

The Role of Human Resource Management in Development of Small and Medium-sized Enterprises

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Abstract

People, the basic and most important element of organizational systems, today play a key role in the development of enterprises, not only in large, but also in small and medium-sized enterprises (SMEs). Most of the research in the field of human resource management (HRM) is focused on large companies, but some researchers recently started to explore and obtain significant results in the field of HRM in SMEs. The paper analyzes the activities of human resource management (staffing, training, and development) in SMEs and makes a theoretical basis for creating a model of the HRM, which would be applicable to these companies. The aim of the paper is to determine the role of the HRM in the development of SMEs. The paper presents a review of the existing works in this field and a theoretical analysis of the dominant attitudes about the importance of human resources management in SMEs. If we know that more than 90% of business activity in the European Union is carried out by SMEs and that these enterprises employ 2/3 of the total number of employees, it is obvious that they are the driving force of economic development, and that development of SMEs is very important. This should be based on the development and improvement of HRM practices in SMEs. The conclusions of the paper open new questions for research on possible solutions and models of HRM in SMEs.

Keywords

Human resource management, small and medium enterprises, development.

Introduction

It is estimated that 40% of entrepreneurs cease to exist in the first year of the establishment, while additional 80% of small and medium enterprises, which survive the first year, cease to exist in the next five years. This fact is very disturbing and encourages thinking and seeking answers to the problem. The results of numerous studies point to a number of problems, which stand out as the most important, and are a stumbling block to the most authors. According to a survey conducted in the US by Dunn and Bredstreet (Profit magazin, 2011), 96% of companies fail because of bad management. Jessie Hagen from the U.S. Bank determined the reasons for it. The reasons are as follows: cash flow problems (82%), starting with

the lack of cash (79%), lack of research and planning (78%), too high level of optimism about expected sales (73%), bad and undefined process of creating the price (77%), failure to realize the problem and not seeking help (70%), minimizing the importance of promotion (64%), lack of business experience (63%), inadequate level of delegation of responsibility (58%), recruiting the wrong people (56%), lack of understanding of the competition (55%) and reliance on one client (47%). Although the research was conducted in the United States, these causes can approve to be more dangerous when applied to Serbia. It can be concluded from the above mentioned that the choice of people who will work in the company, assignment of tasks, responsibilities and powers

have a significant impact on the operations of small and medium enterprises. Errors in these steps can be fatal for the survival of the company. On the other hand, choosing the right people, an adequate delegation which is primarily focused on respecting the principle of delegating tasks to be done well and in a defined period of time, an adequate system of motivation and rewarding could be the driving force behind the development of enterprises. This will even enable the company to cope with some of the above mentioned problems, overcome the crisis and continue on its path of development. Putting the right people in the right places is a task that must be fulfilled by the founder/owner/manager if he/she wants the company to develop into a healthy organization from the very establishment.

1. Characteristics of small and medium enterprises

Development of small and medium enterprises is the driving force of economic development. The basic characteristics of SMEs, when compared to large systems, are the following: greater vitality, greater flexibility, specialization, easier management, lower costs, faster innovation, aggressive entrepreneurship, local development and job creation which affect the reduction of unemployment (Ahmetagic, 2008, p. 191). Thanks to its flexibility, vitality, and propensity to undertake innovative and risky venture, and greater opportunities for specialization, SMEs are superior relative to large business systems, adapted to the demands of consumers and the dynamic changes in business conditions in the global market (Beraha, 2011, p. 316).

In addition to these characteristics, in the context of the contribution of SMEs to economic growth and development of the national economy, it is necessary to point out dimensions of SMEs (Hobohm, 2001, p. 4):

- Compared to large enterprises, SMEs are more labor intensive and affect the reduction of inequalities in income distribution. These companies play an important role in generating employment and, consequently, in poverty reduction;
- In developing countries, SMEs contribute to a more efficient allocation of resources by applying labor-intensive production methods, which provide a balance of greater availability of workforce and shortage of capital;

- SMEs supported the creation of the system of production capacity by absorbing productive resources at all levels in the economy and contributing to creating dynamic and resilient production systems in which small and large enterprises interrelated. Compared to large enterprises, SMEs are geographically more evenly allocated, thereby contributing to the development and diffusion of entrepreneurial ideas and skills and reducing economic performance between urban and rural areas.

Table 1 Typology of enterprises according to the methodology of the European Union

Criteria	Micro	Small	Medium	Large
Average number of employees	< 10	10-50	50-250	> 250
Business income	< 700,000 €	700,000-8,800,000€	8,800,000-35,000,000 €	> 35,000,000 €
The average value of business assets	< 350,000 €	350,000 – 4,400,000€	4,400,000 – 17,500,000€	> 17,500,000 €

Source: Eurostat, 2016

The largest number of companies registered in the European Union are SMEs. As many as 99% of companies out of 200 million are small and medium in size. Out of these, 93% are the smallest, micro-enterprises with up to 10 employees. This is the main reason why SMEs are a major source of employment and an important source of wealth creation in the EU (Eurobarometer Team of the European Commission, 2007).

In the case of Serbia, SMEs constitute a significant part of economy, 99.8% of active companies, and 2/3 of employees in the non-financial sector.

Table 2 The share of SMEs in total number of enterprises in the Republic of Serbia (%)

Size of enterprise	Number	Share (%)
Entrepreneurs	222152	70,3
Micro	81775	25,9
Small	9353	3,0
Medium	2132	0,7
MSPP	315412	99,8
Large	494	0,2
TOTAL	315906	100

Source: Chamber of Commerce, 2013

2. Human resource management in small and medium-sized enterprises

During the development of human resources management, HRM was primarily focused on applications in large organizations. Human resource management in SMEs is an insufficiently explored area, not only when it comes to scientific

research, but also in practice. It is widely accepted that the management of human resources is not essential for small and medium enterprises and is not cost-effective. Owners and managers of SMEs often ignore the activities, such as professional and objective selection, training and staff development, performance appraisal, etc. This approach to human resources management is wrong because the growing competition affects SMEs in a similar way as large companies and imposes the need for better understanding and management of all available resources, especially human resources. Effective process management of human resources is particularly important for SMEs which grow and strive to commercialize innovations. This indicates that the HRM activities such as, among other things, training and development are necessary for the survival and further development of the company. Many SMEs are fast-growing and have a problem finding and hiring quality people, which, according to numerous studies, is listed as one of the main reasons for the decline of SMEs. An adequate and efficient system of human resources management can significantly help owners and managers of small and medium-sized enterprises if human resources management is well-organized from the establishment of small and medium-sized enterprises, regardless of what the lower degree of formalization is in the micro and small enterprises, while the level of formalization in terms of the activities of recruitment, selection and training becomes higher as enterprises grows. This is shown in the conceptual framework of the HRM in small and medium enterprises, which is the result of research in this field.

Human resources management in small and medium-sized enterprises has gained importance in the recent decades. A small number of studies and researches have been devoted to this field. In the period from 1984 to 1999, only 17 articles on this topic were published in relevant and recognized journals (Heneman & Barkley, 1999). Only in the last two decades have serious researches been carried out and importance attached to human resources management in small and medium-sized enterprises.

The importance of human resources for the development of small and medium enterprises has been indicated by a number of authors. Among the available resources in organizations, people are the “glue” that holds and binds other resources (Mathis & Jackson, 2010). Bearing in mind that SMEs are labor intensive (Anheier & Seibel,

1987; Schmitz, 1995), a well-organized process of recruitment (Williamson, 2000, p. 27) and of selection, and later of training and human resource development are key to creating a good base of workforce that will meet the challenges the company faces on the path of its development, successfully solve all the “usual” problems, and prevent the emergence of “pathological” problems (Adizes, 2009). However, the research results indicate that very little attention is paid to these processes in practice. Most studies have shown that the recruitment and training are two of the three most important management problems faced by SMEs (Slavkovic, 2011, p. 3).

“Lifecycle of Enterprise” by Adizes was used for representation of the development of enterprise. On its development path, a company faces problems that can be rated as “usual” and “pathological”. By its nature, the usual problems are transient. They occur, give instruction and objective lesson and after that you are ready to continue. In contrast, pathological problems slow down the progress and development of the organization. Pathological problems hinder development and retain the enterprise in a certain stage of the life cycle. By their nature, pathological problems are stronger and more serious than the usual ones (Adizes, 2009). If there is a frivolous and disorganized approach to the recruitment and selection of human resources from the beginning, there is a significant risk of creating an inadequate personnel structure, which can be a hindrance to the development of enterprises and the transition to the next phase of the life cycle. Fast and hasty decisions regarding recruitment and selection of human resources and their thoughtless implementation can lead to fatal consequences for the functioning and survival of the company.

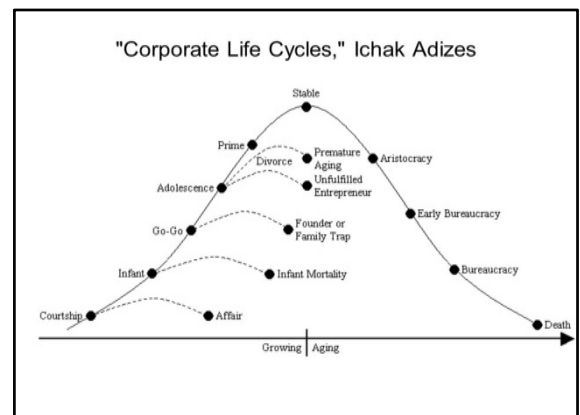


Figure 1 Adizes Corporate lifecycle
Source: Adizes, 2009, p. 177

3. Overview of research practice of human resources management in SMEs

Enterprise development and staff development are directly related; in other words, companies cannot develop without the development of human resources (Poljasevic & Petkovic, 2013, p. 308). Before the process of training and development, it is necessary to carry out the process of recruitment and selection. Results of different researches conducted in SMEs around the world and in Serbia will be presented below. Based on these studies, conclusions about the practice of HRM in SMEs will be derived.

Researches regarding small enterprises are mainly focused on the individual practice of human resource management (Cassell, Nadin, Gray, & Clegg, 2002, p. 673). The majority of studies which had the level of formality of practice human resource management in SMEs as their subjects, came to the conclusion that the HRM in SMEs is an informal, intuitive and ad-hoc process (Mayson & Barrett, 2006, p. 449; Saridakis, Munoz Torres, & Johnstone, 2013, p. 445). Numerous studies support the aforementioned, one of which is the research that covered the activities of recruitment, selection, compensation, training, development and remuneration, which showed that the degree of formalization is lower in SMEs when compared to large enterprises (De Kok & Den Hartog, 2006, p. 450).

Several studies, whose subject of research was human resources management in small and medium-sized companies, show that SMEs prefer an informal approach to the staffing process; they choose methods of recruitment that are cheaper and can be controlled directly by the owners or managers of the companies (Poljasevic & Petkovic, 2013, p. 306). Surveys conducted in Australia and in the UK during 2002 came to conclusion that, when it comes to the recruitment process, the recommendations are the most common criterion, while the importance of other sources of recruitment such as employment agencies and advertisements in the media become more in use as companies grow. In other words, the level of formality of the process of recruitment in large enterprises is growing, while SMEs still predominantly use informal ways. When it comes to the selection process, the study results are very similar to the results of recruitment. SMEs use a cheaper and simpler method of selection (Mayson & Barrett, 2006; Kotey & Slade, 2005). The most

commonly used method of selection is an informal interview between the candidate and the owner or manager. Trial work as a method of selection is highly ranked.

The study, which was conducted on the sample of 148 SMEs in Serbia in 2011, whereby the methodology of the European Union was used for the classification of enterprises, which is shown in Table 1, confirms the management practices in small and medium-sized enterprises that have been explored in the previous research in the US, EU and UK. When it comes to process of recruiting in SMEs, the assumption regarding the use of ways which are conventional, cheap and under full control of the company is confirmed. The informal methods of recruitment are predominantly used, the most common of which are the recommendations, while advertisements in newspapers, advertisements on the Internet, services of specialized agencies in the field of human resources and services of the National Employment Service are used to a lesser extent. In the field of selection, it was found that for SMEs on the territory of the Republic of Serbia, the most important selection criterion is the positive attitude towards work, which may suggest a smaller degree of formalization of the selection process, because the assessment of candidates in relation to this criterion can be estimated by using unstructured oral interview and comes down to determining the level of motivation for obtaining that job. When it comes to the training of employees, SMEs in Serbia allocate significantly fewer funds for the training of employees when compared to large companies. It was determined that the average percentage of employees participating in some form of training in relation to the total number of employees is significantly lower in SMEs when compared to large enterprises. The reason is the lack of financial resources and lack of time for the delivery of training, which may be the result of bad organization of working time and lack of interest of responsible persons in investing money in the employee development (Slavković, 2011)

The results of research that was performed on the basis of the CRANET database and obtained in the period between 2008 and 2010 show that, generally, SMEs which possess a HR department, HR strategy and HR manager who is present on the board rated their performance at a higher level. In this study authors used data for SMEs, for four countries, Slovenia, Serbia, Hungary and Bulgaria, with total of 443 SMEs (Stangl Susnjar, Slavic, Berber, & Lekovic, 2016, p. 226). The

major finding of the research work is that SHRM is an important and indispensable tool for any organization's performance and for any organization (SMEs and large) that wants to gain competitive advantage (Muogbo, 2013).

4. The role of human resource management in the development of SMEs

Starting from the importance of human resources for any organization, regardless of whether they are SMEs or large enterprises, human resource management is crucial for the survival and development of enterprises. Due to the lack of research and works on the subject of HRM in SMEs, there is a need to take more systematic and serious approaches to this area because human resources management should be a priority from the very beginning of the development of enterprises. Researches that have been conducted so far suggest the use of an informal approach to human resource management in SMEs. They also suggest that the degree of formality increases as the company grows and develops. It is expected that in the company's initial period of development, when the company has 10 employees, a manager or an owner of the company managing the employees mainly uses an informal approach in management. However, as the number of employees grows, especially when it exceeds 50, it is necessary to delegate this job to a professional manager, who has responsibilities and power to perform certain tasks regarding human resources. Starting with this period, it takes an expert for Human Resources (HR managers) to delegate tasks related to the recruitment, selection, training and development of employees. Starting with this period, it is necessary to delegate the tasks which are related to the recruitment, selection, training and development of the employees to an expert for Human Resources (HR manager). The expert, in accordance with the requirements during the development, should define the human resources department in which he/she will hire people who will perform only tasks related to the activities for which they are responsible (recruitment, selection, training and development of employees, etc). During the development of enterprise, the department for human resources will grow and develop, introduce a wider range of activities and tasks in accordance with a larger number of employees, and introduce new methods in accordance with the growing level of formalization. This is par-

ticularly important, as it is necessary to take care of building a healthy organization from the start of the company's development. Only people will have a crucial impact on the organization's health. The characteristics of "healthy" organizations are: the goals are widely accepted by the members, there is a strong and consistent will for achieving the goals, people daringly indicate problems and they are optimistic when it comes to solving the existing problems, there is a sense of teamwork and demarcation of responsibility, there is trust between the people and the organization, and cooperation is widespread (Ahmetagic & Harmat, 2009, p. 57). The condition for this is the very qualitative and quantitative harmonization of personnel structure that is provided only with an adequate and serious approach to the organization of the recruitment process and selection of employees, adequate staff training, not only in terms of obtaining skills and acquiring the ability to complete their tasks, but also in training regarding interpersonal relationships. Enterprise development requires a higher degree of formalization when it comes to human resources management. This can be achieved by forming the Department of Human Resources and delegating responsibility, authority and power from the owners/managers of companies, to the human resources manager who will be head of the departments where employees who are specifically responsible for the recruitment, selection, training, development, rewarding, and other activities will work. As evidence, conceptual framework for micro and small enterprises will be shown in the next section, as well as proposal for organizing the HRM in medium-sized enterprises, based on the existing research.

4.1. The conceptual framework of human resources management in micro and small enterprises

It is obvious from the aforementioned that the department of human resource management does not exist in the micro and small enterprises, and that the owner of the company makes all decisions in terms of defining business policy and within that policy, from the policy of development of human resources, to the process of recruitment, selection, training, performance appraisal, and development of staff. In the process of selection, as it has been repeatedly proven in practice, the dominant source of recruitment is advertising vacancies via personal contacts, which is one of the more informal ways of recruiting. When it comes

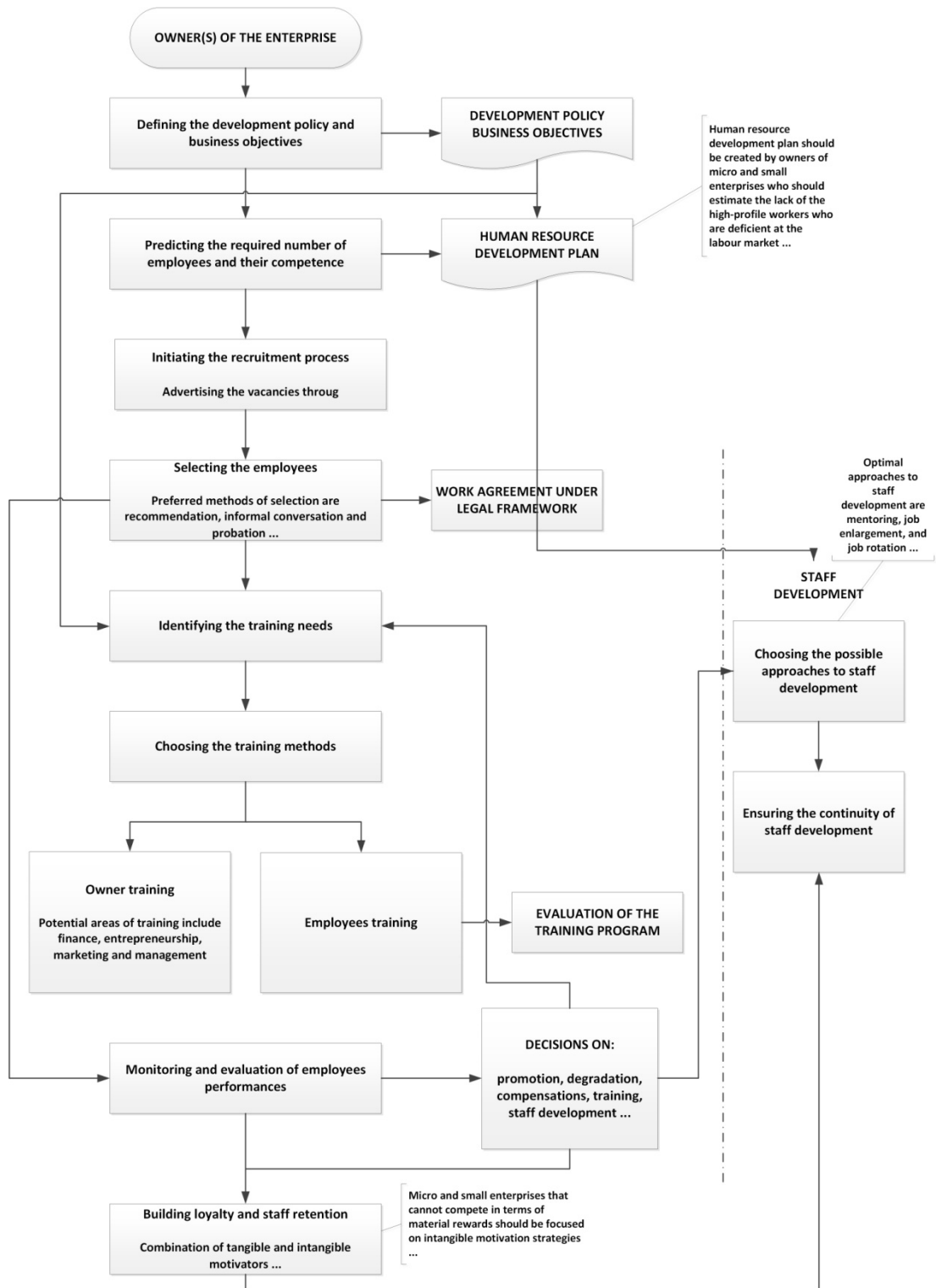


Figure 2 The conceptual framework of human resources management in micro and small enterprises
 Source: Poljasevic & Petkovic, 2013

to selection, recommendations, informal interviews, and probation work are most commonly used. Training can be observed from the aspect of owner training and staff training. Owner training

is mainly related to training in finances, entrepreneurship, management, and marketing. Significant attention should be paid to the process of motivation.

4.2. The proposal for organization process of human resources management in the medium-sized enterprises

Unlike micro and small enterprises, medium-sized enterprises require a higher degree of formalization of the process of human resources management in accordance with the needs and problems faced by the company on its development path. As the company develops, there is a need for establishing a separate department in which people who deal with the activities of human resource management will be employed, in other words, the HRM department should be formed. Defining a plan of human resources, especially the development plan of human resources, should be the responsibility of the managers of human resources. Data related to the number of people and required qualifications for potential employees should be included in the plan. This would enable qualitative and quantitative harmonization of the structure of human resources, and represent a healthy base for further development of the company, because the disharmony often becomes a barrier to development. As for the fact that there is a need for a detailed plan, it can be concluded that, in these enterprises, there is no more space for an ad-hoc approach to human resource management activities. A special segment of HRM plan should relate to the development of human resources.

The process of recruitment starts by forming an adequate recruitment commission, by adopting the decision which is related to filling vacant positions and consideration of the situation on the labor market, respectively on the demands of the market. After the assessment, the next step is the search for potential candidates, and simultaneously, an estimation of possible sources of recruitment. Unlike the situation of the micro and small enterprises, medium-sized enterprises use multiple sources of recruitment. Today, advertisements in newspapers and on the Internet should have an important role. Even in medium-sized enterprises it is necessary that the process of recruitment is serious and well-organized, because it has a strong impact on the process of selection, respectively whether adequate candidates will be selected. Selection of inadequate candidates adversely affects the organization, climate, employee productivity, motivation and a number of other factors that can represent obstacles to the development of enterprise.

The process of human resources selection continues on to the recruitment process. These two

activities are interrelated and interdependent. The selection process should be such that it rejects the weak and inadequate candidates. Unlike micro and small enterprises, where informal interviews, recommendations, and probation period were dominant, here, in addition to the above mentioned, the emphasis is on the testing of candidates through various types of tests. But above all, a selection of received resumes must be made in the first phase, as well as the elimination of inappropriate candidates. An evident difference can already be seen in the approach to the process of recruitment and selection at a higher level of development of the company.

It has already been stated in the text that the development of the employees is one of the conditions for enterprise development, and without the development of the employees, and without paying attention to the training and development of the employees, the healthy development of enterprises will be questionable. Therefore, training and development are to be one of the crucial activities. First of all, it is necessary to identify the training needs within the organization. The next step is to analyze the possibilities of providing the training, as well as to analyze the employees who need training. Training methods that will be used will be selected on the basis of the employees' needs and opportunities of the organization. The third step is the implementation of the chosen method.

A greater degree of formality should be present when it comes to methods of performance evaluation and definition of performance. It is necessary to choose the appropriate methods of measuring performance and to provide feedback. The main reason for this is to motivate the employees.

Bearing in mind the fact that medium-sized enterprises have an organizational structure with hierarchical levels which are more numerous than in small businesses, which usually comes down to a simple organizational structure, it indicates that we now have more levels of management, and now there are real needs and the possibility for forming a special department that will be responsible for the activities of human resource management. However, the size of this department in relation to HRM departments in large enterprises is definitely smaller, as well as the number of employees in this department compared to large companies. While large companies can ensure that more people in the HRM department are engaged in the activities related only to recruitment, an-

other group of people deals with selection, etc., in medium-sized enterprises, one person or a small group of people are engaged in many different tasks in the HRM department, primarily due to cost saving, among other things. Another difference is that, in micro and small enterprises, all decisions related to human resource management are made by the owner of the company.

Conclusion

The importance of the development of human resources for the enterprise has been repeatedly proved, and it is a fact that, without development of people, there is no development of enterprises. From the establishment of the enterprise, the owner must pay attention to the employment of adequate workforce. Awareness of the importance of the high quality human resources from the establishment can only drive enterprise development, because people are the most important resource of the organization and they are crucial to ensuring the success of the company and the achievement of the set goals. Their specificity puts them in focus in relation to other resources of an organization. Human Resources have the power of self-renewal and development. Investing in human resources is more profitable than investing in any other resources, because there is no added value without human labor. All of this testifies to the fact that the attention should be placed, from the beginning, on creating an adequate structure of employees, qualitatively and quantitatively harmonized. Furthermore, the approach to human resources management should be serious from the establishment of the enterprises, including recruitment, selection, and employee motivation. In that way, all the problems that the company will face during its development will be solved more easily.

Based on the existing works and research results that have been published both in the world, and in Serbia, enterprise development increases the degree of formality of human resource management. In small companies, the dominant access is informal access to the activities of human resource management, which is shown in the work, while the degree of formalization is growing with the growth and development of the company. However, in terms of human resource management, when compared to large enterprises, which have a higher concentration of people and a greater concentration of financial resources, requirements and needs of SMEs are different, and the possibilities are smaller.

We should bear in mind that human resource management is becoming increasingly important and has a crucial role in the development of enterprise, especially in sector of small and medium-sized enterprises. However, there are not enough scientific papers in this area. It was not until the last few decades, both in science and in practice, that significant results occurred in this field. Considering the increasingly significant role of SMEs in the development of the economy, and increased competition, it will be increasingly necessary to find a way to differentiate from the competition. Only people can be competitive strength of companies, on which the company will build and maintain its competitive advantage. Considerable attention should be given to the implementation of activities of the HRM, from the recruitment process, through selection, training, development, performance appraisal, to the motivation. The selection of the right people, taking care of their needs in terms of training, equitable performance appraisal, selection of appropriate motivators will contribute to the development of human resources, and they will be a healthy base that will enable and encourage the development of enterprises. These facts open up new possibilities for research and finding new ways to manage human resources at different stages of development of the company, which will be the subject of further research. **SM**

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