



# Human Resource Management in Small Business

Achieving Peak Performance



Edited by  
**CARY L. COOPER**  
**RONALD J. BURKE**

NEW HORIZONS IN MANAGEMENT

Series Editor: Cary L. Cooper

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*Edited by*

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and Health, Lancaster University*

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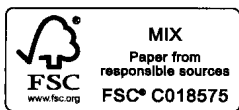
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## NEW HORIZONS IN MANAGEMENT

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Achieving Peak Performance  
*Edited by Cary L. Cooper and Ronald J. Burke*

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# Acknowledgements

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Cary Cooper and I have previously written about the role of human capital in achieving organizational success, and the effects of human resource management policies and practices on the quality of life of managers, their employees and families. Given our training, and the fact we both have worked in schools of management, all of our efforts have focused on large organizations, reflecting a bias in our field.

As we continued on our research and writing programs, I became aware of emerging work on small- and medium-sized businesses, particularly short case studies of very successful firms. One observation I made was that many of these successful small businesses placed a high value on their people for their success, and many of the human resource practices they exhibited were similar to those employed by large organizations. This got us thinking about shifting some of our energy to the small business sector in terms of both filling a serious gap in our understanding of human resource policies and practices in this sector and looking at a major contributor to the economic success of all countries. Large organizations and small organizations share some similarities and some differences. Our intention was to take our understanding of what works in both to contribute to the improvement of performance in the latter. Hence this collection. Not surprisingly, Edward Elgar was delighted to work with us, proudly announcing the fact that it is a small business in its publication listings.

Cary and I continue to work productively. Thanks again Cary. Gerry Wood, at Lancaster, as always, provided outstanding support to our efforts by managing our relationships with both authors and Edward Elgar. I thank our international contributors for sharing their latest thinking on how we might better support small- and medium-sized businesses. My contributions were supported in part by York University.

Finally some thanks of a different kind to two individuals who have shaped me in different ways. First, my late mother, Anne Burke, provided a supportive home environment as I was growing up, which allowed me to pursue my education. Second, the late Norman R.F. Maier, of the

University of Michigan, provided me with an example of how professors lived their lives – and in Norm’s case he was a maverick.

*Ronald Burke  
Toronto, Canada*



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# **PART I**

## **Introduction**



# 1. Overview of the book

**Ronald J. Burke**

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In Chapter 2 of Part I, I provide an overview of important content relating to HRM and SMEs. This area has not received the research attention that it deserves given its importance to country economic fortunes. HRM is important to the success of both small and large firms. Unfortunately, despite considerable research and writing on HRM, SMEs have not changed their approach to HRM much over the years. I provide a summary of some of the uses of HRM in SMEs. I then consider the question of why managers in SMEs are satisfied, and look at work and family concerns, family-owned and managed businesses, SMEs and entrepreneurship activities for women and the additional challenges women face, why HRM has not been seen as important by entrepreneurs, owners and managers in SMEs, the recently emerging interest in HRM by managers of SMEs, technology adoption, and the management of change. Government policies can be supportive of the creation and management of SMEs. I conclude with suggestions for SMEs to more effectively utilize their human capital including obtaining coaching or mentoring assistance, advice seeking more generally, and the potential use of professional employer organizations for the outsourcing of some HRM functions.

Part II examines what is known about HRM contributions to SME effectiveness. Gary Castrogiovanni in Chapter 3 considers the importance of investing in human capital by small businesses. Human capital involves the education, training, experience, and health of a workforce. He reviews major human capital studies, pulling the findings together into an integrative model. The model considers external context concepts, founding team, and managing team characteristics. Human capital was found to influence aspects of venture creation, access to financial capital, growth, innovation, and firm performance. But human capital is only one of many factors affecting small business founding, outcomes, and long-term performance. Human capital combines with social, financial, and physical capital. And different types of human capital are relevant for new versus established small businesses. He illustrates various types of human

capital: entrepreneurial, managerial, industry-specific, firm-specific, and the unique roles played by each.

Christopher Collins in Chapter 4 proposes a theoretical model for the way that HRM systems facilitate performance of entrepreneurial SMEs. He suggests, building on writing from the fields of both strategic HRM and organizational theory, that different HRM systems will be better matched to performance of SMEs depending on the growth strategy of the firms. Collins is advocating a contingency approach to strategic HRM. Thus, an engineering HR model will better fit SMEs pursuing an exploration strategy while a bureaucratic HR model will better fit SMEs pursuing an exploitation strategy. SMEs at the exploration stage emphasize innovation and creativity; SMEs at the exploitation stage need predictability and consistency. Employees and their management are at the heart of both HR strategies, however.

Andreas Rauch in Chapter 5 begins with the premise that SME success and survival is heavily dependent on HRM practices. We know that HRM practices in SMEs are less formal and receive fewer resources. He reviews 15 quantitative studies that address the relationship of HRM and performance in SMEs. He starts by indicating potential relationships between HRM practices and firm performance. Why should HRM practices matter to SMEs? He then considers whether HRM should be viewed in a “best practices” or a contingency way, raising the issues of types of HRM practices and types of performance assessment. He proceeds to examine the research evidence in these 15 studies. He finds that HRM practices were associated with performance assessments but more strongly with some types of assessments (e.g., subjective performance, growth of SMEs) than others. His meta-analytic review, while limited because of the sample size, provides preliminary support for the role of HRM practices in SME performance. It also calls out for more research on this important question.

Timothy Pett and James Wolff address in Chapter 6 the question of why some SMEs achieve high levels of performance while others fall short, failing to achieve management performance goals. They position learning – the integration, interpretation, and use of new knowledge for effective decision-making – as the answer to this question. Learning involves both exploration and exploitation. And organizational learning in SMEs is different from the way learning is undertaken in large firms. Adapting successfully to an ever-changing environment involves effective organizational learning. Learning results from having skilled people in the right place and jobs interested in contributing to the SME’s success – basically the core challenges of HRM. Pett and Wolff then examine the role of organizational learning in the relationship of HRM and SME performance. They explain how organizational learning is a central factor in the

HRM and SME performance relationship. To learn successfully, SMEs need to develop a “learning orientation” or learning culture – a challenging assignment at the best of times. They conclude by offering suggestions on how organizational learning can be enhanced and linked to HRM practices.

The chapters in Part III consider some HRM challenges facing SMEs. Michael Troilo and Brad Carson address legal issues facing SMEs and their owners in Chapter 7. In a practical and engaging way, they lay out best practices in tackling legal issues in SMEs. Entrepreneurs at start-up *need* legal advice. SMEs *must* understand sources of their potential liability. They first offer guidance on the firm’s legal counsel. Then they move to a consideration of the engagement of employees (e.g., worker health and safety, discrimination and harassment, incentive plans, termination). Then they move to a consideration of the ownership structure possibilities (e.g., sole proprietorship or sole trader, partnerships, corporations, limited liability arrangements). They conclude with a discussion of other relevant regulations (e.g., product safety, environmental regulations). SMEs must create and keep documentation supporting compliance with all relevant regulations. In addition, communication with employees is a sound basis for conveying SME processes and procedures, SME expectations, and addressing employee issues.

Sharon Clarke focuses on health and safety in SMEs in Chapter 8. SMEs experience higher accident and injury rates than do large organizations. Surprisingly little attention has been paid to health and safety concerns in SMEs. And small firms differ from medium-sized firms as well. Injury rates have fallen more slowly in SMEs than in larger firms. Small firms have a higher fatality rate than larger firms. SMEs are more likely to under-report injuries. Some risks to health and safety are particularly high in SMEs. These include less investment in health and safety, working in more hazardous environments, and a less formal management style. But SMEs also may have some advantages here such as higher employee work motivation. She collected data from managers of SMEs having health and safety responsibilities and found more themes that hindered than helped health and safety. Workplace safety was promoted by awareness, encouragement, and flexible management practices. Training was most often used to raise awareness and encourage safe behaviors. Barriers to safety included economic pressures, lack of communication and support, and excessive government regulations. But most UK SMEs had a basic safety management system in place. Clarke emphasizes a significantly stronger role for SME managers in improving their health and safety records with a focus on HRM and SME safety culture rather than solely on training and blaming human error.

The chapters in Part IV look at HRM opportunities supporting individual employees. Kyle Fuschetti and Jeffrey Pollack in Chapter 9 lay out human resource management practices that have proven effective in addressing personal and family transitions in small business. Two areas in which entrepreneurs face difficult transitions are examined: stress-related issues and family-related issues. They present “best practices” for dealing with these issues along with practical thoughts. An important stressor is the possibility of business failure. Stress can also have both positive and negative effects. Two problems can occur when family members are not involved in the business and when they are. They identify specific transitions (e.g., role overload, nepotism), note some consequences of each (e.g., work overload, unfairness towards non-family members), and offer advice (e.g., train others to do what you do, make family members earn their stripes). Company vignettes flesh out the application of these best practices in concrete situations.

Colette Henry, Lorna Treanor, and Sarah Baillie in Chapter 10 examine challenges of female SME owners and managers in veterinary medicine. They first review the literature on women entrepreneurs, business owners, and managers. Women continue to be under-represented as entrepreneurs and SME managers. The unique challenges women face here are indicated (e.g., gender stereotypes, work and family responsibilities, difficulties raising capital). Women report lower confidence in their business and management abilities and are more conservative risk takers. They then move into a consideration of the veterinary sector. The veterinary sector is dominated by SMEs, historically led by men. But women are increasingly moving into this sector, now comprising about half the workforce. Some have attributed this to the relatively lower salaries of veterinary professionals. Women in this sector face challenges common to women in the professions more generally. But the authors are optimistic about the future prospects for women here. Combining work and family will remain women’s biggest challenge. In addition they suggest raising these challenges in undergraduate veterinary education will do much for women’s future success.

Eileen Drew and Anne Laure Humbert in Chapter 11 consider how entrepreneurs manage their business and family commitments. Most managers talk about the importance of work–family balance or integration but rarely achieve it. They focus their research on the Irish experience. Men are more likely than women to engage in entrepreneurial activities but women are now starting their own businesses at a faster rate than men are. Having a family member in business was found to support entrepreneurship. Time pressures, having younger children, and support from one’s spouse/partner relate to levels of work–family conflict. Women see



entrepreneurship as a way to address work–family conflict but this view is often not borne out. Using a sample of men and women entrepreneurs in Ireland, they found significant structural differences and employment patterns in entrepreneurship that in themselves may influence work–family issues. Men tended to have children cared for by their spouses/partners while women more often used paid child care or cared for children themselves. Women had a stronger interest in flexible work hours. Men worked more hours per week as well. Women reported higher levels of work–family conflict. Women valued flexible work hours more than men did and were more likely to offer flexibility to their staff (which contained a higher percentage of women employees). Not surprisingly, women more than men reported more interference of family in their business than did men. Interestingly both women and men indicated having made similar levels of sacrifice (family, leisure) in their business lives. It is vital that responsibility for children and family be shared equally by women and men if this gendered imbalance is to be curtailed. They offer concrete policy proposals in this direction.

Magnus George and Eleanor Hamilton in Chapter 12 examine job stressors, coping, and well-being among SME owner managers and with SME performance. They review how entrepreneurship and SMEs differ from work and the workings of large organizations, the entrepreneurial lifestyle, and the SME owner/manager’s job. They identify job stressors and factors that make SME owner managers more susceptible to them. They then consider the effects of job stress on job satisfaction, job crafting, and well-being. Very little is known about the effects of job stress among SME owner managers. They identify various job stressors that exist for SME owner managers as well as flesh out the concept of well-being. Entrepreneurial experiences contributing to flourishing and positive well-being are noted. Social support and coping have been found to have benefits in the stress–well-being relationship. They propose social capital, a network of personal ties, as a central resource in this regard. Respite has been increasingly seen to have recuperative value. They conclude with a description of a program supporting SME owner/managers, LEAD, offered by their institution that indirectly grapples with stress and well-being issues.

Part V concludes with suggestions for improving HRM in SMEs. Andrew Noblet and Denise Jepsen in Chapter 13 highlight the importance of organizational justice in SMEs and illustrate ways to improve levels of justice in them. Employee perceptions of organizational justice affect their behaviors and performance and ultimately the success of SMEs. They begin by describing various forms of organizational justice/injustice showing how these impact key employee and employer outcomes. SMEs