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## HUMAN RESOURCE PRACTICES IN SMALL BUSINESSES IN REPUBLIC OF NORTH MACEDONIA

**Abstract:** *The primary objective of this paper is to identify human resource practices implemented by small firms, so as to better understand the specifics of human resource management in small businesses. An online survey was conducted among small businesses in the Republic of North Macedonia. The research findings<sup>4</sup> reveal that small firms in North Macedonia use employee referrals as a recruiting strategy and a traditional selection process based on CV/interview analysis. Most of small businesses have some form of consistent and continuous compensation system, with employee performance as a main criterion for determining the compensation level. Employee training has been identified as one of the biggest challenges that small businesses face. Most small firms conduct employee training to improve job-specific skills for current job tasks. In addition, employee trainings are implemented on an ad hoc basis and largely depend on firms' available financial resources, since high training costs remain to be an obstacle to small firms.*

**Keywords:** small business, human resource practices, Republic of North Macedonia

**JEL Classification:** M51

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\*\*\*\* The research results presented in this paper are part of the project Main human resource management challenges for small businesses (Главни предизвици на малите бизниси во управувањето со човечките ресурси), NIP.UKIM.21-22.21, Ss. Cyril and Methodius University in Skopje, Republic of North Macedonia

## Introduction

The last two decades an increasing focus on human capital as a key criterion for economic competitiveness and growth is noted. The focus on human capital was, in fact, a result of the global trends, as the wide use of increasingly sophisticated technology, digitalization, advancement of business processes, competition and increased innovation, which led to the development of the knowledge-based economy. Additionally, the contemporary approach to management has resulted in new, upgraded organizational processes, greater project orientation of businesses, changes in organizational structures for greater flexibility and adaptation, as well as changes in the nature of employee tasks and activities. Businesses have introduced proactive policies for developing and managing human resources in a way that would enable them increased productivity at organizational level and increased market competitiveness. In this regard, the overall business management philosophy, and in particular human resource management policies and practices, should be directed towards creating, developing and deploying a human capital pool for achieving business goals. Thus, the development of appropriate human resource management practices becomes essential to gain considerable advantage from human resources.

Small businesses are the backbone of any economy. According to the State Statistical Office, in the Republic of North Macedonia, small businesses with 1-9 employees account for the largest share of active business entities (82%), whereas 97.7% of all active business entities are small firms<sup>1</sup>. Undoubtedly, the share of small businesses in the total number of registered active business entities indicates their importance for the development of the economy. Appropriate management of human resources in small businesses is important for their sustainability and market development, since they often have limited resources, especially financial. Thus, the sustainability and development of small businesses often depend on employees' knowledge and skills as well as their commitment, adaptability and motivation to achieve the organizational and market goals of the firm. The characteristics of small businesses however dictate the manner and the degree of use of human resource management practices, and in this regard, research reveals that small businesses often face numerous challenges in human resource management due to various factors, as

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<sup>1</sup> State Statistical Office of the Republic of North Macedonia, “*Number of active business entities, 2021– Preliminary data*”, [[https://www.stat.gov.mk/pdf/2022/6.1.22.14\\_mk.pdf](https://www.stat.gov.mk/pdf/2022/6.1.22.14_mk.pdf)]

lack of knowledge in HR management and lack of HR departments or HR professionals, limited financial resources for employee development, lack of formal procedures and alike. These factors directly diminish the potential benefits of firm's human capital. Taking into account the abovesaid, it is essential to identify the use of human resource management practices in small businesses and determine the potential prospects and challenges. The primary objective of this paper is to identify human resource practices implemented by small firms<sup>2</sup>, so as to better understand the specifics of HRM in small businesses as well as to understand the challenges that they face. Therefore, the paper first includes a brief literature review on main HR practices in small business and then the findings of the primary research conducted among small businesses in North Macedonia are elaborated.

## **1. HUMAN RESOURCE MANAGEMENT IN SMALL BUSINESSES**

Human resource management in small business is mainly characterized by informal and less sophisticated HR practices.<sup>3</sup> The development and implementation of HR practices in small business depends heavily on the owner, as a result of lack of HR departments or professionals, as well as of centralized decision-making process. In such context, owner's recognition of HRM significance for business success is of great importance. Yet, insufficient business knowledge and even more HRM knowledge adds up to often dysfunctional human resource practices in small business.

Recruitment and compensation practices are the most important HR practices for small businesses.<sup>4</sup> Recruitment is undoubtedly one of the most challenging HR practices nowadays as it has significant impact on both organizational and market performance of firms. The continuous search for the desired skills has created fierce competition in the labor market. Firms with proactive and sophisticated recruitment policies, successful firms and financially sound firms have created an advantage over small firms, since they can offer competitive, above-market compensation, employee development oppor-

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<sup>2</sup> Based only on staff headcount (EU definition of SMEs includes two criteria: staff headcount and annual turnover)

<sup>3</sup> Kotey, B. & Slade, P., "Formal human resource management practices in small growing firms", *Journal of Small Business Management*, Vol.43 No.1, 2005, pp.16-40

<sup>4</sup> Hornsby, J. & Kuratko, D., "Human resource management in US small business: a replication and extension", *Journal of Developmental Entrepreneurship*, Vol.8 No.1, 2003, pp.73-92

tunities and alike. Despite their unfavorable position in the labor market, small businesses do not seek to upgrade their recruitment strategies. In fact, they rely mostly on informal recruitment practices. As Carroll et al.<sup>5</sup> note, small firms do not use recommended systematic recruitment procedure but instead mostly use informal methods including word-of-mouth recruitment as more cost effective in the short term. The choice of the selection method is closely related not only to the type of job and its requirements, but also to the firm's capacity to implement this selection method. Research confirms that small businesses use unstructured interviews as predominant selection tool<sup>6</sup>, as well as reference checks and application forms<sup>7</sup>.

Employee training and development is another HR practice that raises due attention among scholars. The profound changes in organizational context have reshaped businesses and jobs. The latter has increased the need for a proactive approach to employee training. Investments in employee training, however, depend on several factors as firm's goals and strategy, its specifics, industry and the organizational culture. There is considerable evidence that small businesses do not invest in employee training as much as their large counterparts.<sup>8</sup> This is partly a result of the very specifics of small firms (as, for example, lack of human resource budgets, lack of adequate training needs assessment, etc.) as well as of various obstacles faced by small business. Financial costs of training and lost working time are the most frequently reported barriers for workforce training.<sup>9</sup> In addition, small business mainly prefer job-specific employee training and/or tailor-made training which would match their specific needs. Hence, employee training is mainly conducted in-house as most training offers in the market are more general. Management capability is also identified as a possible barrier to employee training investments.<sup>10</sup> Lack

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<sup>5</sup> Carroll, M., Marchington, M., Earnshaw, J. & Taylor, S., "Recruitment in small firms: Processes, methods and problems", *Employee Relations*, Vol. 21 No. 3, 1999, pp. 236-250

<sup>6</sup> Bartram, D., Lindley, P.A., Marshall L. & Foster, J., "The recruitment and selection of young people by small businesses", *Journal of Occupational and Organisational Psychology* 68, 1995, pp. 339-358

<sup>7</sup> Gilbert, J. & Jones, G., "Managing human resources in New Zealand small business", *Asia Pacific Journal of Human Resources*, Vol.38 No.2, 2000, pp.55-68

<sup>8</sup> See for example Eurostat data on training enterprises

<sup>9</sup> Kitching, J. & Blackburn, R., "The nature of training and motivation to train in small firms", Research Report RR330, Small Business Research Centre, Kingston University [<https://core.ac.uk/download/pdf/4154524.pdf>]

<sup>10</sup> Stone, I., "Upgrading workforce skills in small businesses: Reviewing international policy and experience", *Report for Workshop on Skill Development for SMEs and Entrepreneur-*

of HR departments and insufficient business knowledge of small firm owners usually results in managers' belief that the workforce is proficient enough and the additional training is not necessary. Inability to conduct training needs assessment in small business could also result in reluctance to training.

Compensation system is central to human resource policy in small business, but it also poses a great challenge. Establishing a sound compensation system requires thorough investigation into the main elements of the system. In this context, for the compensation system to be properly developed it should be simple, transparent, attainable and measurable. It should also include objective performance benchmarks against which the employee's performance is measured. Research on the use of formal compensation practices by small business is rather limited. Previous studies have found that small businesses generally lack a defined compensation system, as pay and/or reward levels are mainly determined by owners. This is especially present in micro firms, with less than 10 employees.<sup>11</sup> While a compensation system can encompass different elements, small businesses, particularly family-owned, indicate clear preference for fixed rewards.<sup>12</sup> However, there is a growing interest among small businesses owners for properly designed compensation system as a response to their search for greater employee productivity and overall performance.

## **2. RESEARCH FINDINGS**

The empirical research was conducted with an online questionnaire using Microsoft 365 Forms, distributed to small firms in Republic of North Macedonia during the period of two months. The questionnaire included questions to define the demographics of the sample and questions related to several HRM practices. In particular, questions included aspects of the recruitment and selection process, implementation and challenges of employee training and existence of a formal compensation system, A total of 58 completed questionnaires were gathered and further analyzed.

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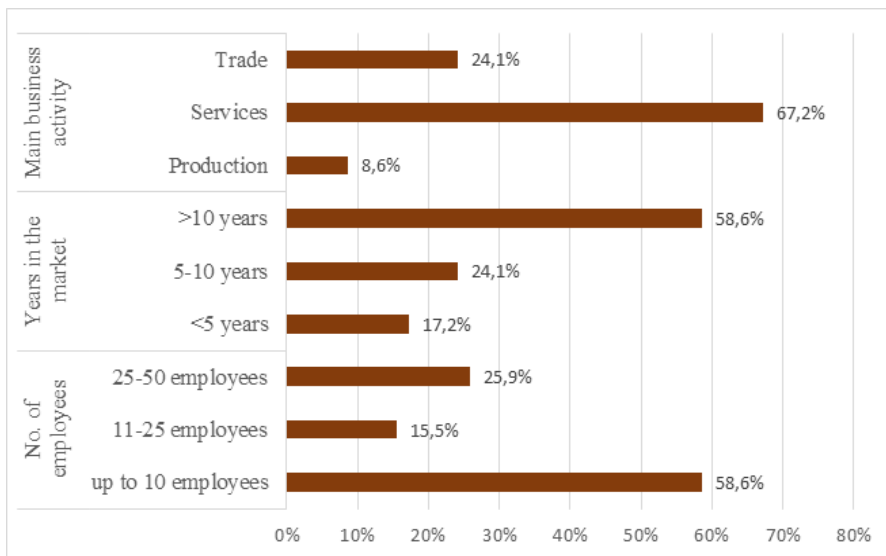
*ship*, OECD/LEED, 2012 [[https://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report\\_Stone.pdf](https://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report_Stone.pdf)]

<sup>11</sup> Carrasco-Hernandez, A. & Sanchez-Marin, G., "The determinants of employee compensation in family firms: empirical evidence", *Family Business Review*, 20(3), 2007, pp. 215-228

<sup>12</sup> Almadana-Abon, S., Molina-Gomez, J., Mercade-Mele, P. & Delgado-Centeno, J., "Total compensation model in family business as a key tool for success", *European Journal of Family Business*, 10(2), 2020, pp.82-91

The analyzed sample included small firms with main business activity in trade (24%), services (67%) and production (9%). Most of these firms are active in the market either more than 10 years (59%) or between 5 to 10 years (24%), while only 17% are active less than 5 years. Furthermore, 59% of the businesses employ up to 10 employees, 15% employ 11-25 employees, while one quarter employ 25-50 employees (see Figure 1).

**Figure 1. Demographic characteristics of the sample**



Source: Based on authors' research

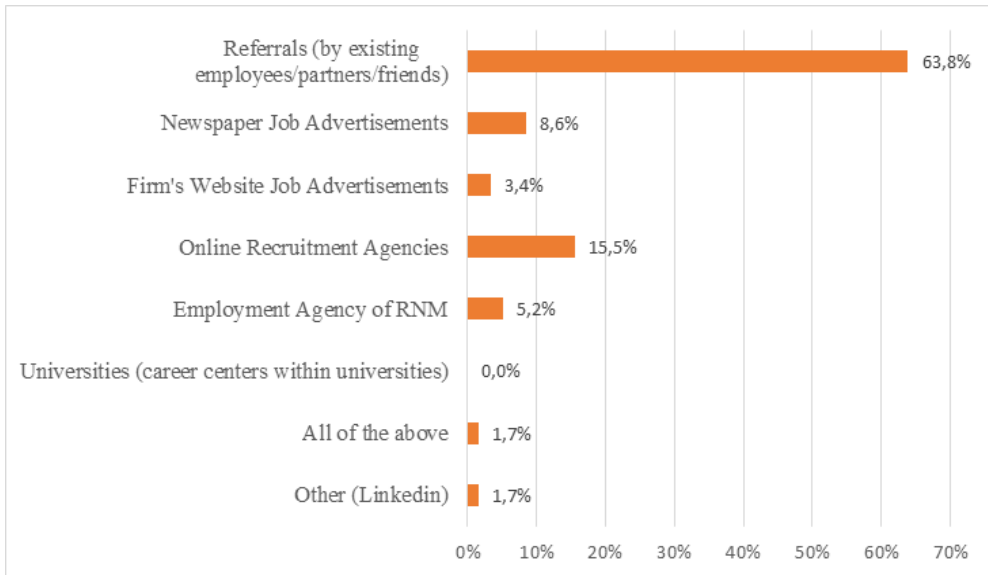
The findings show that small firms rely heavily on referrals by either existing employees, partners or friends in the recruitment process. Almost 64% of small businesses (Figure 2) report that employee referral is the most frequently used recruitment method. Online recruitment agency is another preferred recruitment method, but used only by 15% of firms. Research provides compelling evidence of the wide use of employee referral as a recruitment method by small businesses<sup>13</sup> as well as its benefits for the firms<sup>14</sup>. Indeed,

<sup>13</sup> Mani, V., "The effectiveness of employee referral as a recruitment source", *International Journal of Management Sciences and Business Research*, Vol.1, Iss.11, 2012, pp.12-25

<sup>14</sup> Pieper, J. R., Greenwald, J. M. & Schlachter, S. D., "Motivating employee referrals: The interactive effects of the referral bonus, perceived risk in referring, and affective commitment", Management Department Faculty Publications, 2017 [<http://digitalcommons.unl.edu/managementfacpub/159>]

employee referral is probably the least time-consuming and least expensive method of recruitment. To be successful, however, employee referral programs should be cautiously designed and implemented, as some of the disadvantages of this recruitment strategy relate to narrowed candidate pool, decreased workforce diversity and possible biases in the recruitment process.

**Figure 2. Most frequently used method of recruitment**

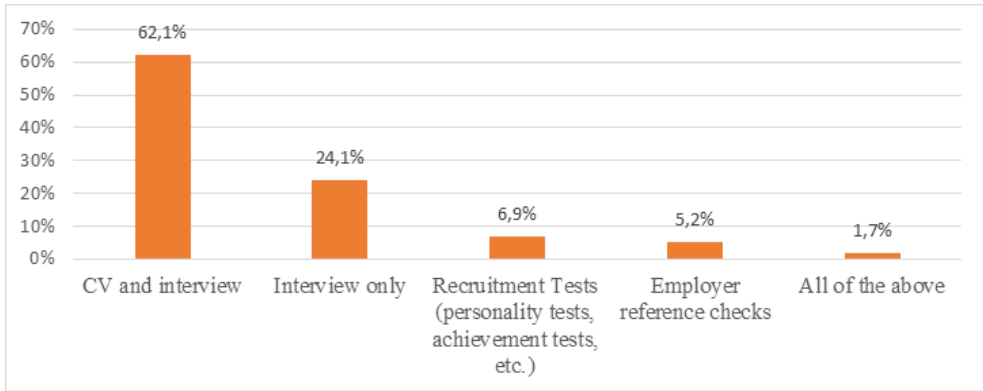


Source: Based on authors' research

Small businesses screen the potential candidates using CV assessment and interview as part of their selection process (Figure 3). The data provided in the CV, in terms of acquired skills, prior work experience and achievements of the applicant, allow businesses to shortlist their potential candidates, whereas, the interview is crucial in determining if the applicant's skills and experience meet the job requirements. Indeed, semi-structured interview is the most widely used selection technique by companies in general. Zibarras and Woods<sup>15</sup> found that CVs and interviews are widely used by UK firms regardless of their organizational size. Nevertheless, it is interesting to note that only 5% of small businesses check previous employer references.

<sup>15</sup> Zibarras, L., & Woods, S., "A survey of UK selection practices across different organization sizes and industry sectors", *Journal of Occupational and Organizational Psychology*, 83(2), 2010, pp. 499-511

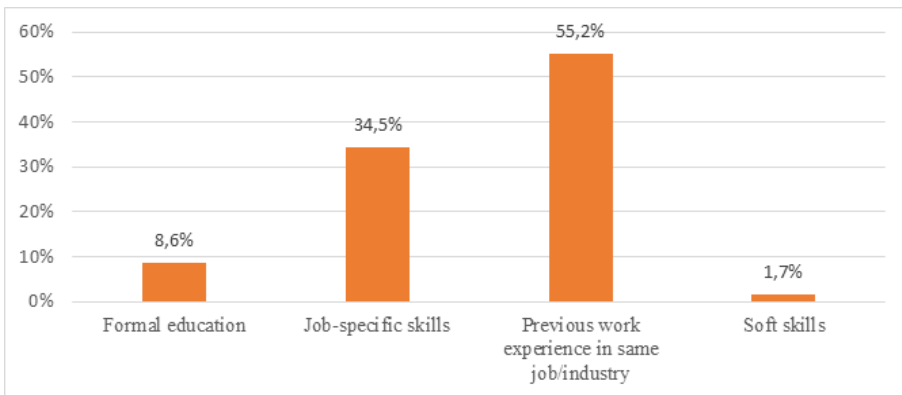
**Figure 3. Most commonly used selection techniques**



Source: Based on authors' research

Previous work experience in same or similar job and/or industry as well as job-specific skills are the key selection criteria for applicants (see Figure 4). In fact, more than half of small businesses (55.2%) view previous work experience of the applicant in same or similar job and/or industry highly important while about one third of small businesses rely on adequate job-specific skills in the hiring process. Finally, 65.5% of small businesses are satisfied with their newly hired employees, 22.4% are not satisfied, while 12.1% are not sure.

**Figure 4. Key selection criteria for hiring employees**

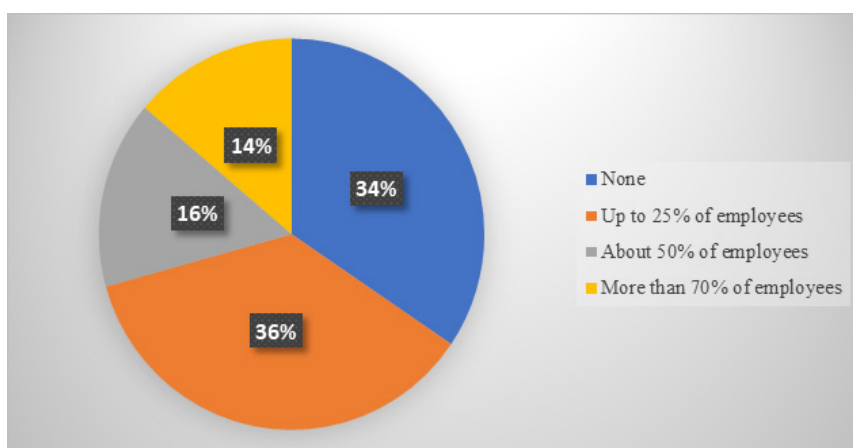


Source: Based on authors' research



Small businesses continuously report lower incidence of employee training, compared to medium and large ones.<sup>16</sup> Difference between small and medium firms, with regard to the incidence of employee trainings, was also revealed among SMEs in the Republic of North Macedonia.<sup>17</sup> In line with this, the findings show that one third of small businesses did not conduct any employee training in the last three years (Figure 5), whereas a similar percent of businesses (36%) provided training to a quarter of their workforce at most.

**Figure 5. Participation of employees in training in the last three years, in %**



Source: Based on authors' research

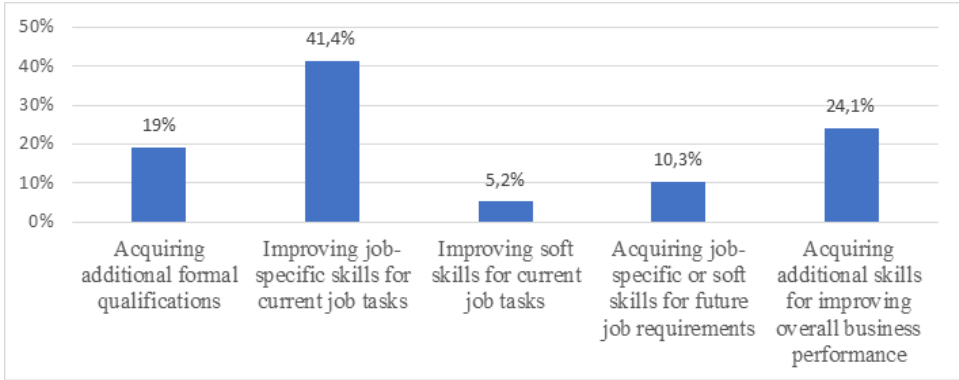
Investments in employee training in the last three years were generally made for upgrading employee job-specific skills related to current job tasks (Figure 6). Job-specific skills are essential for the operational needs of business and are thus of primary interest to businesses. On the other hand, an insignificant share of firms (5.2%) reported conducting employee training on soft skills and only 10% of businesses reported conducting employee training for future job requirements. Lack of anticipating future skill needs and even more neglecting employee soft skills could leave businesses more vulnerable to change

<sup>16</sup> See, for example, OECD, “*Skills development and training in SMEs*”, OECD Publishing, 2013; Eurostat, [[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Vocational\\_education\\_and\\_training\\_statistics&oldid=464069](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Vocational_education_and_training_statistics&oldid=464069)]

<sup>17</sup> Piperkova, I. & Lozanoska, A., “Barriers to employee skills development: Comparative analysis of firms in North Macedonia”, *Economic Development*, Year. 23, No. 2-3/2021, 2021, pp. 131-146

and would increase the mismatch between existing and required skills in business in the long run.

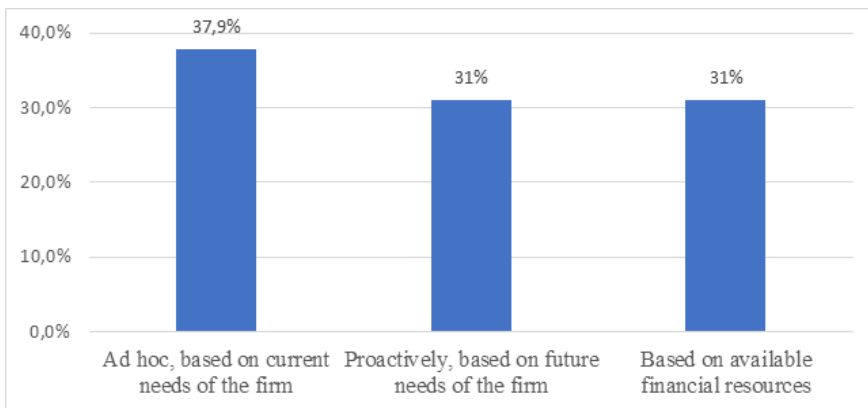
**Figure 6. Key reason for conducting employee training**



Source: Based on authors' research

The focus on skills development for current job tasks is also reflected in businesses' approach to employee training in general. About 38% of small businesses reveal that they conduct training on an ad hoc basis and additional 31% of businesses depending on the available financial resources (see Figure 7). Less than one third of firms have a proactive approach to employee training, in an attempt to anticipate future needs of the business.

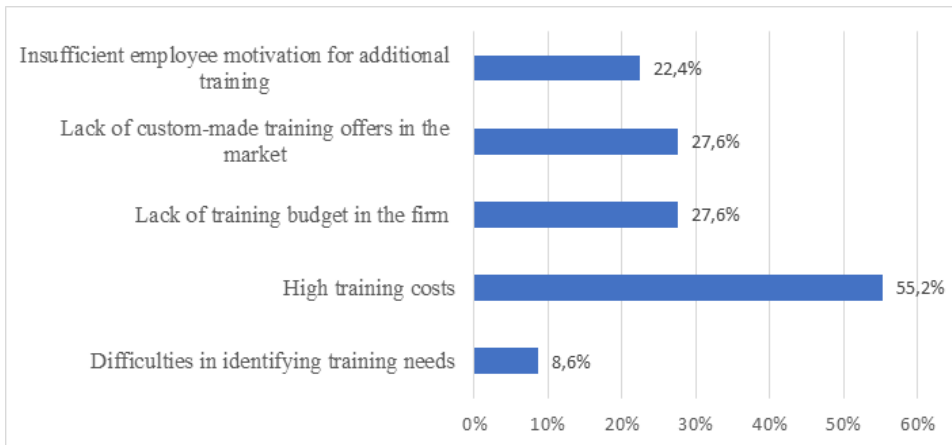
**Figure 7. Businesses' approach to employee training implementation**



Source: Based on authors' research

Research has provided compelling evidence that small businesses face multiple barriers to skills development process, as a result of higher training costs per employee<sup>18</sup>, absence of HR expertise and/or departments, poor training needs assessment and lack of training budgets<sup>19</sup>, among other. In this regard, more than half of businesses consider high training costs to be their primary concern. In addition, almost 28% of businesses also point to lack of training budget in their organization as well as lack of custom-made training offers in the market (Figure 8). Indeed, one of the most common barriers to employee training is the mismatch between the specific needs of small businesses and the training programs offered on the market. Therefore, small businesses prefer informal and in-house training, as it can be tailored to their needs.<sup>20</sup>

**Figure 8. Challenges of employee training faced by small businesses**



Source: Based on authors' research

In terms of employee compensation, the findings reveal that more than half of businesses have developed and consistently implement a compensation system and another 15% plan to develop a formal compensation system. It is

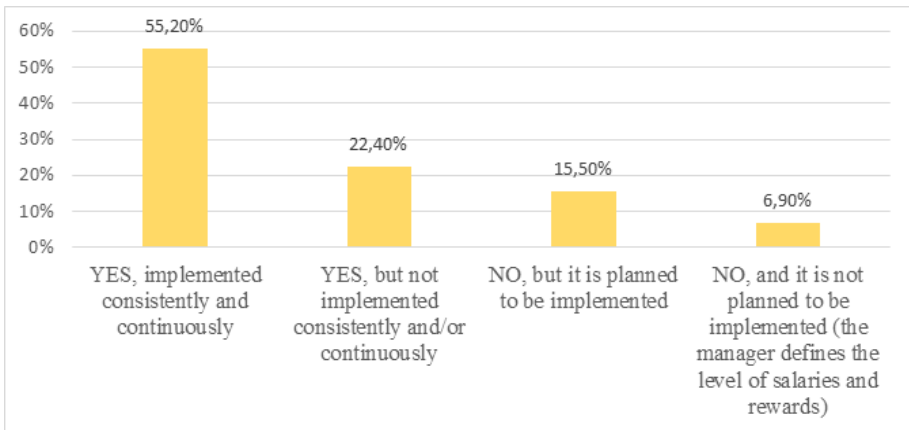
<sup>18</sup> Stone, I. “Encouraging small firms to invest in training: learning from overseas”, Praxis, UK Commission for Employment and Skills, Iss.5, 2010, p.10

<sup>19</sup> Beraud, D. “SMEs are increasingly interested in the effects of training”, *Training and Employment* No.114, 2014, p. 2

<sup>20</sup> Stone, I., “Upgrading workforce skills in small businesses: Reviewing international policy and experience”, *Report for Workshop on Skill Development for SMEs and Entrepreneurship*, OECD/LEED, 2012 [[https://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report\\_Stone.pdf](https://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report_Stone.pdf)]

also worth noting that about 22% of businesses do not implement consistently the compensation system they have developed. This implies that either small business owners have not fully grasped the importance of a sound (fair, objective, attainable and consistent) compensation system or that the compensation system has not been properly designed and is thus dysfunctional. In this context, developing a compensation system that reflects the needs of the business is probably one of the biggest HR challenges for small firms.

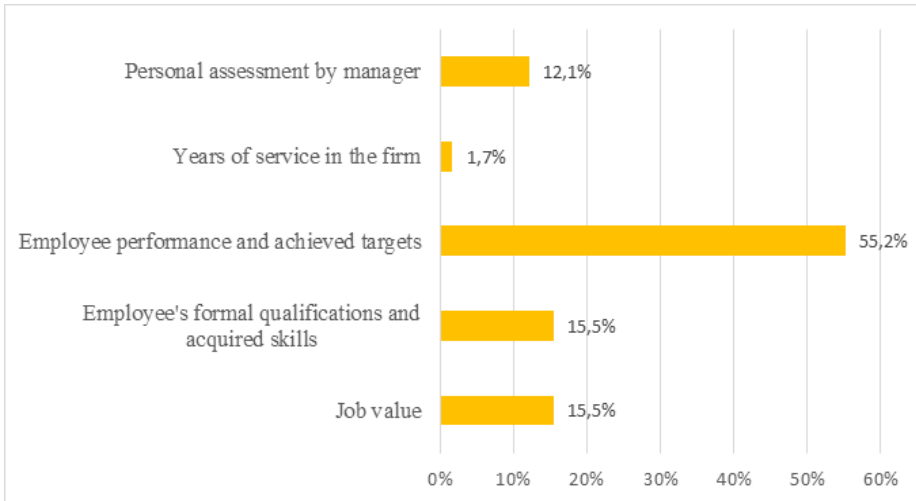
**Figure 9. Developed compensation system by small businesses**



*Source: Based on authors' research*

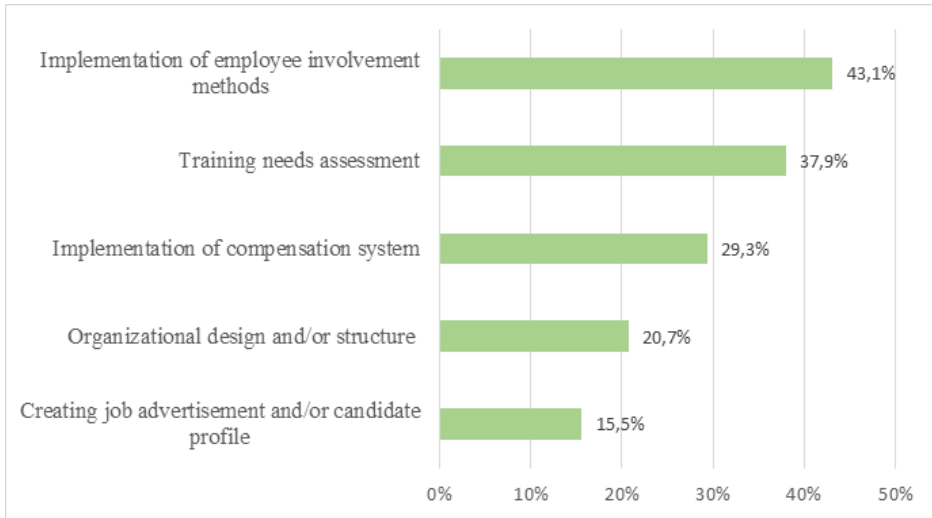
More than half of small business owners report that employee performance and achieved targets are main criteria for determining salary and reward levels of employees (Figure 10). These findings support the notion that small businesses, in terms of human resource management, are predominantly focused on improving employee productivity and performance. An insignificant share of firms points to job value or formal qualifications and acquired skills as main criterion for determining salary/reward levels.

**Figure 10. Main criteria for determining salary and reward levels**



Source: Based on authors' research

Various aspects in managing their human resources pose great challenge to small business owners. However, owner's capacity to understand these challenges is directly related not only to his/her HRM knowledge but also to owner's recognition of HRM importance to the business. Lack of HRM knowledge and/or lack of HR specialists could mislead managers in believing that either the maximum is achieved in their HR policies or that only repressive HR measures, as for example strict rules, pay cuts or even layoffs, could deliver the desired results.

**Figure 11. HR aspects that pose challenge to small businesses**

*Source: Based on authors' research*

Our findings reveal that a significant percent of small businesses could use professional HR assistance for implementing employee involvement methods, training needs assessment as well as implementation of employee compensation system (see Figure 11). These findings show that small business managers have become more aware of the potential benefits of human resource management for their business.

## **Conclusion**

This study contributes to a better understanding of main human resource practices in small business in North Macedonia. Appropriate management of human resources in small businesses is important for their sustainability and market development. However, they often face numerous challenges in human resource management mainly as a result of lack of HR professionals and insufficient HR knowledge of business owners, limited financial resources for employee development and lack of formal procedures, among other. Research provides evidence that human resource management in small business is mainly characterized by informal and less sophisticated HR practices.

Overall, this study is in line with previous studies in the field of human resource management in small businesses. Indeed, our findings reveal that small businesses do not fully employ HR practices to their benefit. Most small

businesses use traditional recruitment and selection strategy and do not have a proactive approach to employee training. The recruitment and selection process are mainly conducted using traditional methods as employee referrals and CV/interview analysis. Employee training investments are made for workforce upskilling based on current job requirements and in most cases cover relatively small percent of employees. A proactive approach to training lacks in most of small businesses, since most businesses do not anticipate future skill needs. In terms of compensation system, some form of compensation system is implemented by small businesses, with employee performance as a main criterion. Hence, developing a sound and consistent compensation system continues to be a challenge for small businesses.

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