Talent management and dynamic view of talent in small and medium enterprises

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Abstract
Talent Management (TM) has become one of the key strategic issues for leaders in global organizations and the majority of research on TM focuses on the large multinational enterprise (MNE) context. Despite the importance of small and medium-sized enterprises (SMEs), research in the area of talent management in this context is scarce, particularly conceptual research. This paper tries to address this gap by a) providing a theoretical rationale for the difference between large and SME firms in their talent management and human resource practices; b) exploring the applicability of the notion of talent management conceptualised in large firms to the SME context. c) Proposing a framework that helps identify the characteristics of talent in SMEs. We are critical of the best practices approach and we argue that the notion of talent management is likely to be different in SMEs compared with large firms mainly due to distinct institutional and structural factors.

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1. Introduction
Small and medium enterprises (SMEs) have emerged from a rather peripheral role in earlier business literature to the more central focus that the sector enjoys today in both government policy and academic research (Lind, 2012). They are increasingly viewed as important contributors to the global economy and are big employment generators. Amongst developing nations, SMEs represent over 90% of businesses, and account for 50–60% of national employment on an average (Survey of SMEs in the global compact, 2004). A recent OECD study highlighted that over 99% of the companies in OECD and G20 countries are SMEs, making a decisive contribution to growth (OECD, 2015). SME is not a homogeneous concept and there is no common worldwide accepted definition. The definition varies from country to country and can be defined by qualitative or quantitative criteria which create problems when making comparisons between countries as to the number of SMEs and the number of employees within these firms. We begin by examining definitions of SMEs and we briefly highlight the strategic importance of these organizations in various regions of the world.

The employee size limits for an organization to be considered an SME does vary with some countries having a limit of as few as 200 employees (Australia), while in Europe the limit is commonly 250 employees. In Canada and in the US the employee size limit for SMEs could be as high as 500 or more employees. In the Indian context SMEs are defined in relation to the level of investment in plant and machinery. However, while there is no consensus on definitions of SMEs, researchers have generally used a size limit of 250 or 500 employees to define this type of organization. Major international organizations (such as the EU, World...
Bank and United Nations) have usefully suggested a definition of SMEs that is primarily based on employment size and it is now the main measure used to identify this sector (Lind, 2012).

Relatively little attention has been paid to the important role played by SMEs in the EU, Asia Pacific region and in North America (Lind, 2012). In the US around 99% of the business enterprises are SMEs and they account for 52% of the total employment as per the US Small Business Administration. Two-thirds of all jobs in the EU are provided by SMEs and in many European countries the percentage of employees working for SMEs is over 80% (OECD, 2007). Similarly SMEs form the core of the economy of the Asia Pacific region with between 30 and 50% of employment coming from this sector. The dominance of SMEs highlights the important strategic role played by SMEs in the world economy and the job creating potential of SMEs is a central theme in the economic agenda of most governments today (Festing, 2007; OECD, 2015). The attraction, motivation, development and retention of employees have long been recognised as important challenges facing SMEs (Deshpande & Gohar, 1994; Hornsby & Kuratko, 1990) and human resource practices overall are recognised as important contributors to the success of SME firms (Carlson et al., 2006; Festing et al., 2013; Heneman et al., 2000; Hornsby & Kuratko, 1990).

Talent management is an area of growing importance in a wider range of organizations and has emerged as a key HR challenge facing firms in a variety of sectors (Farndale et al., 2010; Scullion et al., 2016). The literature on talent management is not well grounded in research and is dominated by business and consulting firms who lead in advancing a vision on the discourse of TM (Cascio & Boudreau, 2016). The academic field of TM is characterised by limited theoretical and conceptual development and unresolved issues remain over the definition and boundaries of the term talent management (Sparrow et al., 2014; Collins & Mellahi, 2009). Studies have argued for the need for more conceptual work in the area of talent management (Thunnissen et al., 2013; Sparrow et al., 2014).

In recent times there has been a growth of research on emerging models of talent management and best practices in large MNEs (Cappelli, 2008; Conaty & Charan, 2010; Festing et al., 2013; Morley et al., 2015; Scullion et al., 2010; Stahl et al., 2012; Vaiman et al., 2012), but unresolved issues around the conceptual and intellectual boundaries of TM make it more difficult for TM to establish its academic merits (Collins & Mellahi, 2009; Scullion et al., 2016). More recently it has been argued that TM needs to be studied more in different contexts and environments and that the focus should be broadened to a wider multi-stakeholder perspective (Collings, 2014). In addition, there continues to be a dearth of theoretical research on HRM and Talent Management in SMEs, despite the growing recognition of the importance of HR and TM in the SME context (Festing et al., 2013; Valverde et al., 2013). Too often HR and talent management concepts and practices developed within large firms are applied uncritically within SMEs (Festing et al., 2013; Heneman et al., 2000) with little or no acknowledgement that SMEs differ in some fundamental ways with regards to their institutional, resource and economic contexts. Hence, the initial focus of this paper is to highlight the difference between large and SME firm contexts through various theoretical lenses and to consider the implications for talent and human resource management. We examine how small organizational size creates both challenges and opportunities for SMEs in their approaches to TM and we highlight their practice of recruiting from distinct talent pools.

The theoretical understanding of the SME context points towards a need for a new way of thinking about the meaning of ‘talent management’ and ‘talent’ in SMEs, issues which will be explored further on. Basing our arguments on two conceptual themes established for talent management in large firms, we contend that the notion of talent management is not replicable to SMEs and that the conceptualisation of TM as proposed for large firm needs adaptation in the SME context. SMEs experience a greater degree of instability in their structural forms and management processes (Child, 1973; Hanks & Chandler, 1994; Pugh et al., 1969) in their short organizational cycle. As organizations grow in size and complexity, we argue that changing structural forms makes it more difficult for SMEs to systematically identify key positions and the development of a talent pool of high potentials to fill these roles. In addition, SMEs have a high degree of informality both in their general approach to HRM and in relation to specific HR practices (Dundon & Wilkinson, 2009) and this informality has been identified as a source of competitive advantage for SMEs (Bacon et al., 1996; Dundon & Wilkinson, 2009).

Given the importance of informality and personalised management style to the organizational culture in SMEs, we argue that SMEs prefer to adopt an informal approach to TM and generally do not adopt approaches which require formal identification of talent (Valverde et al., 2013). Formal and exclusive approaches to TM in SMEs which limit the talent pool to the high potentials would not fit with the more egalitarian culture of teamwork in SMEs, and would undermine the morale of the majority of employees. These two conceptual ideas contrast with the notions of strategic positions and exclusive ‘high potential’ talent identification which are dominant in large MNEs (Collins & Mellahi, 2009; Cappelli & Keller, 2014). We reject the best practices approach to TM arguing that practices which are effective in the large MNE context may not be applicable in the SME or other contexts.

Heneman et al. (2000) in their review of the practitioner-academic gap in human resource literature on SMEs, highlighted that owners are most concerned about staffing and developing high potential employees who can perform multiple roles at various stages of organizational growth. This implies a dynamic approach to organizational development and the importance of selectivity in staffing. Learning more about the staffing pattern in SMEs can enhance our understanding of how talent identification and selection practices evolve in SME firms and why they evolve as they do. It could also provide guidance to business owners as they seek to develop their human capital to support the growth of the firm. Previous research has argued that talent attraction, identification and retention issues are likely to vary at different stages during the growth of SMEs as HR issues shift depending on the life stage of the SME (Rutherford et al., 2003). Therefore we argue that important insights into the patterns of hiring, talent identification and development could be gained by a fuller understanding of organizational life stages. While this linkage shows promise in explaining the nature and pattern of talent management in emerging business ventures, surprisingly it has not yet been investigated. The final section of the paper examines what we mean by talent in the SME context and we examine how the
meaning of talent evolves with the development of the SME. We propose that who constitutes ‘talent’ and how they are selected within the SME will depend on various organizational factors. Hence in the concluding part, we propose a dynamic view of talent in SMEs which considers the links between the organizational life stage of SMEs and talent issues.

2. Organizational size and its theoretical implications

Literature has highlighted that SMEs in comparison to large firms differ both in their overall approach to HRM and also in the HR practices adopted (Dundon & Wilkinson, 2009; Rabi & Gilman, 2012). First, we briefly outline the theoretical rationale on why firm size could affect talent management and HR practices, and secondly, we highlight the distinctive approaches adopted by SMEs in this area. Several studies have argued that human resource practices would vary based on organizational size (e.g. Baron et al., 1986; Jackson & Schuler, 1995). Specifically large organizations as compared to SME organizations are more likely to adopt sophisticated staffing (Terpstra & Rozell, 1993), higher extrinsic rewards and career opportunities (Baron et al., 1986; Kalleberg et al., 1996; Wallace & Kay, 2009), formalised performance appraisal systems (De Kok & Uhlainer, 2001; Jack et al., 2006), higher investment in training and development (Cappelli, 2010; De Kok & Uhlainer, 2001; Saari et al., 1988) and to have more developed internal labour markets (Baron et al., 1986; Baron & Kreps, 1999; Wallace & Kay, 2009). There is also evidence that SMEs spend less on HR professionals, are less likely to have an HR strategy than large companies and focus on the administrative rather than the strategic level (Edwards & Ram, 2009).

Though organizational size appears to be an important factor in predicting formal HR practices, we acknowledge that size is not the only factor, as indicated by the wide variation in the sophistication of HR practices found amongst SME firms (De Kok & Uhlainer, 2001; Ram et al., 2001). It is not just the size of the firm, but size in combination with industry and other contextual influences that determine employment relations in SMEs (Ram et al., 2001). However given the predominant influence of the size of the firm seems to have on HR practices, we investigate the theoretical rationale for the influence of size on HR and talent management practices.

Institutional theory, economic theories and resource dependency theory provide a rationale for why organizational size could affect talent management and human resource practices.

Institutional theory suggests that organizations are social entities that seek approval of their performance in socially constructed environments (Jackson & Schuler, 1995). Since multiple entities control the needed resources, legitimacy and acceptance from different stakeholders are necessary for firm survival (Meyer & Rowan, 1977). It highlights the role of the environment in shaping varied expectations of the management practices within both large and SME firms – for example, large companies may be held to different legal standards in implementing formal HR practices (De Kok & Uhlainer, 2001). Potential employees evaluate organizations by comparing an organization’s policies and practices and the culture of the organization with the industry practices (Williamson, 2000). Large organizations generally adopt more sophisticated and socially responsive talent management and human resource practices due to pressures to gain legitimacy and stake holder acceptance. This could influence recruitment success to the extent that job seekers view organizations with higher levels of legitimacy as more trustworthy and dependable than organizations with lower levels of legitimacy (Suchman, 1995).

SMEs face a legitimacy disadvantage in the labour market because of limited organizational information available to job seekers (Williamson et al., 2002). SMEs are less familiar to job seekers since they make lesser investment in making themselves visible in the labour market by adopting global best practices are felt to a higher extent by MNEs than SMEs as the former compete for a similar talent pool, increasingly at the regional and at the global levels (Evans et al., 2007; Scullion & Collings, 2011; Collings et al., 2011). This is supported by the findings of Barber et al. (1999) who suggest that large and small firms could be tapping separate labour markets for their talent needs.

In addition there have not been best practice leaders in TM or even best HR practices in SME sector. In contrast the literature on large enterprises has long highlighted best practices in talent management in global MNEs such as GE, P&G, Unilever etc. (e.g., Cappelli, 2010; Conaty & Charan, 2010). High profile consulting firms such as McKinsey, BCG etc. which have a role in disseminating the ideas of best practices, typically do not have SMEs as their primary target audience. This has resulted in less proliferation of the TM practices from large firms to SMEs while at the same time TM practices amongst large MNEs are converging. Cappelli (2010) highlights the remarkable degree of similarity across large US organizations in the management development programmes during the last century. A convergence of TM practices such as recruitment, development, measurement and management of high potential employees in large MNEs reflect the similarity of challenges that confront today’s global corporations (Conaty & Charan, 2010; Stahl et al., 2012; Farndale et al., 2014).

As industry norms are primarily set by the larger firms (Haveman, 1993) and they tend to have more sophisticated practices, this could partly explain the increase in formalisation of HR practices including recruitment practices with firm growth (Hornsby & Kuratko, 1990; Kotey & Slade, 2005). SMEs tend to develop their own distinctive models which fit with their specific context. Creative thinking by SMEs affords them the opportunity to open up non-traditional recruitment channels not considered by large organizations to attract suitable staff from different talent pools - for example, recruiting semi-retired individuals who have a wealth of knowledge and experience. These individuals may be less affected by legitimacy and career concerns and this non-traditional source of talent may partly offset their recruitment problems in other areas.

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Economic theories argue that because of the associated costs (transaction costs), acceptable economies of scale must be reached before sophisticated human resource practices can be implemented. SMEs are at a disadvantage to larger firms with regards to cost due to smaller volume produced (scale) and fewer products (scope) (Nootenboom, 1993). While it is difficult to generalize their impact given the diversity of SMEs, their limited market presence makes them more vulnerable to competitive pressures (Mayson & Barrett, 2006), and more focused on utilising existing resources more efficiently and effectively (Festing et al., 2013; Sels et al., 2006). A central tenet of strategic HRM literature is the linking of high performance or high involvement work practices with firm performance. While high performance/involvement work practices have been found to have positive performance outcomes (e.g., Arthur, 1994; Huselid, 1995), significant investment in HR practices is required incurring both direct and indirect costs (Cappelli & Neumark, 2001). The potential productivity gains could be offset by these additional costs which are particularly important in the SME context (Sels et al., 2006).

An important way to reduce cost and at the same time remain flexible for SMEs is by adopting informal work practices and centralised control over decision making. Implementing formal HR practices is costly for SMEs (Mayson & Barrett, 2006; Ram et al., 2001) and informal work practices may potentially be cost effective alternatives. For instance Ram et al. (2001) found that implementing new minimum wage policies in UK increased costs to hotel owners, but these were absorbed by employing informal work practices which increased productivity. Research also highlighted the dominant role of top managers in SMEs in determining both the strategic approach to the organization and approaches to HRM (Jack et al., 2006; Rabi & Gilman, 2012; Wilkinson, 1999). Informality in SMEs coupled with centralised control of HR decisions with the top managers provides a greater degree of overall control (Jack et al., 2006) and allows for flexibility in deployment of employees as the firm grows (Heneman et al., 2000). An emerging small firm could also keep its costs low and remain flexible by requiring employees to play multiple roles and adapt to the changing needs of the organization, to a degree not expected in large organizations (Messersmith & Guthrie, 2010).

Further, since staffing requirements are more limited in SMEs they are less likely to have institutional tie-ups with campuses (quite common for large firms) which would be too costly for most SMEs. The pool of managers available to large firms may seldom be available to SMEs who tend to recruit in alternative labour markets (Dowling et al., 2008). However SMEs may have some advantages in the extent to which they can use less costly and flexible work arrangements such as use of part-time workers, job-sharing and contracting out (Vinten, 1998). Further, partnerships with government agencies or with other large companies could lower the costs of developing HR programmes (De Kok & Uhlainer, 2001). Festing et al. (2013) report innovative initiatives in SME collaboration in Germany in response to the challenge of talent shortages and this collaborative approach may also have potential in different contexts.

Resource dependence theory suggests that all organizations depend on critical external resources for their survival and this in turn influences the behaviour of the firm (Pfeffer & Salancik, 1978). The less an organization depends on outside partners, the fewer the uncertainties faced. Large organizations have greater leverage in exchange relations with external partners and are in a position to influence environmental factors much more than SMEs who face the liability of smallness with fewer resources and greater challenges than larger organizations (Festing, 2007; Valverde et al., 2013). Availability of key managerial talent is an important contributor to the success of the small firm (De Kok & Uhlainer, 2001; Festing et al., 2013), however, the limited ability to pay and invest in costly employee practices in SMEs (Evans & Leighton, 1989; Cardon & Stevens, 2004) makes it more difficult to offer competitive compensation and benefits and to attract staff from recruitment pools used by large firms. SMEs also face more uncertainty in the labour market due to their lack of market power and concentrated product base (Storey & Sykes, 1996). Lack of market power translates to a lesser influence on price and costs including wages. The concentrated product base makes the SME vulnerable to changing market and customer demands which then become strategic priorities for top management in SME firms, with TM and HR issues often assuming secondary importance.

There are several strategies that SME firms could adopt to overcome the resource disadvantages outlined above. SMEs could seek to reduce uncertainty by attracting key resources including expertise in the formative period of the firm’s development (Garmsey, 1998). The SME organization context offers a number of advantages which could help attract and retain valuable employees. SMEs can provide a creative environment where new ideas and innovation flourish (Zenger & Lazzarini, 2004). Research highlights a number of advantages of working in a SME organization from the employee perspective including perceptions of better job quality and less bureaucracy (Storey et al., 2010), better job satisfaction due to higher flexibility, a better working atmosphere (Idson, 1990) and more informality in the workplace (Dundon & Wilkinson, 2009). SMEs could enhance innovation and growth strategies using innovative approaches to target and attract specialist talents from larger and more established firms (Rao & Drazin, 2002). Leveraging internet technologies, brand marketing and institutional linkages are alternative approaches for resource constrained SMEs to reach out to their target population (Williamson et al., 2002).

From the above discussions we can infer that SME firms organize their TM and HR practices differently and more informally than in large firms (Storey, 2002; Kotev & Slade, 2005; Storey et al., 2010), and they largely utilise different talent pools. SMEs face particular challenges in attracting talent, however innovative practices can be pursued to address these challenges and at the same time leverage their contextual attractiveness to help build talent internally (i.e., make talent). Given the distinctive HRM practices and approaches in SMEs and the range of advantages that SMEs offer to potential employees, it would be fruitful to understand to what extent the notion of talent management and the idea of talent that is prevalent in the literature on large MNE firms have resonance in the SME context. The rest of this paper is focused on exploring this important but under-researched area of work.

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3. Organizational size and notion of talent management

Although the term Talent Management has been widely used in practitioner literature, there is a wide variation in how talent management is defined in academic literature (Cappelli & Keller, 2014; Collings & Mellahi, 2009; Dries, 2013; Lewis & Heckman, 2006; Scullion & Collings, 2011; Scullion et al., 2010; Vaiman et al., 2012), and different ways of explaining TM in practice (Cascio & Boudreau, 2016). In its essential form, talent management “is simply a matter of anticipating the need for human capital and then setting out a plan to meet it” (Cappelli, 2008: 74).

Lewis and Heckman (2006) proposed three streams of thinking associated with the term talent management. The researchers associated with the first stream simply substitute TM for HRM. The second stream sees TM as a set of processes to ensure adequate flow of employees into jobs throughout the organization (i.e. succession and workforce planning). The third group concerns itself with the management of ‘talented’ people (Al Ariss et al., 2014). A fourth stream focuses on identifying core strategic positions and the development of a talent pool to fill these positions (Collings & Mellahi, 2009). Similarly Scullion et al. (2010; p.106) define Global talent management as “all organizational activities for the purpose of attracting, selecting, developing, and retaining the best employees in the most strategic roles (those roles necessary to achieve organizational strategic priorities) on a global scale”. These approaches identifying strategic roles or key positions in the organization have become a central element in the talent management of large enterprises (Cappelli & Keller, 2014; Collings et al., 2015; Cascio & Boudreau, 2016). While this stream of thinking has been dominant both in the literature and in the practice of many large organizations (Scullion et al., 2016), the academic literature has had little to say conceptually or empirically about TM in SMEs.

We outline a variety of reasons why the large firm approach would not fit well with the SME context. Firstly functions, jobs and hierarchical levels are still evolving in SMEs, hence identifying key strategic positions, so important in large, firms, is a less focal issue in SMEs. It has been established that structural differentiation which is reflective of the number of divisions, division of labour and number of hierarchical levels increase with size (number of employees) at a declining rate (Blau & Schoenherr, 1971; Child, 1973). It implies a curvilinear relationship between firm size and various dimensions of structural differentiation such that increase in size is accompanied by an initial rapid and subsequent gradual increase in structural differentiation (Blau, 1970). This would mean for an emerging SME jobs, functions and levels are still being added at a rapid rate and the firm has not reached stability in its structural form implying a reduced opportunity to identify strategic jobs. Secondly, some functions become critical at certain stage in the SME organizational life stage depending on the dominant problems faced by the firm (Kazanjian & Drazin, 1990). This suggests that it is unlikely that there is one function or a set of jobs that could be considered as strategic and ascertaining this would require constant re-evaluation. Thirdly, the greater centralisation of the decision making process in SMEs (Child, 1973; Jack et al., 2006) and relatively late establishment of the HR function in these firms (Hanks & Chandler, 1994), leaves little time and resources at the disposal of top managers to identify strategic jobs. For top managers the focus of activities is likely to be getting the business up and running – dealing with production, marketing, sales and cash flow and responding to customer demands and focussing on how to utilise existing resources more efficiently (Viverde et al., 2013; Mayson & Barrett, 2006). Hence we posit that identifying key strategic jobs would not be an important conceptual theme in literature on TM in SMEs.

The second important conceptual theme in talent management in large enterprises is the extent of inclusivity of workforce recognised as a talent (Cappelli & Keller, 2014; Fairdale et al., 2014; Kulkarni & Scullion, 2015). While the exclusive approach holds that a set of high potential individuals differentially contributes to the performance of the organization and hence are worthy of investment in development, the inclusive approach holds the view that all staff can potentially contribute to competitive advantage and that everyone should get their share of development (Gallardo-Gallardo et al., 2013). Central to the former approach is the belief that talent must be identified, nurtured and placed in pivotal roles that are crucial to the competitive advantage of the firm (Boudreau & Ramstad, 2005; Scullion et al., 2010; Tatoglu et al., 2016). The exclusive approach to TM is dominant in MNEs (Cappelli & Keller; 2014; Ready et al., 2010), however research suggests that SMEs take a more inclusive approach and tend to focus their TM activities on all employees, in contrast to MNEs where development opportunities are limited to high potential employees. Festing et al. (2013) found that 54% of the surveyed companies in the German SME sector adopted an inclusive approach and focus their TM activities on all employees. Valverde et al. (2013) reported evidence of both inclusive and exclusive approaches to TM in their study of medium sized Spanish firms, each approach reflecting particular organizational settings.

An exclusive approach is based on the notion of workforce differentiation (Becker et al., 2009) and assumes that investing in employees with valuable and unique skills and high potential will generate higher returns than investing in employees with lesser skills and potential (Lepak and Snell, 1999). However there are a number of critiques of the exclusive approach. The lack of objectivity in evaluations of both performance and potential (Gallardo-Gallardo et al., 2013; Sparrow et al., 2014; Guthridge et al., 2008) highlights possible risks in adopting an exclusive approach. Research suggests that the exclusive approach may also undermine the informal work culture, a key job attraction for employees in SMEs (Storey et al., 2010; Dundon & Wilkinson, 2009), and this could undermine teamwork and the morale of the majority of employees who are not identified as talent. Hence the exclusive approach would not fit with the more egalitarian cultures found in SMEs who are more likely to adopt an inclusive approach and take the view that all employees can potentially add value. In this inclusive approach talent management would be about that set of HR practices that enables identification, exploitation and optimisation of the generic capabilities of all employees (Sparrow et al., 2014). Hence we adopt a critical perspective and reject the dominant best practices approach to talent management which assumes a universal configuration of talent management practices and we question whether the principles of talent management which originate in large private sector organizations are applicable to organizations operating in different contexts. We advocate a best fit approach and highlight the need for alignment of talent management practices with its context.

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SMEs are however likely to be similar to large MNEs in certain aspects of TM. First, internal consistency, complementarity and reinforcement of practices distinguishes companies that excel in talent management from those that do not (Sparrow et al., 2014; Stahl et al., 2012) and these could be as relevant to SMEs as to large firms. A common philosophy and approach in articulating what talent means in a particular SME context and how to develop and retain talent requires adoption of complementary and consistent talent practices. Second, senior management and line manager commitment for successful implementation of TM strategies could be even more critical in SMEs compared to the large enterprise. Given their small size, owner-managers are likely to be more involved in the design, leadership and operationalization of TM activities and specialized HR functions may not be present in many small enterprises (Cassell et al., 2002; Cardon & Stevens, 2004).

4. Dynamic view of talent in SMEs

Given that the notion of Talent Management in SMEs is distinctively different from the large firm context, it is important to explore key conceptual questions, such as who is considered ‘talent’ in SMEs and what is emphasised in their selection. Hence we address and seek to shed light on the issue of what talent means in the SME context. The literature on the large firm context highlights a lack of clarity of this term. Some authors have barely defined what talent means, others have defined it as an object or characteristics of people while some others have defined it in subject terms of who gets categorised as talent – everyone or some (Gallardo-Gallardo et al., 2013). While we have previously argued that SMEs would adopt an inclusive approach and hence everyone gets categorised as talent (subject based approach), we further propose an object based approach in identifying talent, as we argue later, the ‘fit’ characteristics required of a person to be categorised as talent or otherwise depends mainly on the organizational life stage.

What constitutes effective performance for SME and large firms are likely to be different. While profitability based measures are more commonly used as metrics of success for large firms (Garnsey, 1998), growth is often the key performance indicator for smaller firms (Penrose, 1960). An important means of growth for SMEs is through product innovation and the lack of managerial skills required for innovation constrains growth objectives (Rao & Drazin, 2002). The rate at which new employees could be assimilated, acquire capabilities and learn to solve problems together effectively is equally important for small firms (Garnsey, 1998). Due to the strong team ethos and fewer places to ‘hide’ in smaller organizations, every individual must contribute effectively to the organization (Messersmith & Guthrie, 2010). Hence it is suggested that the relationship between managerial quality and performance of the firm is likely to be stronger in SMEs than in large firms (Storey & Sykes, 1996). The effects of poor selection decisions in SMEs are likely to be amplified (Messersmith & Guthrie, 2010) and hence understanding the characteristics of talent would depend on the emphasis SMEs place on employee selection. As previously argued, since SME firms are constrained both on resource and legitimacy grounds they seek to select employees who add the best value to the organization. Hence we suggest that examining selection decision processes is an important factor which determines what characteristics are essential for talent in a SME context.

Research on employee selection has traditionally considered the assessment of the match between job requirements and job candidate attributes in terms of their knowledge, skills and abilities (Sekiguchi & Huber, 2011). The essential idea is that those who fit the job requirements could realise higher outputs in terms of achievements, results and performance on the job. However researchers have also examined the match between the organizational culture and goals and employee values and goals (e.g., Kristof, 1996; Bowen et al., 1991) and the expectation is that individuals who fit into the broader organizational ethos could effectively perform and contribute in broader or different roles in the organization. These are termed as Person-Job fit and Person-Organization fit with a higher emphasis on performance in the former and potential in the latter. The degree of emphasis on performance vis-à-vis potential is also an important concern for talent management research (e.g., Silzer & Church, 2009). Both types of fit have been found to be associated with positive employee attitudes and behaviours such as satisfaction, commitment, citizenship behaviour and performance (e.g., Kristof-Brown et al., 2005). Deshpande and Golhar (1994) find that personal characteristics of employees, an important concern for assessing PO fit, are more heavily weighted in selecting employees for smaller firms as against larger ones. Carroll et al. (1999) suggested that employees are selected in SMEs based on how well they ‘fit in’ to the firm culture. On the other hand, it has been argued that human capital attributes such as education, experience and skills are critical resources for small firms (Pfeffer, 1994). Rowden (2002) suggested that technical skills and work ethic assume greater importance in the selection process of successful small manufacturing firms. These studies indicate differing views on the importance placed on the Person-Job and Person-Organization fit in the SME selection process. While fitting in would be a predominant consideration in the early stages of development, as the firm grows larger, more attention may also be given to skills and abilities of candidates (Kotey & Slade, 2005) suggesting that at different stages in the organizational life stages different forms of fit predominate.

Organizations constantly change in response to dynamic environmental conditions and effective management of people is essential for small firm survival (Jack et al., 2006). Heneman et al. (2000) argued that the ability of employees to expand their role and at the same time take up higher level roles as the organization grows and develops is an important consideration for developing small firms. This begs the question under what developmental conditions of the firm, is either type of fit more important. In understanding the difference in formalisation and sophistication of human resource practices between firms and within firms over time it is suggested that the stage of the firm in its life cycle could play a role (Rutherford et al., 2003). The organizational life cycle paradigm is well established in literature and over the years many models of organizational life stages have been proposed (e.g. Greiner, 1972; Katz & Kahn, 1978; Kazanjian & Drazin, 1990). Though the organizational life cycle has been found to vary a
lot in the number of stages, a common theme in previous studies is that employee size, organizational age and growth are related to the various stages and a good proxy for organization life cycle (e.g., Hanks & Chandler, 1994; Rutherford et al., 2003).

We explore how each of these organizational factors impacts the importance placed on either fitting to the job (PJ fit) or to the organization as a whole (PO fit). As such talent is dynamic rather than a fixed characteristic and is highly context specific in SME firms. In other words, the same person could be categorised as talent or non-talent for the same role in the same organization depending on the life-stage of the organization. ‘Talent’ in SME firms is therefore a matter of degree and not kind, and its characteristics vary as much between SME firms as between large firms and SMEs. This provides important insights into the kind of talent that SMEs would look for in their short organizational life stages. In proposing the model of talent in SMEs, we suggest that both SME age and SME growth are potential moderators to the SME size – talent characteristics link. Hence we propose a ‘fit’ approach to identifying talent (Gallardo-Gallardo et al., 2013). This confirms to an emerging point of view that instead of having a defined view of TM, the meaning of TM can vary in different contexts (Sparrow et al., 2014; Thunnissen et al., 2013).

4.1. Influence of size

SMEs includes firms of various sizes with varying degrees of complexity in management organization and practices (Kotey & Slade, 2005). Because of the need for flexibility in SMEs (Cardon & Stevens, 2004; May 1997) job assignments are rarely stable and people need to move quickly from role to role. In addition, a large number of employees perform multiple roles with unclear boundaries and job responsibilities (Hanks & Chandler, 1994; May 1997). Assessing Person-Job fit would be difficult in such a scenario of broad overlapping roles with no formal job descriptions and no stable job assignments. At the same time what matters most is to have candidates with firm specific capabilities and commitment to the firm. “The initial phase leading to resource generation, in which the first products are developed and a market base established demands major effort and succeeds only where there is mutual commitment” (Garnsey, 1998: 535). Hence, it could be argued that SMEs pay a lot of attention to non-job related factors like the match in norms, values, beliefs of the applicant with that of the organization (Williamson et al., 2002). This would require a firm to assess the fit of the potential recruit to the overall firm and is reflected in Person-Organization fit (Sekiguchi, 2007).

As an organization becomes larger, broad overlapping roles gives way to more specialized roles, as the structure evolves and adopts a more functional form (Blau, 1970). A larger organizational size is generally characterised by greater differentiation and higher task specialization (e.g. Blau, 1970; Child, 1973; Pugh et al., 1969). The difference in structural complexity between very small and medium-sized firms is much higher than the differences between medium-sized and very large firms. This means that as an organization evolves in size from very small to medium, there is a rapid addition to specialized jobs, hierarchical levels and functional divisions creating problems in communication and co-ordination (Blau, 1970). One of the means to reduce these problems is by formally specifying who needs to do what in the form of job descriptions and these formal job roles are found to be steadily put in place as the organization grows in size (Kotey & Slade, 2005; Rutherford et al., 2003).

Further, as the SME becomes larger the percentage of employees who are multi-skilled becomes less (Kotey & Slade, 2005). This could be a reflection not only of the ability to specify jobs more accurately with formal job descriptions but also reflects the increasing need to have specialists in those jobs. Hence it is proposed that for small SMEs, job applicants who have a greater degree of person-organization fit would be considered talent whereas when the SME grows in size, job applicants who have a greater degree of person-job fit would be considered as talent and would be more attractive to the firm.

Hypothesis 1. SME size impacts the characteristics of talent through the fit desired in potential employees such that,

Hypothesis 1a. PO fit would be weighted more heavily for a small sized SME than for a large sized SME.

Hypothesis 1b. PJ fit would be weighted more heavily for a large sized SME than for a small sized SME.

4.2. Influence of age

The size and age of a SME firm are proposed to have distinct influences in the emphasis placed in selection of talent. Some SMEs are emerging nascent forms which would continue to grow through its life while others are well established SMEs yet remain small for the lifetime (Cardon & Stevens, 2004) due to differing aspirational motives of owners (Jack et al., 2006; Jennings & Beaver, 1997; Storey, 2002) and market related factors (Garnsey, 1998; Hanks et al., 1993). Unlike popular belief and economic theory, the pursuit of a personal financial fortune may not be as significant a motivation for SME owners as the desire for personal involvement, responsibility and independent life style that many small business owner-managers strive to achieve (Jack et al., 2006; Jennings & Beaver, 1997). Small business manager’s aspirations to expand their business activities are related to actual growth (Wiklund & Shepherd, 2003). For instance Hornsby and Kuratko (1990) found that while age of the company increased from 26 to 37 when moving from very small to small, it dropped to 29 for the larger of the small enterprises. Similarly, Kotey and Slade (2003) in their study of micro, small and medium enterprises find that a significant percentage of the micro and small firms (less than 20 employees) are at a mature stage and that growth is potentially limited either by the owner-managers or the markets in which they operate.

Issues concerning newness and smallness are not necessarily the same and they provide distinctly different challenges for the selection decision and the approach to talent identification in the organization. While the initial group of employees in small firms
are often selected informally and are known to owner-managers (Kotey & Slade, 2005; Storey, 2002), once the firm crosses a certain threshold level, it becomes essential to rely on unknown contacts and hence risks of associating new members become greater (Storey, 2002). Younger firms are faced with a fluid identity and are easily impacted by new employees who come into the firm (Cardon & Stevens, 2004). At the same time formal job descriptions, role assignments and other HR policies are not in place which makes it harder to specify in advance the exact nature of the relationship between the organization and its employees. Social relations amongst “strangers” need to get established. Rao and Drazin (2002) found that new firms may suffer a lack of innovation due to a lack of routines for coordinating interactions amongst newcomers and strangers. Hence the challenge for SMEs is to establish trust amongst strangers to work together and cooperate in new, flexible and changing work roles. This is more difficult in the absence of a track record of having working relations established over time.

Building trust in the new firm context is a critical issue. In such contexts PO fit is likely to be more important (Sekiguchi, 2007) given the emphasis in PO fit on the assessment of the employees’ beliefs and values with the rest of the organization. Hence it is proposed that for new SMEs job applicants who have a greater degree of person-organization fit would be considered talent whereas when the SME matures in age job applicants who have a greater degree of person-job fit would be considered as talent and would be selected for the firm.

**Hypothesis 2.** SME age moderates the impact of SME size on the fit desired in potential employees such that,

**Hypothesis 2a.** The lower the age of the SME, the stronger is the degree to which PO fit is weighted more heavily for a small sized SME.

**Hypothesis 2b.** The higher the age of the SME, the stronger is the degree to which PJ fit is weighted more heavily for a large sized SME.

### 4.3. Influence of growth

Small business owners have different growth objectives ranging from rapid growth at one end to short-term disengagement at the other. The ambitions of the founders could determine whether there would be an early drive for growth or modest aspirations for the firm (Garnsey, 1998). This is in contrast to large publicly owned businesses, which disciplined by external stake-holders, are driven to grow and increase market share (Storey & Sykes, 1996; Storey, 2002). Further growth could also be restricted by market related factors where a firm serving a niche market finds that without changing its product portfolio, it would continue serving a stable clientele, even if growth is viewed as desirable (Garnsey, 1998). Rutherford et al. (2003) find sales growth and size to be a significant influence on major HR issues faced by the firm.

As the organization adds levels and grows bigger, top managers would be more inclined to assume planning and strategic roles delegating some operational responsibilities to lower level managers. At the same time direct control by top managers would increasingly be replaced by administrative control (Kotey & Slade, 2005), a finding supported by the Hanks and Chandler (1994) study of small high technology firms which highlighted the need to have employees who can take up higher level strategic roles as the organization grows. It is also argued that the ability of new recruits to work collaboratively is a key influence on the rapid growth of small firms (Garnsey, 1998), suggesting that in order to achieve fast growth there is greater need to have individuals who can contribute to the firm as a whole rather than to any individual specific jobs. Person-Organization fit is likely to be more important for obtaining this kind of firm specific human capital (Sekiguchi, 2007). On the other hand, if a SME firm is not on a high growth path, internal career opportunities are restricted (Storey, 2002). Further there is a slower rate of addition to roles and hierarchies motivating organizations to look for job specific skills in the potential employee.

Hence it is proposed that for fast growing SMEs job applicants who have a greater degree of person-organization fit would be considered talent whereas for slow growth SMEs job applicants who have a greater degree of person-job fit would be considered as talent and would be selected to the firm.

**Hypothesis 3.** SME growth moderates the impact of SME size on the fit desired in potential employees such that,

**Hypothesis 3a.** The higher the growth of the SME, the stronger is the degree to which PO fit is weighted more heavily for a small sized SME.

**Hypothesis 3b.** The lower the growth of the SME, the stronger is the degree to which PJ fit is weighted more heavily for a large sized SME.

The discussions so far have proposed both a subject based as well as an object based approach to identifying talent in SMEs (Gallardo-Gallardo et al., 2013). In the subject based approach we have argued that talent identification would be inclusive and would consider all employees in a SME as talent while the object based approach has also specified the ‘fit’ characteristics of the employees to be identified as talent. We argue that who gets categorised as talent depends on context and, in particular, on the organizational life stage of the firm. We have contributed to the theoretical rationale for the differences in talent management practices and talent management conceptualisation in SMEs.

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5. Limitations and future research

There are some limitations to the proposed framework on talent management in SMEs. While we proposed a universalistic model of TM in SMEs, we recognise that there could be country specific difference in the HRM systems (Valverde et al., 2013) which this paper does not directly address. National workforce characteristics could determine the importance placed on various HR characteristics at work and could affect implementation of Talent Management initiatives (Valverde et al., 2013). As outlined above, managing talent is demanding in the SME context and we outline the different characteristics of SMEs which shape the nature of TM challenges in SMEs. Organizational culture, which tends to be more egalitarian in SMEs, also plays a key role in influencing the extent to which TM practices are deemed acceptable (Collings, 2014) and on the meaning employees ascribe to them. While we argue that an inclusive approach to TM is likely to be preferred in SMEs as against an exclusive approach in large firms, the former approach is likely to be even more pronounced for collectivistic countries like Poland (Skuza et al., 2013). New contributions from different national cultures could enhance our understanding of talent and TM in SMEs. By increasing our knowledge about what aspects of TM are different in SMEs and what are similar in various cultural contexts, we may be better equipped to make theoretical contributions and get some deeper insights into the meaning of TM in different contexts.

Previous research suggests that a key requirement for effective TM in SMEs is the requirement that it should be linked to the strategic priorities of the firm (Farndale et al., 2010; Scullion & Starkey, 2000). This could have an impact on the emphasis placed on selection in SMEs and could determine the notion of talent. While acknowledging that different strategic orientations affect the characteristics of talent demanded in a SME, future researchers could try to incorporate these in their model.

Our framework also does not directly address the question of whether talent in SMEs is innate or acquired (Meyers et al., 2013; Gallardo-Gallardo et al., 2013). While we recognise that this could impact the balance of effort involved in buying or making talent, our model views talent as an object or an outcome irrespective of its origins. However future researchers could pursue this theme as it has important talent development implications for SMEs. Our paper has highlighted the importance of MNE versus SME context and future research could consider the importance of contextual elements such as country specific environment, strategy of the firm and origin of talent in determining the notion of talent and TM in SMEs. This deepens our understanding into why and how TM differs in various SME contexts.

6. Conclusions

There has been an increasing research interest in the area of talent management in the past decade, mainly focussed on American and Anglo–Saxon countries (Cascio & Boudreau, 2016; Farndale et al., 2014; Sparrow et al., 2014). In addition, most research on talent management has been carried out in large multinationals enterprises. It has been suggested that there is a need to examine TM in different contexts (Scullion et al., 2016; Scullion & Collings, 2011). To date there is a real dearth of conceptual and theoretical research on talent management in SMEs and we need to know more about the distinctive challenges and TM practices in the specific context of SMEs. In this article we address this research gap and seek to stimulate research in the neglected area of talent management in SMEs drawing on a range of literature streams such as talent management, HRM in SMEs, employee selection and organizational life stages. The main contributions of this paper are set out below:

First, the paper advances the theoretical understanding on the impact of organizational size on HR and talent management practices. We specifically look at the challenges and opportunities for SMEs through the various theoretical lenses and suggest that while there are challenges when viewed through the legitimacy, economic and resource dependence perspective there are unique contextual features that help attract talent to SMEs.

Second, we extend the conceptual work on TM to the SME context and shed light on the key factors influencing TM decision making and we provide some insights into how the complexity and dynamism in SMEs influences the adoption of TM principles. We argue that institutional contexts are different for large and SME enterprises and that the exclusive approach of identifying strategic jobs and developing high potentials for strategic jobs which are important in MNEs are less relevant in SMEs given their evolving structural forms and inclusive approach to talent identification.

Third, we argue that given the wide variations in size and complexity of firms within the SME category there may not be a singular way to understand talent in this set of organizations. Given the high importance of the quality of employees to the success of SMEs we propose a dynamic contextual approach involving organizational life stages to describe the characteristics of talent for SMEs.

Finally, while HR problems have been identified in previous research based on the organizational life cycle model, this study is, to the best of our knowledge, the first to examine how the notion of talent management and talent varies in relation to the evolution of the organizational life stages. Our research helps to bridge a gap in the literature by identifying the changing nature of talent management during the evolution of the SME. Future research could try to further enhance our understanding of the dynamic nature of the link between the organizational context and talent management.

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