

# HUMAN RESOURCE MANAGEMENT PRACTICES IN SELECTED NEW ZEALAND SMALL AND MEDIUM-SIZED ENTERPRISES

Alan Coetzer  
Alan Cameron  
Kate Lewis  
Claire Massey  
Candice Harris

## ABSTRACT

As a response to concerns about the ways in which employees are being managed in New Zealand smaller firms, this article examines human resource management (HRM) practices in 50 small and medium-sized enterprises (SMEs). Data were collected through interviews with owners/managers. The findings suggest that workplace cultures, resource paucity, and distinguishing characteristics of SMEs shaped their HRM practices. Practices employed by some SMEs raised concerns about unfairness. The article concludes that owners/managers used non-formal, but well-founded practices, which are different but not necessarily inferior to large firm practices, and that future research should examine practices from an employee perspective.

**Key words:** human resource management, small and medium enterprises (SMEs), New Zealand

## INTRODUCTION

For some time, New Zealand's government has been interested in specific ways in which firms can be assisted to improve performance, build capability and increase their contribution to the economy. An example of one such major initiative is the regularly administered Business Practices and Performance Survey by the Ministry of Economic Development. The various iterations of this survey have highlighted areas of concern regarding human resource management (HRM) practices that reveal differences between 'leading' and 'lagging' firms, and indeed small and large firms. The 2001 Business Practice and Performance Survey (Knuckey et al., 2002) yielded the most extensive set of representative data on business capability in New Zealand. This study found that, on the whole, HRM practices were underdeveloped and HRM practices were an area of critical difference between the 'leading' and 'lagging' firms in this study. The results of this study also showed that there are differences between the HRM practices of small and large firms; small firms (defined in the study as firms employing 6-19.5 full-time equivalent staff) are less likely to demonstrate best practice in relation to their employees. In short, it seems that New Zealand small and medium-sized enterprises (SMEs) are not managing their human resources as effectively as they might do.

This New Zealand research, and research in other countries (Cardon & Stevens, 2004), suggests that SME owners/managers (hereafter referred to as managers) face many unique HRM challenges, such as difficulty in attracting and retaining talented employees. Considering these human resource issues in the context of each individual firm renders them

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Alan Coetzer, Alan Cameron, Kate Lewis, and Claire Massey are affiliated with New Zealand Centre for Small and Medium Enterprise Research, Massey University, Wellington, New Zealand; Candice Harris is from Auckland University of Technology, New Zealand. Any correspondence regarding this paper can be directed to Alan Coetzer (email: [A.J.Coetzer@massey.ac.nz](mailto:A.J.Coetzer@massey.ac.nz)).

largely insignificant. However, when the SME sector as a whole is facing such human resource issues (as research has indicated) then the issue grows in both impact and significance.

Given the importance of the SME sector in New Zealand, where 96% of enterprises employ 19 or fewer people (Ministry of Economic Development, 2006), policy makers have been keen to design initiatives to address issues such as productivity and skill shortages in SMEs. Such initiatives, while well intentioned, are frequently not considered in the reality that is the operating context of SMEs. This is largely because there is little research that has explicitly sought to investigate the nature of the HRM experiences of SME managers in a qualitative way. This is not surprising as the wider body of knowledge on human resource 'best practice' has been built from studying large firms (Cassell et al., 2002).

As the ways in which the SME sector contributes to a country's economic and social goals has become more widely understood, there has been a growing emphasis on encouraging the managers of these enterprises to engage in best practice initiatives. This in itself is, at this stage, a relatively ambitious goal, given that there is a lack of data and theory related to HRM practices in SMEs (Cardon & Stevens, 2004; Cassell et al., 2002) and, therefore, what is best practice in the New Zealand SME context.

Building upon these ideas, this article examines HRM practices in SMEs. Defining an SME is complex, and there is no generally accepted definition. Previous studies of HRM in SMEs have used widely varying definitions. This is the case even when studies have been conducted within the same country (Barrett & Mayson, 2005; Bartram, 2005). For the current study, an SME was defined as a firm that employs 5-50 full-time equivalent (FTE) staff. Firms with less than 20 FTE staff were defined as small. This definition closely matches the definition of the small firm that was used in the New Zealand Business Practices and Performance Surveys mentioned previously.

Following Cassell (2002), a 'SME friendly' framework was developed for this study using the three broad goals of HRM (Daft, 2000). These goals are (1) to attract an effective workforce to the organisation, (2) to develop the workforce to its full potential, and (3) to maintain the workforce over the long term. This framework is consistent with Schermerhorn's (1996) definition of HRM: "the processes of attracting, developing, and maintaining a qualified workforce" (p.286). The overall objective of the research was to develop an understanding of the HRM practices employed by managers in SMEs as they seek to accomplish three primary goals of HRM. Given that most SMEs are not likely to adopt sophisticated HRM practices, a decision was made to focus on basic HRM practices as a starting point for the investigation. These basic practices, which tie in with the broad goals of HRM, were: recruitment, selection, training, performance appraisal, and retention. Using this framework, the next section provides an overview of relevant literature.

## **OVERVIEW OF THE LITERATURE**

### *Attracting an effective workforce*

Several studies of HRM practices in SMEs have found that recruiting staff typically involves the use of methods that are convenient, inexpensive, and directly controllable by the firm (Cardon and Stevens, 2004). Such methods include personal referrals and referrals by trusted employees (word- of-mouth), unsolicited applicants, and advertisements in local community newspapers. For example, mail survey research in Australia (Kotey and Slade, 2005), and a

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study using a combination of a telephone survey and in-depth interviews in the United Kingdom (Cassell et al., 2002), found that word-of-mouth was the main source of recruitment in SMEs. Similarly, a mail and on-line survey of HRM practices in 408 small firms in Australia found that advertisements and referrals/'walk-ins' were common methods of recruitment (Barrett and Mayson, 2005). The use of more formal recruitment sources, such as employment agencies and newspaper advertising, increases with firm size (Kotey and Slade, 2005). This is because of the need to widen the search for suitable employees as the pool of potential employees from sources such as family and friends becomes exhausted, and the skills required to support firm growth are not readily available from these informal sources.

As with recruiting, there is strong evidence from the findings of several studies (Barrett & Mayson, 2005; Kotey & Slade, 2005) that managers have a preference towards a small number of employee selection methods. These studies indicate that the most preferred methods include informal interviews, work samples, and work trials. Kotey and Slade (2005) used a mail questionnaire to investigate the rate of adoption of formal HRM practices with increasing firm size. They found that the use of a wider variety of selection techniques, such as testing and reference checks, increased with firm size, probably because new recruits are more likely to come from outside the network of family and friends. This increases the costs of recruiting, the need for more in-depth screening, and the risks in selection.

#### *Developing the workforce*

Within the SME literature there has been a steady accumulation of knowledge on formal training practices. The research evidence has consistently shown that SMEs provide less formal training than larger firms (Patton, 2005). However, the extent to which there is a problem of limited training in SMEs may be related to definitions and measures of training that SME researchers commonly use. The claim, often made in the SME literature, that training provision is positively correlated with firm size is based on a narrow definition of training. There seems to be increasing recognition amongst commentators that widening the definition of training activity to include less formal ways of work-related learning may reduce the training gap between small and larger businesses. Related to this, there also appears to be wider recognition that comparing large and small firms' training practices with the same yardsticks (e.g. type of training, frequency of training, duration of training, and cost of training) can be misleading. However, the reliance upon informal training within SMEs makes the documentation and analysis of such activity more problematic (Patton, 2005).

Our understanding of informal training practices and informal learning processes in SMEs has been underdeveloped. This can be attributed to a seemingly persistent focus of SME researchers on formal approaches to learning, and their apparent strong preference towards snapshot quantitative training practices surveys. However, there appears to be a growing awareness amongst commentators that the role and importance of informal training and learning processes in SMEs needs to be recognised. For instance, Kitching and Blackburn (2002) promote the suitability of a more informal approach to training and identify the limited relevance, and disproportionate costs, of formal training approaches to SMEs.

Performance appraisal is also used as mechanism for improving employee performance. It is widely recognised as the primary human resource management intervention for providing feedback to individuals on their work-related achievements (Waddell et al., 2000). Several studies have examined the conduct of performance appraisal in SMEs (Gilbert & Jones, 2000; Hornsby & Kuratko, 1990; Knuckey et al., 2002). The findings show that formal

performance appraisal is uncommon in SMEs and that performance appraisal varies by firm size. However, most of these researchers note that appraisal of employee performance in SMEs is likely to be informal and ongoing, because of the frequent opportunities for interaction between managers and employees.

#### *Maintaining the workforce*

After conducting an extensive review of the extant research on managing people within SMEs, Cardon and Stevens (2004) concluded that “hardly any studies look at factors influencing employee turnover or retention in small firms” (p.316). This is surprising because some studies (Hornsby and Kuratko, 1990) have found that retaining good staff is an important area of concern for managers of SMEs. To illustrate, a recent mail and on-line survey in Australia (Barrett and Mayson, 2005) found that “the top three concerns for small firms were finding the right staff, finding skilled staff and retaining good staff.” Some commentators argue that SMEs have more difficulty in retaining employees because they are more likely to have lower levels of employer legitimacy than larger firms (Williamson, 2000). In other words, SMEs are less likely to be perceived as desirable, proper, or appropriate employers. This may be because SMEs are likely to lack the financial resources required to retain talented staff. It is also argued that there is limited scope for career development and advancement in SMEs (Marlow, 2000; Patton et al., 2000). If employees in SMEs do face relatively poor career prospects, then managers are likely to experience considerable difficulty in retaining talented staff (Williamson, 2000).

#### *The New Zealand Context*

HRM in SMEs has received little attention in New Zealand. Our review of the literature uncovered just two studies. Gilbert and Jones (2000) interviewed 80 owners/managers of small businesses about their HRM practices. Their findings indicate that the HRM practices were predominately informal, but largely effective. They argue that there were sound reasons for the informal approaches and ‘mainstream’ HRM practices were inappropriate. *Firm Foundations* (Knuckey et al., 2002) studied business practices and performance in New Zealand. The model of business practices and performance applied in this study included employee practices. As noted previously, the findings of this study suggest that smaller firms are less likely to demonstrate best practice in relation to their employees. However, the survey questionnaire used in this study focussed on the formal dimensions of employee practices.

Given the lack of data on HRM practices in New Zealand SMEs, it was considered appropriate to conduct an exploratory descriptive study that would provide rich, nuanced and contextualised information. The specific objectives of the study were to:

1. Determine what HRM practices managers are using
2. Examine the nature of such practices
3. Ascertain why managers are using such practices
4. Explore potential interactions between the practices

## **METHOD**

To accomplish the research objectives, a qualitative methodology was used involving the collection of rich data via in-depth interviews and site visits. However, in recognition of the added credibility often assigned to quantitative methodology in studies of SMEs, it drew on

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design principles more typically associated with quantitative projects. Thus the study was based on a sample of 50 firms, which is a large number for a qualitative project.

To recruit participants we purchased a list of 500 randomly selected firms employing 5-50 full-time equivalent staff from a commercial database supplier. We purposefully sampled manufacturing and service firms only. As mentioned previously, the three iterations of the Business Practices and Performance Survey have highlighted areas of concern regarding HRM practices. The first two surveys maintained a wholly manufacturing focus. The most recent survey (Knuckey et al., 2002) covered a broader population by including manufacturing, services, and agricultural enterprises. Taking into account the need to limit the number of sampling dimensions, a decision was made to focus on manufacturing and service firms, rather than attempting to look at firms from all industries. A range of different types of manufacturing and service firms were included in our sample. Our aim was to identify a common core in the HRM practices of the manufacturing and services firms in our sample, rather than reveal major variations. Using these sampling strategies, data were collected from managers of 50 well-established firms in urban and rural settings of the North and South Islands of New Zealand. Each firm was visited by one of the members of the research team. The managers were interviewed and taken through a semi-structured interview schedule which included questions designed to get interviewees to elaborate on the practices that the firm employed to attract, develop, and maintain an effective workforce. Each interview lasted between 45-90 minutes and was tape-recorded. The interviews were later transcribed and sent to the interviewees for checking. The final transcripts provided rich, contextualised data and were used as the basis for analysis.

Content analysis (Weber, 1985) was used to aid in classification of the textual interview data into three broad categories, namely, (1) attracting an effective workforce to the organisation, (2) developing the workforce to its potential, and (3) maintaining the workforce over the long term. All phrases, sentences and paragraphs in the textual interview data were reviewed in relation to these three broad categories and then classified into the most appropriate category. The main tactics for drawing meaning from the data were teasing out themes or looking for 'recurring regularities' (Patton, 1990) in the data. This involved looking for both recurring phrases in the verbatim expressions of informants, and threads that tied data together.

### **STUDY CONTEXT AND SAMPLE FIRMS**

The interviews for this study were conducted during a period when New Zealand employers were facing difficult recruitment conditions. During the mid-2000s, the New Zealand labour market has been strong, relative to the past 20 years, and relative to most developed nations (Department of Labour, 2006). For example, the most comparable gauge of labour market strength, the unemployment rate, has been among the lowest in the Organisation for Economic Co-operation and Development (OECD). In New Zealand, low unemployment has been accompanied by high skill shortages, particularly among trade workers who constitute a significant component of the workforce in both the service and manufacturing sectors. The implications of such tight labour market conditions for managing human resources effectively are far-reaching.

Forty-four (88%) of the 50 participating firms employed fewer than 20 full time equivalent staff (FTEs), and only one firm employed more than 30 FTEs. Forty-one (82%) of the interviewees were male. Most participants had no post-secondary school formal education

qualifications, and just five of the participants (10%) had tertiary business/management education qualifications. However, the participants did have considerable firm-specific experience. Only seven (14%) had been with the firm for less than five years. On the other hand, thirty interviewees (60%) had been with their respective firms for ten or more years. Thus, the participants were a potentially well-informed and rich source of data on HRM practices in the sample firms.

### **HRM PRACTICES IN THE SAMPLE FIRMS**

The literature identifies a wide range of practices that managers could implement to accomplish the three primary goals of HRM. In this study managers were asked to describe practices that they employed in relation to the three primary HRM goals. Findings of the interviews are discussed below, and dominant themes of the respondents are illustrated by quotations.

#### **Attracting an Effective Workforce**

The first goal of HRM is to attract employees with the desired technical and interpersonal abilities. Central to accomplishment of this goal are the basic HRM practices of recruitment and selection. When asked about the recruitment and selection practices that they employed, numerous managers initially provided an intriguing glimpse into the contexts of their recruitment processes. Shortages of skilled labour, particularly in some trade occupations, emerged as a dominant theme. Such shortages of skilled labour were typically perceived as a factor inhibiting firm growth.

*“There’s a national shortage of pipe-fitters and welders. You could take on another five hundred people, but you just can’t get them. Nobody can get them. We can tender. But it’s just we haven’t got the labour to do it. Bloody embarrassing.”* (Participant no. 23, medium-sized services firm)

*“Lack of skilled labour has been our biggest handbrake in the last two or three years. We still haven’t got over it. It’s held us back.”* (Participant no. 44, small manufacturing firm)

#### *Recruitment practices*

Managers’ descriptions of the contexts for hiring staff provided a backcloth for exploring their recruitment practices. Word-of-mouth was the preferred method of recruitment. This method typically involved someone within the firm who was knowledgeable of both the vacancy and the individual with skills suited to the job.

*“It’s a word-of-mouth sort of a thing; that’s how we recruit people. Because we’ve lived in the town for twenty years we’ve got to know lots of people so we may approach someone and ask them if they are looking for work. We definitely do not advertise in the newspaper.”* (Participant no. 2, small manufacturing firm)

*“Word-of-mouth is probably the only recruitment I would ever use. It would be unusual to use advertising to find staff, because Invercargill is so small, everybody knows everybody.”* (Participant no. 7, small services firm)

People just applying for a job without any prompting from the firm (unsolicited applications), was another effective and low cost source from which firms commonly recruited potential employees.

*“I favour the people that actually come looking for a job. I have advertised, but haven’t had a great lot of success. I seem to get on a lot better if somebody has rung up, or just walked in and wanted to do the job.”* (Participant no. 50, medium-sized manufacturing firm)

The use of word-of-mouth referrals and unsolicited applications clearly overshadowed the use of more formal and expensive recruitment sources, such as newspaper advertising, the internet, and personnel agencies. Such formal sources were used almost exclusively when firms were trying to recruit either applicants with specialised skills, or applicants in areas of employment where there were shortages of skilled labour. In such a tight job market some managers resorted to poaching.

*“If we want experienced people we have to pursue them off another company.”* (Participant no. 35, small services firm)

Overall, managers expressed a strong preference towards informal, low cost recruitment processes. The effectiveness of such recruitment processes generally depends on factors such as the firm having a good reputation as an employer and the willingness of current employees to recruit staff from their familial and social milieu. Pre-selection, which is often an integral part of such recruitment processes, may simplify employee selection processes.

#### *Selection practices*

Nearly all managers described methods for getting background information on potential employees. References and CVs were typically sought. However, these were seldom totally relied upon in making employee selection decisions because there was a widely shared belief amongst the managers that the analytical information contained in references and CVs is of limited use. Thus, intuitive decision making, as opposed to decision-making based on rational analysis, was the dominant employee selection decision-making mode.

*“I never pay attention to references, and I never really pay any attention to a CV. We do a lot on gut-feeling.”* (Participant no. 22, small services firm)

Many managers also expressed reservations about the utility of interviews as an aid in the selection process. Instead, they preferred to find out exactly what candidates could and could not do by getting candidates to complete work samples.

*“No, I don’t believe in CVs, only in old-fashioned skills. If we had a welder come through here, I’d just say, ‘You go and weld a pipe up.’ I could tell within two minutes whether he’s a welder or not.”* (Participant no. 23, medium-sized services firm)

Nevertheless, many managers did not seem overly concerned about the candidate’s technical skills. They were more interested in the potential employee’s impact on the existing workforce. Thus, person-organisation fit seemed to carry more weight than person-job fit. The selection interview, described by many managers as merely an informal dialogue, was

used primarily to assess the applicant's fit with the workplace culture and ability to work in a team, especially where skills could be easily taught.

*"At the time of the interview I spend a lot of time thinking how the person will gel into the organisation, not necessarily their technical abilities but will they fit. We have a staff of eleven people and very, very low staff turnover. I consider my staff to be friends. In an organisation this size personal disputes can be quite damaging and very hard to manage."* (Participant no. 8, small services firm)

*"Actually don't really ask much about work. To me it's more about attitude. We can teach anyone to glaze."* (Participant no. 43, medium-sized manufacturing firm.)

*"I'm sort of interviewing them with the idea of how are they going to impact on the team. Are they going to fit in? Do I think they'll be trouble-makers? Marty's main interest is can they do the job well. He'll actually walk them through the shop and just judge their reactions to machinery and equipment that we've got to see if they know what it is."* (Participant no. 42, small manufacturing firm.)

Hiring employees for a trial period and then closely monitoring their job performance was another common approach to assessing person-job and person-organisation fit.

*"The trial period is just really a means of me being able to dismiss them if I don't like them, or if they're not fitting in."* (Participant no. 12, small services firm)

On the whole, managers did not assign much importance to traditional selection devices such as CVs, references, and formal interviews. Instead, they preferred to conduct a practical assessment of the applicant's technical skills and have an informal dialogue with the applicant to determine person-organisation fit.

### **Developing the Workforce**

Following selection, the major goal of HRM is to develop employees into an effective workforce. Development includes the basic HRM activities of training and performance appraisal.

#### *Training practices*

On the whole, managers were reluctant to engage in formal off-the-job training. Only a few managers reported significant engagement in such training. Their firms typically either employed apprentices who were required to attend formal off-the-job training, or their firms had strong affiliations to industry associations that sponsored training courses. Some staff attended courses offered by suppliers. However, most managers emphasised the suitability and benefits of a more informal approach to staff training, and identified limited relevance and disproportionate costs of formal training approaches. Formal off-the-job training was typically perceived as being de-contextualised from the specific problems and priorities of the business. Combining work and learning was the preferred mode of knowledge and skill acquisition.

*"You have to weigh up whether the course they go on is actually going to benefit them here, or are they going to be of more benefit to have stayed here and be working and learning here."* (Participant no. 9, small services firm)

The arrival of new employees was an important learning trigger in the firms studied. Workplace cultures and practices determined learners' activities and shaped their learning.

*"It's our own ways that we feel sets us aside from another company. They pick that up by us training them to do it that way. I say, 'Well I'm sorry, this is one procedure you might have to forget. This here will take the place of that'. So he does it our way."* (Participant no. 1, small manufacturing firm)

The learning of new employees was primarily job-specific, as opposed to general work-related learning. 'Learning-by-doing' was the dominant process of knowledge and skills acquisition. Interviewee descriptions of this process typically approximated the four processes of social learning theory (Bandura, 1977): attention, retention, motor reproduction, and motivational processes.

*"Watch me, see how it's done. Let them have a go at it. Monitor it. Explain whether they're getting it right, or what they can do to make it easier for them. That's ongoing."* (Participant no. 4, small manufacturing firm)

Usually, managers, or other experienced employees, establish pathways of learning activities for new employees that provide engagement in tasks of increasing accountability and complexity (Lave and Wenger, 1991). In this study, this usually involved having a procedure demonstrated by workplace models and newcomers repeating the procedure until they became proficient at it. Thereafter, these processes of interaction with more experienced co-workers continued, and in this way novice employees were guided through the complexities of firms' practices.

*"Hands-on! We would actually literally show them everything over and over again. They would probably be left to do a particular job they've just been shown. We would say to them, 'Right, as soon as you've done that, come and see us and we'll show you the next step'. They might do that same job over and over again for good couple of weeks until they've mastered it, and then they'll be on to the next stage."* (Participant no. 3, small services firm)

Health and safety regulatory requirements were a key learning trigger in the sample firms and in some cases were the first thing taught. Learning safe work practices is important, especially in manufacturing firms. In some of the SMEs studied, new employees' workplace learning agendas clearly reflected management's responsibility to comply with health and safety regulatory requirements. Again, managers had a strong preference towards informal training practices. Such training was primarily directed at helping newcomers acquire job-specific knowledge and skills, and skills in safe-work practices. However, once new employees were proficient at their tasks, and some responsibility for health and safety had been transferred to the new employees, the emphasis on learning seemed to diminish.

#### *Performance appraisal*

Performance appraisal, the process of observing and evaluating employees' performance and providing feedback, is a potentially important method for developing an effective workforce. In contrast to large businesses, SMEs offer numerous opportunities for managers to directly observe employees' performance.

*“Craig is out there working with them to see how their performance is going. Probably in large firms some people would rarely speak to the manager. They wouldn’t even see them. Craig is out there with them, with the overalls on.”* (Participant no. 9, small services firm)

Feedback is a key element of performance appraisal. Although formal performance appraisal was uncommon in the SMEs, managers did provide performance feedback to employees on an impromptu basis, often over a coffee or a beer on a Friday night or similar interaction.

### **Maintaining the Workforce**

Understandably, in times of full employment managers were concerned about employee retention. As could be expected, employee turnover varied across the sample. Low employee turnover was common in firms located in small towns and in firms where managers had created a supportive work environment.

*“We are lucky that we don’t go through a lot of staff. I think that is probably because we are a small town, people are quite settled.”* (Participant no. 9, small services firm)

*“I don’t have any turnover at all. I have been here four years with the same staff, so I don’t have that problem. Getting to know their personal life is the major reason why they are still here. I take an interest in their life. I treat them how I would like to be treated.”* (Participant no. 7, small services firm)

In contrast, other managers were concerned about the negative effects on their organisations of high employee turnover. These were typically in firms where the tasks performed by employees had low motivating potential.

*“The tanning industry is very dirty and a repetitious type of industry to get involved in. The type of person that you attract to this industry is probably not long term or loyal. Generally speaking we have quite a large turnover.”* (Participant no. 6, small manufacturing firm)

Many firms were implementing a range of practices to reduce voluntary employee turnover. Specific practices to retain employees included selecting reliable employees, offering higher pay, bonuses, and other reward mechanisms, and fostering social ties. As mentioned previously, managers placed considerable emphasis on achieving the right person-organisation fit when recruiting employees. Managers also stated a preference for employees who were likely to have low job mobility due to family or other personal or financial commitments.

*“The best staff we can get is a guy probably in his 30s who’s married with two kids and has a mortgage.”* (Participant no. 48, small manufacturing firm)

One implication of such a practice is that relatively younger applicants may be treated less favourably during recruitment and selection processes. This raises concerns about unfair practice. Furthermore, some managers had formed negative stereotypes about younger employees.

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*“I think sadly we have gone for the older person rather than a younger person, simply because young people are not accountable today. If they have a late night they are not likely to turn up for work the next morning...they’re useless.”* (Participant no. 2, small manufacturing firm)

Some managers relied on traditional individual financial rewards such as higher pay and regular bonuses as the basis for managing voluntary turnover and retention. However, most adopted a broader perspective on employee rewards and utilised all reward mechanisms available to the organisation.

*“The guys have full use of the workshop in the weekends. So long as they make a list of everything that they use and just put it on my desk. That’s forming retention, and I think they appreciate that.”* (Participant no. 1, small manufacturing firm)

Many managers also recognised the significance of the social environment in meeting the affiliation needs of employees, and the important contributions that satisfaction of employees’ social needs can make to retention of staff.

*“It is getting involved on a personal level and not being afraid of giving a shoulder to cry on if that is necessary. I have one staff who says she will never leave. She said I am a great boss and I honestly think that’s because I get involved in her life in work time and see her as more than only an employee.”* (Participant no. 7, small services firm)

*“We have barbecues every Friday night. All the wives and the kids turn up and we just all hang out, sometimes even till 12 o’clock. So we make it quite social, I think that’s what keeps us a team.”* (Participant no. 3, small services firm)

But despite an organisation’s best efforts, some employees will initiate separation from the organisation, often when managers would prefer that the person stay. To reduce staff turnover, exit interviews can be conducted with employees to determine the reasons for their departure. None of the firms in this study used exit interviews. In fact, the ceremony to signify an employee’s departure from the organisation (the ‘farewell do’) was portrayed by respondents as being more important than determining the reasons for the employee’s termination. Most interviewees claimed that they usually knew the reasons for the termination, sometimes even before departing employees told them that they were leaving!

*“We always make sure we put on a shout and have a cake and a couple of beers. I know people have leaving interviews, but I’d like to pride myself as being so close to the staff I know why they’re leaving.”* (Participant no. 20, small manufacturing firm)

*“We don’t do exit interviews if that’s what you’re looking for. We are a small business. It’s very personal... and loss of face is important. You want people to leave with dignity.”* (Participant no. 28, small manufacturing firm)

Given the tight job market prevailing at the time of the study, it is not surprising that the managers in this study reported employing a range of practices to reduce voluntary turnover and increase retention. The low cost practices that they employed, such as selecting employees that are likely to demonstrate low job mobility and building cohesive work groups,

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seemed well-considered, especially in view of the resource constraints under which most SMEs operate.

## **DISCUSSION**

Most firms that participated in this study employed a narrow range of HRM practices. This is accordant with the findings of a national survey of HRM practices in Australian SMEs (Wiesner and McDonald, 2001). The survey findings demonstrated that firm size does have a significant impact on adoption of HRM practices. Small-sized firms had a significantly lower adoption rate of HRM practices than medium-sized Australian firms. In our study only a small number of firms had adopted a somewhat wider range of HRM practices than most firms in the sample. These 'outliers' tended to be the larger firms in the study, those that were involved in strategic alliances with larger organisations, or those where the owner/manager had previous experience working for a large organisation.

Analysis of the data suggests that the HRM practices in the sample firms were, on the whole, well-founded. The practices seem to have evolved from the experienced-based knowledge of the managers. Most managers were able to provide reasoned justification for the practices that they employed. Appropriateness and cost seemed to be two decision criteria that were heavily weighted in their decision-making regarding alternative practices. With regard to appropriateness, several managers were intent on creating a comfortable, friendly, relationship-based workplace culture. Consistent with these cultural values, they preferred to provide ongoing informal feedback to employees on their work performance, rather than formal performance appraisal meetings. As regards cost, managers tended to have a preference towards low cost practices. They preferred to use word-of-mouth referrals as a recruitment method in preference to media advertising to recruit staff. This is not surprising, given that in SMEs resources are likely to be scarce and that advertising was not regarded as particularly effective.

In general, the practices that managers employed were non-formal. In this context, non-formal means that the practices were not documented. Nevertheless, managers could generally clearly explain their practices. The finding that practices were generally not documented is consistent with findings of previous research (Kotey and Slade, 2005). Research has clearly established that formalisation (the degree to which an organisation's culture is documented) is positively associated with firm size (Price, 1997). Only in a small number of participating firms were practices relating to employee health and safety documented, presumably because of pressures of legal compliance. An even a smaller number of firms also documented other HRM practices. Typically, these firms worked closely with larger firms, for example, as quality-assured suppliers, and had formalised their practices primarily to meet the requirements of the larger firms

Findings in regard to *attracting an effective workforce* are largely consistent with previous research on recruitment and selection practices in SMEs (Cassell et al., 2002; Kotey and Slade, 2005). In this study, most managers relied heavily on convenient and inexpensive sources of recruitment, such as the family and friends of current staff (Marlow, 2000; Cardon and Stevens, 2004; Kotey and Slade, 2005). But there are also limitations associated with this approach to recruitment. However, given the time and financial resource constraints under which most SMEs operate (Cassell et al., 2002), it could be argued that the benefits of such an approach outweighs the limitations. Thus, the recruitment practices seemed, for the most

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part, to reflect the limited resources as well as the shorter lines of communication and community embeddedness of SMEs.

The widespread use of word-of-mouth referrals as a recruitment method simplifies employee selection processes in these firms. As Kotey and Slade (2005) have noted, the use of referrals as a recruitment method reduces the need for in-depth screening. In fact, in the firms studied there appeared to be little screening for particular technical skills, presumably because these could be easily learnt. Instead, managers seemed to consider general 'fit' as a key employee selection criterion. This finding, that the focus was on general fit, not specific job requirements, is consistent with previous research (Cardon and Stevens, 2004). Similarly, Marlow (2000) has argued that, "where a workforce is small and likely to be working in close proximity, the benefits of choosing a new employee who 'fits' outweighs the potential costs of employing someone who, however well qualified, does not fit."

Overall, the findings in relation to *developing the workforce* suggest that the managers had a strong preference towards informal training practices. Such training was primarily directed at helping newcomers acquire job-specific knowledge and skills and safe-work practices. The training process typically involved a workplace supervisor or experienced co-worker demonstrating key behaviours to replicate, and providing the newcomer with both opportunities to practise and feedback on the practise performance. Thus, workplace supervisors and co-workers were important resources for learning. Once newcomers were proficient at their tasks, the emphasis on learning diminished. Further employee learning was almost exclusively triggered by work-related problems. In general, managers held a rather limited view on learning, which they seemed to view as the acquisition of job-specific knowledge and skills. Broader notions of learning, such as personal development, inculcation of organisational culture, and encouragement of creativity and innovation, were not recognised by managers.

Analysis of the data supports Cardon and Stevens' (2004) contention that researchers need to explore complementarities among HRM practices in SMEs in greater depth. Recruitment and selection practices had unintended effects on employees' work-related learning. Specifically, some managers encouraged trusted staff to recruit new employees from their family and friends. The findings suggest that when existing staff are involved in recruiting newcomers from their family and friends, they are also likely to take the initiative in supporting these newcomers on their pathways of work-related learning. Also, in many firms applicants had to complete work samples to demonstrate their ability to do the job. The findings suggest that such employee selection methods are likely to yield, as a by-product, information about candidates' learning needs. Such information can assist those who will guide their learning to select tasks appropriate to the learner's level of development.

With regard to *maintaining the workforce*, the findings suggest that managers placed particular emphasis on practices aimed at minimising voluntary turnover. Such practices were typically low cost, and included meeting the affiliation needs of employees and inclusion of employees' families in social activities. Managers also tried to recruit staff that were likely to have low job mobility. The aim of retaining staff is also advanced by the very specific nature of the training provided by most of the sample SMEs, since generally trained employees may exhibit more turnover (Price, 1997). This emphasis on minimising voluntary turnover may be due in part to the tight labour market conditions, as outlined previously.

Alternatively, it may be because SMEs, on the whole, have difficulty attracting and retaining talented staff (Williamson, 2000).

### **LIMITATIONS AND SCOPE FOR FUTURE RESEARCH**

A limitation of this study is that the findings may be prone to social desirability bias (Zikmund, 2003) because labour employment practice is potentially sensitive. Consequently, some participants may have responded in a way intended to create a favourable impression of their HRM practices. The use of a single-source (the owner/manager) in this study is another limitation (Donaldson and Grant-Vallone, 2002). In the firms studied, managers and employees will understandably have different perceptions of HRM practices. Obtaining employee perspectives on practices is important. As research shows, employee perceptions of HRM practices are positively related to customer evaluations of service quality (Gelade and Young, 2005). Thus, future research should obtain employee perspectives on HRM practices in SMEs. Finally, given the predominance of small firms in the sample, the findings presented here cannot be generalised across all SMEs. Furthermore, firm size is only one of many variables that influence the adoption of HRM practices. For example, research by Bacon and Hoque (2005) has demonstrated that the skills-mix of the workforce and the types of networks that exist with other organisations (e.g. large customers) influence the adoption of HRM practices.

### **CONCLUSION**

Managers in the sample firms use non-formal, but well-founded practices, which are different but not necessarily inferior to large firm practices. The practices are appropriately suited to the SME context of small size, limited resources, short lines of communication between managers and employees, and often lower skill demands. They also reflect the more intimate conditions prevailing in SMEs and their greater embeddedness in the local community. Nevertheless, some SMEs used practices that did not seem 'good' or 'fair'.

This study contributes to an understanding of important HRM practices in SMEs. The study highlights informal training and learning practices in SMEs. Overall, the findings suggest that formal training approaches to processes of knowledge and skills acquisition are minimal in relation to the contributions made by informal interactions with workplace supervisors and co-workers, and 'natural' learning processes, such as learning through observation. This study also helps to fill the gap in research on HRM practices influencing employee retention in SMEs by yielding qualitative data on retention practices. Clearly, more empirical studies are needed to further enhance understanding of informal training and learning practices in SMEs. In such future work, insights from situated learning (Lave & Wenger, 1991), informal and incidental learning (Watkins & Marsick, 1992) and social learning (Bandura, 1977) may be especially helpful in arriving at a better understanding of the research topic.

This study also contributes data on the interaction of practices. Cardon and Stevens (2004) have argued that there is a need for field research that explores the interaction of HRM practices in SMEs. They also urged scholars to develop systems of practices that create synergistic effects, as opposed to independent sets of best practices. Interaction was found between the practices used by some firms in the sample. In some cases the recruitment, selection, training, and retention practices appeared to be operating synergistically. The SME research community should seek to better understand these and other potentially synergistic HRM practices.

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Do smaller firms need to adopt large firm HRM practices? That is, should attempts be made to transfer practices that have proven to work typically in large firms to small firms? Our study, along with much of the literature examining HRM in smaller firms suggests that there is a 'small firm way of doing things' that is not necessarily 'wrong' or 'inferior' to larger firm practices. In fact, researchers who study HRM within SMEs may be trapped by traditional HRM paradigms. We may need new ways of thinking about the management of human resources in SMEs and consequently bring different approaches to understanding the nature of the HRM experience for SME owners/managers and employees. In this way SME stakeholders can conceptualise, design and implement HRM processes and practices that are more 'SME appropriate'.

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