagblad, 2000b). At the same time, the number of people that are available for the labour market, but unable to find a job, is still large. Especially minority groups (based on country of origin, age, sex, race or limited abilities) still seem to have this problem.

A study by Dorst and van Meteren (1999) sheds some more light on the urgency of the problem as experienced by the small firm owners themselves. In this study, 723 SMEs were interviewed by telephone and asked about their most pressing problems. Personnel and social security - in the Netherlands the latter is strongly linked to the former - both ended up in the top-3. SMEs with personnel problems specifically mentioned the following issues: adequate personnel (75%), level of education and quality (23%), labour shortage (14%), retaining employees (9%), high employee demands (5%). We may conclude that a majority of the small firms merely see their problem as an internal problem ('I can't find the right person') while only a minority (14%) sees an external labour market problem.

6. Actual reactions of Dutch SMEs and possible solutions

When presenting the SLAP-model, we described the essence of human resource strategy as striving for equilibrium between the demand and supply side of the labour allocation process within the firm. When we look at the actual and recommended HR-reactions in table 3, we see that *all* these reactions consist of adapting recruitment, selection, training and/or rewards. In other words, they all aim at influencing the labour supply side of the SMEs labour allocation process.

Table 3. Actual and recommended reactions to HR-problems for SMEs.

Source	Actual and recommended reactions
Dorst e.a. (1999) (opinion of small business owners)	More intensive recruiting Lowering of standards Temporary workers Improve terms of employment
Dorst e.a. (1999) (final recommendations)	Improve personnel policy, develop HR-vision Approach new target groups New recruitment methods, collaboration Improve qualifications of employees (training) Improve image of SB-sector
Brouwers e.a. (1999) (recommendation)	More and better active mediation by third parties
Investors in People program (Taylor and Thackway, 1995)	Improve image of SME-employers

Another reaction that is not mentioned in table 3 is tapping into the labour supply across the border, either by hiring foreign employees, or by moving production facilities abroad. For Dutch SMEs, this type of internationalisation has not been very successful. First, recent experiences in the Netherlands - such as hiring foreign workers from Britain and Poland - failed because of cultural and language problems, and because in general Dutch politicians feel that the Dutch long term unemployed should have the priority. Secondly, research shows that the internationalisation of (Dutch) SMEs is largely limited to direct imports and exports (Eshuis, 2000). Dutch SMEs are not very keen on relatively complex international relations, in spite of many governmental efforts to stimulate such activities. A third factor is that SMEs' position and job growth are particularly strong in the services sector jobs (EIM, 1999), and in manufacturing niches where craftsmanship is more important than efficient production. These types of activities are relatively difficult to perform with foreign employees, let alone in foreign countries.

From our analysis above it follows that these policy recommendations will most probably not have the desired effects. First, the recommendations from table 3 can be summarised as 'more of the same recipe'. They implicitly accept the idea that SMEs have to compete on the external labour market for scarce workers. Given the restricted resources of SMEs relative to those of large companies it is very likely that SMEs will lose that battle. Secondly, and even more problematic, the recommendation to concentrate recruitment on temporary workers and/or relatively marginal sectors of the Dutch labour force will jeopardise the very character of SMEs and, consequently, will indeed encourage a corrosion of their distinctive competencies. Such a scenario is not unlikely and embodies serious risks for the future position of SMEs. As discussed in

section 2, the profile of SMEs emphasises innovation, customisation and networking strategies. This points to the direction of organic organisation as the predominant type for SMEs. This type is also in line with the two main features: diversity and flexibility. As follows from table 2, soft contracting is compatible with such traits. Given the 'underdog position' of SMEs on the external labour market, they will have trouble to attract employees with financial incentives. If they do succeed, these new workers will be more extrinsically motivated, implying that they will always have an open eye for new opportunities. As soft contracting presupposes long periods of socialisation, one can raise serious doubts as to the returns on the investments of this kind of human capital.

The lowering of the standards of skills combined with an increasing uncertainty about the returns on investments in human capital may provoke a trend to standardisation, i.e. into the direction of more mechanical types of organisation. Such a trend will be strengthened the more SME-employers have doubts about the length of the terms of employment of their new staff members and will substitute socialisation by the introduction of more formal controls. The obvious output of this scenario is a loss in terms of distinctive competencies and profit potential.

However, one could also think of a more optimistic scenario for the future of SMEs. Small firms will typically be organic organisations, using soft contracting, creating commitment through a good quality of working life. As the SLAP-model shows (figure 1), this type of policy belongs to the labour demand side of the system, ultimately depending upon the design of adequate tasks, functions and roles. With this in mind, what then could be adequate reactions of Dutch SMEs and their related parties?

1. Most importantly, small business owners, small business associations, consultants and government should all acknowledge the importance of a dual approach to strategic human resource management. Such an approach acknowledges human resource management as a continuous process of balancing labour demand and labour supply. Because external forces largely influence this process, strategic solutions should be aimed at facilitating this adaptation process instead of searching for ad hoc solutions.
2. SMEs could use their known strengths such as internal flexibility, direct communications and integrated tasks to design jobs which fit available personnel. This strategy entails the creation of jobs around the unique experience, knowledge, skills, and interests of newly hired employees e.g. seniors, part-time workers, members of ethnic and cultural minorities. This strategy is also called 'serendipitous' job design (Lado and Wilson, 1994).
3. If the present product/market-combination gives little opportunities for the desired job design, the small firm could profit from its small scale, and look in the external environment for *other strategic niches* in which the desired job design is possible and which fits with available labour supply (i.e. external flexibility). These jobs could be attractive for employees working for other firms (i.e. larger ones) and for unemployed people who do not fit the standard jobs available (i.e. the minority groups). Simultaneously, this strategy offers the present employees interesting job opportunities, thus decreasing the firm's labour turnover.
4. If small firms continue preferring to influence the labour allocation process through the supply side, again they could try to use their strengths. This means that by using their experience in network strategies they could develop a joint

power and resource base on the labour market. Specifically, we are thinking of (more intensive) use of e.g. co-operative labour pools and training & development funds, or even regional or national campaigns to improve the small business sector's image and to interest more and better future employees. The Investors in People program mentioned in table 3 would be a first step in that direction, particularly because the Dutch government stimulates this program for SMEs in particular.

In this option, *third parties* could play important roles. These parties could include for example trade organisations and unions, but also commercial intermediaries such as temporary employment agencies. As soon as small firms try to influence the labour supply individually, the whole small business sector runs the risk of cannibalism (stealing each others employees) or deteriorating competitive advantages (through declining quality of the workforce and/or higher labour costs) as we described earlier.

5. Finally, the *government* may have a task. Whatever specific reaction small firms choose, they typically run into small firm disadvantages such as limited staff, narrow knowledge base, and relatively high transaction costs. Although the Dutch government already has many SME-programs, to our knowledge these programs are also labour supply oriented (e.g. special mediation for minority groups). By developing and spreading knowledge on 'serendipitous' job-design (Lado and Wilson, 1994) government could help small firms to exploit their natural advantages instead of mainly compensate for natural disadvantages.

7. Conclusions

In this paper, we summarised the existing body of literature on strategic HRM in general, and on HRM in smaller firms in particular. We concluded that, although general support exists for the idea that strategic Human Resource Management is relevant for small firms, the available knowledge is highly descriptive and fragmented and yields no theoretically supported guidelines for SMEs and/or institutions that are working with SMEs. In order to provide a theoretical base for such guidelines, we introduced the Strategic Labour Allocation Process – model (SLAP-model) which links the firm's internal labour supply and demand to the firm's strategy and the significant developments in its environment. From the application of the model to the case of Dutch SMEs we conclude that it indeed enables the analyst to evaluate present SMEs' policies and to broaden the latter's options. Since our analysis encompasses the diverse population of smaller firms and leans on existing empirical material, it is difficult to come up with generalisations. Further empirical research should address the actual utilisation of labour supply adaptation by (Dutch) SMEs, and the process of achieving this new fit between the organisation and the labour supply. This could lead to sector and/or firm level contingencies and more hands-on implications of the SLAP-model for small business managers.

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