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Researching Personnel Management in Dutch Small and Medium Sized Enterprises

A literature overview and a research model

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ABSTRACT

This paper is very much on work in progress. Only this year did we decide to start research on HRM in small and medium sized enterprises (SME's) in the Netherlands. Personnel management in SME's has been little researched, yet SME's are very important for economic activity and many owners/managers struggle with personnel issues. In this paper we will introduce an outline of our research so far. The paper offers a literature overview leading to our research model, and discusses our research approach and tool. Some results of our pilot study are presented and discussed, even though the pilot itself was less successful than we hoped.

1. INTRODUCTION

Research into human resource management activities of small and medium sized enterprises (SME's) and its effectiveness is scarce. In 2000, Heneman et. al. did an extensive literature research and concluded there were only 17 descriptive surveys and hardly any analyses on HR in SME's (Heneman et al, 2000). At the same time, well-motivated and well-trained workers are probably the most important assets for smaller companies to stay competitive (Moore & Petty, 2000). Most research on HR however has been directed at large to very large, internationally operating companies, and one can seriously doubt if the findings and recommendations of these studies will be valid for SME's as well.

This bias in HR research is of course understandable. Larger companies have the resources and people available to implement and perform state of the art HR policies and practices and are thus more exciting research playgrounds. They usually have more, and more sophisticated HR in place. But neglecting SME's is inconvenient, given their position in most economies.

In the US for instance, 99,7% of all companies have fewer than 500 employees (the US definition of SME's is all companies with fewer than 500 employees), a startling 78,8% have fewer than 10 employees (Heneman et al. 2000). The European definition of SME's is companies with fewer than 250 employees. If we use that definition, in the Netherlands 714.000 out of a grand total of 717.035 companies are SME's. Only about 1300 companies have more than 500 employees, whereas about 386.890 have no employees at all (CBS, Statline: peildatum 1 januari 2005). According to the Dutch organisation for SME's (MKB Nederland) companies with up to 250 employees (99% of all Dutch companies) provide 2.8 million jobs, more than half of the total of 4.8 million jobs in the Dutch private sector (www.mkb.nl, May 2005). 48% of the added value and 53% of yearly turnover of this sector is generated by these small and medium sized companies (Meijaard et al., 2002:7).

The importance of HRM for larger companies has been researched extensively. Its relevance for company performance and personnel turnover was researched amongst others by Arthur (1994). Huselid (1995) conducted research showing the importance for financial performance and Delany and Huselid (1996), Huselid, Jackson and Schuler (1997) looked into the relationship with company performance. Effects on competitive advantage was performed by Lado and Wilson (1994), Barney (1991) and Kamoche (1996). Much attention has been directed at the importance of strategic HRM for achieving company goals (e.g. Wright, McMahan and Mc Williams, 1994, Wright and Snell, 1998; Gratton & Truss 2003). The attention for the importance of the HR practices for company performance, coupled to an assessment of the future role and position of the HR function, has led some authors to search for optimal HR architectures (Becker and Gerhart, 1996, Lepak and Snell, 1999) or to defining HR

roles and 'deliverables' (Watson, 1984, Tyson and Fell, 1986, Storey, 1992 and Ulrich, 1997). But since all of these efforts have been directed at large companies only, this research unfortunately offers very little help to understand the HR needs, practices and behaviour of smaller companies with regard to HR, let alone on the effect of their HR efforts on their performance.

Yet good personnel management seems at least as important for small companies as for larger ones, and owners/directors of small companies are well aware of that. Indeed, next to general management issues, personnel policies are seen as the most important aspect of management by owners/directors of smaller companies (Hess, 1987 in Hornsby and Kurato, 1990). At the same time top management in smaller companies find personnel policy issues both difficult and frustrating (Verser, 1987, cited in Hornsby & Kurato, 1990) and Gatewood and Field (1987, in Hornsby & Kurato, 1990) found in their study that owners of small companies hardly realise that their personnel policies are wanting. In other words, many owners and directors of SME's do find HR important enough to occupy themselves with it directly, but at the same time find it very hard to address the issue in a proper way and could use some help on the topic.

Because of our limited understanding of effective HRM activities in SME's, the clear relevance of the topic both from an academic point of view and from the standpoint of owners/directors of such companies, and because of the very important position of SME's in our economies, we decided to start a research programme on HRM in Dutch SME's in a joint effort by the University of Twente and Saxion Hogeschool Deventer. Our long-term aim is to try and find configurations of HR policies and practices that work for different classes of SME's.

This paper offers our theoretical framework on HR policies and practices in SME's so far and the results of a pilot study using a preliminary questionnaire designed to research configurations of HRM in this kind of companies. The pilot study we conducted did not produce the results we expected unfortunately, mainly because it proved difficult to get the right research population, but our effort did prove useful to get a better understanding of the topic, and helped us to think through our research model and to improve our research instrument. With the findings and insights we gathered we are aim to improve our initial questionnaire for future use in a large-scale quantitative investigation.

The paper is structured as follows; we will first present the available theory and empirical evidence. We will then present our research model and some results of our pilot study. After that we will discuss what we learned and consider how we might improve our model and research instrument.

2. BUILDING A RESEARCH MODEL: LITERATURE OVERVIEW ON HR POLICIES AND PRACTICES IN SME'S

Company Size

Obviously, in research on SME's, the most important factor influencing HR activities of such companies might be their size. In the general literature on HRM, more often than not, a caricature on SME's exists, in that they are considered as a homogeneous group that has some general characteristics in that they are small, have what Mintzberg has called a simple structure and are informally led using direct supervision. Research

has proved these to be false assumptions, and shows that SME's are in fact a very heterogeneous group that can and should be differentiated according to their size (Kotey and Slade, 2005).

A few authors however do argue that smaller companies operate more informal and more flexible than larger ones (Pfeffer, 1994, Storey, 1994, Whittington, 1993) and this goes for their personnel policies as well (Barron et al., 1987, Jackson et al., 1989). Some authors remark that smaller companies should be more informal and flexible in order to stay competitive (e.g. Hill and Stewart, 1999), while others submit that precisely the lack of planning and looking forward is what hinders small companies and results in less formal and sophisticated HR policies (Hendry et al., 1991).

From empirical research we learn that especially for the formalisation of HR policies, size is very important. Hornsby and Kurato (1990) in their research on 247 US SME's made a division into three 'size-classes'; 1-50 (53% of their population), 51-100 (22%), 101-150 (25%) employees based on the assumption that with increasing size personnel policies would grow more complex and more formalised. They analysed personnel policies on five important aspects namely: 1. job analysis and job description 2. recruitment and selection 3. remuneration 4. training 5. performance assessment. It became clear that the sophistication of the personnel activities was directly linked with size: the bigger the company, the more sophisticated and extensive were the policies in use. One remarkable result came out with regard to a question on what company owners would consider to be the most important personnel domains for the coming years. All mention the same domains, albeit in a somewhat different order of importance: 1. establishing pay-rates and secondary remuneration 2. availability of good personnel 3. training 4. the effects of government regulations and 5. job security. All of which can be tackled by implementing good personnel policies, they conclude.

This result by Hornsby and Kurato, showing that with increasing size the personnel policies become more complex, more formalised and sophisticated, is mirrored in other research as well. Kotey and Slade (2005) conclude, based on earlier research by Katzell (1962) that a blueprint for optimal organisation cannot be given for all companies. Following Blau (1970) and Minzberg (1983) they expect that two trends will be discernable whenever companies grow in size: first an increasing division of labour, leading to more horizontal and vertical differentiation and secondly that this differentiation will first increase rapidly and then decline in speed. They therefore also divided their research population of 371 companies into three 'size classes'; micro, 0-5 employees, small: 5-29 and medium sized: 30-100. Again it proved that the formalisation of HR increases with size and that the critical 'turning point' is at about 20 employees. From that moment on informal recruiting, but also direct supervision and other direct management styles become inefficient. The owner starts to get overburdened and has to delegate tasks to other managers. This is in accordance to other research they present, by Roberts, Sawbridge and Bamber (1992) and Jennings and Beaver (1997).

Dutch research on SME's is mainly done by the Economic Institute for Small and Medium sized companies (EIM). A study by de Kok, Uhlaner and Thurik (2003a) looked into the formalisation of HR practices in Dutch SME's. They looked at companies with up to 500 employees and tried to establish which context variables explain HR formalisation. The variables included in the research were size, the existence of a business plan, export orientation, whether the company was a franchise organisation or not, if it was a family owned business and the level of union

representation in the company. They further looked at the existence of an HR function, at selection procedures, reward systems, training and development programmes and appraisal systems. Again it proved that with increasing size the formalisation of HR practices increases but as soon as the context variables are taken into account, 50% of the difference in formalisation evaporates. It became clear that especially family owned businesses are more informal as are companies lacking a clear business plan. Such companies also tend not to have a separate HR function or HR department. They still submit that the number of employees remains very important for the formalisation of HR procedures as larger companies will use more standardised jobs and formal HR practices will offer them an opportunity to recruit, select and develop their personnel in a more efficient way. Smaller companies on the other hand would find it easier to adapt jobs to the unique expertise, knowledge and capabilities of the people they recruit. They conclude that further research, using especially the size of a company as an independent variable should be conducted.

From the empirical evidence presented so far we conclude that indeed size of the company should be an important predictor of HR sophistication and the formalisation of HR practices. Size not only seems to predict the complexity of the organisation structure, but also seems to provide a justification for applying more standardised jobs, thereby providing an opportunity for standardising important elements of HR policies, such as recruitment and selection, remuneration and appraisal schemes, training and development. Growth in size would lead to more complex structures and might well overstretch the capabilities of the owner/manager, forcing him to delegate responsibilities to subordinates or other managers. Indeed even the existence of a separate HR function or department seems to be dependent on size, and once such a position is created, the formalisation of HR practices might increase because of that, as was evinced from the research by De Kok et al, cited above.

In our research model, obviously size will be one of the (independent) factors to consider, and it seems useful to try and distinguish several size classes. A proper classification might be companies smaller than 20 employees, then 21-50, 51-100, 101 to 250, where we would expect dominance of the owner/manager below 20 employees and increasing formalisation and sophistication throughout the rest of the size classes, with about 50 employees marking the existence of a proper HR function. Lastly, the importance of the existence of a formal business plan came to our attention from this earlier research and we will now turn our attention to this point.

Strategy

Over the past two decades or so, much attention has been given in general HR theory on the strategic orientation of companies, and its importance for human resource management (Arthur, 1994; Huselid, 1995; Huselid & Becker, 1996; Gerhart & Milkovich, 1990; Ichniowski, Shaw & Prenzushi, 1994; MacDuffie, 1995). Based on a contingency logic, it is argued that the HR policies of a company should be aligned with overall business strategy for it to be really successful and effective. Conversely, HRM can have an economically significant effect on the company's bottom line and the HR function and process can contribute directly to the implementation of the operating and strategic objectives of the firm (Becker and Gerhard, 1996). In this sense, HR strategies that are well aligned with overall business strategies can be an important source for sustained competitive advantage (Lado & Wilson, 1994; Wright & McMahan, 1992).

Different business strategies will lead to different ways of structuring the organisation, different technologies in use and therefore different tasks and employee behaviour that is needed. It seems only logical that this should lead to a different way of recruiting, selecting, rewarding and steering of employees, hence to different HR policies and a different way of using the practices that are available in all these HR domains (Lepak et al. 2004). Truss and Gratton (2003) go one step further and submit that not only should the HR policies be aligned to overall business strategy (vertical alignment) but that the practices should be internally consistent as well (horizontal alignment, also Dyer & Reeves, 1995). In doing so, they introduce a configurational approach to strategic HRM (Delery & Doty, 1996). Schuler and Jackson (1987) in their work already suggested possible HR menus that companies should decide on, based on their overall business strategy orientation. Arthur, in his study on US steel minimills (1992, 1994) showed that a clear distinction between a low cost business strategy and a differentiation strategy could be made, corresponding, to some extent, with a cost reduction and a commitment maximising industrial relations system (in his second article he changed this into HR system). 90% of the 'cost reducers' had a matching industrial relations system, 60% of the 'differentiators' used a commitment IR system (Arthur, 1992:501).

Without going any further into the discussion on strategic HRM and its merits, we think its inherent logic is readily understandable and tempting, even though from the empirical evidence offered so far, one can doubt if the alignment prescribed is in fact happening in practice and indeed if the suggested benefits in terms of performance have really materialised (Dyer and Reeves, 1995; Purcell & Ahlstrand, 1994, Purcell, 1999; Guest, 1997). But the issue of the overall strategic orientation of a firm has to do with choice (Child, 1972) as the dominant coalition (in terms of Child and Thompson) will arrive at some choice of what the company stands for or wants to be. We think especially for SME's this is relevant. In small enterprises, the 'dominant coalition' would be the owner or director, in somewhat bigger companies, it might be a small management team. Especially in these smaller companies, such a choice might be very important for the way the company is run and, it could be argued, because of the size, the alignment of the processes, structure and technology to the strategic orientation might be easier and more straightforward, than in big firms. On the other hand one can doubt if smaller companies have a strategy at all. It might be SME's just follow the idiosyncratic behaviour of their owner, his or her 'vision' or 'business philosophy' that might very well be implicit.

Our problem then is how to measure strategic orientation in SME's. In HR research many use Porters' (1980) categorisation. He distinguished basically three generic strategies, derived from a division between firms attempting to achieve differentiation from the competition, e.g. by delivering special services, flexible response or special quality, versus firms that will aim for cost leadership. Cost leaders will try to be the most efficient, low cost producer for products or services and hence be cheaper than the competition. A further distinction emerges as firms can either have a broad or a focussed market approach. An alternative way of categorising companies was developed by Miles & Snow (1978, 1984). Their famous distinction into defenders, prospectors, analysers and reactors is of course well known and widely used. They later matched it with possible consequences for HR strategies and practices. Defenders attempt to locate and maintain a secure niche in a relatively stable market environment. They do so by offering lower prices, better quality or better service than competitors, without attempting to be at the forefront of the industry. In order to be able to do so, costs must be kept at a minimum. Prospectors try to be one of the first

to offer new products or services and typically operate in fairly broad markets, it is the most aggressive of the strategies. New product development is vigorously pursued and attacks on competitors for market share are not uncommon, response to market changes is quick. Analysers are somewhere in between the other two, looking for some stable income generators in secure markets and at the same time developing potential winners. Developments in the market are closely monitored and analysers typically try to get in when the time is right. Reactors, finally, are basically without a real pro-active strategy. They follow macro environmental pressures and are expected to be the least successful.

In SME research Smith, Guthrie and Chen (1986) speculated that the Miles and Snow typology should in fact be considered as sequential stages of strategy development in the sense that defender strategies would be linked to small companies and prospector strategies to larger ones. But Porter argued (1985), more logically, that small or new companies may be unable to achieve significant economies of scale or scope, or serve a broad market. This would prevent them pursuing either cost leadership or differentiation strategies, leaving only focus as a viable option. Wright et al. (1995) recommend the use of a focus or niche strategy for SME's because entry barriers for niches are lower and frequently there will be a lack of differentiation among customers. Carter et al. (1994) suggest they may prefer a focus strategy based on geographic, customer or product segment considerations.

However, Davig (1986) dismisses all these speculations using Miles & Snow's typology in an empirical study among 250 (response of 60 companies) small and medium sized companies (15 to 280 employees) in the apparel, foundry and fabricated metal products industries in the south-eastern states of the US. The strategy they used was determined by asking the owner/manager to indicate which of the four categories (using short descriptions) best described his or her method and philosophy of competition. He tried to link the strategies to performance using growth in revenue and growth in profits over the past three years. All four strategies proved relevant and discernable. Firms following a prospector or a defender strategy (together 31 companies) achieved the best performance. Firms using a reactor strategy (8) were the major losers. The analysers (14) did somewhat better than reactors, but still lagged considerably behind Defenders and Prospectors. Firm size did not seem to have any consistent relationship to performance. The larger firms however (over 120 employees) tended to be either analysers or prospectors (Davig, 1986:42-43).

Gimenez (2000) did empirical research among 150 Brazilian small firms using Miles & Snow. His results support those of Davig. Rugman and Verbeke (1987) researched Canadian electronic distribution firms and found that small firms dominantly adopted a prospector strategy, some were defenders and reactors, but no analysts were found.

From these studies we conclude that the Miles & Snow typology can in fact be used to assess SME's strategic orientation.

The way Davig operationalised the different strategic orientations, using short descriptions, seems to work. This was suggested by Morgan, Strong and McGuinness (2000) as well. They used Snow & Hrebiniak's (1980) operationalisation in 4 descriptive paragraphs for respondents to choose from and obtained good results. They state the method has been commonly used and validated extensively and is considered more convenient than the lengthy multi item strategy typology batteries used by Hambrick (1983) and Conant et al. (1990). The latter reported strong convergence between the two methods by the way (Morgan, Strong and McGuinness, 2000: 15). So next to size we propose to use *strategy orientation* based on the Miles

& Snow typology as an independent variable in our research. This could be operationalised using short descriptions of the different types.

HR roles, HR function and HR practices

Our next problem is how to relate the overall business strategy to the “HR strategy” and “HR policies” in SME’s. Based on literature, we argue that for instance a defender orientation should lead to a cost effective HR strategy and hence to a control orientation (in terms of Arthur, 1994) or to a cost reduction oriented HR menu choice (Schuler & Jackson, 1987). Conversely, a prospector orientation should lead to HR practices or to an HR menu choice, directed at creating commitment (so called high commitment bundles, Macduffie, 1995). We now assume that the HR roles as described by Dave Ulrich will reflect such an HR-strategy to some extent and will indicate the main choices regarding the HR practices the company has made. Additionally we want to know what HR fields are regarded as more or as less important, looking at the priority, time and money spent on each HR field. For the moment we will name these the “HR policies”. To get more insight in the way HR is deployed in SME’s, we also want to know how the HR function is organized (presence of HR professionals and/ or an HR department and if so, who is in what way responsible for decisions and practices in the main HR fields?).

Not all small and medium sized companies will have a proper personnel function, let alone an HR department. In fact, a study by Little (quoted in Hornsby & Kurato, 1990) shows that in US based companies with up to 50 employees, the owner manager him or herself usually will perform personnel activities. Of the companies larger than 50 employees, 62% has at least one full time personnel functionary, but even than, owners tend to keep all personnel issues they feel are important into their own hands. So, particularly in very small companies, HR will be performed by the owner/manager. Below twenty employees, personnel policies might well be very informal and ad hoc, as is evidenced in the studies by Roberts, Sawbridge and Bamber (1992), Jennings and Beaver (1997) and Kotey and Slade (2005), the critical point seems to be about 20 employees. If firms get any bigger, their personnel policies tend to get more formalised and clear-cut. Once an HR function or department is put in place, the policies clearly get more formalised as well, so there seems to be a two way relationship here. Size determines to a large extent if HR policies are formalised, but also if an HR function will be installed; once this decision is made, formalisation is influenced by this very fact.

Obviously we want to know if there is an HR function or HR department, but also what its role or function is, what practices are deployed and how these are actually performed. To do so, we use a classification of HR roles as a first approximation, to be followed by questions on the different generic practices companies use. The latter can be specified in more detail later, detailing how these practices are carried out. This detailed level of analysis we think will require in depth case study research. We plan to do that after we have hopefully been able to place specific companies into clusters based on size, strategy and HR roles and generic practices, based on our large-scale questionnaire research.

From the eighties onward, a discussion about the role and position of HR departments has emerged, in the wake of the strategic HR discussion but also because of a heightened interest in the added value of HRM to company performance. One of the first such classifications of HR roles was suggested by Tyson and Fell (1986). They proposed a typology that differentiates personnel roles along a continuum from 'low discretion' to 'high discretion', leading to three types, the 'clerk of works' role, 'contracts manager' role and the 'architect' role. The 'clerk' is mainly an administrative role that supports line management. Recruitment and personnel administration are the main tasks. The 'contract manager' is primarily tuned into the relationship with the unions and translates negotiated deals into company procedures. Line managers are helped to understand the rules and regulations. In the 'architect' role, the HR department tries pro-actively to help the company achieve its goals.

Later on, Storey (1992) in his empirical study of large UK companies, identified four distinct HR roles based on two dimensions: 1. the degree of intervention and 2. the level of their activities: strategic or operational. 1. Changemakers are both strategically oriented and do intervene. They try to line up personnel relations to business needs. 2. Advisors are strategically oriented but do not intervene. They are internal consultants leaving much of the operational HR to line managers. 3. Regulators operate mainly at a tactical level making sure agreements with the unions are put into practice. They do intervene, implement strategy, but are not involved in strategy formulation. 4. Handmaidens are purely tactically involved and do not intervene. They operate as a service desk for line managers (Storey, 1992:168).

He further submits that a large majority of the HR departments operate as handmaidens. The four roles seem to be distinct in the sense that HR departments are one or the other. Normatively, he seems to suggest that shifting towards a changemaker position would be preferable, for only then HR will have a strategic position and a real influence on company policies.

Finally, Ulrich in his book *HR Champions* (1997) builds a prescriptive classification of HR departments stating that HR should add value to the organisation by helping both top and line managers achieve business goals. He defines different roles based on 'deliverables'. 1. Administrative experts develop and execute adequate and very efficient procedures in traditional HR fields like staffing, training, remuneration etc. The deliverable here is administrative efficiency. 2. Employee champion: This is the traditional 'welfare role' of HR. In this role HR adds value by solving daily problems of employees and by caring for their needs and wishes. The deliverable is achieving commitment and keeping knowledge and skills up to date. 3. Change agent: In this role the HR professional is focussed on initiating and managing change. They support employees in adapting to new roles. The deliverable is enhancing the capacity to change. 4. Strategic partner: In this role the HR professional directs attention to achieving fit between the overall business strategy and the HR strategy. Operational HR should support overall strategic goals. The deliverable is making strategic change happen. Contrary to the work of Storey, Ulrich emphasises that all roles should be performed simultaneously, though he too finds that most HR departments stay within the administrative role. At the same time, as noted before, his work is prescriptive in nature and in a sense visionary, in that it shows what HR *could be* rather than what it is today.

We think it will be interesting to see if these four Ulrich roles can be found in smaller companies too. Are they recognized at all and where do HR specialists place themselves? Can we see any differences in emphasis on one or two main roles, based on either size or strategic orientation of the firm? This last question is particularly

interesting as we assume that in terms of Ulrich, the HR departments' orientation should vary according to the overall business strategy. In a defender orientation, emphasis might be predominantly on cost control and hence on the administrative expert role. Whereas in a prospector orientation, emphasis might be much more on the HR champion and change agent role. But of course we cannot be sure of this relationship.

In our research we will therefore use the short self-evaluation questionnaire that Ulrich provides in his book, the Human Resource Role-Assessment Survey (Ulrich, 1997:49). It has been used extensively by Ulrich and his colleagues and so has been tested and was found to be valid. We expect to find that all roles will be recognised and that differences in emphasis will show, related to size and strategic orientation, but we cannot be sure of this in advance.

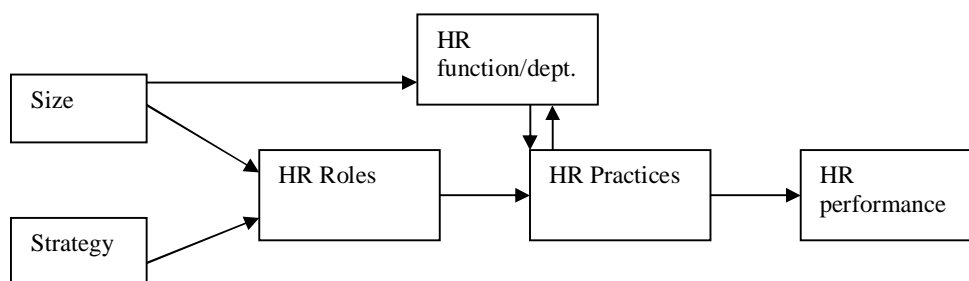
Additionally, in order to get some indication of the activities the HR function undertakes, we consider 8 traditional HR fields that are commonly used in questionnaire research: HR planning, Recruitment & Selection, Training & Development, Performance evaluation, Rewarding & Remuneration, Career development, Employer-Employee relations, Sickness policies. Obviously, this can be no more than a rough indication, but we plan to do case studies later on in our research programme, to investigate in specific cases what the exact activities are and how they are performed and by whom. These cases will be selected based on the findings in the questionnaire research. Hopefully we can select cases that represent different configurations, based on size and strategic orientation, that we assume for now will differ in HR roles as well.

For our first overall questionnaire research we will use some rough performance indicators as well: personnel turnover, sickness %, total turnover over past 2 years.

This brings us to, the preliminary research model we will present in the next chapter.

3. RESEARCH MODEL AND THE PILOT STUDY

The preliminary research model for the first questionnaire research in the pilot study can be drawn as follows:



Research model: HR in SME's

We think size is very important in research on SME's. We saw in empirical studies that different size classes should be taken into account and that size might determine if we can expect a separate HR position in a firm or not (of firms over 50 employees, 62% have a formal HR position, smaller firms seldom have such a position). Having a distinct HR position in a firm has an influence on both the formality and the sophistication of HR practices. Size in itself determines the level of formalisation as well. *We measured size by asking about the number of people employed and the full time equivalent positions in the firm.*

The strategic orientation of the firm has primarily to do with choice, usually by the dominant coalition. In small and medium size firms, more often than not, this will be the owner/manager, if firms grow, a small management team may develop and other parties may influence decision making as well. But we think the 'business philosophy' of the owner will often be dominant for strategic orientation in SME's. For want of a better way, *we used the tried and tested Miles & Snow typology as an approximation, operationalised by asking respondents to chose between four descriptions, each representing one specific strategy.*

For good measure we also asked if the company had a mission, that could be phrased in one or two simple lines and that would be known throughout the organisation.

HR roles we think can be used to get an indication of what HR policies and practices are seen as important by the firm. We want to know if the roles will be recognised in SME's and if there is a pattern to be found in the emphasis on certain roles, related to either size or strategy (maybe both). *We used the Human Resource Role-Assessment Survey made by Ulrich to measure the HR roles in SME's.* Added were questions about the HR policies the company thinks are important, who is responsible for determining these policies and who performs the actual practices related to each policy. *The size of the HR department and the positions in it were asked as well.*

Finally, some general questions were asked to determine who answered the questions, what sector the company operates in and about ownership structure.

In the pilot study we used structured interviews by telephone to determine if our questions were understandable, adequate and easy to answer by HR professionals in SME's. Telephone interviews are cost effective relative to face-to-face interviews and have an advantage over a postal questionnaire in that one can explain questions when necessary and the interviewer can get additional information pertaining to the questions asked. Three master students of the University of Twente performed the actual interviews. We used a questionnaire consisting of mainly 5 point Likert scale questions and some single item questions (full questionnaire in annex 1.).

We obtained a list of 146 small and medium sized companies, all contacts of Saxion Hogeschool Deventer. Another 40 companies were randomly selected using the yellow pages and SME sites. Finally, 153 companies were approached. Companies were sent a letter in advance explaining the research and inviting them to participate. With the letter, we also sent a sample of the questions and asked respondents to fill out in advance some questions that would require gathering data in the company. We announced when people could expect our call. 32 agreed to participate (22 %, which is an acceptable response rate). 23% stated they did not want to participate, without giving a reason, another 23% did not want to participate because they felt the research was too demanding, about 9% received a double invitation, because several contacts were listed. A few companies found they did not fit the research population, and therefore declined.

Unfortunately it proved that many companies did not fit our research population after all. Some were too big (> 500 employees) and were therefore dropped from the research, leaving us with 25 companies. But after the interviews were held, a major part of this group also proved not to be relevant in retrospect: 10 were business units of larger corporations, 5 were part of a larger governmental organisation. So we were left with only 10 proper small and medium sized companies that fell into the group we aimed for, and that was far too small to draw relevant conclusions.

4. DISCUSSION

The students did perform the interviews however and did get feedback on the questions. For the 10 companies that fitted the research aims we were therefore able to assess the quality of the questions to a certain extent. All respondents could answer most questions without any difficulty, but there was a notable exception. The question on strategy proved difficult. Respondents were asked to what extent they agreed with the short descriptions of the different strategies. This was not in accordance to the way this question was formulated in previous research and led to remarkable results in that respondents would agree at the same time to contradicting strategies, stating e.g. that they thought the company was both a defender and an prospector at the same time and equally so.

This casts some doubt on the method, which in its original form forces respondents to choose either of the strategies described exclusively. Forced to make a choice, we know from previous research they will do so, but to us it seems it is doubtful if such a response can be trusted. It could be of course this result has to do with the position of our respondents, all were HR specialists and it might be they were not aware or insecure about the overall business strategy. That would suggest asking this question at a different level in the company, e.g. the owner/manager as well as the HR person. The fit between overall business strategy and HR policies would be an issue then. It could also be that the strategy is unclear or that the SME strategy isn't explicit enough to answer some kind of questions properly

We cannot be sure, but we feel this does mean we should reconsider our way of questioning on this topic. If we stick to using short descriptions, we should at least ask the owner/manager for his/her opinion as well. We also feel we should include other questions to be able to classify companies more precisely in this respect. Sector might be an option, but we feel this is too coarse a measure as well, as within sectors strategic choice can still vary widely. It might be better to add questions about the technology in use, for instance using Perrow's classification in routine, non-routine, craft and engineering technology. Another option could be to have a closer look at the HR menu's of Schuler and Jackson (1987), or to return to the much simpler division e.g. the one found by Arthur (1992, 1994), between low cost and differentiation, leading to either a cost reduction or a commitment oriented HR system. We could also consider adding questions on the 'entrepreneurial philosophy' of the owner/manager, but we are still struggling to find a good operationalisation and would therefore welcome any suggestions.

We also wonder what influence "ownership" has on the overall strategy, the HR roles and HR policies in SME's, alongside the influence of size. As stated before, previous research showed that the greater the degree of freedom an owner has, the greater the influence of his or her idiosyncratic stamp on overall strategy and HR policies. Family owned small enterprises for instance deliberately choose for a large part to keep in

control themselves by not letting in HR specialists (De Kok, Uhlaner & Thurik, 2003b). The degree of freedom from collective labour arrangements or forms of co-operation with other (especially larger) companies could also be important. We have to realise that we are investigating SME's in the social, cultural, legal and institutionalised context of the Netherlands, which differs from the context of e.g. the USA in which much previous SME-research took place (e.g. Paauwe, 1998).

The Ulrich questionnaire on the HR role and position seems to work all right. Results here indicate, fully in accordance to other research, that several roles are indeed recognised and that most HR professionals/departments are mainly concerned with the administrative expert role. The respondents had no problems concerning the other questions about the HR fields or activities and the performance indicators we asked for. The respondents answered personal characteristics without any difficulty. The size of the questionnaire, and the amount of time it took to complete never presented any problem.

5. CONCLUSION

The topic addressed in this research is both interesting and scientifically and practically relevant. We are in dire need for more empirical data on SME's in the Netherlands. Based on our literature overview, we feel the overall research model does take the most relevant variables leading to HR choices in SME's into account. Earlier research shows company size matters and as companies grow, so does their HR system sophistication and the formalisation of HR practices. It seems having 20 employees marks a turning point, at which the owner/manager tends to get overburdened and has to start delegating responsibilities. At 50 employees, 62% of SME's create a formal HR position, which in its turn leads to more formalised practices. Based on these findings we feel it is important to classify companies according to size. A proper classification might be companies smaller than 20 employees, then 21-50, 51-100, 101 to 250, where we would expect dominance of the owner/manager below 20 employees and increasing formalisation and sophistication throughout the rest of the size classes, with about 50 employees marking the existence of a proper HR function.

The overall business strategy (in larger companies) or business philosophy of the owner/manager (in companies up to 50 employees) should be an important predictor for HR development and sophistication as well, as will be the ownership of the company, with family owned businesses being less formal than non-family owned ones, often lacking an HR person. A differentiation using Miles & Snows' typology might produce useful results though we now suspect this may be too difficult for our population; perhaps we should use either a much simpler (e.g. Arthur) typology or a more sophisticated one but operationalised in a way that owner/managers or HR staff in SME's can understand and relate to. We are still struggling to find such an operationalisation.

We expect the HR role and position as indicated by Ulrich can be used as a first approximation of the importance of HR in SME's and expect it to be useful to give us some indication of what the personnel function in SME's is concerned with and how they are positioned in the company. Further questions on the relevant fields for HR should help us fill in their activities.

Labour turnover and sickness rates, together with annual turnover figures for the last two years should provide an (admittedly pretty coarse) indication for company and HR effectiveness.

To test our model and our research tools we conducted a small pilot study. Unfortunately it failed, basically because our research population proved inadequate and we will have to do a much better job in selecting companies in the future. We will retry using largely the same basic research model and the same questionnaire, though before doing so, we will search for a better way to operationalise business strategy.

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