



ASPEN NETWORK  
OF DEVELOPMENT  
ENTREPRENEURS  

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WHAT WE KNOW ABOUT

# Talent Management in Small and Growing Businesses

Summarizing the existing evidence

November 2021

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Center for  
Inclusive Growth



## About ANDE

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The **Aspen Network of Development Entrepreneurs (ANDE)** is a global network of organizations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

As the leading global voice of the SGB sector, ANDE believes that SGBs are a powerful, yet underleveraged tool in addressing social and environmental challenges. Since 2009, we have grown into a trusted network of nearly 300 collaborative members that operate in nearly every developing economy. ANDE grows the body of knowledge, mobilizes resources, and connects the institutions that support the small business entrepreneurs who build inclusive prosperity in the developing world. ANDE is part of the Aspen Institute, a global nonprofit organization committed to realizing a free, just, and equitable society.

## About ANDE's Evidence Syntheses

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This report is part of a series of evidence syntheses produced by ANDE which summarize the existing research on topics relevant to the small and growing business (SGB)<sup>1</sup> sector. These evidence syntheses are meant to serve as a resource for practitioners to quickly get up-to-speed on the existing literature regarding topics such as entrepreneurial ecosystems, talent management, and job quality. To read the other evidence syntheses and access the resources cited in this report, visit [www.andeglobal.org/knowledge-hub](http://www.andeglobal.org/knowledge-hub).

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<sup>1</sup> Small and growing businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential and ambition for growth. Typically, SGBs seek growth capital from \$20,000 to \$2 million.

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# Support for this Report

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**The Global Inclusive Growth Partnership: Building the SGB Support Ecosystem for 2020 and Beyond.**

This report was produced as part of the Global Inclusive Growth Partnership (GIGP), a collaboration between the Aspen Institute and the Mastercard Center for Inclusive Growth. GIGP is a multi-year initiative that combines the expertise and networks of both the Institute and the Center to address income and information inequality through the lens of inclusive growth.

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# Introduction and Key Takeaways

**Developing and maintaining a high-functioning workforce is an essential component of business survival and growth. The study of human resource (HR) management is well developed in the business management literature; however, in the past two decades, researchers have narrowed in on the concept of “talent management,” which places special emphasis on the contribution of highly talented individuals to firm growth.**

The term talent management can be defined in various ways, but in general refers to a business’ processes to recruit, develop, and retain employees whose roles have the greatest potential to contribute to a firm’s competitive advantage.<sup>2</sup> There is also a specific focus on preparing existing staff to progress into these roles and adopting an HR system that promotes incumbent procession and commitment to the organization.<sup>3</sup> While traditionally HR practices are siloed in various departments (e.g., recruitment, performance management, compensation), talent management groups these functions together in a way that aligns with the business’ strategy and can be measured against firm performance.<sup>4</sup> Essentially, talent management is an approach that takes HR from “administrative” to “strategic.”

Most HR and talent research centers on large multinational corporations, with very few studies examining these issues from the lens of small and medium-sized enterprises (SMEs),<sup>5</sup> and even fewer examine SMEs in developing economies. Given the important role SMEs play in economic development, understanding best practices for attracting and developing talented employees should be given significantly more attention, as is emphasized in several literature reviews.<sup>6,7</sup> SMEs face certain constraints given their size and fragility and therefore need different approaches to find and retain a high-functioning workforce.<sup>8</sup> This report summarizes the existing literature on talent management within SMEs, with a focus on developing economies where possible, and points to specific research gaps that should be prioritized moving forward.

2 Collings, D. et al. (2018). [Global Talent Management and Performance in Multinational Enterprises: A Multilevel Perspective](#). Journal of Management.

3 Ibid.

4 Khatri, P. et al. (2010). [Talent Management in HR](#). Journal of Management and Strategy.

5 This report mostly references small and medium enterprises (SMEs), as opposed to small and growing businesses (SGBs), as this term is more widely adopted in the academic literature and encompasses the SGB segment. Studies that specifically examine entrepreneurial or growth-oriented firms are noted as such.

6 Cardon, M. and Stevens, C. (2004). [Managing human resources in small organizations: What do we know?](#) Human Resources Management Review.

7 Festing, M. et al. (2017). [Talent Management in Small- and Medium-Sized Enterprises](#). The Oxford Handbook of Talent Management.

8 Ibid.

## KEY TAKEAWAYS:

- + **SMEs face unique talent management constraints relative to large companies**, including lower visibility in the labor market, challenges offering competitive compensation or stability, and a lack of capacity to formalize human resource support.
- + **Evidence suggests that, despite these constraints, SMEs can implement talent management practices that contribute to growth.** These practices include prioritizing organizational culture, emphasizing non-financial benefits of SME employment, and implementing adaptive management systems.
- + **Most evidence on talent management examines larger companies in high-income economies.** There is a significant knowledge gap in understanding talent management among SMEs in developing economies, despite the critical role these smaller firms play in labor markets. SME support organizations should consider how best practices for larger companies can be adapted to reflect the realities of SMEs, particularly those in developing economies.

# Understanding Talent Management in SMEs

To understand talent management in SMEs, it is essential to identify how SMEs differ from large corporations in their needs and challenges regarding employment. Below are some differentiating characteristics of SMEs' human resource needs and approaches to talent management.

**+ SMEs require highly adaptable and multi-functioning employees.**

Due to limited resources and a still-developing strategy, small entrepreneurial firms have less specialized positions and need employees to play various roles within the organization.<sup>9</sup> This expectation of adjustment and taking on new tasks which are not included in a job description is a distinct difference between SMEs and larger corporations. Based on a study of SMEs in the United States, CEOs/founders were more interested in hiring for competencies and person-organization fit than finding individuals who perfectly fit a job description.<sup>10</sup>

**+ Management practices are largely informal.**

Operating under financial and personnel constraints, smaller firms typically do not have dedicated HR departments or personnel.<sup>11</sup> Talent management strategies are often undeveloped and rely heavily on the personal approach and philosophy of the CEO/founder.<sup>12</sup> A study of Australian MSMEs found that as firms increase in size, HR management practices become more formalized, with increased structure, documentation, and departmentalization.<sup>13</sup> In general, SMEs have been found to form talent management strategies that reflect the culture and norms of the organization rather than seeking externally generated formal systems.<sup>14</sup>

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- 9 Messersmith, J. and Guthrie, J. (2010). [High performance work systems in emergent organizations: Implications for firm performance](#). Human Resource Management.
- 10 Heneman, R. et al. (2000). [Human Resource Management Practices in Small and Medium-Sized Enterprises: Unanswered Questions and Future Research Perspectives](#). Entrepreneurship Theory and Practice.
- 11 Cardon, M. and Stevens, C. (2004). [Managing human resources in small organizations: What do we know?](#) Human Resources Management Review.
- 12 Mihelič, K. 2020. [Global Talent Management Best Practices for SMEs](#), Working Paper, University of Ljubljana.
- 13 Kotey, B. and Slade, P. (2005). [Formal Human Resource Management Practices in Small Growing Firms](#). Journal of Small Business Management.
- 14 Krishnan, T.N., and Scullion, H. (2016). [Talent management and dynamic view of talent in small and medium enterprises](#). Human Resource Management Review.

+ **Growth-oriented SMEs offer a higher risk/reward trade-off for employees.**

Growth-oriented SMEs must often make risky decisions (such as taking on large amounts of debt or making major strategic bets) which can make for unstable environments for their employees. To compensate, small business owners can offer more competitive wages or even the possibility of company equity. One study by the Global Entrepreneurship Monitor and Endeavor found that high-growth entrepreneurs tend to pay higher wages than average and that employees report high job satisfaction.<sup>15</sup> On the other hand, the inherent risk involved in taking such a position favors a particular profile of employee who is willing to tolerate the risk of employment instability in favor of potentially sharing the success of a fast-growing company.

<sup>15</sup> Morris, R. (2011). [2011 High-Impact Entrepreneurship Global Report](#). Endeavor Center for High-Impact Entrepreneurship and Global Entrepreneurship Monitor.

# Constraints to Talent Management in SMEs

Relative to large firms, SMEs face unique constraints when identifying, attracting, and retaining talent. These constraints illuminate areas in which entrepreneur support programs could intervene to improve talent management practices within SMEs.

+ **SMEs are less visible than large corporations in the labor market.**

SMEs have a more difficult time recruiting talented employees compared to larger corporations for several reasons. First, they are less known to job seekers, who can more readily find information about large corporations.<sup>16</sup> Larger companies also have higher budgets for recruitment and marketing, and oftentimes have formalized partnerships with universities<sup>17</sup> which seek high job placement levels for graduates. This symbiotic relationship offers students access to high-paying corporate jobs with a clear path to career growth while providing corporations the first pick from graduating classes. Existing employees also act as informal recruiters by spreading the word to their personal networks, one of the most effective methods of attracting new employees.<sup>18</sup> Since corporations have larger workforces than SMEs, these network effects confer a natural advantage in the labor market.

+ **In small firms, HR systems are not prioritized (financially or time-wise).**

A dedicated HR department with defined processes, structures, or personnel is oftentimes not a core part of an entrepreneurial firm's initial teambuilding strategy.<sup>19</sup> Entrepreneurship strategy often emphasizes other areas, such as sales and operations in order to tightly control expenses. In addition, given the potential need for strategic pivots, entrepreneurs often try to maintain flexibility at the expense of formalized structures.<sup>20</sup> With no formal HR system, in SMEs the responsibilities of hiring and managing employee performance fall upon managerial staff who are balancing a number of other pressing responsibilities.<sup>21</sup>

16 Williamson, et al. (2002). [Smaller but not necessarily weaker: How small businesses can overcome barriers to recruitment](#). Managing People in Entrepreneurial Organizations.

17 Frølund, L., et al. [Developing Strategic Partnerships With Universities](#). December 6, 2018. MIT Sloan Management Review.

18 [Recruiting Internally and Externally](#). The Society for Human Resource Management. Accessed September 13, 2021.

19 Alzalabani, A. [Why Startup Companies Need Structured HR](#). Entrepreneur Magazine. July 8, 2019.

20 Ibid.

21 Feffer, M. (2018). [How Small-Business Owners Successfully Delegate HR](#). The Society for Human Resource Management. Accessed September 13, 2021.

### + **SME jobs are higher risk and less stable.**

Employees make career decisions based on a common set of factors, including compensation and benefits, job stability and security, and career growth opportunities. SMEs struggle in each of these areas for different reasons. Though growth-oriented SMEs may pay more than overall national averages, SMEs on the whole pay less than multinational corporations.<sup>22</sup> The high failure rate of startups also means that while some early employees may end up with very high earnings, this is offset by unemployment spells when firms fail: one study found that those working at startups earned \$27,000 less on average over the course of their career<sup>23</sup> than those working at large corporates.

22 Harrison, J.D. [Big firms pay 50 percent higher wages than small businesses, study shows](#). November 29, 2012. The Washington Post.

23 Sorenson, O et al. 2021. [Do Startup Employees Earn More in the Long Run?](#) Organization Science.

# Best Practices for Talent Management in SMEs

Despite being an increasingly hot topic within business management research, recent academic literature reviews stress the lack of strong evidence of how talent management is applied within organizations and the effectiveness of specific strategies in practice.<sup>24</sup>

Research measuring the impact of talent management on firm performance is limited, with most studies published before 2002 and focusing on larger established companies.<sup>25</sup> Most evidence regarding best practices similarly focuses on large corporations that do not face the constraints outlined previously,<sup>26,27,28</sup> leaving a significant gap in evidence specific to SMEs. Nevertheless, the limited number of studies that examine talent management in smaller firms indicate some high-level lessons for practitioners.

## + Talent management is more effective when organizational culture is prioritized.

SME owners have more success in hiring when aiming to find the right match between the employee and the business (for example, can this candidate be trusted to adapt quickly and move into different roles as needed while the business grows?) rather than checking certain “boxes” in terms of knowledge and skills fitting the job requirements.<sup>29</sup> Further, businesses should emphasize how the candidate fits into the organizational culture and provide clarity on organization values during recruitment.<sup>30</sup> A study on HR management practices in small firms found that having a “group culture” was linked to both the adoption of HR management practices and to what extent these practices increased labor productivity.<sup>31</sup> This is also reflected in studies of larger companies, showing that those with “high commitment work systems” (an approach to HR emphasizing valuing employees through soliciting their involvement in firm decisions, investing in employees through training and profit sharing, and ensuring employee-organization culture fit) have stronger financial performance.<sup>32,33</sup>

24 Gallardo-Gallardo, E. et al. (2020). [Talent management: context matters](#). The International Journal of Human Resource Management.

25 Messersmith, J. and Guthrie, J. (2010). [High performance work systems in emergent organizations: Implications for firm performance](#). Human Resource Management.

26 Khatri, P. et al. (2010). [Talent Management in HR](#). Journal of Management and Strategy.

27 Schuler, R. 2015. [The 5-C framework for managing talent](#). Organizational Dynamics.

28 Bethke, P. et al. (2011). [Effectiveness of talent management strategies](#). European Journal of International Management.

29 Robert, H. et al. (2000). [Human Resource Management Practices in Small and Medium-Sized Enterprises: Unanswered Questions and Future Research Perspectives](#). Entrepreneurship Theory and Practice.

30 Mihelič, K. (2020). [Global Talent Management Best Practices for SMEs](#). Working Paper, University of Ljubljana.

31 Patel, P. and Cardon, M. (2010). [Adopting HRM practices and their effectiveness in small firms facing product-market competition](#). Human Resources Management.

32 Burton, M. et al. (2004). [Walking the Talk: The Impact of High Commitment Values and Practices on Technology Start-ups](#).

33 Festing, M. et al. (2013). [Talent Management in Medium-Sized German Companies: An Explorative Study and Agenda for Future Research](#). The International Journal of Human Resource Management.

### + **SMEs should emphasize the non-financial benefits they offer employees.**

Research shows that large firms recruit in different ways than small firms and that small firms rely on less formalized recruitment practices.<sup>34</sup> While much existing literature emphasizes the constraints faced by SMEs regarding talent, there are some advantages as well. In smaller businesses, employees have more ownership and connection to the product or service being offered, and if employees have a passion for the firm's mission, then cultivating that deep connection can help overcome other constraints.<sup>35</sup> Emphasizing the founders' growth orientation is shown to lead to higher quality selection and thus firm performance.<sup>36</sup> The connection between talent and the core business applies at the strategic level as well. An evaluation of talent development grants to entrepreneur support organizations from the Argidius Foundation (administered by ANDE) found that connecting talent directly to pressing business needs resulted in entrepreneurs investing more in their employees' development.<sup>37</sup> Applicants to SMEs can also expect a more equitable and inclusive approach to their development. A study of how HR managers approach talent management revealed that those within small organizations had more "inclusive talent philosophies."<sup>38</sup> This is exemplified in a study of German SMEs, which found that in comparison to large corporations, SMEs sought to support the development of all employees rather than just those at the highest levels.<sup>39</sup>

### + **HR practices need to be flexible and adapt as the firm grows.**

Given that employees of entrepreneurial firms tend to play multiple roles, the systems that support their development and manage their performance need to be flexible.<sup>40</sup> In a study of firms in the United States, high-performance work practices were linked to increased sales and innovation, even though most of the firms in the study did not have dedicated HR staff.<sup>41</sup> This suggests that talent management systems can be of use to teams even without (and perhaps even in place of, in early stages) an HR department. The study suggests instead that these competencies can be built within the manager and executive-level roles.<sup>42</sup> When small firms struggle to put in place these types of flexible and adaptive talent management practices themselves, they can also consider support from providers that specialize in such practices.<sup>43</sup>

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- 34 [Barber, A. et al. \(2006\). A tale of two job markets: Organizational size and its effects on hiring practices and job search behavior. Personnel Psychology.](#)
- 35 [Lewis, T. and Cardon, M. \(2020\). The Magnetic Value of Entrepreneurial Passion for Potential Employees. Journal of Business Venturing Insights.](#)
- 36 [Greeg, C. et al. \(2015\). Strategic Staffing and Small-Firm Performance. Human Resource Management.](#)
- 37 [Holzman, C. \(2019\). The Need to Link Talent to Pressing Business Needs: Lessons Learned from the Argidius-ANDE Talent Challenge.](#)
- 38 [Meyers, M. et al. \(2019\). HR managers' talent philosophies: prevalence and relationships with perceived talent management practices. The International Journal of Human Resource Management](#)
- 39 [Festing, M. et al. \(2013\). Talent Management in Medium-Sized German Companies: An Explorative Study and Agenda for Future Research. The International Journal of Human Resource Management.](#)
- 40 [Messersmith, J. and Guthrie, J. \(2010\). High performance work systems in emergent organizations: Implications for firm performance. Human Resource Management.](#)
- 41 Ibid.
- 42 Ibid.
- 43 [Holzman, C. \(2019\). SGBs Can and Should Seek Outsourced "Talent Solutions": Lessons Learned from the Argidius-ANDE Talent Challenge.](#)

# Call for Additional Research

**A consistent takeaway in the talent management literature is that there are clear knowledge gaps pertaining specifically to SMEs<sup>44</sup> and that the research needs to consider practitioner needs more closely.<sup>45</sup>**

To enable SMEs to adopt better talent management strategies, and to inform intermediaries on best practices for supporting businesses in this area, the following topics need to be investigated through more rigorous studies:

**+ Talent management strategies for different segments of SMEs.**

There are significantly different business profiles among companies that fall under the SME umbrella. Growth-oriented and tech-enabled firms may have very different talent management needs than stable but non-growth-oriented medium-sized firms, and there is likewise a difference between “small” firms and “young” firms.<sup>46</sup> Research into these specific segments will ensure that best practices are applied appropriately to firms with different profiles.

**+ Adaptation of corporate talent management strategies into actionable insights for SMEs.**

The vast majority of talent management knowledge is based on and resides in large companies. Large corporations often work with small businesses in their value chain and so have an incentive to ensure that these businesses are stable and profitable; talent management practices play an important role in this. Large businesses can do more to support visibility for recruitment or even partner with SMEs to provide more resources for employees of small firms in their value chains. Examinations of which talent management best practices within large companies apply to SMEs would also help to fill an important knowledge gap.

**+ The dynamics of talent management in developing economies.**

Issues like brain drain and cultural barriers make talent management (particularly recruitment) challenging in developing economies for all companies; presumably, these difficulties are even greater for small companies with fewer resources. Although researchers stress that talent management cannot be adequately studied without considering the societal and economic context in which the business operates,<sup>47</sup> there is currently very little research on the specific dynamics of SME talent management in developing economies.

44 Festing, M. et al. (2017). [Talent Management in Small- and Medium-Sized Enterprises](#). The Oxford Handbook of Talent Management.

45 Heneman, R. et al. (2000). [Human Resource Management Practices in Small and Medium-Sized Enterprises: Unanswered Questions and Future Research Perspectives](#). Entrepreneurship Theory and Practice.

46 Cardon, M. and Stevens, C. (2004). [Managing Human Resources in Small Organizations: What Do We Know?](#) Human Resources Management Review.

47 Gallardo-Gallardo, E. et al. (2020). [Talent management: context matters](#). The International Journal of Human Resource Management.



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