

THE CHARACTERISTICS OF SMALL BUSINESS HUMAN RESOURCES -- A COMPARISON OF SMALL AND LARGE FIRMS

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Abstract

This paper examines the characteristics of human resources management within small businesses and draws a statistical comparison with larger firms. It uses the results of the Australian Workplace Industrial Relations Survey (AWIRS) conducted in 1995. AWIRS is a study undertaken every five years since 1990 by the Australian government. This survey drew a sample of 2,001 workplaces with over 20 employees and 569 businesses employing less than 20 employees. The survey examined a broad range of human resource issues relating to such things as recruitment, termination, training, unionization, absenteeism and internal communications. Using discriminant analysis a model was developed to define the characteristics distinguishing the small firm approach to human resources management from their larger colleagues. Findings suggest that small businesses tend to have less formal HRM procedures than do large firms. The model provides preliminary results with implications for management and research. They suggest that small business managers need to focus more attention on the development of formal HRM systems as part of their business planning. Future research will make use of subsequent AWIRS surveys to make further tests of the model and its implications for small business management.

1. Human Resources in Small and Large Firms

Official statistical measurements of small business usually focus on employment as the key variable in classifying firms as small or large. Within Australia, for example, a small business is officially defined as one that is independently owned and managed, and employs less than 100 persons if a manufacturer or less than 20 persons if not (ABS, 1995). A medium size firm employs between 20 and 200 while a large firm generally employs over 200 persons (ABS, 1996). More recently the Australian Bureau of Statistics (ABS, 1998) has identified a micro business as employing fewer than 5 persons.

The growth cycle of the small firm has been of interest to academic researchers for many years. Stienmetz (1969) was one of the first to attempt to identify the growth cycle of a small firm while Churchill and Lewis (1983) and Scott and Bruce (1987) introduced stage models of small business growth. These approaches recognize the growth of a small firm is dependent upon the successful combination of factors inherent in both the owner-manager and the firm itself (Gibb and Davies, 1992). Of critical importance is the owner-manager's ability to plan for growth, something most small businesses lack the resources to undertake (Shuman and Seeger, 1986). As the size of firm increases the requirement for enhanced management skills grows proportionally. A lack of adequate managerial expertise particularly in the area of human resources - can serve to impede the growth of the firm (Scase and Goffee, 1980; Boswell, 1973).

In the large firm human resources continue to be a management problem although sufficient resources usually exist to allow the employment of professional personnel or human resource managers. Human Resource Management (HRM) emerged in the 20th Century in response to the need for an administrative support function to manage the large employee numbers recruited into the industrial organisation. At first referred to simply as 'Personnel Management' the earliest recorded department with such a title was that of the National Cash Register Company in 1901 (Losey, 1998).

Two significant influences upon HRM theory and practice in the period following the Second World War have been Peter F. Drucker and E. Wright Bakke. According to Drucker (1955) the main problems facing the practice of HRM in most large organisations have been - 1) the desire to divide work into constituent physical actions rather than take a holistic view of the worker, and 2) the separation of 'planning from doing'. This reduced the ability of employees to control their own productivity and learn new techniques. For Drucker (1955) the HR Manager or personnel function was little more than a 'welfare worker' or 'file clerk' that spent too much time engaged in 'fire-fighting'. The effectiveness of HRM within the organisation was reduced by this 'technician's' focus. What was required was a more effective 'integration' of the entire worker-work relationship. Placing workers in the appropriate job and empowering them by allowing them control over the planning of their own work were key issues to be addressed.

Bakke (1992) suggests that HRM functions exist to understand, develop, and maintain the effective employment of the people resources of the firm. As such it has no greater or lesser value than any other business function e.g. finance or marketing. Despite almost two decades of management theory that emphasized the need for management to empower and enrich the quality of work life, Bakke (1992) does not consider HRM exists to make employees happy. Its role is to ensure the most efficient and effective use of people's skills and abilities. Rather than seeking to align the interests of worker and organisation, the HRM function should seek to ensure that their interests are at least not incompatible.

2. Human Resource Management as a Business Function in Large Firms

During the 1970s and 1980s the HRM function within large companies broadened its role to that of an advisor, providing senior management with specialist skills relating to the complex legal issues surrounding industrial relations, equal employment opportunity and other legislation. Large centralised HR departments were formed with technically proficient managers. Unfortunately, such departments provided HR Managers with little more power or influence over the strategic direction of the organisation than had been the case during the 1950s and 1960s when Drucker criticized them for being mere 'file clerks' (Fowler, 1994).

While both Drucker and Bakke have helped to shape the current HRM paradigm the social and technological changes witnessed in their lifetimes pose a challenge for the next millennium. The value of the 'human resource' as a source of competitive advantage has continued to increase as the economy shifts from an industrial to a post-industrial model (Barney 1991). This was reflected in a survey of senior business executives of information technology departments in Canada. Ninety per cent of respondents viewed their most important challenge was retaining quality staff (Sibely, 1998).

Major challenges facing the HRM function within the large firm have been the twin forces of technology and globalization (Herzberg, 1987). Key issues facing large firm HR Managers over the past twenty years have been 'downsizing', 'right-sizing', 'out-sourcing' and 'globalization'. Downsizing poses a major challenge to HR Managers from large firms in that they must find a way to reduce employment without losing their best people or lowering the morale of the employees who remain (Grossman, 1996). Downsizing has been widely criticized for its short-term focus and lack of long term sustainability. While it may help to trim costs and lift share prices it can also create a 'hollowed-out' shell with only a superficial impression of success (Haapanieni, 1996).

The process of downsizing has changed the role of the HR Manager from administrator of procedures or specialist adviser, to a more strategic level. Successful downsizing appears to be linked with the capacity of the HR Manager to take a strategic approach to the human resource management process (Cameron, 1994). Cutting the workforce to achieve short-term bottom line improvements is likely to be less successful than a more considered approach.

Whatever the mechanics of successful downsizing the fact remains that the legacy of the 1990s has been a change in the workplace of the large firm.

According to Schroff (1994) some of these changes are: employees no longer view their employment as permanent and expect to remain with an organisation for life, and those with marketable skills remain open to regular shifts to rival employers and there is limited loyalty. However, Schroff (1994) suggests that despite this change many HRM practices within the large firm continue to assume long-term employment.

The established FIRM paradigms of large firms focus on process rather than strategy. They have positioned the FIR Manager as a support function in most organisations undertaking the 'fire fighting' and 'file clerk' roles originally identified by Drucker (1955). One of the most serious challenges facing the FIR Manager in the future will be the threat of the role becoming 'out-sourced' (McKee, 1997). As organisations are downsized the routine HRM functions are becoming increasingly passed onto line managers threatening the very existence of the HRM professional. Unless a new more strategic role is adopted the future of FIR Managers could be bleak (Heneman, Metzler, Thomas, Donohue and Frantzreb, 1998).

To avoid this the HR Manager within the large firm must find a new paradigm less concerned with process and capable of securing a central role within the inner circle of executive management. Achieving this will require the FIR Manager to become responsible for the 'human resource core competency' essential to the sustained competitive advantage of the business (Luthans, Hodgetts and Luthans, 1997).

Schuler (1992) has suggested FIR Managers integrate their role into the business through a '5-P Model' incorporating - philosophy, policies, programs, practices and process. Each of these FIR elements needs to be considered in the broader context of how they interact with the same elements for the entire organisation. This strategic approach to HRM requires the FIR Manager to view their role as one of managing cultural change within their organisation while adding value. To achieve this they need to widen their thinking to incorporate strategies for the recruitment, selection and development of key managers and 'knowledge workers' (Beatty and Ulrich, 1991; Kerr and Ulrich, 1995; Eichinger and Ulrich, 1997).

The competent HR Manager of a large firm remains a functional specialist who requires expertise or knowledge of a range of issues including - industrial relations, selection and placement, compensation and benefits, training and development and succession planning (Burke, 1997). This bewildering array of specialized knowledge continues to grow in response to the internationalisation of the workforce and requirement to meet the needs of ethnic minorities, women, the aged and people with physical or intellectual disabilities (Tung and Miller, 1990; Teasley and Williams, 1991).

3. Human Resource Management as a Business Function in Small Firms

The faster the growth experienced by the small firm the more likely it will experience HR problems. For many fast growth SMEs the main problem is finding and retaining high quality employees (Fraza, 1998). Owners of such growth companies must learn to communicate their vision, mission and values to their employees along with a clear understanding of how the firm is to achieve these goals (Barrier, 1999).

Most small firms face similar HRM problems as their employee numbers grow. Among these issues are - recruitment and selection, staff promotion and retention, wages and salary negotiations, compliance with government employment, tax and insurance regulations, training and development. HR policy can also be used to enhance quality via Total Quality Management (TQM) approaches involving employees (Schuler and Harris, 1991; Andreichuk, 1992). Recruitment and selection within the small firm is frequently less formal than in their larger

counterparts with high proportions of employees either being drawn from the same families or being married couples (*Small Business Reports*, 1993). HRM within family owned and managed small firms can also be made difficult when family members hold key positions within the business or find themselves in dispute with each other or the HR Manager (Brown and Davidson, 1996).

The larger their employee base becomes the more complex are its HR requirements. The challenge is to establish HRM policies and practice within the growing small firm that permit flexibility and do not simply add to bureaucracy (Caudron, 1993). Major HR issues for many small business owners relate to industrial relations and employment legislation. Many countries have laws governing such things as sexual harassment, equal employment opportunities - on racial, religious, disability or gender grounds - and unfair dismissal. Antidiscrimination legislation can prove a major headache for small business owners unless they know their obligations, have formal policies in place to ensure compliance (Ruffino, 1994).

With respect to industrial relations, the smaller the firm the less likely it will be unionized. For example, in Australia 88 per cent of SMEs are non-unionized (ABS, 1998). Trade Unions can have a major impact on the HRM practices of any firm but this can be amplified the smaller the business (Flanagan and Deshpande, 1996).

Unlike their larger counterparts small businesses generally lack formal HR Managers or departments. During its early stages of growth the HRM function within the small firm remain largely the responsibility of the owner-manager who is frequently burdened with administrative tasks (Thatcher, 1996). How large a firm needs to be before it requires a professional HR Manager is debatable, but the likelihood of a firm having such professional FIRM grows along with its employee numbers (Little, 1986). Firms with fewer than 100 employees are probably able to operate effectively without a HR manager, but once they exceed 150 staff such professional management becomes necessary (Oliver, 1997). Once the firm employs over 200 staff the need for a dedicated HR department increases substantially (Caudron, 1993).

Empirical studies of the relationship between small firm performance and human resource management suggest that strong associations exist. Roch and Khan (1985) in a study of 35 small firms over a six-year period found a positive relationship between FIRM and business performance. A study of the HRM practices of 78 small firms found a lack of systematic policies resulting in personnel - related problems (Amba-Rao and Pendse, 1985). Hornsby and Kuratko (1990) surveyed 247 firms with less than 150 employees. They found that size of the payroll had an impact on the level of sophistication of the HRM practices used within the firm. However, the nature of the HR issues that the firms were faced with were the same regardless of their size.

A study by Rowden (1995) of three successful manufacturing firms with less than 200 employees found use of both formal and informal FIRM practices which had a direct influence on the overall success of the firms. Robinson and MacDonald (1995), in a study of 300 SMEs representing all industry sectors, found employee flexibility - as measured by use of casual and part-time workers - to be an important factor in determining competitiveness.

4. Comparisons of HRM in Small and Large Firms

Several studies have attempted to examine the differences between small and large firms in their use of HRM. Deshpande and Golhar (1994) gathered findings from a sample of 100 firms comprising both large (<500 employees) and small (>500 employees) companies. The study found no-significant differences between the two types of firm in terms of their overall HRM practices. However, small firms were found to rate the importance of worker characteristics - e.g. commitment, ability to work in a group, communication skills and self discipline - significantly higher than did larger firms. Smaller firms were also more likely to use job tryouts prior to hiring staff.

Marlow and Patton (1993) undertook a qualitative study involving in-depth interviews with 15 companies in the United Kingdom. They found a much lower level of professional HR practice among the smaller firms as well as lower Trade Unionization. Small firms were also less inclined to view HRM as a strategic tool for enhancing the firm's competitive advantage.

A survey of 991 small firms in Atlantic Canada found significant relationships between size of business and levels of unionization or formalization of HR practice. Most small firms had some form of employee induction and orientation program. However, the more 'progressive' the firm's management culture the more likely it was to use formal HRM practices (Wagar, 1998).

In a further study by Golar and Deshpande (1997) of large and small manufacturing firms in Canada no significant differences were found between the two types of business over the perceived importance of worker characteristics. Internal appointments for job vacancies were the preference in both large and small firms but the larger business was more formal in its recruitment and selection procedures. Large firms were more likely to make use of formal testing and selection panels when recruiting staff.

5. Method and Sampling

The sample used in this paper was obtained from the Federal Government survey of workplace industrial relations, known as the Australian Workplace Industrial, Relations Survey (AWIRS95) conducted in 1995. A sample of 569 private small firms (5-19 employees) and 1202 large firms (20 and over employees) was drawn and the findings for both groups compared.

Differences between the two groups were examined using chi-square tests. All significant findings were at the 0.05 level of confidence. Reliable comparisons were possible as the firms were responding to the same question items in the AWIRS95 survey. Use of these original question items and unit record data from the survey permitted further analysis to be completed.

6. Results

Industrial Action:

As shown in Table 1 large private firms were more likely to face industrial action than small private firms, particularly in relation to strikes and stop-work meetings.

Table 1: Percentage of dimensions for the Private Large and Small Firms

<i>Dimensions</i>	<i>Private Large Firm</i>	<i>Private Small Firm</i>
Strikes	11	1 *
Stop work meetings	16	0 *
Overtime Bans	7	0 *
Go slows	2	0
Picketing	2	0
Work-to-rule	2	0
Other bans	3	0
Management intentionally reduced size of workforce	31	18 *
How was the reduction achieved		
Wastage/attrition	53	24 *
Redeployment	30	1 *
Early retirement	12	2 *
Voluntary redundancy	27	21 *
Compulsory redundancy	52	59 *
Reduction by other method	6	na
Formal Grievance Procedures	69	7 *
Formal Discipline Procedures	92	12 *
*significant at $p < 0.05$		

This may be due to greater union penetration and density of unions within large private firms compared to the smaller organisations (78 per cent compared to 22 per cent had unions and the density was 60 per cent for large firms and 11 per cent for small firms). When intentionally reducing the workforce it seems that the large firms were nearly twice as often involved in such an exercise as small firms were but small firms were slightly more likely to use compulsory redundancy. Large firms could use other less painful processes such as natural wastage/attrition and redeployment because of their size and diversity. It is interesting to note that large firms were more inclined to have formal grievance and discipline procedures.

When consideration was given to the size of the organisation where a person's major job was employee relations it appears that the larger an organization the greater the chance of having such a person $Y^2=221.33$ $P<0.001$. It can be seen from Table 2 that firms who employ in excess of 150 employees are twice as likely to have a person whose major job is employee relations rather than other areas of management. In the firms with 20-50 employees less than one in five had a dedicated employees relations person.

Table 2: Percentage: Major Job Responsibility of Senior Managers by Size of Firms

<i>No of Employees</i>	<i>Employee Relations %</i>	<i>Other areas of Management %</i>	<i>Both %</i>
20-50	17	80	3
51-150	31	65	4
>151	67	32	1

Where industrial action had occurred it seems from Table 3 that managers in large firms were more likely to face a greater variety of issues than their colleagues in the small firms.

Table 3: Issues involving Industrial Action

<i>Item</i>	<i>Large Firm %</i>	<i>Small Firm %</i>
Wages	29	33 *
Overtime	8	-
Leave	5	17 *
Superannuation	3	-
Occupation Health & Safety	11	17 *
Working Conditions	16	-
Dismissals/discipline	9	17 *
Management decision / proposal	9	-
Hours	5	-
Roster	3	-
Negotiation of an agreement	32	-
Redundancies	9	-
* significant at $p<0.05$		

Formal Employee Contracts:

One in eight small firms had written agreements (12 per cent) with a majority of firms having only one agreement (59 per cent). In the rest of the firms the number of agreements for one enterprise ranged up to 12. Nearly half (46 per cent) of large firms had written agreements with again a majority (67 per cent) having one, but the number per organization ranged up to 61. For verbal agreements, 19 per cent of small firms had such agreements compared to 10 per cent for large firms. A majority of written agreements were not registered with the Australian State or Federal body for small firms (71 per cent) whilst approximately one third were not registered for large firms (31 per cent). Those small firms, which had written agreements, had an average coverage of 66 per cent of non managerial workers with 35 per cent having 100 per cent coverage. For large firms the figures were approximately sixty nine per cent of non-managerial but only three per cent had one hundred per cent coverage.

Employee Training Schemes:

Using firms employing 20 or more people it appears that the larger the firm the more likely they are to have a training scheme ($Y^2=54.58$ $p<0.001$). This was also true when consideration was given to the availability of skill audits ($Y^2=68.23$ $p<0.001$), staff appraisal schemes ($Y^2=60.11$ $p<0.001$), semi-autonomous work groups ($Y^2=21.76$ $p<0.001$) and team building ($Y^2=51.71$ $p<0.001$). A similar finding was found for quality control where large firms were more likely to have introduced quality controls such as quality circles ($Y^2=8.98$ $p=0.011$), total quality management ($Y^2=43.34$ $p<0.001$) and just in time methods ($Y^2=15.11$ $p=0.001$).

Use of HR Consultants:

The use consultants was found in the areas of specialized procedures which are becoming main stream, for example, occupational health and safety; equal employment opportunities and skills training. Larger firms tended to use external consultants significantly more than smaller firms ($Y^2=19.60$ $p<0.001$; $Y^2=30.83$ $p<0.001$; $Y^2=21.95$ $p<0.001$ respectively). In the more esoteric areas that have occurred in the Australian human resource management arena such as agreement negotiation there appears to be no difference between small and large firms in their use of external consultants.

Measurement of Labour Productivity:

Larger firms were also more likely to have procedures which measure labour productivity ($Y^2=34.45$ $p<0.001$). However, there is no significant difference between size of an organization and measuring the level of productivity on an individual basis but there is on measuring productivity of work groups ($Y^2=22.38$ $p<0.001$) and departments or section ($Y^2=83.12$ $p<0.001$) where the large firms were far more likely to conduct such measures.

7. Conclusions

It seems that the need for a dedicated human resource manager becomes necessary as the organization grows. Such a person appears to be required because of the more formal HRM procedures. This could be caused by the need to deal with larger numbers of people but it may also be due to the greater possibility of unions being present in the larger firms. It seems that larger firms are more likely to be unionized and have a higher density than did smaller firms. Further, unions may create a situation where formal HRM procedures might be required.

It seems that larger firms are more likely to use external consultants to help with their human resource management programs meaning that the availability of resources enables large firms to be at the forefront of progressive changes in personal management.

Thus large firms are more likely than their colleagues in smaller organizations to use professional human resource management outside consultants and to measure labour productivity of their employees. Such differences in the use of HR within small and large firms are consistent with other studies. Large firms are facing the challenges of an enhanced competitive environment and the need for HR managers to become more strategic in their thinking. A key issue facing the owner-manager of a small firm is when to introduce formal HRM procedures and appoint a professional HR manager. It is important for small firms to look ahead and consider the introduction of formal HR procedures as part of their long term strategic planning. Failure to address such issues may result in otherwise avoidable personnel problems emerging.

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