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Working Paper Series

A Qualitative Investigation of the Human Resources Management Practices in Small Businesses

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Abstract

This report provides a summary of our findings from the first phase of our study on human resource practices in small businesses based on qualitative interviews with top managers and owners of small businesses. Below we include a brief description of the sample and an explanation of the hurdle that we experienced when using the terms human resource management practices. On the following pages, we report the main findings of the qualitative phase of our study. The findings are organized into three main sections around the areas of management philosophies, employee management practices, and key employee outcomes that link management practices to firm performance. The overall findings from this first report are summarized in a research model depicted in Figure 1. Funding for this research was provided by the Center for Advanced Human Resource Studies at Cornell University and Gevity, is a provider of comprehensive human capital management solutions to small and medium-sized businesses

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Section I: Overview of the Sample for the Qualitative Study

The Cornell research team completed a total of 54 interviews conducted with small business owners and managers based on a list of contacts provided by Gevity. Of this total, 39 of the interviews were conducted with a contact other than the owner or top manager of the company and 15 of the interviews were conducted with the owner or top manager of the company. Interviews with non-owner contacts were used to collect information regarding the employee management practices of the company and to get a sense of the business conditions and important employee outcomes that affect the performance of the company. Interviews with the owners were used to collect information regarding management philosophies, business conditions, and employee outcomes that affect the performance of the firm. Interviews lasted from 10-25 minutes, were conducted by phone, and were based on questions from a general interview protocol (see attached protocol document – Appendix A).

Problem Using the Terms Human Resource Management Practices

We began this phase of the study by trying to understand the extent to which small businesses were implementing specific types of human resource practices and systems of practices. We found early on through our interviews that the contacts were not extremely familiar with many HR terms. In fact, most of the contacts did not feel comfortable talking about HR practices as they were not sure what if any HR practices their company used. With a good deal of prompting and explanation, our research team found that most of the companies did use HR practices, but the HR practice label was not how they would describe the practices that they had in place. We found that the contacts were more comfortable when we described these practices as how they managed their people. Therefore, we turned from exploring HR practices to trying to understand how these small companies managed employees and people issues.

After changing our protocol to prompt contacts about managing employees, we were able to identify some broad trends across the small companies (see details in following section).

Section II: Philosophies Regarding Managing People

Based on previous research and our interviews, we have identified several dimensions of management philosophy on which small businesses seem to differ. Our analysis of the qualitative interviews that we conducted confirmed the results of Baron and colleagues (Baron & Hannan, 2002; Baron, Hannan, & Burton, 1999; Baron, Hannan, & Burton, 2001). Although Baron and colleagues found five different philosophies, we found evidence for only three basic models/philosophies regarding how small companies manage their employees. Below we define and describe each of the three models that we found from our interviews.

(1) Autocracy Model. In this model, the owner or top manager retains tight, hands-on control of most activities and operates as the sole visionary of the firm. This model is characterized by hiring and keeping only those employees that have the skills and abilities to successfully perform a specific job, motivating and retaining employees based strictly on money, and closely monitoring and controlling even the day-to-day activities of all employees.

(2) High-commitment Model: In this model, the owner or top manager believes that employee and company performance is best when the company has created a family-like environment in which each employee feels highly valued and an important part of the company. This model is characterized by hiring employees based on their fit to the culture and values of the company, creating a team-oriented environment in which peers are asked to help and provide feedback to one another, and a high degree of investment in employees.

(3) Professional Model: In this model, the owner or top manager believes that employees achieve their best performance when treated like professionals. This model is characterized by hiring and retaining employees that have the skills and abilities to successfully perform a specific job, providing the employees with interesting work opportunities and the chance to develop new skills and knowledge, and providing a specific set of projects or tasks to work on but allowing the employees a large degree of discretion in how to complete those responsibilities.

Section III: Human Resource/Employee Management Practices

Based on previous research and our interviews, we have identified several dimensions of management philosophy on which small businesses seem to differ. The qualitative interviews confirmed that small businesses do think about and implement specific human resource practices to manage their organization and to guide the actions and behaviors of their employees. As with the management philosophies, our interview results mirrored the findings of Baron and colleagues (Baron & Hannan, 2002; Baron et al, 1999, 2001). There appear to be three recurring dimensions along which small businesses think about organizing and managing employees: (1) finding new employees, (2) retention, and (3) managing employee performance.

1. Finding New Employees describes the practices used by the company and its managers/owner regarding for recruiting and selecting employees to the company. Overall, companies appear to follow one of three generic approaches to staffing:

a). **Ensure fit to current job** – companies that follow this model primarily look to recruit and hire new employees based on their ability to perform the tasks and duties of the current opening and the ability of the applicants to perform at a high level from the start of employment. The screening/selection practices focus only on testing for the specific set of skills and knowledge necessary for the current job opening.

b). **Ensure fit to company** – companies that follow this model primarily seek to recruit and select new employees based on how well they will fit with others in the company and the culture of the organization. These companies tend to believe that individuals can be trained on specific job duties and they expect that the individuals hired will be able to grow into other roles than the current positions to which they were hired; therefore, tend to focus on recruiting from the same sources as they used for past hires and selection practices focus on testing for the attitudes, personality traits, values that are reflective of the company and its current employees.

c). **Finding exceptional talent** – companies that follow this model primarily seek to recruit and hire elite or exceptional individuals that have long-term potential to affect the success of the organization. These companies look for individuals with great skills and knowledge based on the belief that these types of recruits will help to shape the future direction and competitive advantage of the company. These companies tend to recruit only from elite sources and focus their selection around testing for future potential. These companies may hire a really talented individual even if there is not a current need or opening to which the person fits. This set of practices tends to only be used in technology companies and professional service firms (law offices, consulting firms, etc.).

2. **Retention** describes management practices that companies use to increase retention and employees commitment to the organization. Overall, companies appear to follow one of the three generic approaches to attachment:

a). **Fair Compensation** – companies that follow this model believe that the employee relationship is based on exchange of labor for money; therefore, they tend to focus primarily on compensation. These companies tend to be market leaders in base pay for employees and look to link bonuses, merit raises, and rewards to individual performance. These companies primarily use performance appraisals to determine merit raises.

b). **Interesting and Rewarding Jobs** – companies that follow this model believe that the best way to retain highly valuable employees is by providing employees with and environment that is challenging and helps them to grow and develop. These companies offer opportunities for employees to learn new skills through job rotation, training opportunities, internal promotions. Further, these companies structure the work to provide employees with new challenges. These companies use performance appraisals as a way to help employees identify areas for future skill/knowledge development.

c). **Creating a Family-like Community** – companies that follow this model believe that the best way to increase the chances of retaining highly valuable employees by creating a family-like feeling and strong emotional bond. These companies focus on building a strong sense of community in which employees feel like they are part of a family and would not want to leave the company because this is where all of their friends work. This type of atmosphere is built by openly sharing information with employees, having company-wide meetings, hosting social events and outside activities that bring employees together, and putting all new employees through a comprehensive orientation program.

3. Managing Employee Performance describes the philosophy held by management and owners regarding how to manage employees on a day to day basis to make sure that the employees complete their work at an acceptable level of quality. Companies appear to follow one of four general approaches to coordinating and controlling the performance of individual employees:

a). **Direct monitoring** – companies that follow this model believe that the only way to ensure that employees perform as expected is by continually monitoring their actions. Companies in this model tend to have a large ratio of managers and supervisors to employees, use technology to monitor employees, allow employees little discretion, and have managers and supervisors in close proximity to employees so that they can continually monitor employee actions.

b). **Cultural and Peer Pressure** – companies that follow this model believe that peer pressure will keep employees on task and working toward important outcomes, necessitates socializing employees so they understand what is important to the company. These companies encourage employees to provide feedback to one another, ask for co-worker input on employee performance appraisals, and design work based around teams.

c). **Professional Standards** – companies that follow this model believe that individuals are motivated to perform at high levels and do excellent work because of their professional socialization. These companies focus on hiring individuals that have been socialized to a profession, provide a high degree of discretion to employee judgment.

d). **Processes, Rules, and Procedures** – companies that follow this model believe that individuals will perform to expectations if the company clearly lays out expectations through formalized policies, rules, procedures, etc. Companies in this model have detailed job descriptions and explicit work rules for employees to follow, have detailed organizational charts so employees understand reporting lines, and have a formal process of performance appraisals and regularly scheduled meeting to provide performance feedback to employees.

Section IV: Employee Outcomes That Affect Firm Performance

Based on our interviews with both the owner and the non-owner contacts, we identified an array of employee outcomes that may possibly mediate the relationships between the employee management practices and company performance. The data from the interviews suggested that managers and owners of small companies are aware of and can identify the employee outcomes that affect the ability of their company to compete and succeed in their marketplace. Further, a number of the interview participants suggested that they attempt to use management practices to shape and affect these employee outcomes; while 90% of the interview participants noted that they wish they better understood how to affect these employee outcomes. Overall, the interviews supported the notion that the extent to which the company has done a good job of choosing the employee management practices that are appropriate for their company (based on management philosophy, business strategy and conditions, size of the company, etc.) should positively affect these employee outcomes. In turn, these employee outcomes are likely to have strong, positive effects on the performance of the company. Below we briefly outline the employee outcomes that were identified by two or more of the interview participants.

(1) Commitment to the Company. Several of the interview participants noted that they actively attempt to increase the commitment of employees to the organization. Participants noted that when employees are more committed to the organization, then they are likely to stay with the company and to work harder in their job. Thus, there is a belief that higher commitment may lead to lower labor costs because employees with more tenure will be more productive as will employees who work harder. In effect, these companies might be able to accomplish the same amount work as other companies with fewer employees, because their employees will be better able and more motivated to complete their tasks.

(2) Job Involvement. Many of the interview participants noted that they often had limited resources because they were either a fairly new company or because of the small size of their company. Their employees must be willing to go above and beyond the basic tasks and responsibilities of their jobs if these companies are going to successfully complete given the limitations of their resources. Job involvement is defined as the willingness of employees to exert extra effort that goes above and beyond the requirements of their job. Several of the participants noted that the survival of the firm was really dependent upon the willingness of employees to always exert extra effort, work longer than scheduled hours, and contribute beyond what might normally be expected of employees at other companies.

(3) Adaptability. Several of the interview participants noted that their companies face rapidly changing environments in terms of technology and customer needs; therefore, they needed a workforce that is able to adapt quickly to this changing environment. They noted that the most important factor in the success of their company is the ability and willingness of their employees to continue to learn new skills and knowledge and their willingness to take on new tasks and roles.

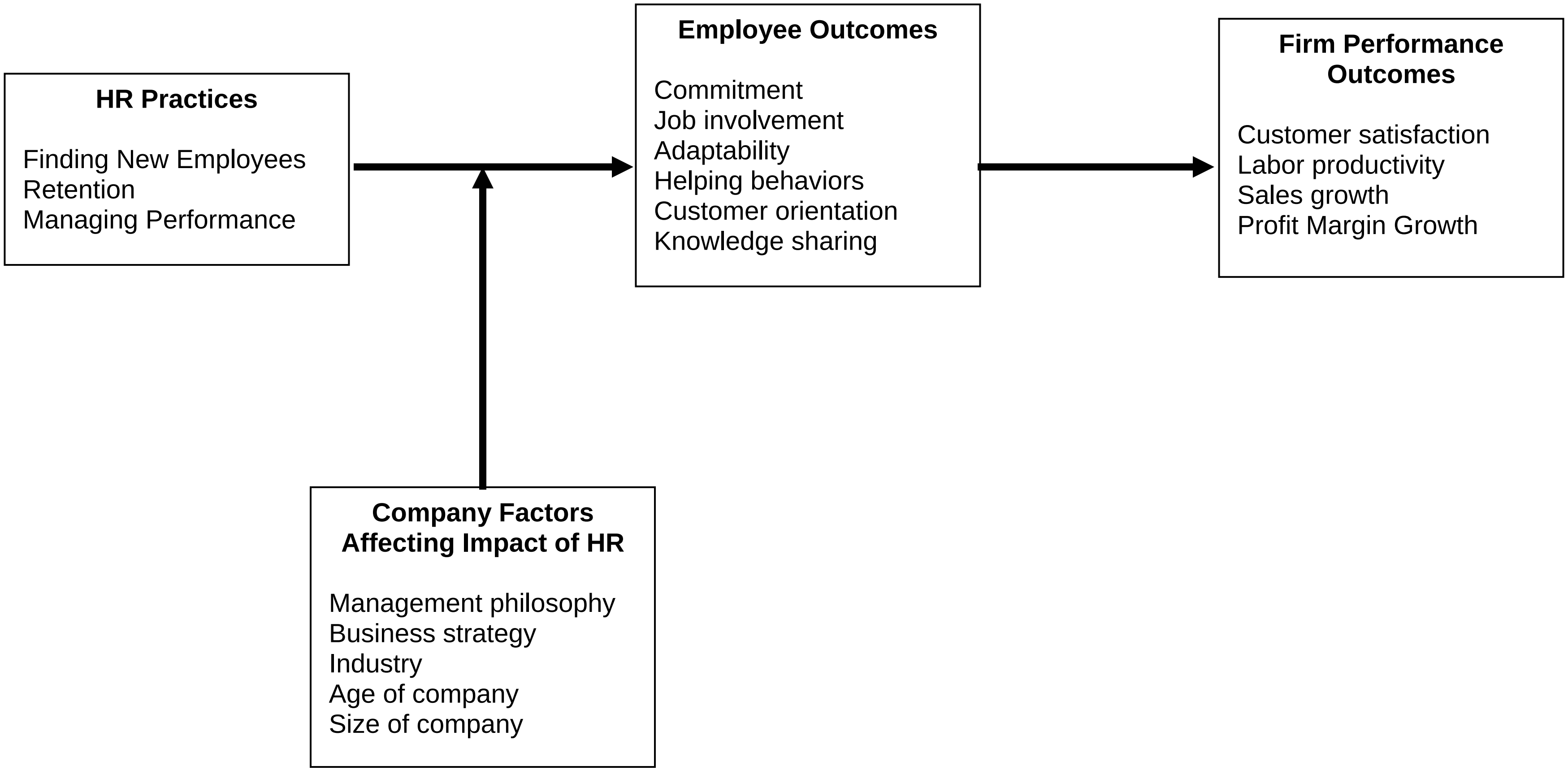
(4) Helping Behaviors. Several of the interview participants noted that they are either in an industry characterized by high turnover or the design of the workflow leads to uneven distribution of work. Managers at both types of companies noted that one key the success of their firm is employees' willingness to help one another. In the firms with high turnover, the helping behaviors often come in the form of the willingness of experienced employees to help and mentor new employees. In the firms with an uneven distribution of work, helping behaviors come in the form of employees with idle time helping employees who were swamped with more work than they could handle by themselves.

(5) Customer Orientation. Multiple interview participants noted that their key to success was providing a level of customer service or a service experience that was greater than that provided by competitors. These companies rely on their front line employees to deliver this high level of service every day to every customer. Therefore, the employees of these companies must have a high level of customer orientation if these firms are going to be able to continue to follow their strategy of differentiation based on customer service.

(6) Knowledge Sharing. Several professional service firms noted that one of the keys to success is the ability to share and disseminate best practice knowledge to all of their key employees. This distribution of knowledge allows these companies to always offer their clients the newest solutions or up-to-date information. These participants noted that professionals are not always willing to share their personal knowledge with one another; therefore, it is a priority of the top management to facilitate the exchange of knowledge and information between their key employees.

Figure 1:

Model of HR and Performance In Small Companies



Section V: Summary Of Key Findings

- Most of the contacts did not feel comfortable talking about HR practices, as they were not sure what if any HR practices their company used. Our research team found that most of the companies did use HR practices, but the HR practice label was not how they would describe the practices that they had in place. We found that the contacts were more comfortable when we described these practices as how they managed their people.
- We found evidence for only three basic models/philosophies regarding how small companies manage their employees: Autocracy; High-Commitment; Professional.
- There appear to be three recurring dimensions along which small businesses think about organizing and managing employees: (1) finding new employees, (2) retention, and (3) managing employee performance.
- The data from the interviews suggested that managers and owners of small companies are aware of and can identify the employee outcomes that affect the ability of their company to compete and succeed in their marketplace.
- Participants suggested that they attempt to use management practices to shape and affect these employee outcomes.
- 90% of the interview participants noted that they wish they better understood how to affect these employee outcomes.
- The interviews support the notion that the extent to which the company has done a good job of choosing the employee management practices that are appropriate for their company (based on management philosophy, business strategy and conditions, size of the company, etc.) should positively affect employee outcomes. In turn, these employee outcomes are likely to have strong, positive effects on the performance of the company.

Summary of the Alignment of Employee Management Practices and Management Philosophy

	Management Philosophy		
Employee Management Practices	**Autocracy**	**High-Commitment**	**Professional**
Finding Employees			
Ensure Fit to Job	X		
Ensure Fit to Company		X	
Locate Exceptional Talent			X
Retention			
Fair Compensation	X		
Interesting/Rewarding Job			X
Family Community		X	
Managing Performance			
Direct Oversight	X		
Cultural and Peer Pressure		X	
Professional Standards			X
Processes/Rules/Procedures			

Appendix A: Interview Protocol

BACKGROUND

1. What is your current position or title? Are you the founder of the organization?
2. If yes, then how old is the organization? If no, then how many (other) CEOs have run this company? How long have you worked for the organization? (How long has the present CEO been in his/her role?)
3. In what industry does your organization compete?
4. Approximately how many people does your organization employ? How many people did your organization employ two years ago? How many people do you expect to employ two years from now?
5. Does your organization employ a human resource manager?
6. To what extent does your company use an outside firm or agency to help manage your human resources/employee issues?

BUSINESS STRATEGY

7. How does your organization seek to compete in the marketplace?
8. How do you know whether or not your organization is successful?
9. What financial measures are most important for your organization?

HUMAN RESOURCES

10. What is the most critical employee management issue that your organization regularly faces?
11. How does this issue impact your organization's ability to be financially successful?
12. How does your organization manage this issue? That is, what things, if any, does your organization do to ensure that this employee management issue is handled effectively?
13. Please rate on a 1-5 scale (1 being low and 5 being high) the extent to which your organization manages this critical issue effectively.
14. What is the next most critical employee management issue that your organization regularly faces?
15. Are there any other employee management issues that you would characterize as particular strengths within your organization? Why? What things does your organization do to be so effective? Rate this strength on a 1-5.
16. Are there any other employee management issues that you would characterize as particular weaknesses within your organization? Why? What factors make this issue so hard to effectively manage? Rate this weakness on a 1-5.
17. Do you foresee making any significant changes to how employees are managed in your firm in the near future? What changes are you planning or contemplating?
18. How many core employees have left the organization in the past year?
19. How many core employees has your organization hired in the past year?

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