

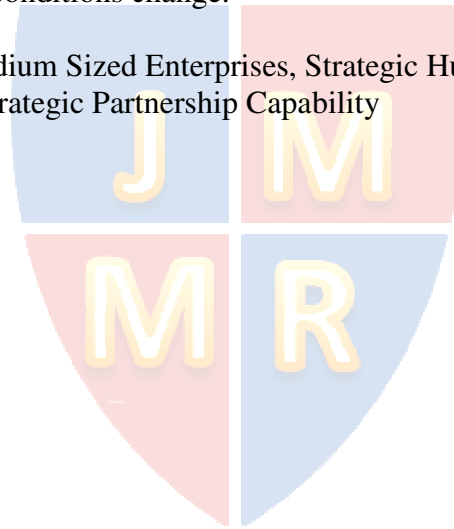
Strategic human resource management, small and medium sized enterprises and strategic partnership capability

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ABSTRACT

The study of strategic alliances has focused primarily on alliances between large corporations and between large corporations and joint ventures. However, powerful strategic partnership and alliances between small and medium sized enterprises and big businesses are also critical to the ability of big business to develop and maintain sustainable competitive advantage. This paper lays out a conceptual framework for studying the relationship between the strategic human resource management practices of small and medium sized businesses and their performance as corporate partners, as industry and competitive conditions change.

Keywords: Small and Medium Sized Enterprises, Strategic Human Resource Management Practices, Strategic Partnership Capability



INTRODUCTION

Strategic collaboration between small and medium sized enterprises (SMEs) and the large businesses they partner can take many forms, such as locating a SMEs facility in close proximity to a buyer's facility to enable just-in-time delivery of raw material, inputs and components; collaborating on research and development and product design to build organizational competencies and capabilities; collaborating on supply chain activities to manage costs and promote operational efficiency; or delivering outsourced human resource management activities (Doz and Hamel 1998). For large businesses, forming strategic alliances and collaborative partnerships can be critical to their ability to seize technological opportunities, to build critical resource strengths and competitive capabilities, to improve supply chain efficiencies and deliver value to their customers (Kaplan and Hurd 2002). Often these partners are small and medium sized enterprises, that are expected to perform as full partners. Indeed many partnerships and alliance break when a partner is unable to meet its obligations under the partnership agreement (Ernst and Bamford 2005).

Given the promise it holds for fostering competitive advantage, strategic collaboration practices have received significant attention in the management literature (Michie and Sheehan 2005; Ichniowski, Shaw and Prensushi 1997; Pfeffer 1998). However, there has been little to no attention paid to the role the strategic human resource management (SHRM) practices of SMEs play in their ability to be valued and trusted strategic partners in the value chain of big businesses. Like any other organization, the sophistication of their human resource management practices can lead to operational inefficiencies that can affect their ability to meet their obligations to corporate buyers (reference and relate sentence to big businesses where this has been proven). Factors that enable operating excellence include having a strong management team, recruiting and retaining talented employees, viewing training as a strategic activity, structuring the work effort in ways that promotes successful strategy execution, deploying an organizational structure that facilitates the proficient performance of strategy critical activities, instituting policies and procedures that facilitate good strategy execution, instilling a strategy supportive culture and tying rewards and incentives to individual and team performance outcomes that are strategically relevant (Higgins 2005).

While research on the SHRM practices of SMEs has made broad strides (Heneman et al 2000, Leug 2003, Hayton 2003), no research has been focused on the context of how the SHRM practices of SMEs hinder or contribute to successful partnership with big corporations. As such, the purpose of this paper is to explore the fit between a SMEs strategic human resource management practices and the industry and competitive position of its big business strategic partner. Adopting this approach is justified for several reasons. First it is consistent with the emerging view of strategic partnerships as a tool for building and/or sustaining competitive advantage (Dyer, Kale, and Singh 2004). Second, SHRM capabilities is an asset that is closely related to a company's ability to deliver its business model as people craft, implement and execute strategy (Schneier, Craig, Shaw, and Beatty 1991; Lee and Miller 1999). Lastly, a focus on intellectual capital, human capital, social capital, core competencies and capabilities is becoming increasingly recognized as a critical success factors for business (Pfeffer, 1998).

Drawing on the SHRM and strategic management literature, this paper presents a conceptual framework for studying the relationship between the SHRM capabilities of SMEs and their performance as big business strategic partners. The first part is a review of the literature on SHRM and on SMEs as they relate to industry value chains, while the second part develops a conceptual model of the relationship between the different industry and competitive conditions under which big business can compete and the SHRM requirement of their SME partners. The conceptual model recognizes the challenges SMEs face as the market conditions and competitive standing of their big business partners evolve, and discusses SHRM specific approaches SMEs can adopt for dealing with such changes.

Following Huselid, Jackson, and Schuler (1997), strategic human resource management is viewed as a critical element in fostering operational efficiency and firm performance. I argue that the characteristics of a SMEs strategic human resource management practices determines its people management capabilities and on the effect side, is directly related to its value as a strategic partner. I contend that the factors affecting the quality of a SMEs SHRM resource management capability include the industry and competitive condition of its partners and direct competition from other SMEs and businesses eager to provide value to a SMEs partners.

This study contributes several new and valuable insights to the academic literature and to the practice of firm management. From a theoretical perspective, it provides valuable insights into the underlying workings of some of the key people variables that serve to provide synergy in the relationship between big businesses and their SME allies. Two, it highlights the significant role SMEs play in the value chain of big businesses and develops a new matrix that captures the relationship and three, it paves the way for future research in this area. From the firm management perspective, it presents a clear picture of a systems linkage between big businesses and their SME strategic partners that is a significant determinant of the cost of goods and services purchased by big businesses and provide a set of recommendations that will enhance the collaborative potential of SMEs and big businesses in general. A summary of the conceptual model is presented in Fig. 1.

THEORETICAL BACKGROUND

What is Strategic Human Resource Management

Strategic human resource management practices are those practices specifically developed, implemented and executed based on a deliberate linkage to a company's strategy (Huselid, Jackson, and Schuler 1997). The term strategic human resource management implies that employees are strategic resources i.e. human capital that must be managed and leveraged in executing corporate strategy. Early efforts in developing the SHRM paradigm were predicated on the belief that specific human resource practices were required to promote behaviors designed to deliver firm strategies and were focused on the relationship between employee behavior and company strategy (e.g. Snell 2001; Schuler and Jackson 1989; Fisher 1989). The initial focus was on strategic context influences on individual and later systems of technical human resource management practices. Managers were expected to employ the system of individual practices that best

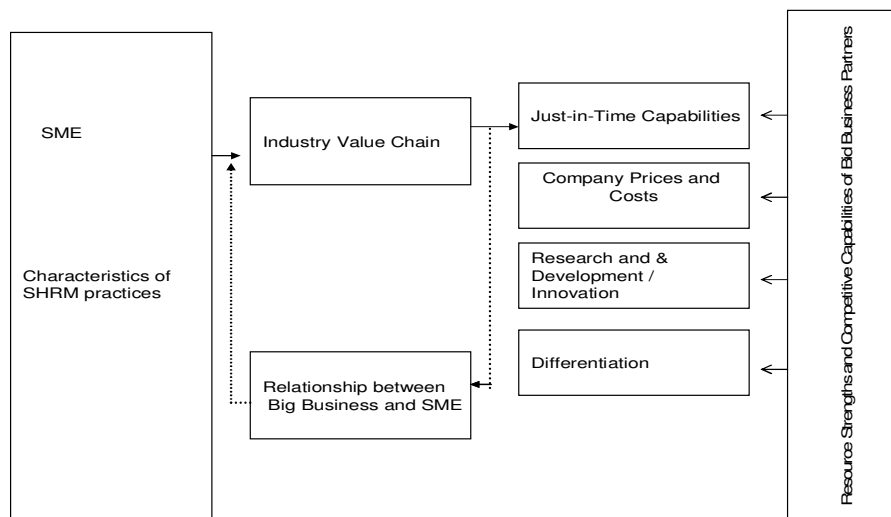
fitted (based on considerations of external threats and opportunities and internal resource capabilities, resources, and competencies) their firm’s strategy, to elicit and reinforce the required behavior.

Operationally, SHRM means tightly aligning traditional human resource management practices such as recruitment, selection, training and development and rewards to a company’s strategy. It also means instituting policies and procedures that facilitate proficient strategy execution, using teams to leverage cross-functional knowledge and competencies, developing knowledge management capabilities that facilitate the leveraging of best practices and effective and efficient capture of economy of scope opportunities, developing learning organizations that facilitate the constant adoption, utilization, ownership, and internal dissemination of best practices, and executing change management approaches that contribute to building and maintaining strategy supportive corporate cultures. It includes practices such as the use of structured interviews, bio-data, cognitive ability tests, and assessment centers; competence development maps and frameworks; developmental performance feedback, management by objectives techniques, and balance scorecards; cross-functional teams and project teams’ profit sharing, team based compensation, merit pay, and long term incentives; open book management practices to reduce worker-manager status differential; enterprise resource planning human resource management solutions; and enhanced involvement of the human resource function in crafting, implementing, and executing strategy (Huselid, Jackson, and Schuler 1997; Magliore 1982; DeSanto 1983; Stumpf & Hanrahan 1984).

Proposition 1a:

If an SME seeks to tie its human resource management practices to its competitive strategy, it will have to develop a SHRM capability.

Figure 1: Theoretical Framework



In comparison, traditional or technical human resource management (THRM) practices are activities that management engages in to attract, retain, train, develop and reward employees that are not explicitly tied to company strategy (Huselid, Jackson, and Schuler 1997). A focus on THRM while not strategic may however be appropriate given the industry conditions an SME partner faces and the partner's competitive position within its market space. Hence, I propose that:

Proposition 1b:

For a SME to be considered as a valued partner, it has to ensure that its human resource management capabilities are aligned with partner requirements.

Competitive Strategy, Industry Value Chains and SMEs

SMEs are independently owned and operated entities that are not dominant in their field of operation and exist to provide specific goods and services to buyers that include other businesses, governments and individual consumers. The overwhelming majority of companies in the U.S. are SMEs (Huselid 2003) and the impact of SMEs on job creation, creativity, innovation, and macro-competitiveness has been well documented in the industrial organization, strategic management, and economics literature. Andretesch (1995) for example, argued that small business research and development activities are more productive than big businesses, when size is controlled for. Perhaps the biggest role SMEs play however is that of partners in the value chain of big business. With technology for example, advancing along many different paths and in the race to seize new opportunities only a few firms have the capabilities and resources to pursue their strategies alone and big companies sometimes partner with SME dedicated to pushing different technological paths with promising leverage potential (Doz and Hamel 1998).

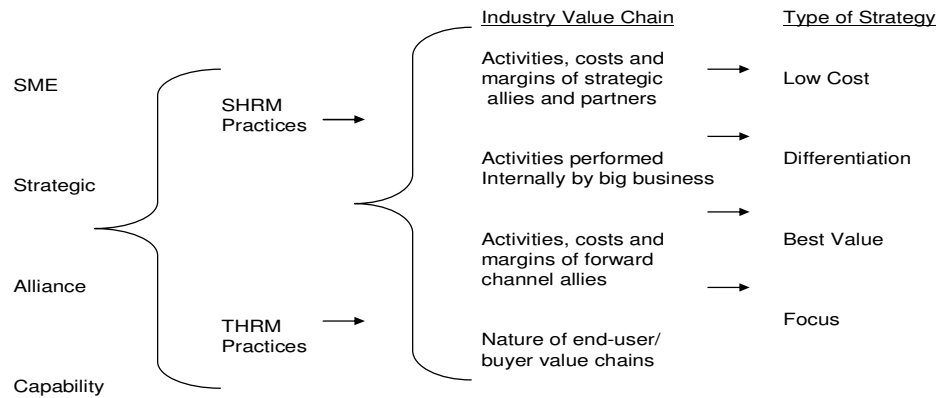
From a company perspective, a value chain is made up of all primary and secondary activities required to make its product. It includes primary activities ranging from purchased supplies and in-bound logistics to client service and a set of support activities including research and development, administration, and human resource management. For instance, in manufacturing, the industry value chain is the system of activities by upstream suppliers, manufacturers, and downstream customers or allies that contribute to manufacturing and selling a product to end users (Porter 1980; Porter 1985). Regardless of strategy (low cost leader, differentiation, niche, or best value), the magnitude of cost incurred by each activity differs by company. Accurately evaluating a firm's competitiveness in delivering value to end users therefore entails a scrutiny of the firm's total value chain including those of SME upstream partners. For example, the value chains of upstream suppliers are important because they perform activities and incur costs in manufacturing components, providing raw material and intermediate inputs or in providing services to their buyers while those of distribution allies affect the efficiency of getting products and services to end users as well as customer satisfaction (Porter 1985). Given the relationship between strategic human resource management and such important outcomes as firm performance, firm innovativeness, and firm profitability (Huselid, 1995; Ngo, Lau, and Foley 2008) , it is clear that partnering with high

performing SME partners is a significant driver for creating a strategy capable big business and that developing a strategy supportive culture, people management and internal organizational capabilities should therefore be a strategic imperative for SMEs.

Proposition 2:

If deemed competitively strategic, big businesses will seek to develop strategic relationships with SMEs that can add value to their value chain activities.

Figure 2: Competitive Strategy, Value Chains and SMEs



CONCEPTUAL MODEL

As competitive conditions change, companies in all types of industries have had to evaluate their strategies to strengthen their competitive positions. For example, it is commonly acknowledged that since the 1990s, increased globalization, rapid advances in technology, and the increasing competitiveness of emerging economies such as Brazil, Russia, India and China (the BRIC countries) has put considerable pressure on the competitiveness of corporations in the industrialized western economies. In response, many companies have adopted strategic partnerships as an important complement to their competitive strategy, to enable them build resource strengths and business capabilities in cost effective ways (Porter 1990, Inkpen 1998).

Strategic alliances and partnerships are most prevalent in industries experiencing rapid changes, especially those that are technological and price based, and as such entail an element of change as industry and competitive conditions evolve (Dyer, Kale, and Singh 2004). The Strategic Human Resource Management Capability matrix depicted in

Figure 3 seeks to explain how SMEs adapt their human resource management practices in response to changes in the competitive conditions of their big business clients and to competition from other industry participants. Examining four commonly encountered situations, the model posits that indirectly, as big businesses respond to changes in their industry environment and their competitive conditions and as direct competitive conditions change, SMEs will adapt their human resource management practices in support of efficient strategy execution.

Figure 3: SME SHRM practices to promote strategic partnership success as partner industry conditions and/or competitive conditions change

		PARTNER INDUSTRY	
		Growth Industry	Matured Industry
SHRM APPROACH	Innovative leader, aggressively adopting strategic human resource management practices to enable it meet the needs of partners in fast growing industries	Matured leader relying on the technical human resources management capabilities that have proven beneficial in meting partner needs. May be anticipating a competitive need to shift focus to serving the needs of companies in a fast moving industry and thus a need to adopt strategic human resource management practices	
	Flexible leader whose human resource management practices is focused on meeting the current needs of its big business partner	Laggard, reliant on technical human resource management practices. Has limited resources to be competitive in serving the needs of companies in a growing industry	
		Fragmented Industry	Declining Industry

Quadrant 1: Growth Industries



SMEs in the innovative leader quadrant service companies in attractive, growth sectors that require them to deploy a range of strategic human resource management competencies. Indeed, alliances and strategic partnerships are highly prevalent in growth industries where change is rapid (Hitt, Tyler, Hardee, and Park 1995). Given the rapid nature of change in the typical high growth industry (such as telecommunications and computer technologies), SMEs in this space would need to constantly determine whether or not to deepen their capabilities to remain competitive as business partners. To diagnose the course of action, such firms would have to consider the nature of competition in its market space as well as the key success factors, product life cycle, and driving forces in the buyer sector. For instance, close collaboration and the ability to meet tight deadlines is required between suppliers and buyers in the PC industry where PC components and the software that run them are provided by many different suppliers. This means that the ability to efficiently and effectively partner with buyer employee will be a key SME partner capability and that SME SHRM systems must be able to recruit, staff, develop and reward employees with the ability to deliver the requisite skills. Tightly coupling

SHRM practices to the needs of buyers however presents the challenge of being able manage any means-end goals reversal effect of good fit (MacMillan and Jones 1986). This is because while fit facilitates growth, it also makes growth in a firm's current business the primary tool for growth, and this can become counter-productive if the competitive position of buyers becomes negative.

Proposition 3a:

If the big business partner is competing in a growth industry, the SME will have to adopt strategic human resource management practices to enable it develop and utilize the competencies required to be considered a valued strategic ally.

Quadrant 2: Matured Industries

SMEs in the matured leader quadrant are theorized to possess a high level of competitiveness, high levels of technical human resource management skills but low levels of strategic human resource management skills. Such firms will be established leaders in their sector and will be part of the value chain of firms in matured industries that face limited competition. The major strategic choice for these SMEs is whether or not to continue supplying the needs of a matured, slow growing industry or sector. This will entail an examination of the driving forces and attractiveness of the buyer sector (Porter 1980). SMEs concerned about the future viability of their supplier business, may decide to exit to supply the needs of another sector or industry where high levels of technical human resource management skills is a key success factor. Alternatively, a decision may be made to develop strategic human resource management capabilities to become more competitive in serving the current industry/sector or to facilitate partnership with firms in industries and sectors where such capabilities are critical success factors. A determination to invest in strategic human resource management competencies would necessitate an understanding of why such skills are lacking and of the culture within the firm to diagnose the change management activities that would be required. For example, is the firm unionized and will employees resist the introduction of SHRM practices?

Proposition 3b:

If the maturity of the SMEs big business industry causes the SME to consider partnering a company in a more attractive industry, it may have to adopt SHRM practices to be able to competitively deliver value.

Quadrant 3: Fragmented Industries

SMEs in this quadrant partner companies that compete using a wide range of strategies. For example, the banking industry is comprised of players that utilize different strategies targeting a wide variety of customer groups, customer needs and market segments (Porter 1980). As such, the range of human resource management capabilities required to be competitive in partnering companies in a fragmented industry range from excellent THRM to excellent SHRM capabilities. The key strategic challenge is

identifying potential partners and developing the capabilities needed to be a valued business partner. Given the range of players, strategies and product and service requirements, SMEs in this space are well advised to incorporate their human resource function into the strategy formulation process to facilitate simultaneous consideration of human resource issues in making business decisions. Key questions include: is there a fit between the firm's human resource capability and its current strategy? Should the firm move to another industry segment and does it have the capabilities to be competitive? Is the current skill mix unit or firm or sector specific and how flexible is it? How will the technical and/or strategic human resource management capability of the company be leveraged to contribute to ramping up its competitiveness? In considering these issues, SMEs will have to understand the competitive trends in their supplier sector and the viability of their current strategy in leveraging their human resource competencies as a key factor in the race to sustained competitiveness.

Proposition 3c:

The nature of the human resource management practices of SMEs that partner big businesses competing in fragmented industries will be a function of the competitive conditions of their partners sector and their partner's level of competitiveness.

Quadrant 4: Declining Industries

Stagnant or declining industries are those that are growing at a pace that is slower than the economy wide average or even declining. The strategic challenge for SMEs servicing the needs of companies in such industry is whether to continue or to exit. This consideration is accentuated by the fact that competitive companies with above average profitability exist even in stagnant or declining industries (Harrigan and Porter 1983; Hamermesh and Silk 1979). The long run thus becomes an issue of paramount importance for SMEs working with competitive and profitable companies in such industries. In addition the ability to drive down costs, to stress differentiation based quality improvements and innovation capability, as well as the ability to deliver a focused strategy are often critical to the success of firms in such environments. Thus, the SME partner is likely to face consistent pressure to reduce prices, as well as pressure to contribute to successful focusing and differentiating even as uncertainties exist about the long-run viability of industry partners. In essence, the SME partner would be torn between deploying human resource skills at the minimal level required to comply with aspects of employment laws or deepening the company's skill set to enable it contribute to its partner's ability to compete on cost, quality and innovation. To make the right strategic decision, the SME would have to consider whether its buyer sector is actually experiencing widespread decline. If for instance a laggard firm is simply poorly positioned or is implementing and executing a poor strategy, it may be able to become competitive if it selects a competitive strategy, makes the right investments, and repositions itself (Hamermesh and Silk 1979). In essence the exit or turnaround option of partners will have to be thoroughly examined to enable an SME partner make the right decision on its human resource management investment.

Proposition 3d:

SMEs that partner big businesses operating in declining industries will tend to utilize THRM practices.

Success of Strategic Human Resource Management

I propose that the industry and competitive environment of a SMEs partner has a direct bearing on its need to implement SHRM capabilities. However, once an SME makes the commitment to SHRM practices, I posit that success is based on the extent to which the SME institutionalizes them. In line with the work of Kostova and Roth (2002), I further contend that institutionalization is a function of their implementation and internalization. Implementation is the extent to which the practices have been adopted and is reflected in the intensity of their use. For example, successful implementation of work teams will be reflected in their consistent use in decision making, problem solving, empowerment, and visibility. Internalization, the second level of institutionalization, is evidenced by the extent to which such practices are infused with value by employees. To be infused with value, a practice has to be accepted by employees, has to be a source of job satisfaction (Locke 1976), of psychological ownership (Van Dyne and Pierce 2004) and has to be a strong basis for making decisions about individual commitment to an organization. Insufficient implementation and internalization will result in insufficient degrees of sophistication that results in difficulties in partnering. This leads to the following proposition:

Proposition 4a:

Institutionalization and the resultant job satisfaction and psychological ownership of SHRM practices are keys towards building the core competencies and internal organizational capabilities that enables an SME to become a valued strategic ally.

Management commitment is also critical to the success of the SHRM practices of a SME. Central to such commitment is an appreciation of talent as a lever of organizational success; of strategic alliances and partnerships as a fulcrum of organizational success; and of the forces of the macro and industry environments and their impact on competitiveness. Managerial commitment is therefore a construct that revolves around appreciation of the utility of people in developing valuable core competencies, understanding of the efficiency pressures on businesses and appreciating the impact of economic and competitive factors as a driving force on big business. This leads to the following hypothesis:

Proposition 4b:

Successful adoption of strategic human resource management practices is positively associated with the extent to which the management of a SME understands the competitive environment of its partners.

Proposition 4c:

Successful adoption of strategic human resource management practices is positively associated to the commitment of the management of a SME to adopt them.

DISCUSSION AND CONCLUSION

This effort is predicated on the generally acknowledged importance of small and medium sized enterprises to the competitiveness of big businesses. It builds on prior works that have demonstrated the significant contribution of a strategic human resource management capability to firm effectiveness, performance, and competitiveness. It seeks to begin to answer the question of the sustainability of the partnering ability of small and medium sized enterprises. At the heart of the analysis is the notion of a reciprocal relationship between a firm's strategy and its human resource practices. There's also a real world assumption that buyers will seek to purchase inputs at the best available price. Two implications flow from the research: one, SMEs that continuously scan their business environment and seek to understand their partners industry and competitive conditions and then adopt the most suitable set of human resource management practices will be more valued as business partners than firms who do not do so and two, SMEs that consider their competitive and human resources strategies simultaneously will be more likely to be considered as valuable strategic partners relative to those that do not consider the interplay between their competitive strategy and human resource management practices.

However, the success of the adoption of strategic human resource practices lies in the ability of the SME to implement and internalize them. Accordingly, factors related to implementation and internalization of practices has to be taken into consideration. Of course, successful adoption will have to be embedded into a broader context that takes management commitment, the needs of strategic partners and competitive pressure emanating from other companies seeking to partner the SMEs strategic partner. As such, the conceptual model presented in this paper is explicitly a partial explanation of the forces that need to be considered if an SME is to successfully adopt SHRM practices.

The model has research, theoretical and practical implications. From the research perspective, it serves as the beginning of empirical research as the variables and constructs it presents, such as the role of implementation, internalization and management commitment to the successful adoption of organizational practices, are established and have been shown to be valid and reliable in previous research. However, previous research has not been focused on SMEs and as such additional work will be required to validate the measures used before applying them to the SME situation.

In addition, to providing a good foundation for further empirical research, the model can be used for theory building. Drawing on research in strategic human resource management, technical human resource management, strategic partnerships and alliances, value chains, industry analysis and firm competitiveness as well as the SME literature, additional variables on why SMEs adopt SHRM practices and key success factors can be identified. In fact, additional qualitative work will but only be useful in identifying other factors that will aid the SME as it seeks to adopt SHRM practices successfully.

From the corporate perspective, the model can be used as a source of recommendations for best practices for SMEs in building SHRM capabilities and in building valuable strategic partnerships that are sustainable. The role SMEs can play in fostering the competitiveness of big businesses and the challenges they need to overcome have been well documented. Further insights on the factors that aid or inhibit successful partnering, can only be of strategic importance not only to SMEs but to their big business partners.

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