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# WHAT DETERMINES WHETHER HRM IS SEEN AS A PROBLEM IN SMALLER FIRMS?

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## ABSTRACT

Whether HRM is perceived to be a 'problem' for smaller firms is explored in this paper using logistic regression. We analyse data from 523 responses to a survey of smaller firms in south-east Melbourne (Victoria, Australia), and consider the antecedents of a range of issues of concern reported by respondents which were classified as being 'HRM problems'. Developing a better understanding of the characteristics of respondents and their firms which perceived HRM problems to exist can be helpful to understanding the nature and form of assistance to smaller firms.

## INTRODUCTION

Investigations of and commentary on HRM in smaller firms often starts from the premise that there is a problem: a problem in terms of a lack of knowledge about what goes on with the management of people in smaller firms (Baron 2003; Barrett and Mayson 2006; 2008; Cardon and Stevens 2004; Cassell, Nadin, Gray and Clegg 2002; Heneman, Tansky and Camp 2000; Katz, Aldrich, Welbourne and Williams 2000; Marlow, Patton and Ram 2004; Tansky and Heneman 2006) or that the management of human resources is one of the problems smaller firm owner-managers or entrepreneurs face when their firm grows (for example, Alpander, Carter and Forsgren 1990; Cowan 1990; Huang and Brown 1999; Kazanjian 1988; Terpstra and Olsen 1993).

It is within this latter set of ideas that this paper is located and it is from a desire to understand the determinants of HRM being perceived as a problem, not how a solution to the problem of HRM can be found, that this paper is driven. Moreover our paper follows the line of analysis recently taken by Tocher and Rutherford (2006) in their empirical study of the antecedents of the perception of acute human resource management problems in small firms (employing less than 500 employees at the end of 1998) spread across the USA. In that paper Tocher and Rutherford wanted to understand when smaller firm owners and managers were most likely to believe HRM problems were their most critical concern.

In this paper our questioning runs along the lines of: Is HRM seen as a problem because the firm is going through a period of growth or because it is increasing in size? Or is it because of the industry the firm operates within or is it because the owner-manager is not experienced or willing to get some assistance with managing people? Why do we want to look at this issue in this manner? Well we think that if we understand which smaller firms perceives HRM to be a problem then this is the group which would be more likely to do something about that problem. This is not to say other smaller firms would not have a problem with HRM, just that they are not the ones who perceive HRM to be problematic. Therefore if we understand ‘who’ is likely to see HRM as a problem then we would be able to target assistance to help solve that problem more effectively. While governments do target assistance at smaller firms there is sufficient evidence to show that it frequently misses the target and is not taken up by those whom it is meant to help (see for example Bennett, Robson and Bratton 2001; Devins 2008; Mole, Hart, Roper and Saal 2007). This is why we think that working out who has a problem with HRM is an important step to take if, in the name of improving economic performance, public money is spent on programs and projects to assist smaller firms. Before we can do this it is necessary to know what a 'problem' is and how it can be conceptualised as this can help to shape the form assistance might take. It is to this we move in the next section of the paper before we can explore in more detail how and why HRM in smaller firms has been seen as problematic.

Therefore in the next section we consider literature dealing with managerial problems. Specifically we focus on the ways in which they are conceptualised, explored and explained generally, prior to considering in some more detail, how HRM as the problem has been investigated. Doing this throws up some of the possible antecedents of HRM being perceived as problematic, some of which were also explored by Tocher and Rutherford (2006). Following a discussion of the research design and analysis techniques we use logistic regression to explore firm and owner-manager characteristics that are correlated with whether HRM is perceived as a problem. We want to make clear that in investigating the 'who' we, like Tocher and Rutherford (2006), are considering both individual and organisational characteristics. We do this to recognise that organisations influence individuals and that 'problems' are neither a fixed reality nor an individual state of mind. Following our analysis we offer some discussion of our findings and then some thoughts about what all this means for targeting assistance to smaller firms to help them address the demands and challenges of operating in competitive, globalised markets.

## MANAGERIAL PROBLEMS

Problem solving or decision making models abound in the business and management literature but as Landry (1995) argues, the conceptualisation of the term 'problem' "is still in need of elucidation" (p. 315). Problems can be conceptualised from an objectivist, subjectivist or constructivist epistemological tradition (Landry 1995). In other words they can be seen as existing as an objective reality or a subjective state of mind or as action- and adaptation-oriented. The way in which a problem is conceptualised will have different implications for its solution. This is effectively what is being shown in Figure 1 where some of the ways in which a managerial problem can be described are outlined.

***Figure 1: Managerial problems as…***

| | |
|---|---|
| Gap specification | Comparing existing and desired states |
| Difficulties and constraints | Identifying factors inhibiting goal achievement |
| Ultimate values and preferences | Stating the final ends served by a solution |
| Goal state specification | Identifying the particular goal state to be achieved |
| Means and strategies | Specifying how a solution might be achieved |
| Causal diagnoses | Identify the cause(s) of the problematic state |
| Knowledge specification | Stating facts and beliefs pertinent to the problem |
| Perspective | Adopting an appropriate point of view on the situation. |

Source: Adapted from Smith (1989: p. 968)

For this study it is in the constructivist or critical perspective that we locate our exploration of the determinants of HRM being perceived as a problem. 'Problem' can therefore be defined as "an undesirable situation that is significant to and may be solvable by some agent, although probably with difficulty" (Agre 1982 in Smith 1989: p. 965). Regardless of the clarity with which the problem is defined, the essence of defining something as a problem is that broad boundaries are drawn around it (or the elements it consists of) and this is the first stage in the process of seeking to find a solution (Smith, 1989).

In the context of managerial work, problems are likely to be defined with less, rather than greater, clarity. We can see this if we look to Mintzberg's (1973) classic study of managerial work where managerial activities were found to be short in duration – as Mintzberg later wrote, “half the activities engaged in by the five chief executives in my study lasted less than nine minutes, and only 10 percent exceed one hour” (Mintzberg 1989: pp. 9-10). Managers are not likely to spend a great deal of time reflectively thinking about the exact elements constituting each problem and the relationship between those elements, instead as the mantra when it come to small business owners attests, they are ‘too busy working *in* the business to work *on* the business’. For owner-managers of smaller firms who are said to have an “idiosyncratic view of the world” (Culkin and Smith 2000: p. 149), this may lead to problems being conceptualised and defined in more general terms. Therefore in terms of our exploration of HRM as the problem, what the foregoing implies is that we are more likely to find the way a HRM problem is defined will be general such as staffing, rather specifically such as recruitment and selection for example. But before we show how we gathered this data it is worth considering the way in which managerial problems in smaller firms have been researched and it is to this we next turn.

## RESEARCHING MANAGERIAL PROBLEMS IN SMALLER FIRMS

The effects of the liabilities of size and age are what propel research on managerial problems in smaller firms. The causes of success and failure are also influential in this research agenda. So it is usually in the context of new ventures and firm growth that managerial problems in firms are studied.

For example, an early example of a study looking for the problems new and small firms face was undertaken by Alpander et al. (1990). Their analysis of responses to a four part questionnaire from the owner-managers of 122 firms operating in the US food processing, electronics and services sectors showed that finding new customers, obtaining finance, and recruiting employees topped the list of problems faced in the first three years of operation. More recently Huang and Brown (1999) considered the problems smaller firms faced in an analysis of the reason why 973 small business owner-managers contacted the manager of a small business growth program in Western Australia over a period of 2 years and 4 months. The 973 organisations generated 1227 contacts which were problem related. The most frequent contacts were about sales and marketing (40.2%), HRM (15.3%) and general management (14.3%).

Another way of exploring this issue is to consider the different problems that occur at the different stages of growth through which firms are said to progress (see for example Churchill and Lewis 1983). Researchers take this route as stage models like the early one by Greiner (1972) which has five stages of evolution or growth – creativity, direction, delegation, co-ordination and collaboration – suggest that continued growth (that is movement from one stage to the next) is contingent on overcoming the dominant *management problem* that occurs at each stage. The finding from studies of this nature is broad agreement that problems around sales/marketing and obtaining finances emerge at the start-up stage while more strategic issues emerge in later growth phases (Hodgetts and Kuratako 2001).

An example of work such as this was undertaken in the context of fast growth by Terpstra and Olsen (1993) drawing on Kazanjian (1988). They used responses from 115 CEOs of *Inc 500* firms (fast growing firms in the US) to assess the problems they encountered during their first year of operation and in later growth years. While they considered 20 classes of problems the most dramatic differences between stages was in terms of firms citing obtaining external financing (17% at start-up compared to 1% at later growth), organisational structure (0% at start-up compared to 6% at later growth), HRM (5% at start-up compared to 17% at later growth) and sales and marketing (38% at start-up compared to 22% in later growth stages). Huang and Brown (1999) also undertook an analysis of this type. They calculated the average percentage for problems mentioned by participants in Terpstra and Olsen’s study (i.e. the average of the mentions in both start-up and growth) and compared their findings with this average. Overall their finding of the frequency of problems occurring was consistent: “For example, general management and human resource management, particularly at the growth stage, were found to be common problem areas” (Huang and Brown1999: p. 81).

The homogeneity of managerial problems faced by firms as they grow was confirmed by Chan, Bhargava and Street (2006). In their study of the 220 management challenges identified by 91 of the ‘Best 50 Managed Companies in Canada’, (all high growth SMEs) they found that HRM was the second most likely challenge for firms (20%) after managing business growth and development (36.8%). However they found no significant differences by firm size, sector or revenue. They concluded that “the firm’s journey to attaining sustainable high growth is heterogeneous, but differences in the challenges they face decrease once sustainable high growth is achieved” (p. 434). They explained this finding in terms of organisational capabilities, arguing that high growth firms “develop a core set of specific capabilities that enable them to exceed in a competitive environment” (Chan et al. 2006: p. 436).

**HRM as a managerial problem**

Heneman and Berkley (1999) suggest that the ‘liability of smallness’ presents a unique challenge to HRM in small firms and mainly through the resource poverty it implies. But by and large research on HRM in smaller firms starts from the premise that HRM *is* a problem. This is of course first dependent on the assumption that the term HRM can be applied to or operationalised in the study of labour management in smaller firms (see Marlow 2006 for a critique of this assumption). And if we define HRM in an inclusive manner to cover “anything and everything associated with the management of the employment relations in the firm” (Boxall and Purcell 2000: p. 184) then we are able to study the practices implemented to regulate the employment relationship which may emanate from a range of instruments including managerial policies, legislation (such as occupational health and safety) and agreements which may have been negotiated between management and unions.

This is usually what happens in studies of HRM in smaller firms and reflects the operational and pragmatic concerns which HRM practices in smaller firms generally address (see Barrett and Mayson 2007; Cardon and Stevens 2004). As a result of the normative and formalised HRM practices in the areas of recruitment, selection, appraisal, training and rewards not being present (see Marlow 2006 and Taylor 2006; 2008 for a critique) then usual characterization of HRM in smaller firms is of informality. Contributing to this is also: an inability to achieve economies of scale meaning that implementing formalised HRM practices is costly in terms of time and money for small firms (Sels, De Winne, Maes, Delmotte, Faems and Forrier, 2006a; 2006b); small firm owner-managers’ lack of strategic capabilities and awareness (Hannon and Atherton 1998); and a lack of managerial resources and expertise in HRM (Cardon and Stevens 2004).

We can see this in different studies, for example, of small firm recruitment practices. A reliance on informal practices, particularly word-of-mouth to recruit, which Carroll, Marchington, Earnshaw and Taylor (1999) show to occur, and which increases as size decreases to the point where recruitment in the smallest businesses can be conditional on the availability of a known individual (Atkinson and Meager 1994), can be interpreted as problematic as it could lead to the employment of the 'wrong' or 'not quite right' person, as the larger pool of suitable recruits remains untapped (Carroll et al. 1999). Practices which are convenient, inexpensive and directly controllable by the business, such as word-of-mouth recruiting, are frequently used in small firms as can be a means "that enable small firm owners to express their temperaments and ambitions in ways that may not fit with a rational or managerial approach to HRM" (Taylor 2006: p. 487). Hence informality in small business HRM can be seen as problematic.

However, from a critical perspective it is possible to argue that given smaller firms and the people who own, manage and work within them are ontologically embedded in a social existence (McGhee 2003) characterized by a complex social negotiation of order (Edwards, Ram, Gupta and Tsai 2006) then 'problems' can be seen as a function of these inter-personal dynamics. For example, informal recruitment practices such as described above, may be preferred because they can be an effective means of ensuring new recruits 'fit in' (Marlow and Patton 1993). As such informality of HRM practices, in and of themselves, do not necessarily make HRM a problem. Studies show there can be a positive relationship between informality and job satisfaction – in other words informal HRM practices can be positive rather than negative for smaller firms as it enables flexibility to engage with individuals and address their needs as well as respond to external environmental issues.

But what underpins the majority of work in the field is that informality is contrasted with the implications of formality emerging from the strategic HRM perspective. SHRM is concerned with the contribution of HRM to firm performance and sustainability (Ferris, Hall, Royle and Martocchio 2004; Wright, Dunford and Snell 2001; Wright, Gardner, Moynihan and Allen 2005) and evidence points to a positive relationship between the existence of planned, formal HRM practices and small firm growth (Barrett and Mayson 2007; Kotey and Slade 2005;

Nguyen and Bryant 2004). In other words, informal HRM practices are problematic for firms as it implies a lack conscious design to achieve ‘external fit’ and thus diminishes the effectiveness of HRM. As Baird and Meshoulam (1988: p. 117) argue “Human resource management’s effectiveness depends on its fit with the organisation’s stage of growth”. Thus the implication is that informal HRM practices are not ‘strategic’ and can therefore hinder organisational growth and competitive success.

Baird and Meshoulam (1988) were amongst the first to hypothesise that different HRM practices will fit different firm needs at different stages of the firms’ development. For example at start-up the concentration will be on hiring, while at a later growth stage the emphasis will be on implementing systems, departmentalisation and building functional specialisations. At the later growth stage the HRM activities will emphasise development, compensation and reward policies. This type of thinking underpinned the more recent work by Rutherford, Buller and McMullan (2003) who used an innovative form of cluster analysis known as ‘self organizing mapping’ to identify different stages of small firm growth and then examine differences in HRM problems at each stage. Their sample of 2903 family firms with less than 500 employees clustered into four growth stages – no growth, low growth, moderate growth, high growth. Interestingly however they found that by not forcing smaller firms into predefined stages a ‘traditional’ organisational life cycle “was not evident” (p. 329). Usually stages are defined by size and age, in this study age was not significant, however they still found HRM issues changing with firm size and growth, although size was less significant than growth. Using their clusters they found that “as firms achieve increasing levels of growth, HR issues seem to shift” (Rutherford et al. 2003: p. 332). More specifically they found that training problems were more significant at the high-growth stage compared to the other stages while recruiting problems were significant at the no-growth stage compared to the other stages (p. 330).

That HRM problems change with growth rather than size or age is explained by Rutherford et al. (2003) in terms of path dependence and for support they point to the Stanford Project of Emerging Companies which has followed 186 young high technology start-ups in Silicon Valley. From this project Baron, Burton and Hannan (1996) show that the owner’s ‘blueprint’ for HRM at the founding of the firm exerts a significant effect over the type, nature and speed of HRM practices adopted over the evolution of the firm. Hannan, Burton and Baron (1996) also show that this ‘blueprint’ has long lasting effects, with the ‘logics’ of the system only changing under considerable pressure. Essentially the argument is that the founder and the founding conditions have a considerable and long lasting effect on the later development of the organisation (Carroll and Hannan 2000; Baron and Hannan 2002). This was also show in Drummond and Stone’s (2007) study of 30 of the UK’s *Sunday Times* 2004 ‘50 Best Small Companies to Work For’ which pointed to the role of small business owner in the establishment, operation and coherence of high performance work systems (HPWS). In few of the firms they studied was there a purposive development or deliberate implementation of HPWS. Instead many of the firms shared

> …a relatively distinctive philosophy: a set of values and goals [shaped] what the business [did] and how it [did] it….the systems that emerged achieved coherence not because this was planned for and managed, but because the specific practices used were defined by and consistent with the cultures and values of the business owners and subsequently with those of the businesses (p. 202-3).

To further pursue this idea Phelps, Adams and Bessant (2007) conducted a systematic review of the literature on organisational life cycles. They developed a typology of issues likely to face growing firms and drew on the notion of ‘tipping points’ (Gladwell 2000) and firm’s ‘absorptive capacity’ (Cohen and Levinthal 1990), which broadly refers to the knowledge of and ability to tap into external sources of knowledge and apply it effectively into existing knowledge. While it is intuitively appealing to think of firms as organisms, they argue that doing so “peddles and perpetrates misconceptions” (Phelps et al. 2007: p. 2). They talk therefore of ‘states’ rather than stages of development and suggest that firms will face certain ‘tipping points’ which must be addressed if growth is to continue.

In effect they argue that stage models of organisational life cycles underplay human agency and managerial choice. In life cycle or stage models problems are conceptualised from an objectivist epistemological tradition – that is certain problems will exist at certain points in the firm’s life. Yet the Stamford study and the work of Drummond and Stone for example, shows more nuanced explanation can be developed when the dialectical interaction between structure and agency is emphasised. Doing so means that we begin to see that firm growth is only one possible determinant of whether HRM is perceived as a problem. Moreover given so few smaller firms ever grow (Aldrich 1999; Storey 1994) then it is entirely appropriate that we start to develop more nuanced understandings of determinants of managerial problems.

Managerial characteristics are also important. Transition from one state to another depends on internal capabilities and managerial capacity. The ability to overcome the 'managerial capacity problem' (Barringer, Jones and Lewis, 1998) depends in part on the owner-manager's recognition of the importance of HRM to the firm's performance. Indeed Welbourne and her collaborators demonstrate both the strategic importance of valuing employees in the long run but also the strategic role of the CEO/owner/entrepreneur in developing these capabilities (see Andrews and Welbourne 2000; Welbourne and Cyr 1999). The strategic importance of the CEO/owner to firm success and survival is also identified by Hannon and Atherton (1998) who argue that the ability of the small firm owner-manager to develop strategic awareness capabilities contributes to firm survival and success. As Heneman et al. (2000) argue, in growing small firms there is a pressure on the small business owner-manager to delegate responsibility for HRM although Matlay (1999) and Mazzarol (2003) suggests this will depend on the owner-manager's management style and personality. Indeed Scase (1995) argues that those small firm owner-managers who are unable to change their style act as a barrier to firm growth. Arguably therefore range of managerial characteristics such as prior experience and education, style, personality, values, tenure, age and gender could all potentially impact on the perception of an issue as being a problem.

Individual and organisational antecedents of the perception of acute HRM problems were also the focus of Tocher and Rutherford's (2006) study. Of their eight hypotheses, four addressed characteristics of the individual – their gender, experience, age and education – while the remaining four dealt with organisational characteristics including organisational lifecycle variables – firm size, firm age and growth – as well as firm performance in terms of return on sales. They hypothesised that male owners, those with less experience, education and who were younger would be more likely to perceive acute HRM problems, while this would also be the case for larger, older high growth and lower performing firms. In their logistic regression analysis they controlled for industry with five dummy variables. In their sample of 3561 US smaller firms (defined as employing less than 500 people) 21% of respondents reported HRM as ‘the single most important problem facing your business today’ (where ‘today’ was a period from 1998-2000 when this National Survey of Small Business Finances was conducted). Their analysis showed that acute HRM problems were significantly more likely to be perceived by more experienced managers (not less as they hypothesised), younger managers, and those with college degrees (i.e. more education rather than less as they hypothesised). Larger firms, and lower performing firms were also significantly more likely to perceive acute HRM problems. Their hypotheses around gender, firm age and stage of growth were not supported.

These are some of the debates and investigations within which our search for what factors associated with whether smaller firm owners perceive HRM to be a problem is located. Prior to outlining how we went about this but to doing, in the next section we briefly overview the context in which the study was conducted.

## STUDY CONTEXT

The industrial relations (IR) environment at the time of this study (June-July 2006) affected the regulatory environment in which human resources are managed. We will only focus on two aspects while more comprehensive accounts of the IR system and changes to it can be found in Sappey, Burgess, Lyons and Buutljens (2006) and Hall (2006 and 2007).

In 1996 the Victorian state government referred the majority of its IR powers to the Commonwealth government. But despite Victorian firms falling within the jurisdiction of the *Workplace Relations Act* 1996 (Commonwealth) many, and mainly small firms, would have had their employees terms and conditions of employed covered by the five minimum conditions set out in Schedule 1A of that Act. To improve the conditions of the 350 000 or so Schedule 1A employees in Victoria, legislation was passed to enable the spread of federal awards (which specify minimum terms and conditions of employment for industries or occupations) through the implementation of common rule awards. During 2005 common rule awards commenced operation in Victoria. This meant that on 1 January 2005, in firms where employees were not already covered by a federal award or agreement, an existing federal award was declared to operate as common rule. This applied to all employers and employees in a particular industry or occupation who were performing the type of work outlined in the classifications of the award. As a result employers had the choice of keeping their employees on award terms and conditions of employment or they could have taken the option to pursue a collective agreement with their staff (with or without union representation) or formalise individual terms and conditions of employment in what is know as an Australian Workplace Agreement (AWA) (see Sappey et al. 2006).

The majority of firms affected would have been small firms as they are least likely to have already been covered by a federal award. The effect of common rule awards would be to force many small firm owners to have a look at the terms and conditions of employment they offered against those specified in common rule awards.

Additionally during the period leading up to and during the survey's administration there was extensive national debate around the federal government's ongoing neo-liberal IR reforms and the implementation of the *WorkChoices* legislation. This legislation came into effect on 27 March 2006, less than two months before we administered the survey, and had a number of implications for incorporated firms (see Hall 2006 and 2007). In particular the effect for small firms, or those employing less than 100 employees, was an exemption from the unfair dismissal provisions in the legislation. Also under this new legislation the number of allowable matters that could be retained in awards was reduced and this meant more employment matters were to be subject to negotiation and bargaining at the workplace. Furthermore, minimum wage rates were to be excluded from awards and instead would be set and adjusted by the new Australian Fair Pay Commission (see https://www.workchoices.gov.au/ourplan/). The effect of these changes was to put pressure on all firms, but especially small firms which have traditionally relied on the award system, to begin to take greater responsibility for their own employment relations.

In addition to this, at the time of our survey, conditions in the labour market were becoming tighter. In the June 2006 quarter across Victoria the unemployment rate fell by 0.3 percentage points to 5.1%. In south east Melbourne the unemployment rate was slightly higher than the state's at 5.4% however this was a result of decrease of 0.6 percentage points from the previous quarter (DEWR, July 2006). Much of the increased employment in Victoria over 2006 was driven by the demand for trade skills, largely emanating from the construction industry, rather than manufacturing. While manufacturing is Victoria's second largest employing industry, employment in this sector continued to decline over 2006 and contracted by 2.5 per cent (DEWR, 2007). Much of this decline is a result of low cost imports from overseas and the high Australian dollar (DEWR, 2007).

## METHODOLOGY

We draw on data from a survey conducted by the first author of SME owner-managers operating firms in the south east of Melbourne (Victoria, Australia). This area of Melbourne – which includes the suburbs of Moorabbin, Cheltenham, Highett, Clayton South, Mordialloc, Braeside and greater Dandenong – is characterised by a predominance of light industrial smaller firms. The survey, conducted on behalf of an organisation that supports SMEs in this area through awarding and showcasing 'best practice' at regular breakfast meetings, sought to understand the issues, challenges and problems firms faced so that this organisation could more effectively target their support.

A database of 3500 SMEs operating in this region was obtained from Dun and Bradstreet and was edited down to 1631 firms by the Executive Officer of the organisation on whose behalf we were conducting the survey. She edited the database according to her extensive local knowledge of business in the area. On 16 June 2006 a short questionnaire was sent to the owner-manager of these firms asking for information about performance issues, bases for competitive success, types of advice and assistance firms required and preferences for receiving that advice in addition to demographic details.

A letter of invitation, explanatory statement and reply paid envelope were included with the questionnaire. This was followed with a second mail out to 1286 businesses on 30 June (which excluded the return to senders and those who had returned completed questionnaires). Following the close of the survey in mid July checks on the Melbourne Yellow Pages and White Pages on-line telephone directories were made for those firms that had not returned the questionnaire. These checks established that between 28-30% of all those remaining on our edited database were not listed in either of these directories and so we assume they were inactive. To this end the sample size was corrected to 1200. Of these there were 523 useable responses representing a response rate of 43.5%. Responses were entered into SPSS for analysis

Whether HRM was perceived as a problem was captured by asking respondents to identify the three issues of chief concern to them at that time (June 2006). This was an open question and as such we expected respondents to define their concerns themselves. In taking this approach we followed that of Chan et al. (2006), in that the prompt – 'What are the three biggest issues for this business at this point in time?' – was followed by three numbered and blank lines for respondents to fill in as they saw fit.

In leaving the wording of the problem open to respondents we faced the challenge of adequately coding the reported problems into whether they were 'HRM problems' or not. Coding was undertaken by both authors separately as there was the challenge of acknowledging that problems can be expressed in different words but mean the same thing, while respondents could also use the same words but the context in which they are used can change their meaning. Finally, terms which had a specific meaning in the context of the broader institutional environment within which employment is regulated in Australia (for example, OHS [occupational health and safety], work cover [workers compensation], and enterprise bargaining) needed to be explained given one author's lack of familiarity with the Australian IR system. When the coding was complete the results were compared and shown to exhibit a high degree of correspondence.

Four hundred and fifty seven respondents identified issues of concern and of those 48% had an HRM issue in first, second and/or third spot. HRM was most frequently mentioned once only by 179 or 39%, it was mentioned twice by 32 or 7% and three times by 10 respondents or 2%. The majority of survey respondents conceptualised the problem of HRM in terms of it being a difficulty or constraint (see Figure 1). Respondents expressed HRM problems in terms of the following.

- Finding staff generally such as: “Obtaining good staff”; “Finding staff”; “Identifying and recruiting staff”; “Labour shortages”; or more specifically in terms of “Skilled labour lack”; “Shortage of skilled personnel” (particularly salespeople, qualified trades people or technicians); “Employment of key staff”; “Attracting more trained staff; “Finding quality staff”.
- Problems with the staff they already had: “Getting value for money from employees”; “Maintaining good staff and sales personnel”; “Quality of employees”; staff “experience”, “reliability”, “motivation”, “attendance”, “turnover”, “punctuality”, “training”, “retention” or “ageing”.
- Specific issues such as: “Succession planning” or “Management training”.
- Regulation of the employment relationship: “Trade union interference”; “Employment law”; “Industrial relations” or “Industrial relations laws”.

Quite frequently the problem was simply expressed as a single word: “Staff”, “Staffing”, “Employment”, “People” or “HR”.

## ANALYSIS

The question driving this paper is, ‘what determines whether HRM is perceived as a problem?’ While it might appear that in trying to determine ‘who’ has a particular problem that we are trying to determine the cause of that problem, but this is not actually possible. The analytical techniques we use enable us only to look for associations between variables – correlation not causality. This is important as causal conceptualisations of problems can lead to very blinkered solution seeking – “defining the problem in terms of one [cause] throws others out of consideration, misdirecting the problem solving process” (Smith 1989: p. 970). While other authors have incorporated this into their study of problems (e.g. Alpander et al. 1990) this is not the concern of the current paper.

### Estimation

To understand what influences whether HRM is perceived as a problem we chose to use logistic regression analysis given its ability to predict a binary independent variable - in this case the absence or presence of a HRM problem. The ability to incorporate nominal and categorical predictor variables alongside scales, necessary to reflect the known and hypothesised relationships of this study, without requiring normally distributed values, potentially a problem with small scale datasets, were reasons for choosing logistic regression analysis (Hair, Anderson, Tatham and Black 1998; Hosmer and Lemeshow 1989).

### Dependent variable

As earlier explained, the variable representing the whether HRM was perceived as a problem was created by asking the respondents to list the three most important problems their businesses face. This response was coded and then collapsed into a binary variable indicating the presence of a HRM problem if one or more of the three answers were HRM related; and representing the absence of HRM problems if they were not. From the 523 cases in the sample 66 had missing values. The remaining 457 cases were split into 52% indicating no HRM problem and 48% indicating the presence of one or more HRM problems. The recommendation to have a dependent variable with roughly equal sized yes and no groups, a minimum of 100 cases and no less than 10 cases per predictor variable for a Logistic Regression Analysis were therefore met since the number of predictor variables tested here was much smaller than 45 (Long and Cheng 2004; Hosmer and Lemeshow 1989).

### Independent variables

Each one of the 10 independent variables is considered in turn below. *Industry Sector*: The respondents were asked whether their business operated in the manufacturing sector and their response was coded as 1 for manufacturing (58%, N=303) and 0 for non-manufacturing (42%, N=220).

*Independent Firm*: The focus here is on the firm rather than the workplace so it was important to know whether the location to which the questionnaire was sent was a subsidiary or workplace of a larger entity. In case the respondent said their location was an independent firm (88%, N=462) the variable was coded 0, and in case where the location was said to be a workplace of larger business (12%, N=61) then it was coded 1.

*Firm Size*: The firm size was measured by the total number of employees either at the location to which the questionnaire was sent or in the larger business to which the workplace belonged. Firm size was coded into 4 bands ranging from 1 to 50 and a fifth band for locations with 50 or more members of staff. Table 1 shows the distribution by firm size.

***Table 1: Firm size***

| | **Per cent** | **N** |
|---|---|---|
| 1-4 people | 26 | 137 |
| 5-9 people | 22 | 114 |
| 10-19 people | 22 | 113 |
| 20-49 people | 18 | 92 |
| 50+ people | 12 | 64 |

N=520

*Growth*: There are multiple ways business growth may be 'measured' for example in terms of relative or absolute increases in (new) employment, productivity, sales, turnover, profitability or assets as well as greater market share or expansion and/or diversification. In this study we used multiple measures. The first focussed on the *phase of growth* and respondent were asked which phase of growth they thought best described the position of their firm. During the start-up/expansion phase firms would be characterised by rapid, if inconsistent growth and management would be focussed on the owner-founder and 162 cases were recorded in this phase. Two hundred and thirty five companies were in the Consolidation phase where it is expected that firms are growing more slowly, departmentalising, exhibiting some managerial centralisation and formalised systems are beginning to emerge. In the diversification phase there were 112 companies. Here the expectation is that firms are well established in their product market and are looking for new growth opportunities.

The other measures of growth we used focussed on sales as arguably firms enjoying greater sales performance and growth may have extra resources available to them to deal with emerging problems. *Sales Performance*: The impact of sales revenue was recorded as the total sales figure and then recoded into a scale of six size bands: under $200,000, $200,000-499,999, $500,000-999,000, $1M-1,999,999, $2M-4,999,999 and $5M+. The findings are shown in Table 2.

***Table 2: Total sales in past 12 months***

| | **Per cent** | **N** |
|---|---|---|
| Under $200,000 | 7 | 37 |
| $200,000-499,999 | 12 | 59 |
| $500,000-999,999 | 13 | 68 |
| $1M-1,999,999 | 20 | 103 |
| $2M-4,999,999 | 22 | 114 |
| $5M+ | 26 | 135 |

N=516

*Sales Growth*: In contrast to absolute measures of sales, being mainly a measure of size, we also used change in sales revenue as a scale to capture the impact relative changes in revenue had. This was categorised into sales revenue decrease of 5 or more percent, between 1 and 5 percent, no change and increases of 1 to 5, 6 to 10 and more than 10 percent. The findings are shown in Table 3.

***Table 3: Change in sales revenue over past 12 months***

| | **Per cent** | **N** |
|---|---|---|
| Decreased 5%+ | 16 | 80 |
| Decreased 1-5% | 10 | 53 |
| No change | 16 | 82 |
| Increased 1-5% | 24 | 121 |
| Increased 6-10% | 13 | 69 |
| Increased 10%+ | 21 | 109 |

N=514

*Competitive Success*: The work by Schuler and Jackson (1987) was critical in pointing to the influence of the firm's strategy on HRM. Respondents were asked to indicate the single most important issue for the success of their business. They were given the choice of Price (20%, N=101), Quality of their product/service (47%, N=245), Innovative product/service (11%, N=57), Reputation/Past Performance (19%, N=100) and Quality of their Staff (3%, N=15).

The questionnaire collected limited amounts of data about the individual who owned the firm. This was mainly as a result of previous experience which has shown that when asking about ownership in smaller firms, given the high proportion which describe their firm as a 'family businesses', there is usually more than one owner. We therefore have only data on the tenure of the current owner and the role they play at the workplace and do not have data on other factors such as background, age or gender which are often explored in this context. See for example Heilbrunn (2004) on the influence of the owners' gender on the perception of problems or Kotey and Sheridan (2001) for the influence of gender on HRM practices.

*Owner's Tenure*: The tenure of the current owner ranged from 1 to 87 years. Since Logistic regression calculates the impact a one step change in the predictor variable has on the dependent variable, having a range of 87 would reduce the impact of an otherwise perhaps significant variable to a non-significant result with rather small changes in odds. To avoid losing the predictive information in the variable, the variable was logarithmically transformed into a scale ranging from 0 to 4.47 which increased the chances of picking up a relationship with the dependent variable if indeed there was one (Glaeser, Laibson, Schienkman and Soutter 2000).

*Owner's Role*: The role the owner plays in the business draws from Scase and Goffee (1982) and Scase (1995) who differentiated between self-employed, small employers, owner-controllers and owner-director. We used these types in order to identify the degree to which the owner-manager delegated some or all management responsibilities to others. We did this to see whether delegation decreases the likelihood that HRM would be perceived as a problem. Respondents were asked to choose how they best described their role. Across the sample the role was best described as owner-director (43%, N=223), owner-controller (8%, N=39), small employer (42%, N=217) and self-employed (8%, N=41), with those playing one of the latter two roles not delegating the managerial and administrative tasks to others. While the label 'self-employed' could be taken to mean there were no employees in the firm, cross tabulation with firm size indicated that this was not generally the case. The majority of the 41 respondents who described their role as 'self-employed' fell in the 1-4 firm size category, although some fell into the firm size bands of 5-9, 10-19 and 20-49 people.

**RESULTS**

The relatively small number of predictor variables allowed using a direct entry logistic regression model to predict the existence/absence of HRM problems. All independent variables were entered and the model therefore includes variables representing the influences of industry sector, firm size, independence of small firm, growth stage, sales performance, sales growth, competitive success, owner's tenure as well as the degree to which the owner delegates their managerial role. The model's correct and respectable classification of 65% means it correctly predicted, in two thirds of the cases, whether HRM was perceived as a problem or not. The Hosmer and Lemeshow test was non-significant, the model Chi-Square (58.557) was significant at the 1% level and there was no noticeable correlation between the independent variables. All of which suggest that the model produced was robust (Hosmer and Lemeshow 1989). The results are summarised in Table 4 and will be described below.

***Table 4: Results of the Logistic Regression***

| | **Wald** | **Odds Ratios (Exp (B))** |
|---|---|---|
| **Constant** | 22.029*** | 0.042 |
| **Industry Sector** | | |
| (Manufacturer no=0) | 3.498* | 0.660 |
| **Firm Size** | 2.695* | 1.264 |
| **Independent Firm** | 1.346 | 1.589 |
| (Workplace of larger business no=0) | | |
| **Phase of Growth** | | |
| *Diversification* | 6.173** | |
| Start up/Expansion | 4.777** | 1.932 |
| Consolidation | 4.995** | 1.831 |
| **Sales Performance** | 0.873 | 1.109 |
| **Sales Growth** | 1.776 | 1.092 |
| **Competitive Success** | | |
| *Quality Staff* | 8.200* | |
| Price | 4.546** | 1.863 |
| Quality product/service | 2.668* | 1.900 |
| Innovative product/service | 4.968** | 2.175 |
| Reputation/Past Performance | 4.447** | 4.740 |
| **Owner's Tenure** | 10.635*** | 1.688 |
| **Owner's Role** | | |
| *Owner Director* | 2.574 | |
| Self-employed | 2.028 | 0.459 |
| Small employer | 0.016 | 1.033 |
| Owner-Controller | 0.021 | 0.944 |
| N | 428 | |
| Model Chi-Square | 58.557*** | |
| Nagelkerke R2 | 0.171 | |
| -2LL | 534.627 | |
| Hosmer and Lemeshow | 5.626 | |

| | | |
|---|---|---|
| Classification | 65.4% | |

Notes: The reference categories are in italics; 99 cases of "don't know" or "no answer" for the independent variable were excluded; Levels of significance denoted as follows: * = 10% level, ** = 5% level, *** = 1% level.

The odds of a non-manufacturing firm perceiving HRM as a problem are 0.66 times those of a manufacturing one. In other words the odds are higher in manufacturing companies, an effect that is significant at a 10% level. Firm size, measured as total employment size, increases the odds of HRM being perceived as a problem by 1.264 per unit increase on the five-point scale. The results suggest that the larger the firm the higher the odds of HRM being perceived as a problem.

Whether the company is an independent firm, or a workplace of a larger company failed to show any significant association with HRM being perceived as a problem. However the firm's phase of development did show an association significant at the 5% level. Firms at the diversification phase were taken as the reference category and the odds of HRM being perceived as a problem in at start-up/expansion were 1.932 times those of firms at diversification. Similarly firms in a consolidation phase had 1.831 times the odds of perceiving HRM as a problem compared to the reference category. It can therefore be said that firms at the diversification phase had the lowest odds of HRM being perceived as a problem.

The sales performance in terms of total sales and in terms of change in sales revenue both showed no significant association with the dependent variable. Whereas the basis for the firm's competitive success, were all significantly associated with HRM being perceived as a problem. Competition on the basis of quality staff was the reference category. Firms competing on price had 1.863 times higher odds that they would think HRM was a problem compared to firms that competed on the quality of staff. Similarly firms that competed on the quality of the product/service had 1.9 times the odds, firms competing on innovative products/services had 2.175 times the odds and firms that competed on reputation or past performance had 4.447 times the odds of HRM being perceived as a problem compared to firms that competed on the quality of their staff. While only 15 firms based their competitive success on the quality of their staff they were the ones least likely to perceive HRM to be a problem.

When we turn to the characteristics of the owner-manager we find that the owner’s tenure has a significant and positive effect on the perception of HRM as a problem. The longer their tenure, the more likely HRM would be perceived as problematic. However whether and to what extent the managerial role was delegated had no significant association with whether HRM was perceived to be a problem.

## DISCUSSION

Our paper followed a very similar analytical approach to that taken by Tocher and Rutherford (2006). One of the limitations of their study was their inability to control for differences in labour markets as they drew on data from smaller firms across the USA. Our study is limited to firms operating in one region – the south east of Melbourne, which is dominated by light industry and manufacturing. Of our 523 respondents some 221 (48%) identified an HRM problem in first, second and/or third spot when asked what were the problems they currently faced. This is a considerably higher frequency than that found in other studies, for example 21% identified HRM as an acute problem in Tocher and Rutherford’s (2006) study, while the frequency of HRM problems in Huang and Brown’s (1999) study was 15% although when ‘general management’ problems are also included, this rises to almost 30%. In our study HRM issues may have been perceived to be more problematic given the context in which the survey took place: for more than 12 months prior to the survey there had been extensive debate in the media as well as widespread coverage of the potentially positive and negative outcomes of the changes to the Federal industrial relations system. In addition the increasing employment rate in Victoria and especially in the south east of Melbourne where the study was located may have had an impact.

Our results show that the industry sector (manufacturing), increased firm size, early phase of development, a competitive strategy not being based on the quality of staff and the longer the owner has been in charge of the firm were all significantly associated with the perception of HRM as a problem. How do these results compare to others? Huang and Brown's (1999) analysis by sector and size showed that manufacturers were slightly more likely to encounter this as a problem while larger firms (20+ employees) were significantly more likely to contact the manager about HRM problems. Tocher and Rutherford (2006) found larger firms experienced HRM as an acute problem. Increased size is likely to lead to perceiving HRM as a problem because of the increased complexity arising from increased employee numbers.

From the earlier discussion we know that HRM problems will usually occur with growth, although the type of HRM issue causing the problem will change at different stages of growth (Rutherford et al. 2003). Our data were not fine grained enough to assess this assertion instead all we know is that the odds of firms in the start-up/expansion phase of perceiving to have a problem with HRM are higher than those at any other phase. This is not too dissimilar to Tocher and Rutherford's (2006) finding of the lack of significance of higher growth. We concur with their explanation of this result, which is that "while a firm is in the growth stage, HRM problems may well be at a high level, but many other problems such as financing and profitability may be more critical" (p. 18).

It makes sense that firms which compete on the basis of the quality of their staff are less likely than forms which compete on price, quality or innovative product/service or past reputation are less likely to perceive HRM as a problem. If staff quality is important then clearly we would expect that a range of HRM practices to support this strategy would be embedded into the organisation, thus decreasing the likelihood of HRM to be perceived as problematic.

It is an interesting finding that the longer the owner's tenure the more likely they will perceive HRM as a problem, as we would assume that these people have developed managerial capacity and experience running their business sufficiently to know how to manage people. However Tocher and Rutherford (2006) also found that managers with more experience and higher levels of education (i.e. a college degree) were more likely to experience acute HRM problems despite hypothesising the reverse. Their explanation of these findings was in term of these managers being more aware of the symptoms of the problem than others. Another way of looking at the result from our study is to suggest that the owner's tenure is acting as a proxy for firm age and studies do find that older firms collect more market information to make decisions than younger ones (Mohan-Neill 1995). This might mean that these older firms or managers with increased tenure have absorbed more of the debate and coverage of the *WorkChoices* industrial relations changes and growing labour shortages and this may have affected their perception of HRM as a problem. Indeed when coding whether HRM was identified as a problem there was a group of responses that focussed on recruitment of staff and labour shortages.

The characteristics of whether the firm was an independent business or a workplace of a larger firm, sales performance and sales growth and the degree to which the managerial role was delegated, were not significantly associated with the perception of HRM as a problem. While Tocher and Rutherford (2006) considered return on sales as their performance variable and found that lower performing firms were more likely to experience an acute HRM problem, our measures of absolute and relative sales are not directly comparable to their measure. This raises a issue about performance measures and their definition given that smaller firms performance can be measured in a range of ways.

## CONCLUSION

The purpose of this study was to consider the determinants of whether HRM was perceived as a problem. This is perhaps a different way of looking at HRM in smaller firms given that many studies start from the premise that it is a problem. This is debatable but arises either because we do not know enough about the practice of HRM in smaller firms as "small and medium sized enterprises (SMEs) have been treated as second class citizens by authors in the human resource management literature for too long" (Tansky and Heneman 2003: p. 299), or because what we do know about the practice does not easily fit with the theory and practice of HRM which is more commonly associated with large, well resourced firms. Moreover growth is usually the context within which HRM in smaller firms is explored which may be in terms of fast growth or organisational life cycles. Yet growth is not a goal for all smaller firm owner-managers and evidence suggests that the overwhelming majority in any economy will never grow (Storey 1994). So this leads to only a partial understanding of when a problem with HRM may occur and how it might be solved.

In this paper we conceptualised ‘problem’ in the constructivist epistemological tradition to imply that problems are neither an objective reality nor a subjective state of mind. As such then organisational and individual factors will impact on the perception of a problem and any solution would rest on the ability of individuals within firms to search for knowledge (perhaps through their networks or from other sources), which can then be incorporated into (and thus change) their current practice enabling the “undesirable situation” (Smith 1989: p. 965) to be resolved. However it was not the purpose of this paper to address how those who perceived they had a problem with HRM actually solved that problem.

What our results showed was that manufacturing firms, firms that were larger, in a phase other than diversification with competitive success not being based on the quality of staff and having long tenured owners had the highest odds of perceiving a problem with HRM. There are a range of limitations of our results, including those that arise from the cross sectional nature of the data, the smaller sample size, the possibility of response bias and limited amount of individual and organisational factors we were able to use in our analysis. At the same time however the survey was targeted at one defined geographic area and we were therefore able to ‘control’ for labour market issues and industrial jurisdiction in a way that the study by Tocher and Rutherford (2006) was unable to do. Moreover while the data is cross sectional it was collected at a critical juncture in the implementation of the *Work Choices* legislative regime.

While there are limits to the generalisability of our results they are consistent with those found in other studies. The contradiction that appears to exist between characteristics such as larger firm size and earlier phase of growth needs further analysis and could be a function of a non-linear relationship. Tocher and Rutherford (2006) tested for such a relationship when their findings threw up similar contradictions. Their post hoc analysis in relation to manager’s experience and age and firm size and growth showed that only firm size, which was significant as a linear variable, also was significant as a non-linear variable. Clearly there is more that can be done in an attempt to explain theirs and our findings.

At the beginning of the paper we argued that if we understood the determinants of HRM being perceived as a problem then assistance could be more effectively targeted. We know some of the characteristics of those perceiving to have a problem but what we do not know is whether these are the same or different antecedents to perceiving other non-HR related issues as a problem. We would encourage others to consider this issue. The results suggest assistance to be tailored to those who operate growing and developing manufacturing firms and showing the potential 'pay off' of investing in human resources. This could be as simple as developing practical examples showing how to undertake certain tasks such as writing realistic job descriptions, writing recruitment notices, developing and accessing suitable training and development opportunities for those undertaking specific jobs such as sales or administration.

If the aim is to help those who perceive they have a problem with HRM with solving that problem then we can draw on the responses to question about who firms go to for advice and how they prefer to receive information. Nearly 65% of respondents to our questionnaire said their preference was for information to be delivered by print media, internet or TV or radio, while only 32% preferred for information to be delivered interactively, for example, at a meeting, seminar or workshop. Only 1% said they did not want to get any information. This suggests that campaigns in the media, such as those targeting work cover or occupational health and safety, will have a greater impact than other methods. Moreover we also know from their responses that they were more likely to go to their accountant, than any other source, for the information they needed – 36.7% had used their accountant 5+ times in the previous 12 months, while another 51% had used then between 1-4 times. As such this suggests working with the professional accounting bodies such as CPA Australia or the Institute of Chartered Accountants to ensure their membership education programs address the broader business advice issues such as HRM and therefore enabling their members to provide appropriate advice to their small business clients.

Clearly more in-depth and detailed work needs to be done on this issue. Despite the limitations of our study, there is some advice here for assisting the owner-managers of smaller firms who perceive they have a problem with HRM. While it is not only important to help smaller firms achieve their potential given their economic significance but given the social significance of smaller firms it is also important that employers have good advice about how to manage people.

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