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**Explaining the Role of Human Resource Management in the
Performance of Small to Medium-sized Enterprises**

By

Simon Oliver Raby

A thesis submitted to the Faculty of Social Sciences of the

University of Kent for the degree of:

DOCTOR OF PHILOSOPHY

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Abstract

This thesis provides an explanatory account of HRM and performance in growth-oriented SMEs. HRM researchers hold a relatively emaciated understanding of the generative mechanisms and processes at work between HRM and performance in SMEs. A rationalisation of the employment relationship allied with the predominance of a scientific approach has led to a focus on what at the expense of understanding how and why HRM influences small firm performance. It is argued within this thesis that a metatheoretical reorientation is required to address the weaknesses of existing HRM and performance research.

This study adopts a realist and pragmatic approach to social research inquiry. A new conceptual framework is designed that builds on prior contextual studies (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) to include the dynamics of growth in SMEs. This allows for the exploration of how internal and external dynamics interact with performance and labour management practices in SMEs. The analysis begins by exploring the patterns of HRM practices across SMEs through the lens of High Performance Work Systems (HPWS), findings that inform a contextual analysis of five growing SMEs.

This thesis draws some interesting conclusions. First, SMEs do not score highly on measures of HPWS take-up, particularly when one inquires into actual practice as opposed to initial survey reports. No evidence is found of SMEs taking a high performance approach to performance. Second, one cannot conclude that SMEs are deficient or that one should condemn them as failing in some way. Traditional HRM metrics cannot be easily applied to small firms; they are simply not scaled down versions of larger firms. Third, therefore, we find that aspects of HRM are addressed in ways relevant to the small firm context. Fourth, the notion that the application of HPWS results in increased levels of performance is too simplistic; researchers must consider their relationship as mutually reinforcing.

The case studies demonstrate the relevant processes, notably the effects of shocks in relation to business performance that led to responses which in turn implied changes to HR practices. An HPWS model would have meant little to these firms. Though the second point is correct, it does not follow that all is well at all times. The case studies demonstrate differing degrees of effectiveness in dealing with external shocks, and point to the importance of leadership. Ensuring the long term growth and sustainability of firms relies on more than entrepreneurial flair alone; it requires leaders to become effective champions of change.

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Special thanks go to the many research participants working for SMEs across the Kent region, as without you this piece of research would not have been possible.

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Finally, I would like to dedicate this thesis to my cousin, Clea, who died unexpectedly in March of this year from a short illness. I am sad that you cannot be here to share in this moment.

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List of abbreviations

BERR	Department of Business Employment Regulatory Reform
BIS	Department for Business, Innovation and Skills
CBHRT	Contextually-Based Human Resource Theory
DTI	Department of Trade and Industry
ECG	Centre for Employment, Competitiveness and Growth
ER	Employment Relations
HCM	High Commitment Management
HIM	High Involvement Management
HR	Human Resources
HRM	Human Resource Management
HRM-P	Human Resource Management and Performance
HIWP	High Involvement Work Practices
HPWP	High Performance Work Practices
HPWS	High Performance Work System
liP	Investors in People
IR	Industrial Relations
MD	Managing Director
OLC	Organisational Life Cycle
OM	Owner-Manager
RBV	Resource-Based View of the Firm
SME	Small-to Medium-Sized Enterprise
SMT	Senior Management Team
SPSS	Statistical Package for Social Sciences
TDM	Total Design Method
WERS	Workplace Employment Relations Survey

Chapter 1

Introduction

1 Introduction

This chapter serves as an introduction to the research. A short background to the topic will be provided, the central research gaps will be explored and the study's contribution to knowledge will be acknowledged. The overarching research objective and research questions will then be detailed. The chapter will conclude with an overview of the thesis structure.

1.1 Background to the research

Whilst considerable effort to advancing research on HRM and Performance (hereafter referred to as HRM-P) there still remains no one all-encompassing theory, model or framework to explain the relationship that HRM holds with performance in SMEs¹. Interest in the HRM-P link grew considerably over the last couple of decades as empirical evidence emerged of what were believed to be strong positive associations between HRM practices and measures of organisational performance (e.g. Huselid, 1995, MacDuffie, 1995, Ichniowski and Shaw, 1997, Appelbaum *et al.*, 2000). Whilst this evidence has since led to the creation of various models of high performance (e.g. High Performance Work Systems), it is argued here that these models are built on weak empirical foundations. Evidence is, at best, inconclusive. Researchers tend to investigate different sets of HRM practices and conclude positive, indifferent or even negative organisational outcomes.

Equally concerning is the fact that much of the current research in the HRM-P paradigm has been under progression within larger firms. Whilst research has come to light that SMEs are indeed experimenting with a range of working practices (Hornsby and Kuratko, 1990, Deshpande and Golhar, 1994, Bacon *et al.*, 1996, Wiesner and McDonald, 2001) evidence remains mixed. Contrasting research denotes relatively low levels of HRM practice in SMEs (Duberley and Walley, 1995, Cassell *et al.*, 2002), with SMEs being less likely to purposefully

¹ Throughout this thesis, and in accordance with the Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124], a small organisation is defined as an enterprise that employs fewer than 50 employees. A medium organisation is defined as an enterprise that employs 249 employees or less. A large organisation is defined as an enterprise that employs 250 employees or more.

adopt a sophisticated range of working practices (Hornsby and Kuratko, 1990, Pearson *et al.*, 2006, Drummond and Stone, 2007). Nevertheless, HRM proponents argue that these conclusions merely represent an unrealised opportunity for the SME community (Way, 2002, Sels *et al.*, 2006b, Drummond and Stone, 2007) and hold a key to unlocking higher levels of performance. However current debates in the HRM field are left making considerable assumptions in regard to SMEs, not least that those practices found in larger firms can work, be applied to, and are appropriate at the smaller firm level. Yet, existing models of HRM remain diverse and generic in their approach to competitive advantage (Ferris *et al.*, 2004) and 'lack meaning and purchase' to SMEs (Gilman and Edwards, 2008; p551).

One might argue that our limited understanding of how HRM influences the performance of SMEs is reinforced by research within the HRM-P paradigm that focuses on the formal properties of organisations. A deep reading of the extant literature on the HRM-P link demonstrates the predominance of a 'scientific' approach to social research inquiry, one that relies on the observation of real events. However, robust explanations and theoretical insight are not illuminated through observation alone (i.e. what someone is doing), but through explanation (i.e. reasons why someone does what they do) (Benton and Craib, 2001). In reducing these issues to little more than methodological inconsistencies (reducing ontology to epistemology) HRM researchers are indeed ignoring the wider truth; the social world is open, unpredictable and in a constant state of flux. Other events exist independent of our observation of them and mediate the effects of these observed events (Webb, 1995, Benton and Craib, 2001).

Existing HRM research fails to open up the 'black box' and 'tell it how it is', ignoring the wide range of mediating variables between HRM and performance (Wood, 1999b, Edwards and Wright, 2001). When these scientific research methods are applied at a small firm level little evidence is often found of more formal systems and structures. However, it is the degree to which the approach towards HRM differs within SMEs when compared to their larger counterparts that is important, rather than a case of these firms simply being unstructured (Cassell *et al.*, 2002). These criticisms have led academics to declare that current research on the HRM-P link is inadequate and alternatives must be sought (Fleetwood and Hesketh, 2006, 2010).

Research has more recently emerged that attempts to explain why firms behave differently (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). In taking

account of how firms are embedded to their wider context these studies have begun to shed new light on explaining why some SMEs may be more open to the ideas of high performance than others (Edwards, 2009). Whilst these contextual studies have not been specifically designed to explain the HRM-P link within SMEs, it is believed that they provide a promising foundation upon which to build more explanatory accounts of HRM and performance in SMEs.

1.2 The rationale for the research and its contribution to knowledge

This chapter has noted some of key weaknesses of existing research on the HRM-P link. As will be explored in greater detail, a scientific approach fixated on quantifying the relationship between surface level HRM practices and measures of organisational performance has been seemingly progressed at the expense of understanding the underlying mechanisms and processes at work between HRM and performance. It will also become apparent that researchers have an incomplete understanding of the relevance of HRM and its implications on performance at an SME level. In an attempt to gain greater clarity on this important issue this thesis will advance a comprehensive explanatory account of working practices in growing SMEs.

1.2.1 Research objective and research questions

The primary objective of this research will be to unpack *the role that HRM plays in the performance of SMEs*. Due to the dynamic and exploratory nature of the research, it was deemed appropriate to use a range of research questions to drive the study. This research will focus on five research questions, namely:

RQ1): To what extent are SMEs adopting HRM practice?

RQ2): What form does HRM take in SMEs?

RQ3): Does a firm's approach to HRM alter in response to growth/performance challenges?

RQ4): What are the underlying [causal] mechanisms that determine the HRM approach taken by SMEs in response to growth/performance challenges?

RQ5): Does a particular SME model of HRM and performance exist?

1.3 Overview of the thesis

We shall now explore the structure of this thesis. Chapter 2 will provide a review of the literature which will expand on the above and will be divided into four sections. The first section of chapter two will serve as a theoretical and historical overview of HRM in SMEs in order to position the established debates in the field. Section two will then provide an overview of the dominant theories of HRM in order to demonstrate the disciplines strategic and performative orientation. Section three will discuss the extent to which models of high performance lend themselves to SMEs, and will examine the limitations of existing models both empirically and theoretically. Section four will examine how one might develop more convincing theory on the HRM-P link in SMEs. This section will then consider the internal and external factors that are to be used to examine the influences that shape a firm's approach to HRM. Chapter two will conclude with the identification of key themes within a conceptual framework, before reinforcing the research gaps and contributions of this thesis.

Chapter three will explore the overarching research questions and the subsequent research philosophy, strategy and methodology that will guide this social inquiry. The research will adopt a realist and pragmatic perspective to social inquiry. A mixed-method research strategy will be employed to vary the type and level of data collected. The mixed method strategy will encompass: a survey approach, personal interviews and multiple case studies (n=5). The rationale, method of administration, sampling procedure, response rate and analytical techniques will be explored for each approach in turn. The chapter will conclude through the consideration of ethical issues.

Chapter four presents the main findings from the first data collection phase of the research consisting of the stage one survey and stage two personal interviews. These findings are aligned against the study's conceptual framework. The primary objective of these data collection stages was to provide key insight to regional patterns as to the incidence, practice and performance effects of HRM and the wider context within which HRM is enacted in SMEs. This preliminary research phase also provided an opportunity to identify those firms that were suitable for further case study research.

The second data collection phase is presented from chapters five through to chapter nine and consists of five case studies. As with the preliminary research phase outlined above, each chapter is aligned against the study's conceptual framework, but will build upon this through the integration of a diverse range of empirical evidence including manager and employee

perspectives, company documentation (e.g. organisational charts), archival data (e.g. growth & performance trends) and other observations regarding the firm's environment. Together these case study chapters will form the bulk of the research findings.

Chapter ten examines the research questions in light of all of the empirical evidence presented, and compares and contrasts this new insight with current thinking and discourse. Each research question will be addressed in turn. The chapter will begin by exploring the incidence, practice and performance effects of HRM and wider workplace innovation across SMEs in Kent and Medway. The chapter will focus on a cross analysis of the five case studies and will explore key similarities and differences in their approach towards HRM, the evolution of this approach, and the underlying causal mechanisms that drive firm behaviour. Finally, this chapter will present a new model of HRM and performance in SMEs that emerged from the analysis of the case study data and is grounded in prior discourse (e.g. Edwards *et al.*, 2006, Gilman and Edwards, 2008).

Chapter eleven will provide concluding remarks on the key research findings that have emerged from this social research inquiry. The implications of these findings will then be explored, and the chapter will finish by discussing the limitations of the research before making suggestions for further research.

Chapter 2

Literature Review

2 Introduction

This chapter will aim to provide a comprehensive review of the existing literature on HRM and Performance (HRM-P) in SMEs. In advancing this review a key challenge emerged: how should one present the key debates in a clear and integrated manner? This is because research that falls within the HRM-P paradigm draws on a wide range of terminology and labels – it is therefore, not always obvious whether academics are discussing the same or quite different issues. The literature was found to be chaotic, cluttered and messy. In parallel research on SMEs and performance appears in its infancy, which means we still know relatively little about how or why HRM influences the performance of SMEs. What is important therefore, is the identification of the fundamental weaknesses of research within the HRM-P paradigm, and how one should attend to these weaknesses when conducting new research on the role that HRM plays in SMEs. Prior to reaching these conclusions it was necessary to explore a number of interrelated themes. First, it was important to link these debates with the strategic role that HRM is argued to play in developing firm competitive advantage. Second, an examination was required of what we know about the link between HRM and performance, much of which has been explored to date through the concept of High Performance Work Systems (HPWS). Third, it was appropriate to set the scene of HRM in SMEs through a historical and theoretical overview, which will now be explored.

2.1 Human resource management and SMEs

Before we explore our understanding of HRM in SMEs, the concept of HRM must be defined. For the purposes of this study, HRM will be defined as ‘all those activities associated with the management of the employment relationship’ (Boxall and Purcell, 2003; p1). It therefore follows that HRM practices and working practices will be used interchangeably. Whilst not wishing to be pulled into a discussion on the way in which HRM differs (or not) to other labels one must at least acknowledge the contrasting debates of HRM and Employee Relations (ER). In simple terms, HRM refers to the various approaches of managing labour, whereas ER is often characterised by an approach to analysing the employment relationship (Edwards, 2003).

It is argued within this thesis that HRM is part of a wider ER approach and, rather than being conflictual, these approaches are synergistic in nature. Indeed, it is put forward within this thesis that ER will help to facilitate a broader contextual investigation of the forces at play between HRM and performance. In taking this complimentary stance HRM can be provided with greater legitimacy (Delaney and Godard, 2001) whilst ER will be provided with an opportunity to demonstrate its value (Edwards, 2005). Before we consider the strategic role that HRM is argued to play in firm competitive advantage, let us first develop our understanding of the importance of SMEs and the applicability of HRM through a historical exploration of the employment relations environment in smaller firms.

2.1.1 Early (mis-)conceptions: a notion of harmony

The importance of SMEs to the United Kingdom (UK) and the wider European Union (EU) is apparent when one considers that of the four million businesses regarded as being active within the UK and EU economies, over 99 per cent are accounted for by SMEs (BIS, 2010). The numerical importance of SMEs is just part of the story. Whilst debates have raged since David Birch's (1979) influential research paper as to the significance of SMEs as 'job creators' over larger firms, European governments remain committed supporters of SMEs in employment, value and innovation generation (European Commission, 2005, BIS, 2011a).

Not only does the attention afforded towards SMEs by successive governments complement an economic philosophy, but crucially early studies believed that smaller firms avoided the complex employment relations issues and conflicts inherent in large firms whose poor management was blamed on damaging the economy in the 1970s (Marlow and Patton, 1993). The findings of Bolton (1971), coupled with those of Ingham (1970), argued that workers were drawn towards smaller firms as a result of their inherently rewarding working environment. Low levels of industrial action within smaller firms were attributed to their more harmonious, flexible working conditions:

'In many respects small firms provide a better environment for the employee than is possible in most large firms. Although physical working conditions may sometimes be inferior in small firms, most people prefer to work in a small group where communication presents fewer problems: the employee in a small firm can more easily see the relation between what he is doing and the objectives and performance of the firm as a whole...No doubt mainly as a result of this, the turnover of staff in small

firms is very low and strikes and other kinds of industrial disputes are relatively infrequent' (Bolton, 1971; p22)

More recent evidence has also been found in support of the harmony thesis, with research asserting that the contributions of employees are more readily recognised in SMEs (Barrett, 1999). It is this increased level of recognition by employers in smaller firms that some believe offsets the lack of promotional opportunities with smaller firms being argued to offer workers a level of personal autonomy unattainable in larger firms (Scase, 2003). Whilst these more recent studies allude to the existence of a relatively congenial working environment in smaller firms, a range of conflicting evidence has also come to light that contrasts against this harmonious or 'small is beautiful' notion.

The contrasting 'bleak house' or 'small is brutal' image emerged from evidence of poor working conditions, low wage rates and low standards of health and safety in smaller firms (Rainnie, 1989). In a review, Storey (1994) uncovered that workers in smaller firms were more likely to have lower wages, were less likely to be in receipt of fringe benefits, experienced lower levels of formal training, worked longer hours and had a higher chance of being injured whilst at work. In addition to the above, further support was also found for the 'small is brutal' image by the fact that workers were believed to be trapped in smaller firms. Research has found the difficulties of achieving 'break out' from smaller firms due to, for instance, the skill levels demanded by larger firms (Storey, 1994, Scase, 1995) and strong familial ties (Ram, 1994). Indeed, Ram's (1994) study of ethnic minority workplaces found that Asian labour worked for smaller firms in the clothing sector because few other employment opportunities presented themselves.

As the importance of SMEs grew amongst policy and academic communities in the 1970s and 1980s, evidence began to emerge that HRM was actually a major concern to the owners of small businesses. The findings of these early studies, the majority of which emanated from the US Midwest, pointed to the limited understanding amongst small business owners of what constituted good HRM practice. Scholars were drawn to the low levels of HRM expertise and formal HRM practices, evidence that was seen to contradict previous 'small is beautiful' notions (Miner, 1973, McEvoy, 1984). Despite receiving widespread criticism due to their limited empiricism (Hornsby and Kuratko, 1990) these early studies stimulated efforts for further debate as to what HRM means to SMEs.

2.1.2 Restraining complexity? Size and formality

Early studies drew attention to the 'resource poverty' of smaller firms, illustrated through the adoption of inexpensive and unplanned approaches to what is now known as HRM (Miner, 1973). This 'liability of smallness' has led scholars to postulate that smaller businesses are not 'little big businesses' (Welsh and White, 1981) and that size is a key determinant of HRM sophistication. Research has since indicated the widespread use of informal HRM practices in smaller firms (Kaman *et al.*, 2001, Bartram, 2005) with smaller firms being less likely than larger firms to adopt a sophisticated range of working practices (Hornsby and Kuratko, 1990, Pearson *et al.*, 2006) such as performance appraisals (Wager, 1998), training (de Kok and Uhlancr, 2001) and communication (MacMahon, 1996).

The largest nationally representative quantitative study in the UK, known as the Workplace Employment Relations Survey (WERS), sheds further light on HRM in SMEs² (Forth *et al.*, 2006). SME managers were found less likely to have access to an internal HRM expert or hold formal HRM qualifications in comparison to their counterparts in larger firms. As a result, SME managers were more likely to seek advice from external parties for HRM issues. Evidence was found of more formalised working practices in SMEs, such as grievance and discipline, which were implemented at a level commensurate to larger firms. However SME workplaces were, in general, found to be characterised by high levels of informality demonstrated through the predominance of direct forms of communication and informal recruitment, training and work practices.

Whilst there appeared limited evidence of more formal working practices for the sharing of information between management and workers of SMEs, particularly in regard to financial matters, managers reported informally involving workers in decision making and workers confirmed greater opportunities for 'job autonomy, influence and security...lower work intensity and higher general wellbeing' (Forth *et al.*, 2006; pxii) when compared to those employees working for larger firms. One might argue that these findings denote that informality should not necessarily be perceived as a deficiency of smaller firms, but rather that a more informal approach may provide positive benefits such as increased opportunities for worker involvement, participation and commitment.

² These findings are taken from WERS 2004 which included a sample of 621 private sector SMEs.

Whilst some deem informality of HRM practice to be problematic for smaller firms, for instance in hampering firms ability to align workers with the needs of the firm (Mayson and Barrett, 2006), others point to the potentially harmful effect of formality on smaller firms. The informal and unstructured nature of HRM is considered by some to afford SMEs a competitive advantage (Bacon *et al.*, 1996) allowing them a degree of flexibility they otherwise would not have, increasing firm responsiveness and their ability to deal with uncertainty (Marlow, 2006). In a study of micro and small firms, Matlay (1999) discovered a preference for an informal approach which facilitated open communication and 'resulted in amicable solutions to complex and occasionally acrimonious work-related situations' (p292). The appropriateness of more formal HRM practices to SMEs is summed up forcefully by Katz (2000; p8):

'HRM is considered by many to be a large company phenomenon...bureaucracy, policies, procedures, and paperwork...this does not sound very important for a fast moving entrepreneurial firm'.

This inferior view of HRM practice in smaller firms must be weighed against research that has uncovered little difference between HRM in small and large firms (Barrett, 1999, Kerr *et al.*, 2004, Way and Thacker, 2004, Harney and Dundon, 2007). A study by Barrett (1999) on the Australian information industry found that size did not vary the approach taken towards HRM. Similarly, a study by Harney and Dundon (2007) noted that 'two of the firms with the lowest number of HRM initiatives were among the three largest firms, each with over 200 employees'. Other variables apart from size have also been found to relate to the presence of an HR manager (Kerr *et al.*, 2004, Way and Thacker, 2004). Academics have even argued that formality should not be restricted to an either/or dichotomy, but rather that the informality and formality are dynamic and greater understanding is required of how these constructs change and evolve with firm growth (Ram *et al.*, 2001, Marlow *et al.*, 2010).

Despite the lack of clarity as to what HRM means to smaller firms, HRM proponents argue that smaller firms may well be better positioned to reap the performance enhancing effects of greater levels of HRM, and as such represent an unrealised opportunity (Way, 2002, Sels *et al.*, 2006b, Drummond and Stone, 2007). This view is prefaced on the belief that SMEs are more innovative, informal, flexible, and in touch with their employees (Bacon *et al.*, 1996) than larger firms and that the lack of formality should not necessarily be seen as an obstacle to achieving a high performance approach (Gittell *et al.*, 2010). A range of evidence has since come to light arguing that the strategic use of HRM practices can lead to improved

organisational (Kerr *et al.*, 2004, Sels *et al.*, 2006b, Zheng *et al.*, 2006) and employee outcomes (Way, 2002) through higher levels of productivity and lower levels of workforce turnover in SMEs.

2.2 In search of high performance

If HRM refers to the various approaches towards managing labour, Strategic HRM refers to the process of linking the management of human resources to the strategic objectives of the firm with the aim of improving organisational performance (Bratton, 2007). Interest in HRM has gathered pace over recent decades as the strategic role that HRM can play in developing competitive advantage has been acknowledged (Legge, 1995, 2005, Storey, 2007). The intensification of international competition, the mushrooming of models of best practice (such as those typified by Japanese JIT, Lean, and so on) and the upholding of an enterprise culture by the UK government have continued to draw attention to the strategic role that HRM can play within the firm. Building an understanding of how HRM can assist the competitiveness of SMEs is therefore considered to be crucial (e.g. Sung and Ashton, 2005, Edwards *et al.*, 2009).

Whilst a precise definition of strategic HRM continues to evade scholars (Wright and Boswell, 2002), the underlying principle put forward is that those organisations that select and implement specific HRM policies and practices are able to develop sustained competitive advantage (Barney, 1991, Macky and Boxall, 2007). This approach is grounded in a firm's ability to develop an 'HR advantage' through the integration of appropriate strategic HRM practices into what is often labelled as a 'High Performance Work System' (Boxall and Purcell, 2003). A range of work has since emerged that a universal system of high performance exists (Huselid, 1995, MacDuffie, 1995, Ichniowski and Shaw, 1997, Appelbaum *et al.*, 2000). These findings have led to a continued interest (some might say preoccupation) with HRM-P link which has developed into a dominant paradigm within the HRM discipline (Hoobler and Brown-Johnston, 2004, Fleetwood and Hesketh, 2010).

A high performance work system (HPWS) is conceptualised as a set of distinct but interrelated HRM practices that together select, develop, retain and motivate a workforce (Way, 2002, De Menezes and Wood, 2006) in a superior manner (Kerr *et al.*, 2007) leading to enhanced organisational outcomes. In essence, a HPWS is characterised by a set of managerial practices that emphasise involvement, commitment and competencies of the employee (Osterman, 2006). It is argued that this approach provides an opportunity to transform employees from merely being workers into partners with employers in realising company goals (Caspersz,

2006), moving away from the rational agent-principle relationship (Tomer, 2001). A range of terminology has been used to describe a HPWS, with 'HRM innovations'; 'Alternative or Flexible Work Practices'; and, 'HRM Bundles' (Delaney and Godard, 2001) being used interchangeably. It is also argued that broader programmes (e.g. quality, lean) are often involved in the conception of a HPWS (MacDuffie, 1995, Pil and MacDuffie, 1996).

The 'best practice' approach argues that a universal system of working policies and practices exists and will always result in better performance (e.g. Jayaram *et al.*, 1999). The contrasting 'contingency' or 'best fit' approach proposes that the successful adoption and implementation of working practices is reliant on wider context and their interaction and alignment with other variables (e.g. systems, strategy, and the environment) which naturally promote diversity in models of high performance (Guest, 1997, Wood, 1999b). Contingency theorists therefore argue that context, such as the nature of technology used within an industry, plays a pivotal role in the way a firm orients its internal systems, structures and processes.

The predominant debate between 'best practice' and 'best fit' perspectives has typically been subject to an either/or debate as to 'whether high-performance systems will universally outperform all other systems or whether the optimal system is relative to the circumstances of the firm' (Wood, 1999b; p368). Rather than compete against each other however, academics assert that contingency theory may well help to reconcile 'best practice' and 'best fit' perspectives. This is prefaced on the notion that there may exist a common set of overarching HR policies and practices that a firm can implement, and it is the forms and shapes that particular practices take when implemented within specific contexts that varies (Boxall and Purcell, 2003).

In an attempt to identify the practices that constitute a high performance work system a review was progressed of empirical articles that had tested a specific system of high performance³. Evidence was found of systems with up to seven practice bundles, with studies measuring between four and forty working practices. The majority of studies measured between 10-20 working practices, a third (32%) used under ten working practices, with the remainder crafting systems with over 20 working practices (15%). Although those practices included within any one model were found to differ considerably; employee involvement and participation, HR

³ The full review included 66 empirical articles produced between 1994 and 2010. See Appendix 1, p296, for further details.

practices, and reward and commitment practices were found to represent dominant categories⁴. These findings reinforce the notion outlined above that a universal set of overarching components may exist, but the practices used within any one component may vary (Boxall and Purcell, 2003).

The involvement and participation component included practices that encouraged opportunities for employees to participate more readily in the workplace through communication and information sharing, group problem solving and decentralised decision making. Employee skills and abilities were developed through the activities of the HR practice component which included recruitment and selection testing, developmental aspects of appraisals, the effectiveness of training systems, and the extent of cross training, job rotation and/or flexible work assignments. Finally, employees were incentivised through the reward and commitment component which comprised performance-linked appraisals, appropriate systems of pay and incentives (e.g. performance/profit related pay, employee share options), promotion opportunities, minimum status differentials, and job security.

Crucially, these findings appear consistent with Appelbaum *et al.*'s (2000) framework considered to represent a keystone text on HPWS (Boxall and Purcell, 2003)⁵. In their influential book, entitled *Manufacturing Advantage*, Appelbaum *et al.* (2000) developed the 'AMO' framework and argued that enhanced worker performance, and ultimately superior organisational performance, was a function of three practice bundles. As Figure 2.2 illustrates, it was proposed that practices that promote employee ability (A) (equivalent to 'HR practices' above), motivation (M) (equivalent to 'reward & commitment' above) and the opportunity to participate or contribute (O) (equivalent to 'involvement & participation' above) lead to improved organisational and worker outcomes.

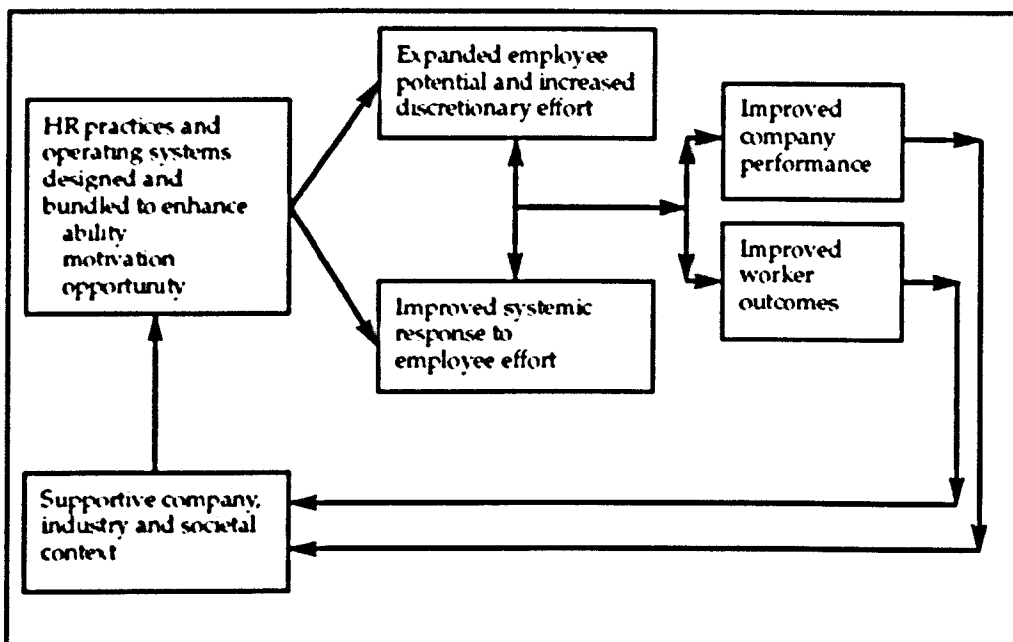
Researchers also contend that competitive advantage is grounded in a firm's quest for heterogeneity with firms developing unique, hard-to-copy resources and capabilities (Barney, 1991, Eddleston *et al.*, 2008). In this manner, the Resource-Based View (RBV) places importance on firms developing a unique combination of human and social capital (Sirmon and Hitt, 2003). Whilst some authors distinguish between the RBV and the contingency

⁴ For the sake of narrative ease the author has summarised the practices and bundles adopted by prior studies of HPWS models. A full breakdown of models with their corresponding authors can be found detailed within Appendix 1, p296.

⁵ They are also consistent with Sung and Ashton (2005) who provided a more comprehensive model of high performance within their best practice publication 'high performance work practices: linking strategy and skills to performance outcomes'.

perspective outlined above (Boselie *et al.*, 2005), others combine the RBV with a contingency approach. This debate emerges out of the fact that these hard-to-copy resources are seen to be contingent on the firm. Indeed, RBV has more recently been seen as an aide to readdressing the balance of the strategy literature by arguing that the appraisal of internal strengths and weaknesses (i.e. knowledge & relationships) is just as important as the assessment of external opportunities and threats in a firm's product market (Boxall and Purcell, 2003).

Figure 2.1: High performance work systems: commonly hypothesised linkages



Source: (Boxall and Purcell, 2003; p21)

Significant criticism has been levelled at the HPWS model. Not least is the fact that HRM theory should be, but is frequently not, more than a vehicle for delivering predictions (Fleetwood and Hesketh, 2010). It is argued here that empirical work has been largely progressed at the expense of theoretical development and, as a consequence, studies lack explanatory power (Fleetwood and Hesketh, 2008). If research presented as HPWS or strategic HRM is problematic we are therefore, left with the issue of what to make of it and how it might inform future research and practice (Taylor, 2006). Additionally, whilst models of high performance are increasingly being aligned with SMEs, much debate surrounds their applicability at a small firm level. The following section will aim to build a critique of research that falls within the HRM-P paradigm in the context of smaller firms.

2.3 A critique of studies within the HRM-P paradigm

2.3.1 HRM-P and SMEs

A deep reading of texts on HRM, strategy and performance provides little insight into the nature of the HRM-P link in smaller firms. Few studies attempt to develop a consistent understanding as to what high performance working is, how it applies to, or how it influences the performance of SMEs. Where researchers have investigated HRM-P in smaller firms they adopt large firm HPWS models. Whilst these studies demonstrate that HRM practices, such as recruitment and compensation, are correlated with perceived measures of performance (e.g. Way, 2002, Zheng *et al.*, 2006), there is no discernible evidence that practices are akin to those within a HPWS model (Rowden, 2002) or that SMEs set out to purposely adopt a system of high performance (Drummond and Stone, 2007).

Why might it be that there such limited evidence on the link between HRM and performance in SMEs? First, studies on HRM-P in smaller firms are limited in number, use large firm practices, small sample sizes and subjective measures of performance (e.g. Way, 2002, Kerr *et al.*, 2004, Sels *et al.*, 2006b, Zheng *et al.*, 2006). At an epistemological level, just because researcher cannot (easily) find evidence of more formal HRM practice in SMEs does not mean that HRM does not exist; it may be that we are just not looking for the right thing! In order to examine the role that HRM plays in SME performance research must better capture, interpret and understand the complex interplay of workplace practice with wider causal structures.

Second, research reveals a complex interaction of variables that hold the potential to limit the ability for smaller firms to take onboard the ideas of high performance. These influences include the firm's product and labour market, the resources available to the firm (including human and social capital), the nature of strategy, rules and routines and management style (Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). Acknowledgement of these issues is imperative if we are to better understand how HRM influences the performance of SMEs and advance HRM theory that is applicable regardless of size.

It has been argued that the product and labour market combine to provide a specific form of HR supply (Harney and Dundon, 2007) which in turn has been found to play an important role in the adoption of HRM practices in SMEs. Studies note the positive association between HRM and higher worker skill levels (Bacon and Hoque, 2005) and more professionally-

oriented management skills (Gilman and Edwards, 2008) within SMEs. However, SME managers are limited in their understanding of the sources of sustained competitive advantage (Lado *et al.*, 2006) and lack the capabilities to develop HRM practice (Bacon and Hoque, 2005). In fact, Klaas *et al.* (2000) found that the costs of hiring a HR specialist on a full time basis are highly prohibitive to smaller firms. Given the above, and the fact that management structures are generally flatter in SMEs, much of the coordination and implementation of HRM in SMEs occurs at a line management level (e.g. Bowen and Ostroff, 2004). Current government literature on HRM-P (e.g. Sung and Ashton, 2005) would appear to sit awkwardly with research evidence pointing to low levels of skill and training (Storey, 1994), and limited development of the HR function in SMEs (Forth *et al.*, 2006).

In addition to knowledge, SMEs also suffer from financial constraints and, whilst implementation costs of HPWS models are purported to be relatively low amongst larger firms (Sung and Ashton, 2005), evidence denotes that the costs of implementing HPWS models may well outweigh benefits resulting in a 'zero-sum' game in SMEs (Sels *et al.*, 2006a). Whilst there exists an opportunity for imitation in the longer term, thereby decreasing adoption costs, others point out that leading edge firms may well have moved on by the time others get round to adopting specific practices, rendering them out of date (Edwards and Wright, 2001). It may well be that that SMEs are not fully committing to a HPWS models, preferring to opt for partial adoption (Godard, 2004). Scholars point to the 'slow diffusion' of HPWS models across the SME sector (Tomer, 2001) with those workplaces embodying a high performance approach only translating into one percent of establishments (Blasi and Kruse, 2006).

High performance working presupposes a long-term, planned approach typically not found amongst smaller firms (Harney and Dundon, 2007). Strategic considerations need to take a longer term perspective (Sung and Ashton, 2005) and embrace linkages to wider business issues such as quality (Jan Angelis and Thompson, 2007; p779). This runs counter to research that suggest that SMEs rarely have any coherent or deliberate strategy for managing employment relations (Scott *et al.*, 1989, Harney and Dundon, 2007). Research highlights that SMEs are more likely to tailor their activities in response to business need (Duberley and Walley, 1995, Cassell *et al.*, 2002), make piecemeal quick fixes and view HRM as a bolt-on activity (Duberley and Walley, 1995). SME strategy is therefore crafted reactively (e.g Ram *et al.*, 2001) rather than rationally designed (Mintzberg and Waters, 1985) and is likely to be more emergent in nature (Harney and Dundon, 2007) if it is to emerge at all.

While many associate low level of HRM uptake to a lack of finance or knowledge (Marlow and Patton, 1993), others argue that the biggest stumbling block is the ability of convincing the owner to get on board with such ideas (Van der Wiele and Brown, 1998, Wilkes and Dale, 1998). Managers of smaller firms may not place a great importance on HRM issues (Heneman *et al.*, 2000). However, the quality of HRM practice and subsequent performance outcomes is seen to hinge not only on their alignment with strategy, but also their successful leadership (Duberley and Walley, 1995, Cassell *et al.*, 2002), with managerial vision, value, and culture (Wager, 1998, Sung and Ashton, 2005) seen to be key.

Because researchers have used large firm models to investigate HRM-P in smaller firms the considerable weaknesses that plague HRM-P research applies to both small and large firms alike. Let us first explore these weaknesses at greater length before considering how we might address this problem.

2.3.2 Theoretical foundations of HRM-P: limits and lessons to learn

Whilst compelling evidence denotes the management discipline to be maturing (Agarwal and Hoetker, 2007), academics argue that the domain of management studies is characterised by low levels of paradigm development (Pfeffer, 2007) and that current research on the HRM-P link is inadequate and alternatives must be sought (Fleetwood and Hesketh, 2010). Scholars assert that that the level of adequate management theories that explain organisations appears not to have improved greatly over the last three decades (Pfeffer, 2005) and the HRM discipline has become proliferated with a mass of unsatisfactory theories (see Fleetwood & Hesketh (2010) for a list of 50).

Fleetwood and Hesketh (2010) apply Sutton and Staw's (1995) five-fold account of what theory is not to a set of articles considered to be within the HRM-P link paradigm. The authors conclude that researchers adopt a largely cavalier approach to theory: '...empirical research tends not to be carefully drawn from existing theory...in much of the empirical research on the HRM-P link where 'theory' is discussed, the discussion is often arbitrary, ambiguous, vague, brief and unsophisticated' (p90). When explored in greater detail, the reasons attributed to the current state of the field of management are wide ranging but appear to focus on two related matters that shall now be explored.

2.3.2.1 The rationalisation of the employment relationship

First, there is a call for HRM academics to move away from their managerial, rational and scientific agenda that presupposes individuals as predictable and calculable in nature, towards an acknowledgment that the employment relationship is actually rather complex and conflict-rich (Townley, 1993, Edwards, 2003). This change in theoretical orientation requires HRM theorists to recognise the role played by control, cooperation, knowledge and power and that the implementation of HRM practice is not unproblematic and simplistic (Townley, 1993, Blasi and Kruse, 2006, Edwards, 2006).

Existing studies within the HRM-P paradigm, however, focus their attention on organisational outcomes (Hoobler and Brown-Johnston, 2004) and largely disregard the views of employees (Wood, 1999b). Through a review of literature on high performance as part of this research (see Appendix 1, p295), it was noted that academics have shown a preference to advance research using management respondents (61%) of which three fifths (63%) were addressed to senior managers (e.g. CEO or MD) or HR managers/directors, and two fifths (37%) being addressed to middle management (e.g. plant manager or general manager). Whilst a quarter (26%) of studies were reported to cover 'all employees', only nine studies (14%) went into any great depth at an employee level.

This dominant methodology is worrying when one considers that the mere presence of HR practice cannot be considered proof that the practice in question exists or is implemented consistently across all employees (Tsai, 2006). HR practices may not be uniformly accepted by employees and we should not assume that managerial and employee views of such practices are synergistic (Truss, 2001, Hui *et al.*, 2009). There are 'multiple mediators and more intricate processes and interrelationships through which HPWS influences outcomes that span multiple levels of analysis (e.g., individual, group, establishment, and firm levels)' (Takeuchi *et al.*, 2009; p22) and it is these that give rise to a unique 'climate' (Bowen and Ostroff, 2004).

The implementation of systems of HR practices is a complex and often problematic process that requires 'significant amount of behavioural change at the workplace level....a "lighter" [quantitative] measure...does not capture the depth of social change implied. Real workplace change challenges the existing systems of distributing power, prestige, and rewards in social organizations' (Blasi and Kruse, 2006; p572). However, few studies would appear to question the effect of HR practices on the balance of power within the business (Delaney and Godard, 2001, Osterman, 2006). Much of the existing research on HRM-P at an SME level overlooks

how social context shapes the behaviour of firms, and it is argued here that a contextual approach can provide an opportunity to build further theoretical and practical insight (e.g. Edwards *et al.*, 2009).

2.3.2.2 The (over-)reliance on scientific models

Second, and leading on from the point above, there is a need to reduce our reliance on 'deductive-nomological' or 'scientific' models that have preoccupied the debates in the HRM-P link and wider field of management (Fleetwood and Ackroyd, 2004). As commented on above, the field of HRM has become preoccupied with the notion that the adoption of specific HR practices will lead to enhanced organisational performance. Researchers have dedicated significant resources in their quest to prove the association between HR practice combinations and higher levels of growth and performance. In attempting to prove statistical associations between HRM and performance researchers have however, seemingly ignored the wider theoretical questions that beset the HRM-P paradigm (Fleetwood and Hesketh, 2008).

The facts are simple, survey-driven research accounted for two thirds (68%) of all studies reviewed (see Appendix 1, p295) within this study. Despite just under a quarter (23%) of studies making use of interviews, two fifths of these were progressed by telephone. In fact only six studies (9%) advanced more detailed analysis through the use of case studies (see Truss, 2001, Danford *et al.*, 2004, Sung and Ashton, 2005, Taplin, 2006, Drummond and Stone, 2007, McBride, 2008)⁶ and only two of these concentrated upon SMEs. Qualitative evidence of the HRM-P link within an SME context is therefore undeveloped. In reducing these issues to little more than methodological inconsistencies (reducing ontology to epistemology) researchers are indeed ignoring the wider truth; the social world is open, unpredictable and in a constant state of flux.

The dominant 'deductive' or 'positivist' approach relies on the observation of real events and Humean causality (Fleetwood and Hesketh, 2006). By 'real' or 'Humean' we mean those events that can be observed by the researcher. When translating scientism to the social world this form of inquiry maintains a closed systems view that events hold regularity (or stochastic closure to be precise) with humans acting as entirely rational beings. Once a particular combination of events has been observed (e.g. the use of performance related pay and team

⁶ Whilst omitted here, Edwards *et al.* retrospectively apply the findings of their 2006 paper to assess the capacity for smaller firms to adopt a HPWS through a 2009 AIM publication entitled 'From Modern to Paternalistic: how does your firm type affect your performance?'

working practices lead to a two-fold increase in worker productivity) this outcome can be predicted for all future instances where this combination is applied. Replication of these observed effects is deemed to be unproblematic and the more empirical research that is progressed the more clear-cut the findings should become (Fleetwood and Hesketh, 2010).

However, this positivist meta-theoretical stance does not come without its shortcomings. The fact is that exact replication of research findings has to date not been achieved in any of the studies falling within the HRM-P paradigm and more empirical studies have not led to crisper findings (Fleetwood and Hesketh, 2010). Studies adopt slightly different independent variables, use slightly different samples, employ slightly different statistical techniques and achieve varied results. At best HRM practices are weakly associated with performance (Wright and Gardner, 2003), generalisability is low (Godard, 2004), and that there is not enough overall evidence upon which to make a conclusion (Wall and Wood, 2005). One might argue that little progress has been made since Becker and Gerhart undertook a review of the literature on high performance models in 1996:

'studies of so-called high performance work systems vary significantly as to the practices included and sometimes even as to whether a practice is likely to be positively or negatively related to high performance' (p784).

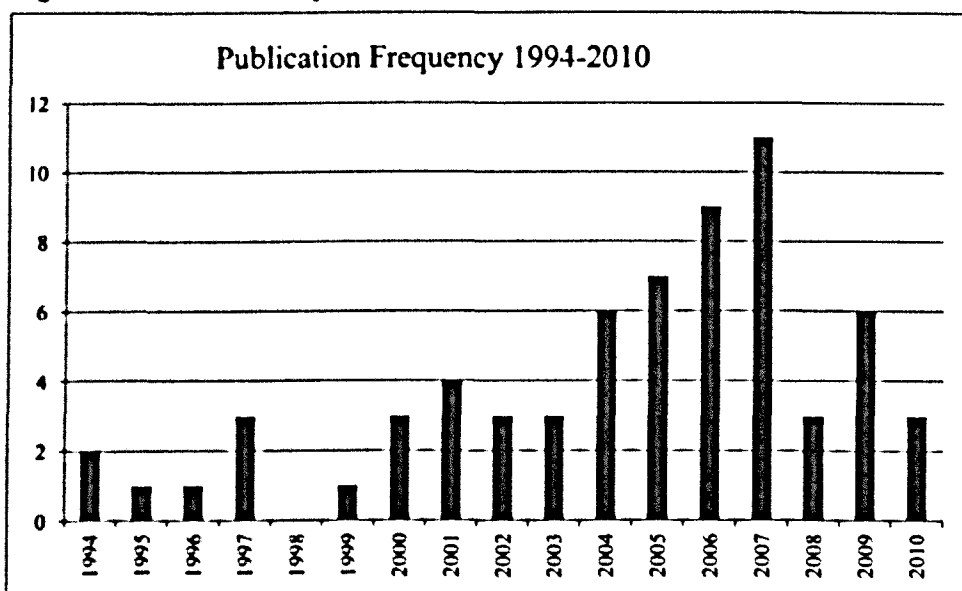
Existing HRM research fails to open up the 'black box' and 'tell it how it is', ignoring the wide range of mediating variables linking HRM and performance (Wood, 1999b, Edwards and Wright, 2001, Paauwe and Boselie, 2005, Fleetwood and Hesketh, 2010). Practices appear contingent on a range of factors including wider workplace practice (Preuss, 2003), culture and structures (McBride, 2008), strategy (Taplin, 2006), technology (Kintana *et al.*, 2006), product/service complexity (Jan Angelis and Thompson, 2007), industry sector (Delery and Doty, 1996, Sung and Ashton, 2005, Kalleberg *et al.*, 2006), national context (Den Hartog and Verburg, 2004, Chow, 2005, Colvin, 2006) and firm evolution and growth (Drummond and Stone, 2007). It is therefore not only the blend of practices that are important, but also the wider context in which high performance work systems are 'conceived, evolved and defended' (Boxall, 2003; p17).

More recently, the strength of statistical associations purported by early studies have been called into question through evidence that HR practices have little overall effect on measures of performance (e.g. Chow, 2004, Tsai, 2006, Yalabik *et al.*, 2008). In a review of 92 studies

on models of high performance Combs *et al.* (2006) failed to find any significant effects for performance appraisal, teams, and information sharing, practices that theorists previously deemed to fall within high performance models. Scholars assert that HPWS models can even lead to negative effects such as increased levels of employee stress (Godard, 2001) and work intensification (Caspersz, 2006) and provide few real improvements to workers terms or conditions (Handel and Gittleman, 2004, Danford *et al.*, 2008). Whilst Danford *et al.* (2004) found evidence of increased efficiencies in the aerospace industry as a result of implementing working practices akin to a HPWS, efficiency in this respect related to a reduction in employee numbers and limited opportunities for skills development and information sharing.

The shortcomings of existing research findings on HRM-P has led academics to call into question the extent to which the relationship exists and whether so-called 'high performance work practices' provide advantages in excess of traditional personnel practices or just plain old 'good management' (Godard, 2004, Richard and Johnson, 2004, Sung and Ashton, 2005). Godard (2004), in his critical review of the HRM-P paradigm, suggests that claims of 'superior performance outcomes may be unwarranted' (p349) and that 'the problems run deeper than proponents of the high-performance paradigm assume' (p371). Rather than act as a catalyst for further research, criticism appears to have led to a reduced interest in research on the HRM-P paradigm (Guest, 2011).

Figure 2.2: The trend in publications on HRM-P



Source: Appendix 1, p295

As Figure 2.3 illustrates, the number of published journal articles on key research within on HRM-P peaked in 2007 and has since begun to decline, but why? Is it because researchers have found the answer so attention has now turned to other challenges? Are other labels now being used (Spell, 2001)? Aside to these questions what is important is the acknowledgment that:

‘...there is a danger that we will let the weeds grow under our feet as we try to raise our sights to new challenges. Many of the basic questions remain the same and after hundreds of research studies we are still in no position to assess with any confidence that good HRM has an impact on organisational performance’ (Guest, 2011; p11)

2.3.2.3 Towards a causal-explanatory account of workplace practices in SMEs

The combination of the above related issues contributes to the continued failure and lack of effort in establishing the underlying mechanisms and processes at work in the black box between HRM practices and organisational outcomes in SMEs. This promotes thin explanation, results in a problem of under-theorisation (Fleetwood and Hesketh, 2008) and leads to what Ghoshal (2005) refers to as the ‘pretence of knowledge’ within the field of management:

‘....[management] theories are, at present, destroying good management practices.....[researchers] increasingly adopt a narrow version of positivism together with relatively unsophisticated scientific methods to develop causal and testable theories....combined with the pretence of knowledge, this ideology has led management research increasingly in the direction of making excessive truthclaims based on partial analysis and both unrealistic and biased assumptions’ (p77).

This predicament is worrying when one considers that management theory can and should catalyse a change in the behaviours of practising managers (Ghoshal, 2005, Pfeffer, 2005). Academics recognise that as management theory informs management practice, management theory can itself become ‘self-fulfilling’ as:

‘dominant assumptions, language, and ideas of economics can exercise a subtle but powerful influence on behaviour, including behaviour in organizations, through the formation of beliefs and norms about behaviour that affect what people do and how they design institutions and management practices’ (Ferraro *et al.*, 2005; p20).

However, it would appear that the predominance of inadequate management theory has led to the downgrading of the management discipline by practising managers as a source of useful knowledge. Scholars assert that practising managers would rather rely on their own idiosyncratic judgement or local sources of information (Guest, 2007) than (bad) management theory. By bad theory we are referring to the lack of consensus and clarity that has developed as to what HRM is and the links it holds with performance, a predicament promoted through the pursuance of individual research agendas at the expense of more integrative and applied conclusions (Pfeffer, 1993, McKinley, 2010). It is argued that researchers must take a greater responsibility for the texts they craft and the language used (Lado *et al.*, 2006), and not get caught in exploiting language that presupposes a positive relationship (Wall and Wood, 2005). In an ideal world researchers should be held accountable for bestowing clarity in how their constructs, concepts and variables differ (Bacharach, 1989) and advance research that is comprehensible within and outside of the research community, therein stimulating creativity (Suddaby, 2010).

It is argued that adequate solutions to the predicament outlined above will not come from doing more and/or better empirical work, referred to as 'mindless empiricism' (Starbuck, 2004). We cannot simply determine or predict how the social world will (re-)act in the future. Other events exist independent of our observation of them and mediate the effects of these observed events (Webb, 1995, Benton and Craib, 2001). Research should shift concentration from the purely formal properties of organisations, which were earlier argued not to be easily observable in the SME context, to include understanding of the way in which work is accomplished on a daily basis (Bryman, 2004). Fleetwood and Hesketh (2010) capture this point parsimoniously:

'.....most of the important features of HRM practices and organisational performance are naturally qualitative, inherently complex, multidimensional, evolving and often subjective. The basic problem, as we see it, is that whilst much of the social world can often (albeit with great difficulty) be understood, it often cannot be (quantitatively) measured, at least not meaningfully.' (p22)

If we are to develop further theoretical insight and build a better understanding of causation research must begin to move away from thin scientific accounts that report the 'what' of HRM, towards building thick and robust causal-explanatory accounts of the underlying mechanisms that explore 'how' and 'why' workplace practices and performance are explained in SMEs

(Fleetwood and Hesketh, 2010). This marks a seachange in philosophical approach from traditional predictive, inductive and deductive modes of inference that characterise scientific explanation, towards the more explanatory modes of abduction and retrodution that characterise understanding (Schwandt, 1994, Hesketh and Fleetwood, 2006, Van Maanen *et al.*, 2007).

Whilst the above commentary has outlined some of the dominant criticisms of management research one might ask: where do we go now? Our next step will therefore be to explore a form of social research inquiry that is more appropriate. Whilst setting out our stall we will be careful not to become preoccupied with philosophical discussion, as this alone would require a separate study. Hence this section will engage in the key philosophical debates whilst remaining direct and purposeful in order that we can get down to the task in hand; the advancement of a good social research inquiry which is more capable of developing theory to explain the relationship HRM hold with performance in SMEs.

2.4 Unpacking HRM-P in SMEs

In reading the previous sections one will have become increasingly aware that existing research on HRM-P in SMEs is limited in explanatory power. Academics are critical that size has preoccupied the debate on small firm HRM promoting uncritical and simplistic HRM research (Wilkinson, 1999, Marlow, 2006, Gilman and Edwards, 2008). Size and formality are clearly important as variables, but may not form a focus within their own right. The burning question is not so much the extent to which human capital is important, but rather how these resources lead to superior performance (Boxall and Purcell, 2003) in SMEs. Research must more readily focus on establishing the underlying mechanisms that explain *how* and *why* HRM influences the performance of SMEs. This will only be possible through the use of research methodologies that are capable of capturing, interpreting and understanding the complex interplay of workplace practice with wider causal structures. In order to advance a suitable approach this section will attempt to examine how one might begin to develop more convincing theory on the link between HRM and performance in SMEs before building a suitable conceptual framework to operationalise this social research inquiry.

2.4.1 Addressing questions of ‘why’

In order to develop existing and/or new theory on HRM and performance one must be capable of critically engaging with theory (Alvesson and Kärreman, 2007). Understanding the

components of good theory is therefore important (DiMaggio, 1995, Sutton and Staw, 1995, Weick, 1995). Aside from the fact that theoretical statements must organize and communicate (Bacharach, 1989) what should theory do? The importance placed in defining what a theory is was reinforced through special editions of the *Academy of Management Review* (1989) and *Administrative Science Quarterly* (1995) both of which provided a space for academics to debate how one might go about making a theoretical contribution. Hidden within these debates were the following definitions (emphasis added):

'[theory is]...a statement of relationships between units observed (e.g. variables) or approximated (e.g. constructs) in the empirical world....The primary goal of a theory is to answer the questions of how, when, and *why*, unlike the goal of description, which is to answer the question of what' (Bacharach, 1989; p496).

'What. Which (factors, variables, constructs, concepts) logically should be considered as part of the explanation? How. How are they related? *Why*. What are the underlying psychological, economic or social dynamics that justify the selection of factors and the proposed causal relationships...What and How describe; only *Why* explains...' (Whetten, 1989; p491)

'....theory is the answer to queries of *why*. Theory is about the connections among phenomena, a story about why acts, events, structure, and thoughts occur' (Sutton and Staw, 1995; p378).

Whilst these definitions do not entirely agree with one another, what was clear is that (good) theory must answer questions of what, how and why. Criticism lies at the door of much of the research that falls within the HRM-P paradigm due to its overbearing concentration on what at the expense of how and why (Fleetwood and Hesketh, 2008). HRM academics have concentrated their efforts on testing weak and formless models of high performance. Given the undeveloped nature of smaller firm research emphasis must shift away from theory testing towards theory development (Shaw, 1999, Bryman, 2004) and identifying the underlying mechanisms that cause SMEs to operate and perform as they do.

We will never be in a position to answer 'why' type questions and thus, develop better theory on HRM-P in SMEs if we continue to assume that events occur in a regular and predictable fashion. To put it another way, answers to 'why' are not illuminated through observation alone

(i.e. what someone is doing), but through explanation (i.e. reasons why someone does what they do) (Benton and Craib, 2001). The HRM researchers must therefore, adopt a philosophical approach that will enable them to move away from traditional predictive, inductive and deductive modes of inference that characterise scientific explanation, towards the more explanatory modes of abduction and retrodution that characterise understanding (Schwandt, 1994, Hesketh and Fleetwood, 2006, Van Maanen *et al.*, 2007). An approach that in turn supports a more robust explanation and the all necessary reverse discovery process:

‘As a foundation for inquiry, abduction begins with an unmet expectation and works backward to invent a plausible world or a theory that would make the surprise meaningful’ (Van Maanen *et al.*, 2007; p1149)

In order to advance a causal-explanatory account of HRM and performance in SMEs, therein developing robust explanations and theoretical insight, it is acknowledged that one must adequately consider the connection between their research, theory, epistemology and ontology (Bryman, 2004). Whilst the specific research methods to be used to operationalise this social research inquiry will be explored at greater depth in the method chapter, it is appropriate at this juncture to explore the researchers overarching metatheoretical approach making explicit their epistemological and ontological assumptions before considering an appropriate conceptual framework.

2.4.2 Reaching agreement on an appropriate meta-theory

To select the most appropriate inquiry methods one must take due consideration of their overarching meta-theory (Creswell, 2003). Meta-theory refers to ‘the philosophy of science, ontology, epistemology, methodology, aetiology, research techniques, prediction, explanation and the way all this relates to theory’ (Fleetwood and Hesketh, 2010; p116). By adopting a particular meta-theory a researcher makes explicit their epistemological and ontological assumptions. It is these assumptions that will inform the methods that are most suited to animate this research inquiry and towards which our attention will now turn.

Scholars propose that realism can provide a credible alternative to positivism and postmodernism (or social constructivism) (Ackroyd and Fleetwood, 2000, Fleetwood and Ackroyd, 2004, Edwards, 2006) with positivism being widely criticised for neglecting the underlying mechanisms at play (answering why), and postmodernism (or social constructivism) argued to be preoccupied with the social processes through which people give

meaning to things, potentially ignoring 'the influences of structures that lie outside the processes of social construction' (Edwards, 2006; p4). It is argued here that realism offers the researcher more than just a half-way house affording recognition of those entities that exist independent of our observations of them, that are knowable but not directly accessible, with the end goal being to provide a logical account of their meaning without appearing naive (Hammersley, 1998, Ackroyd and Fleetwood, 2000).

The realist approach to social research inquiry has more recently gathered pace within HRM and the wider management field and could play a significant role in placing the HRM train back on the right track. The belief is that realism may well enable researchers to move away from the overbearing concentration on performance enhancing effects of HRM to a more progressive theme of research, thereby developing '...research that builds on what has gone before, to improve conceptualization of the phenomenon in question and to advance explanation of its causes and consequences' (Edwards, 2006; p5). Realism is not seen as antithetical to big science and is also considered to be sensitive to other established fields in its support for context-sensitive research that can offer more convincing explanatory accounts (Edwards, 2005). Additionally, realist perspectives provide the tools through which researchers are able to consider the idiosyncratic and particularistic nature of HRM in smaller firms (Edwards, 2005, Taylor, 2006), in response to the, often complex, interaction of phenomena.

Therein the goal of this social research inquiry will be to build a detailed insight into social reality. From a realist perspective, this is achieved in giving priority to questions of ontology over epistemology (Benton and Craib, 2001). Epistemology concerns knowledge of what things exist and ontology concerns the study or theory of what things exist (Bryman, 2004, Fleetwood and Ackroyd, 2004). Attention moves away from what can be observed to understanding the social world as it is (Fleetwood and Ackroyd, 2004). As explored above, much of the current research within the HRM-P paradigm fails in its attempt to offer a robust explanation because it reduces ontology to epistemology and commits what is known as the 'epistemic fallacy' whereby studies reduce what is not known or observable to what is.

Ontology from a realist perspective is 'layered', rather than 'flat' (see Table 2.1 for a tabular representation). A realist perspective therefore ensures that researchers are not restricted to merely what can be measured (i.e. the empirical) or what occurs (the actual) but that access is provided to the real, also referenced as the domain of the 'deep', which causes the actual to occur (Easton, 2010a). It is here where one can begin to appreciate the underlying causal

mechanisms, structures and agency that produce and reproduce event observations: ‘In this domain are deep social structures such as mechanisms, institutions, rules, conventions, resources, (non-human) powers, and so on’ (Fleetwood and Hesketh, 2010; p137). The ability to move vertically through domains has been likened to the process of peeling layers off an onion (Paauwe, 2004) in enabling researchers to answer how and why things occur as they do (Edwards, 2005). As established earlier, it is believed only through answering why will we ever be in a position to truly understand and therein build more convincing HRM theory.

Table 2.1: Ontological assumptions of the realist view of science

Domain	Entity
Empirical	Experiences, perceptions
Actual	Events and actions
‘Deep’	Structures, mechanisms, powers, relations

Source: Adapted from Ackroyd and Fleetwood (2000; p29)

It is argued here that the adoption of a realist perspective within this social research inquiry will provide the researcher with the ability to capture the inherent complexity and change that is present in the world of the growing SME. This relates to the fact that (and one touched upon earlier) relationships are often not reducible to efficiency-based transactions, workers are not simply rational beings that always respond in predictable ways, and the workplace does not operate in isolation to intrinsic (e.g. individual) and extrinsic (e.g. environmental) influences. Events do not occur regularly or consistently fashion (Fleetwood and Hesketh, 2010).

Through the adoption of a realist stance one is better able to appreciate the power and knowledge embedded within social norms that shapes the behaviours of human agency being characterised by the ‘the ability to have done otherwise’ (Fleetwood and Hesketh, 2010; p209). Time must therefore, be devoted to understanding what guides the behaviour of agents, with (external) institutions and (social) structures being seen to hold significant power. Institutions can be thought of as systems of established rules, conventions, norms, values and customs (Fleetwood and Hesketh, 2010), whilst structures are sets of simultaneously constraining and enabling rules and resources established through human relations and interaction (Ackroyd and Fleetwood, 2000; p30). Although a power endures this does not mean it will be exercised. Fleetwood and Hesketh (2010) provide an apt example:

'An employee has the exercised power to work effectively in the sense that she may be highly productive or highly value-adding. Or she may not. Poor management, for example, may prevent actualisation of this power' .

Therefore, the reason why individuals act as they do is as a result of the complex interplay of agency, institutions and social structures. It is here that the realist researcher can build understanding through the acknowledgement that ontological layers interact and influence behaviour (Ackroyd and Fleetwood, 2000). It is here some form of triangulation can help to bring greater validity to research on HRM-P by acknowledging the fallibility of knowledge and revealing different features of the same layered reality (Downward and Mearman, 2007). As will be explored at greater length within the method section, this social research inquiry will look to collect wide range of hermeneutic material capable of providing a clearer understanding as to how HRM and performance are related. The aim being to replace a thin explanation with a thick explanation through the development of a causal-explanatory account.

Given the philosophical assumptions outlined above, and prior to establishing the research methods to be employed by this study, it is important to build a conceptual framework that can be used to drive this social research inquiry. In an attempt to define the elements that can be empirically examined the next section will explore a range of frameworks that attempt to offer a more dynamic alternative to dominant research in the HRM-P paradigm. It is hoped that such an approach will provide an opportunity to address the many weaknesses of existing research and provide insight to the role that HRM plays in the performance of SMEs.

2.4.3 Developing a conceptual framework

What has become increasingly apparent throughout this literature review is that existing HRM theory remains inadequate in its ability to explain how and why HRM influences the performance of SMEs. Whilst existing research has identified flexibility and informality as two of the most commonly cited features of any small firm (Edwards and Ram, 2010), what they mean in their totality and the true nature of SME performance appears largely overlooked within HRM texts. There still exists no holistic framework that might explain the relationship between HRM and performance; understanding, it is argued, that will only come through a fundamental change to researchers underlying metatheoretical approach (Fleetwood and Hesketh, 2010). New approaches must embrace complexity through the analysis of a rich range of hermeneutic material to illuminate the embedded nature and social context of HRM and performance.

If we are to understand the relationship between HRM and performance in SMEs we must move beyond simply highlighting how firms differ (Arthur & Hendry, 1992; MacMahon, 1996), towards understanding why they differ. It is argued that a fuller understanding of the role that HRM plays in the performance of SMEs will only be made possible if one moves away from linear closed system models that dominate much of the research within the HRM-P paradigm towards open system models that appreciate how the external context and internal dynamics of the firm interact (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). In doing so, rather than sidestep the performance debate and concentrate solely on the how and why of HRM in SMEs⁷, this thesis will embrace the challenge of building a new conceptual framework that is capable of progressing a context-sensitive examination of growing SMEs (Edwards, 2005) thereby investigating *the role that HRM play in the performance of SMEs*.

The development of a new conceptual framework was informed by existing frameworks identified during the literature review; these are presented in Table 2.2.

Table 2.2: Comparing frameworks of HRM in context

<i>ID</i>	<i>Author(s)</i>	<i>Year</i>	<i>Title</i>	<i>Firm size</i>
1	Arthur & Hendry	1990	Forces Affecting HRM, Emergent Strategy and its Outcomes in Small-Medium Business Units	SME
2	Jackson & Schuler	1995	Integrative Framework for Understanding HRM in Context	Not defined
3	MacMahon	1996	Process Model of Employee Relations in Small Firms	SME
4	Paauwe	2004	The Contextually Based Human Resource Theory	Large
5a	Edwards <i>et al.</i>	2006a	Illustrative Forms of Organisation and Embeddedness	SME
5b	Edwards & Ram	2006b	Interaction of Product Market, Labour Market and Kinship Relations	SME
6	Harney & Dundon	2006/7	Open Systems Conceptual Framework of Factors Influencing HRM in SMEs	SME
7	Gilman & Edwards	2008	Illustrative Forms of Organisation and Embeddedness	SME

⁷ The contextual frameworks outlined in Table 2.2 remain largely untested. Those that are tested empirically (e.g. MacMahon, 1996; Edwards *et al.*, 2006; Edwards & Ram, 2006; Harney & Dundon, 2006) largely ignore the growth and performance with the exception of Gilman & Edwards (2008) who include fast-growth innovative firms within their sample.

It was believed that a combination of *a priori* contextual frameworks on employment relations and labour management practices in SMEs would permit a more meaningful understanding of how and why HRM influences performance in the context of SMEs. This new conceptual framework places emphasis on explanation rather than statistical analysis, views organisations as open, not closed systems, views the social world as complex, contingent and emergent, and recognises the influence of HRM on performance translates into an unstable equilibrium of enabling entities and mechanisms.

Each framework was cross-examined and a broad range of determinants which might explain firm behaviour were found (see Appendix 3, p319 for a full breakdown), these included: ownership; industry sector; size; growth; resources (e.g. human and social capital); institutions (e.g. legal, social, political, unions influences); the nature of the product and labour market (e.g. influence of technology, customers and suppliers); organisation, management style; working practices; and, rules and routines. The remainder of this section will now explore these dynamics in the above order, prior to including these dynamics in a robust conceptual framework better able to capture the role that HRM plays in the performance of SMEs.

Ownership

The importance of the dynamics of firm ownership has been alluded to by a number of authors (e.g. Arthur and Hendry, 1990, Edwards and Ram, 2006, Harney and Dundon, 2006) with the nature and extent of familial and kinship relations being seen to influence a firms approach towards HRM. As argued earlier, one cannot assume that the principal-agent relationship is either rational or simplistic. Workers are not merely subservient to management demands, being capable of influencing the reward-effort bargain. It is therefore argued that researchers must place greater attention on how knowledge and power manifest themselves in the employment relationship (Townley, 1993, Blasi and Kruse, 2006, Edwards, 2006). Goss (1991) defines four distinct proprietorial styles, namely: fraternalism; paternalism; benevolent autocracy; and sweating; as reported in Figure 2.4.

In so doing Goss (1991) draws attention to the dynamic of ownership through two related concepts: power and control, which are determined by:

‘the dependence of the employer upon particular employees and vice versa; and the power of workers individually or collectively to resist the exercise of proprietorial control’ .

Figure 2.3: Types of employer control in smaller firms

Extent of employer's economic dependence upon employees	High	1. Fraternalism
	Low	2. Paternalism 3. Benevolent Autocracy 4. Sweating
		High Low
		Ability of employees to resist the exercise of proprietorial prerogative

Source: Goss (1991; p73)

Each of these employer control strategies is reflective on the one hand of the ability for employees to resist proprietorial prerogative and on the other in the ability for the employer to define the employment relationship. Employers that exhibit a fraternal approach afford employees greater discretion and autonomy in their roles, in contrast to benevolent autocracy or sweating in which the employers make few concessions for employees as skills are not seen to be central to competitive advantage and are relatively cheap and plentiful in the labour market.

In his longitudinal study of clothing manufacturers in the West Midlands, Ram (1994) extended out understanding of power and control as a complex and constantly changing phenomenon, played out through a form of 'negotiated paternalism'. Ram (1994) notes that 'workers were not passive in the face of authoritarian managements; they would endeavour to alter the terms of the effort bargain if they felt that they were not 'fairly' rewarded...the stockpiling of work and 'modifying' the role of supervisor...cannot be regarded as deliberate strategies of resistance. Rather, they were opportunistic and pragmatic actions by workers attempting to secure a degree of stability over their earnings'. Moule (1998) provides further insight into the world of small firm manufacturers in the clothing industry through a detailed case study; that of Button Co. The author found evidence of particular strategies used by employees, so-called 'workplace fiddles', to facilitate worker's negotiations with management and in turn demonstrated the notion of leeway between management and employees.

This study should also acknowledge the role played by a broad range of actors and stakeholders in addition to direct shareholders and employees (Beer *et al.*, 1984, Hendry and Pettigrew, 1990). The views and status of these actors, referred to as the 'dominant coalition' by Paauwe (2004), will inevitably influence the way the firms approaches HRM and its

consequences. The explanatory approach adopted within this social research inquiry will ensure that adequate attention is given to the mix of conflict and co-operation inside the firm (Kochan, 1997) recognising that there are both 'positive' and 'negative' aspects at work (Chua *et al.*, 2003, Sirmon and Hitt, 2003).

Industry sector

The nature of a firm's industry sector has been noted to play a key role in the approach taken towards HRM at local, national and international levels (Arthur and Hendry, 1990, Jackson and Schuler, 1995, Harney and Dundon, 2006, Gilman and Raby, 2012). Evidence has noted that firms may orient their work systems in response to the nature of technology and skills within their specific sector (Guest, 2001, Boxall and Purcell, 2003, Edwards and Ram, 2006) and may be less willing to invest in sophisticated work systems if work is relatively low skilled and labour is relatively cheap (Guest, 2001). One might argue that prior studies have concentrated on particular subsets of firms⁸ which has meant that appropriate comparative contextual evidence is currently lacking.

Size

The influence of firm size has been included in a range of contextual studies (e.g. Arthur and Hendry, 1990, Jackson and Schuler, 1995, Harney and Dundon, 2006) and is an area that has attracted considerable debate over recent years. The time and energy devoted to the size debate alone demonstrates the significance of the SME sector to the UK and wider EU. Prior to the agreement of a common EU definition for what constitutes an SME, scholars have used a range of definitions when progressing HRM research⁹ and continue to do so outside of the EU¹⁰. Academics have even been found to sidestep such classifications (Cardon and Stevens, 2004) or purport to investigate SMEs but in reality fail to do so¹¹. This is problematic not only in that firms of varying sizes will have very different management and organisational needs, but comparing studies is inherently difficult. This debate has led to size warranting undue

⁸ For example, Edwards *et al.* (2006) study concentrates on retail (restaurants and catering) and manufacturing (clothing and food) trades that are experiencing high levels of competition. Gilman & Edwards (2008) concentrate on high tech firms. Whilst Harney & Dundon (2006) covers a wider cross section of firms their study fails to explore HRM-P, preferring to focus their efforts on how and why SMEs adopt HRM.

⁹ For example, Hornsby & Kuratko (1990) define an SME as one with less than 150 employees and McMahon (1996) include those firms with less than 100.

¹⁰ For example, US studies typically define an SME as having fewer than 500 employees.

¹¹ Harney and Dundon (2006; 2007) allege to investigate 'SMEs' but medium-sized firms are found to make up the majority of their sample.

attention, with research being ‘concerned more with prescribing what small business ought to be than with analysing what it actually is’ (Goss, 1991), with early dichotomies of size and formality, explored in depth earlier within this review, providing a relatively emaciated understanding of employment relations in SMEs.

Growth

It is widely accepted that there still exists no universal model or theory that explains why firms grow (e.g. Leitch *et al.*, 2010, Storey, 2011, Wright and Stigliani, 2013). The most widely referenced theory of growth is that of the ‘stage of growth’ theory. This theory, founded upon the principles of organic life forms, views organisational growth and decline to be a rational, linear and inevitable process. Research of this nature however, suffers from weaknesses not dissimilar to that of research that falls within the HRM-P paradigm. The ‘stage of growth’ models are based on weak theoretical foundations, and adopt largely positivist and quantitative approaches to test often small and limited datasets (Leitch *et al.*, 2010). Studies also, more often than not, rely on self-reported managerial data.

It is now well known that growth is not predictable, and the majority of firms do not grow or aspire to grow (Wright and Stigliani, 2013), at least not on a continuous basis (Storey, 2011). To make such an assumption would be, to use Storey’s term, a ‘one-way bet’. Indeed, Storey takes this further to suggest that growth is a game of chance influenced by the optimism of, and the resources available to, individual entrepreneurs. This is a view that is contested heavily in its failure to explore, in adequate depth, the latest research in the field of entrepreneurship (Westhead and Wright, 2011).

Whilst provocative, Storey places the business owner at the centre stage of the growth debate arguing that the human capital (e.g. education, learning, attitudes, prior experience and propensity to network) of individual business owners is central to understanding how and why entrepreneurs make the decisions they do (Leitch *et al.*, 2010, Wright and Stigliani, 2013). The distinction between the entrepreneur and the firm is an important one to recognise as the rationale for growth can vary by stakeholder group (Gibb, 2000). For instance, an entrepreneur’s focus may well be on profit maximisation, whereas policy makers typically focus their attention on employment growth. Through a policy lens there could be a danger that big firms are viewed as ‘beautiful’ and slow growth (e.g. in employment) is associated with poor performance (Leitch *et al.*, 2010).

The significance of an entrepreneur's human capital is reinforced by Levie and Lichtenstein (2010). Through their systematic review of 'stage of growth' theories Levie and Lichtenstein find no evidence of a consensus as to what a stage of growth actually is and, as a consequence, propose that firms exist in a dynamic state which is open, complex, adaptive and in a continued state of disequilibrium. Central to their argument is that organisational success is based upon achieving the best possible match between an organisation's business model and the market potential. How entrepreneurs configure the resources available to them to maintain this dynamic state and the roles of complexity and uncertainty (Colvin, 2006, Phelps *et al.*, 2007) and firm context (Levie and Lichtenstein, 2010, McKelvie and Wiklund, 2010) are therefore, of central concern to researchers. In order to sustain this fit, entrepreneurs must 'see' and 'act upon' opportunities and match these with, and reconfigure, existing resources (McKelvie and Wiklund, 2010).

The specific human resources available to the firm is considered to be a key component in a firm's ability to adapt and change (Dervitsiotis, 2003) and the management of human resources is identified as a core growth-related issue (Cowan, 1990, Dodge and Robbins, 1992, Kotey and Sheridan, 2004). Indeed, research reveals how the process of growth influences a firm's approach towards HRM (e.g. Kotey and Sheridan, 2004, Harney and Dundon, 2007). In a study of HRM practices in small growing firms in Australia, Barrett and Mayson (2007) noted that growing firms are more likely to use formal recruitment and selection practices than non-growing firms. Evidence also demonstrates the use of more informal recruitment strategies during the early start-up stages, for instance with owner-managers displaying preference for personal business networks as a key source of talent (Leung, 2003).

In an attempt to gain greater clarity as to the relationship between HRM and growth the literature review took account of the body of literature on growth¹². The focus of this review was to identify the way in which HRM was influenced by growth. Evidence was found of clear HRM-related themes within those growth models studied. Whilst these will be presented in order of incidence across those studies reviewed, commencing with the HRM-related growth transition considered most common, there was a general lack of consensus across growth studies as to their individual importance

¹² The author undertook a review of stage-of-growth models published between 1967 and 1998. See Appendix 2, p309, for a comprehensive breakdown of growth models and their associated HRM styles.

Delegation: The delegation of tasks is found to be of greatest importance, denoting a transfer of decision making power from the owner-manager to employees within the firm. Scholars point to the changing nature of the owner-managers role in response to firm growth that inevitably impacts upon the employment relations style adopted (Clifford, 1973, Scase and Goffee, 1982), increasing the need for greater levels of delegation.

Formalisation: The second most prevalent HRM-related challenge is the formalisation of reporting lines and organisational structures, signalling a move from a less formalised to more formalised organisation. As we found earlier, formality has been noted as a common feature of HRM models (Levie and Lichtenstein, 2010). Whilst evidence notes that innovative capacity, considered by some as an important distinctive capability for smaller firms, may be impeded by more formal structures and systems (Kimberly, 1979, Baron and Hannan, 2002), the extent to which formality can act as a hindrance or facilitate the growth of SMEs is little understood.

Skills development: The third most prevalent HRM challenge relates to the introduction of more professionally oriented management skills. A central HRM-related growth challenge relates to the transition in the role of the owner-manager from one of 'doing' to one of 'managing' (Ardichvill et al., 1998). Galbraith (1982) describes this as the move from a quarterback to a player/coach, summed up parsimoniously by Churchill (1983; p10): 'he or she must spend less time doing and more time managing....the inability of many founders to let go of doing and begin managing and delegating explains the demise of many businesses'.

Working practices: The new found reliance placed upon other members of the organisation by the owner-manager introduces a fresh range of HRM-related issues. Due to the increasing reliance placed upon other members of the organisation, the owner-manager must begin to design and implement suitable working practices that support delegation (Marlow et al., 2010). Whilst not covered to any great extent within the growth literature, practices that promote worker involvement and participation (Ciavarella, 2003) and increase skills levels and motivation were found embedded within the growth models.

Whilst the above review provides an insight to the many managerial challenges that result from growth (i.e. the outputs of growth) it is argued that such studies provide little insight into how firms grow (i.e. the process of growth) (Leitch *et al.*, 2010, McKelvie and Wiklund, 2010). An indication of the processes involved in growth is evident through a paper by Wright and Edwards (1998). In their study of teamworking practices at a large aluminium smelter in

Ireland, Wright and Edwards note that whilst the introduction of teamworking supported improvements in performance (e.g. productivity) it was the unique combination of shocks, technology, and management-union relations that provided the case for change. In effect, those workers who survived a severe shock (in this case through a series of redundancies) grew an awareness of the competitive environment that was challenging the firm and, as a consequence, took a more flexible approach to work. This evidence demonstrates that growth and performance as well being considered as output measures can also provide a stimulus for driving change within a firm. Sadly research of this nature in the context of smaller firms is lacking.

Academics continue to call for further qualitative and longitudinal research that sheds further light on our understanding of the processes that underlie growth, and how firms grow in different contexts (Leitch *et al.*, 2010, McKelvie and Wiklund, 2010, Wright and Stigliani, 2013)¹³. As will become apparent within the next chapter, the substantive focus of this research will be on a set of five detailed case studies, which will represent a sample of growing firms¹⁴. The argument here is that growth is an uncommon and important event that is worthy of further study (Levie and Lichtenstein, 2010). In addition, with the performance of these firms not in doubt, emphasis can instead turn to the impact of growth on HR processes, strategies and policies (e.g. Truss, 2001, Gilman and Edwards, 2008) helping to shed further light on the relationship between HRM and performance. Whilst this study is not longitudinal, the research will investigate the firm's prior growth and development path which will shed further light on the origins of HR practice (Guest, 2011) and the underlying processes involved in the growth of smaller firms.

Resources

The uniqueness of the knowledge and relationships between individuals and organisations has been noted as offering a significant potential to build firm competitive advantage through the resource-based view (RBV) (Sirmon and Hitt, 2003). Developing a deeper understanding as to how human and social capital evolve and interact within SMEs to create competitive advantage is important (Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). As highlighted earlier, the nature of family and kinship relationships have been found to influence firm behaviour (Edwards and Ram, 2006). One might however, criticise the existing research

¹³ Only Arthur & Hendry (1990) and Schuler & Jackson (1995) include 'growth stage' with their firm frameworks and limit their definition to an internal infrastructural characteristic.

¹⁴ Performance was assessed against the OECD (2000) definition of 'high growth'.

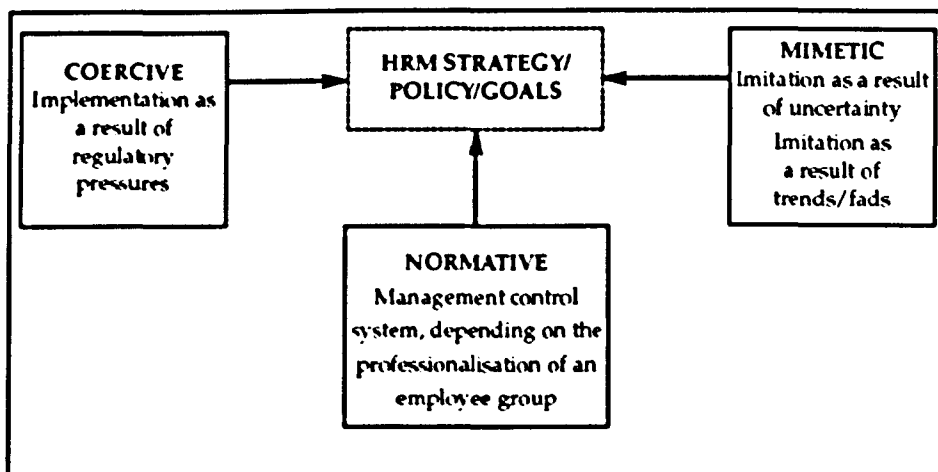
on HRM-P on its overbearing focus on the practices that impact human capital rather than human capital being a focus on its own right (Wright and McMahan, 2011). Researchers must refrain from treating human capital as just another form of capital owned and controlled by the firm and appreciate the complexity of human capital by developing:

‘...research that focuses on the resource that can provide competitive advantage rather than the tools and techniques used to build that resource’ (Wright and McMahan, 2011; p94).

Institutions

The legal, social and political environment has been noted by a range of contextual studies in playing a key role in driving firm behaviour (e.g. Ram, 1994, Ram *et al.*, 2001, Paauwe, 2004, Edwards and Ram, 2006, Edwards *et al.*, 2006). It is institutionalist social theory that acknowledges the embedded nature of these institutional pressures in driving firm behaviour (DiMaggio and Powell, 1983). A process of homogenisation, referred to as ‘isomorphism’, is suggested to arise from firm decision making that reflects upon three forces, namely coercive, mimetic, and normative; as depicted in Figure 2.5.

Figure 2.4: HRM and New Institutionalism



Source: Paauwe and Bosclie (2003; p61)

Coercive mechanisms are represented by political authorities and formal or informal pressures exerted by organisations the firm is dependent upon. Mimetic forces are those that drive a firm to copy or imitate others whether as a result of uncertainty or the latest management fads. Finally, normative mechanisms are embedded within educational and professional networks that result in particular norms brought into a firm through their management specialists (for

example accounting, marketing, and HRM). Institutional theory is seen to take account of change with small firms being noted to operate across different domains (Whittington, 1994), but not inimitability evolving from human agency.

Trade union presence has also been found to influence the approach towards HRM (Sisson, 1993, Wager, 1998) with trade unions being seen to form part of a wider coercive network (Bacon and Hoque, 2005). In addition, a study by Ram *et al* (2001) highlights the impact of changes to the National Minimum Wage and the Working Time Directive on small printing, clothing and hotel and catering firms. Through their investigations Ram *et al.* noted the influential role played by regulatory mechanisms in driving firm behaviour. Employers continued as normal, implemented more efficient labour management processes, or were driven out of the market altogether through increased costs.

Labour market

A firm's labour market has been noted to influence the approach towards HRM. Evidence outlined earlier denotes the limited access to HR expertise and formal qualifications in SMEs when compared to their larger counterparts (Forth *et al.*, 2006). The nature of skills available to SMEs may therefore act as a resource constraint, limiting the potential to develop HRM practices (Bacon and Hoque, 2005, Lado *et al.*, 2006). Ram (1999) and Scase (2003) in separate studies have also drawn attention to the role played by employee skills within the firm. Those employees with higher levels of skills may well command greater respect in the firm, translating into a greater opportunity for discretion and autonomy in their roles. Developing an understanding of HR supply in SMEs is therefore important.

Product market

The product market provides further insight to the nature of the competitive and coercive mechanisms that influence a firm's approach towards HRM (Paauwe, 2004). These include, but are not limited to, the types of technology available within the sector and subsequently embraced by the firm (e.g. Edwards *et al.*, 2006, Gilman and Edwards, 2008) and the nature of inter-organisational relationships between the firm and its customers and suppliers (Rainnie, 1989). Rainnie (1989) alludes to the latter through a typology that proposes four modes of small firm operation, namely: dependent; dominated; isolated; and innovative.

Dependent small firms are entirely reliant on large firms and as a result are driven to orient their operations (e.g. finance, working practices etc.) towards the requests of these large firms. Dominated firms compete against large firms, and in many respects are subservient to their larger counterparts whom define the rules of the marketplace and, as a result, drive the behaviour of smaller firms. Isolated firms exist within specific niches that are not viable for large firms to enter due to low profitability. These niches are typified by the existence of sweat-shops. Finally, innovative firms develop distinctive products/services, often with high risk attached, that they may later gain commitment from large firms to grow. The extent to which customers play a positive or negative role in driving firm behaviour is open to question (Ram, 2000, Scase, 2003).

Organisation

The influence of structure on organisations have been investigated by a number of scholars within contextual studies of HRM (e.g. Arthur and Hendry, 1990, Jackson and Schuler, 1995, Paauwe, 2004). Academics note that organisation should not only be used to refer to the way the workplace is organised in the present day, but should also include considerations of how the past has implicitly formed the development of structure (Paauwe, 2004). As outlined within the growth dynamic above, whilst not longitudinal, this study will take account of the nature of structural change and evolution.

Management style

Managerial style relates to the approach taken by management towards the regulation of the employment relationship and is seen as an important feature of all the contextual models reviewed. Edwards *et al.* (2006) propose that it is the extent to which management assert an authoritative approach towards the employment relationship, or permit greater participation from employees in managerial decision-making, that is of particular interest here. Harney & Dundon (2006) too draw attention to the importance of managerial style and the wider ideology of management.

SME managers are seen to attach varying levels of importance to personal autonomy, financial returns and managerial excellence, values which influence the approach taken towards employment relations issues and firm growth (Hay and Kamshad, 1994). Indeed, SME managers may place a greater value on their standing in society and a wish not to be socially marginalised (Stanworth and Curran, 1976) than the growth and performance of the firm *per*

se. Stanworth and Curran (In: Goss, 1991) provide context to the mindset of the proprietor through three entrepreneurial ‘latent social identities’: the ‘artisan’ who assumes most reward from autonomy and status; the ‘classical entrepreneur’ whose behaviour is motivated by the bottom line; and the ‘manager’ who seeks acknowledgment for the way they work with those internal and external to the business.

Accordingly, the owner-manager has been identified as a barrier to growth with evidence noting that those firms that introduce higher levels of managerial skills are more likely to sustain and grow (Hambrick and Crozier, 1985, Bullock *et al.*, 2004, Davila, 2005). Evidence confirms that increased levels of managerial expertise provides firms with the skills to diagnose and resolve particular issues central to growth, for instance in relation to a firm’s human resources (Tocher and Rutherford, 2009). However, studies also note that human and social capital of the owner-manager is important to overcome future points of crisis (Hill *et al.*, 2002).

The strategic approach taken towards the management of labour is also of importance. Following the rational design school, strategy is traditionally seen as a starting point for most models that fall within the HRM-P paradigm. However one might question the extent to which a purposeful strategy is the most appropriate starting point in smaller firms given that the emergent nature of strategy is emblematic of SMEs (Edwards and Ram, 2006, Harney and Dundon, 2007, Gilman and Edwards, 2008). Just because a rational strategy cannot be easily observed in SMEs one should not assume that decision making is merely accidental (Boxall and Purcell, 2003). Rather than conclude SMEs to be simply strategically deficient, effort must instead be directed towards understanding the process by which strategy forms and is influenced by internal and external dynamics (Jackson and Schuler, 1995).

Practice

Practice is typically seen as a component of ‘organisation’ or ‘rules and routines’ within other contextual models¹⁵ but, along with growth, will be singled out within this study. The dominant methodology used to test models of high performance considers the presence of practice as proof of existence and considers these as an output to a rational firm strategy and a precursor to firm performance (e.g. Huselid, 1995, MacDuffie, 1995, Ichniowski and Shaw, 1997, Appelbaum *et al.*, 2000). No such determinism is assumed here, but rather the dynamic

¹⁵ Although Gilman & Edwards (2008) do single out ‘reward’ practices within their analysis of small, high technology concerns.

nature of formality of HR practice (Marlow *et al.*, 2010) will be considered aside from the more implicit rules and routines that are embedded within the workplace. This study will qualitatively question respondents on the nature, content and coverage of HR practices and will retrospectively hang these practices on a framework of high performance¹⁶ derived from a comprehensive review of high performance models (see Appendix 1, p295).

Rules & Routines

Here it is argued that there are more implicit rules and routines embedded within the workplace that exist between workers, management and wider stakeholders that are not easily separable for the dynamics outlined above. Established rules, conventions, norms, values and customs can play a role in the approach taken towards HRM (Fleetwood and Hesketh, 2010). Organisational culture is also seen to be implicitly embedded within 'rules and routines' and is not meaningfully separated from it, referring to culture at national, sector, and workplace levels (Jackson and Schuler, 1995). In order to gain access to these rules and routines one must work at a deeper ontological level and it is argued here that this deeper analysis is what is missing from the archetypal surface level studies that fall within the HRM-P paradigm.

Building the conceptual framework

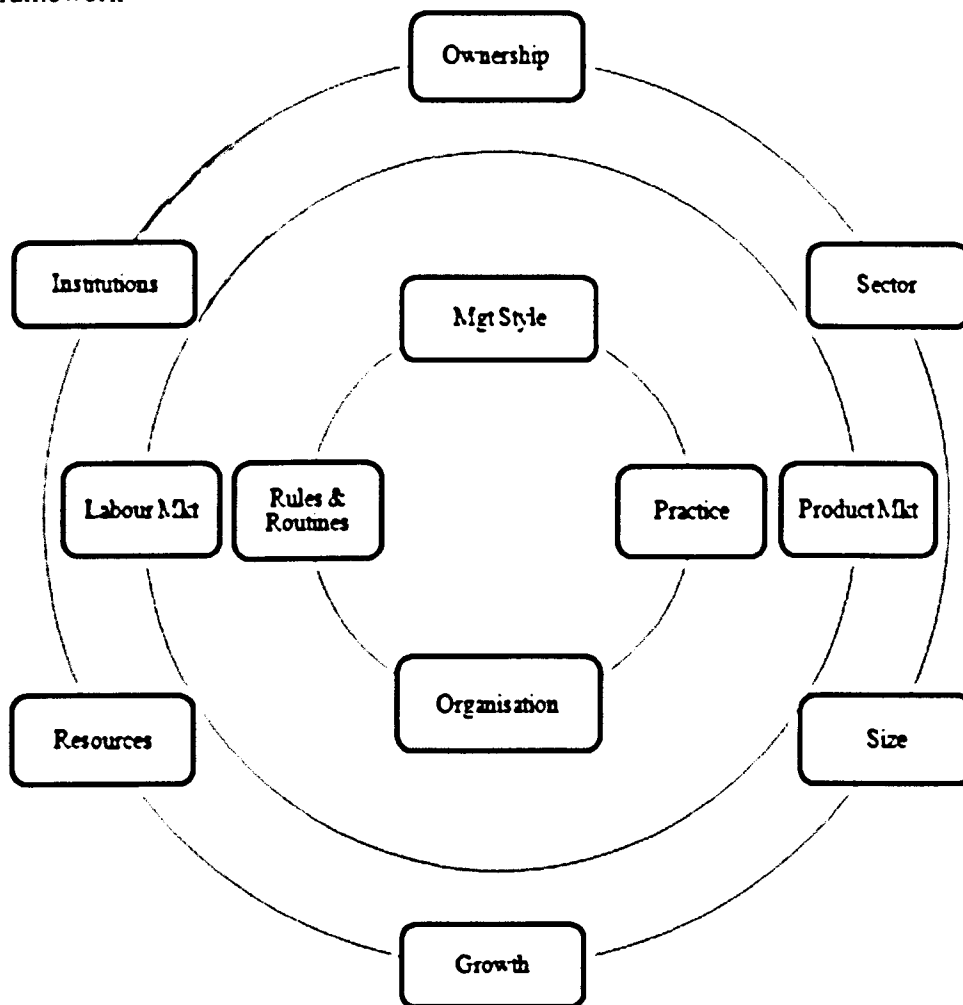
Having explored a range of dynamics that influence the behaviour of firms it is now appropriate to reflect these dynamics within a conceptual framework that can drive this social research inquiry; such a framework is presented in Figure 2.6. This new conceptual framework shares similarities to prior frameworks (for a full breakdown see Appendix 3) but also provides an opportunity to build new insight. This new conceptual framework builds on the work of Edwards *et al.* (2006) and Gilman & Edwards (2008) acknowledging the role of firm context in driving firm behaviour. Where this new conceptual framework differs is in the attention afforded to the dynamics of firm growth and performance and how they interact with HRM practice, an area that has been typically overlooked in other studies¹⁷. It is argued here that the influence of firm growth and performance on HRM has received little attention within HRM texts (Guest, 2011). As outlined above this research will select case studies of growing firms

¹⁶ Research participants were questioned as to their experience of a comprehensive set of 40 working practices.

¹⁷ Those contextual frameworks that have been tested empirically (e.g. MacMahon, 1996; Edwards *et al.*, 2006; Edwards & Ram, 2006; Harney & Dundon, 2006) largely ignore the growth and performance with the exception of Gilman & Edwards (2008) who include fast-growth innovative firms within their sample.

and will also include growth as a separate determinant helping to build key empirical and theoretical insight into HRM-P in SMEs.

Figure 2.5: Exploring how HRM & performance is explained in SMEs: a conceptual framework



Furthermore, this new conceptual model provides an opportunity to explore the interaction and influence of a range of dynamics and relationships in their totality and how and why these influence the performance of SMEs, something that has not been achieved within any prior study. Whilst others have chosen to distinguish between the internal and external dynamics of the firm (e.g. Arthur and Hendry, 1990, Jackson and Schuler, 1995, MacMahon, 1996, Harney and Dundon, 2006) it was considered that it was neither helpful nor warranted to provide this distinction within this study. This new conceptual framework is not prescriptive in the relationships or direction of causation that will result, but instead focussed on examining the interplay of a range of determinants in greater detail, and how these determinants influence HRM and performance in SMEs.

2.5 The contribution of this thesis

It is without doubt that SMEs play a vital role in the modern economy, acting as a key catalyst for employment, value and innovation generation (European Commission, 2005, BERR, 2008). It is also understood that HRM can play an important strategic role within SMEs to support their competitiveness (e.g. Sung and Ashton, 2005; Edwards et al., 2009). The notion of 'high performance working' relates to the belief that a set of HRM policies and practices that together emphasise involvement, commitment and competences of the employee (Osterman, 2006) can help firms develop a sustained competitive advantage (Barney, 1991; Macky and Boxall, 2007). However the extent to which high performance working is within reach of small firms is questionable given that HRM research typically portrays SMEs as informal and resource deficient, lacking the necessary capabilities to develop HRM practice.

Further understanding of how HRM influences the performance of smaller firms appears hampered however, through a belief that formal practices of (larger) firms can and should be applied to smaller firms. Additionally, HRM should be, but is frequently not, more than a vehicle for delivering predictions (Fleetwood and Hesketh, 2010). HRM research typically places an emphasis on epistemology over ontology, reduces what is not known to what is, and presumes that behaviour is rationale and predictable. This approach overlooks the fact that the real world is open, complex and not reproducible. What this leads to is empirical evidence of 'what' practices are correlated with measures of performance, but not 'why'. As a consequence existing research on HRM and performance in SMEs lacks necessary theoretical development and, hence, explanatory power (Fleetwood and Hesketh, 2008).

In addition to the above, few studies provide insight to how firms grow (Leitch *et al.*, 2010, McKelvie and Wiklund, 2010) and how growth interacts with HRM. Research on growth focuses on the managerial challenges that occur as a result of growth, often neglecting the underlying processes involved in growth. Understanding how human capital influences the way in which business owners make decisions (Leitch *et al.*, 2010, Wright and Stigliani, 2013) and configure resources available to them is central to this debate. In addition, performance has also been found to play a role in driving change within firms (Wright and Edwards, 1998). However, qualitative research on the nature of 'shocks' is underdeveloped in the context of smaller firms. Academics continue to call for further qualitative and longitudinal research that sheds further light on our understanding of the processes that underlie growth, and how firms grow in different contexts (Leitch *et al.*, 2010, McKelvie and Wiklund, 2010, Wright and Stigliani, 2013).

In order to address these challenges in the context of smaller firms, this thesis has developed a new conceptual framework, grounded in prior discourse, which is capable of building new insight into HRM and performance in SMEs. It does this by building on *a priori* frameworks (e.g. Edwards et al., 2006; Gilman and Edwards, 2008) and giving greater voice to the dynamics of growth and HRM processes, strategies and policies, and how they interact with firm context. This new all-encompassing framework acknowledges a broad range of determinants that have the power to influence a firm's approach to HRM including: ownership, industry sector, size, growth, resources (e.g. human and social capital), institutions (legal, social, political, union influences), the nature of the product and labour market (e.g. influence of technology, customers and suppliers), organisation, management style, working practices, and rules and routines.

Taking a more holistic approach is critical if one is to address the prior criticisms of the literature and build robust causal-explanatory accounts of the underlying causal mechanisms that explain how and why HRM strategies, processes and practices influence the performance of smaller firms. It is argued here that the adoption of a critical realist perspective will help to address weakness of prior research by placing an emphasis on explanation over statistical analysis, viewing organisations as open not closed, and the world as complex, contingent and emergent (Fleetwood & Ackroyd, 2004; Edwards, 2006). Through a multimethod approach, this study will place an importance on establishing how a range of influences interact in their totality and how and why these influence the performance of SMEs.

The primary purpose of this research is to explain how and *why HRM influences the performance of SMEs*.

2.6 Research questions

In order to address the primary purpose of this research the following set of research questions have been identified:

RQ1): To what extent are SMEs adopting HRM practice?

RQ2): What form does HRM take in SMEs?

RQ3): Does a firm's approach to HRM alter in response to growth/performance challenges?

RQ4): What are the underlying [causal] mechanisms that determine the HRM approach taken by SMEs in response to growth/performance challenges?

RQ5): Does a particular SME model of HRM and performance exist?

It is intended that these research questions will contribute to the gaps that have been acknowledged in the literature regarding the infancy of research on the underlying mechanisms and processes at work in the black box between HRM and performance in SMEs. Our objective herein is to build upon what has come before by advancing research that is capable of a developing understanding of the nature and extent of HRM in SMEs, and how and why HRM influences the performance of SMEs. The next chapter will explore a credible research design and methodology that is capable of investigating these important research questions.

Chapter 3

Research Design and Methodology

3 Introduction

This chapter will set out the research design and methodology. In order to do so, this chapter will first outline the research problem that has emerged from the literature review, before restating the overarching research question and set of sub-questions that will form the foundation of this social research inquiry. Once the research questions have been restated attention will turn towards the adoption of an appropriate meta-theoretical stance, making explicit the researcher's epistemological and ontological assumptions, and how the exploitation of a realist philosophical orientation will provide a credible alternative to the contrasting positivist and postmodernist perspectives. Finally, the rationale for integrating particular quantitative and qualitative data collection methods will be explored as will the embedded ethical considerations that go hand in hand with social research.

3.1 Objectives of the research

3.1.1 The research problem

As noted in chapter 2, the existing HRM-P literature suffers from considerable weaknesses. To date, much of the existing HRM-P research has been focused upon larger firms. Allied with this is the predominance of scientific research methods that focus on the quantification of the relationship between surface level HRM practices and measures of organisational performance. This has meant that the literature provides little evidence of the underlying mechanisms and processes at work in the 'black box' between HRM and performance in SMEs.

It is argued that if we are to better understand the relationship between HRM and performance in SMEs we must move beyond simply highlighting how firms differ (Arthur & Hendry, 1992; MacMahon, 1996), towards understanding *why* they differ (Fleetwood and Hesketh, 2010). It is recognised that further work is required that is capable of examining the form that HRM takes within SMEs and how this impacts their performance. Thus, the primary aim of this thesis is to examine the role that HRM plays in the performance of SMEs. This will be

achieved through the collection of empirical material that is capable of exploring the impact of HRM on the performance of SMEs at a macro and micro level¹⁸.

3.1.2 Primary research objective & research questions *re-stated*

The primary aim of this research is to explain how and why HRM influences the performance of SMEs. In order to unpick this research objective, and as a consequence of the dynamic and exploratory nature of the research, it was deemed appropriate to use a range of research questions to drive the study rather than a set of hypotheses (Hart, 2005; Punch, 2005). This social research inquiry will focus on five research questions, namely:

RQ1): To what extent are SMEs adopting HRM practice?

RQ2): What form does HRM take in SMEs?

RQ3): Does a firm's approach to HRM alter in response to growth/performance challenges?

RQ4): What are the underlying [causal] mechanisms that determine the HRM approach taken by SMEs in response to growth/performance challenges?

RQ5): Does a particular SME model of HRM and performance exist?

Given the research questions outlined above, attention must now turn to the selection of an appropriate methodology that will address these questions appropriately; it is this that we shall next consider.

3.1.3 Designing a suitable methodology

Given the infancy of theory on HRM in SMEs coupled with the inherent weaknesses of research falling within the HRM-P paradigm outlined above it was considered highly inappropriate to use solely quantitatively-driven methods as has been the case with much of the research on the HRM-P link. This thesis will instead look to promote a largely qualitative agenda but will also acknowledge the value in integrating these qualitative methods with quantitative methods (Bryman, 2004, Denscombe, 2007, Leech and Onwuegbuzie, 2009). The rationale for this 'mixed-method research strategy' will now be further explored.

¹⁸ The data presented within this thesis was obtained from a wider Interreg IIIA project on 'Sustainable Business & Productivity Growth in SMEs'. The PhD candidate was employed as the lead researcher on this project.

3.1.4 Justification for using a mixed-methods approach

The application of a mixed-method approach (Creswell, 2003, Denscombe, 2007) is one that has not been employed within prior studies on the HRM-P link, and the validity and relevance of this research methodology is believed to be a key contribution in its own right. The adoption of a mixed-method strategy within this study will help to facilitate broader, multilevel research questions (Connelly, 2009) and will support the researchers aim of developing a deep and comprehensive understanding of HRM and performance in SMEs. This will ensure that the weaknesses of prior quantitative studies on the HRM-P link are overcome (Guest, 1997, Edwards and Wright, 2001) in addition to building upon other contextual studies that exclude the dynamics of growth and performance (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008).

This social research inquiry will adopt a pragmatic stance, an approach that sits comfortably with the researcher's realist stance. The mixed-methods approach employed within this study will provide an opportunity to combine research methods through a process of triangulation in order to increase the accuracy, rigour and validity of findings (Hammersley, 1998, Creswell, 2003, Taskakori and Teddlie, 2003, Bryman, 2004, Downward and Mearman, 2007). Having revealed the fallibility of knowledge on the HRM-P link triangulation within this study will act as a validation strategy to uncover different features of the same layered reality (Creswell, 2003, Downward and Mearman, 2007).

The integration of quantitative and qualitative approaches was previously believed to be incompatible (Silverman, 1993, Bryman, 2004) but some researchers (Denscombe, 2007) now recognise approaches as complimentary in nature. The notion that quantitative and qualitative research methods can be separated is neither warranted nor helpful with such a distinction tending to oversimplify matters due to the fact that collection instruments can often contain both forms of methods (Denscombe, 2007, Easton, 2010a). Researchers must however, recognise that findings may not corroborate one another. For instance, the HRM literature has noted a disagreement between survey and case study findings (e.g. Duberley and Walley, 1995, Bacon *et al.*, 1996, Marlow, 2002) along with the inconsistency between the perceptions of management and workers.

At this juncture it is right to question: what is the right combination? What is the overarching mixed-method strategy that the researcher should employ? It is these questions that we shall now address.

3.1.5 Exploring the mixed-method strategy

Researchers must make explicit their mixed-method strategies. In a study of 232 social science articles over a ten-year period (1994-2003) Bryman (2006) identified a clear mismatch between the rationale researchers had used in defence of their mixed-method strategies and how these strategies actually played out in practice. The combination of quantitative and qualitative research methods is not without its difficulties. Researchers must take into account the different ways in which research can be combined (e.g. Bryman, 2006), how and when methods should be integrated (Guest, 1997), and the weight given to each method (Leech and Onwuegbuzie, 2009). This research utilised a variety of research techniques in order to increase reliability (Downward *et al.*, 2002). Three stages of data collection were progressed: a survey, a personal interview and a set of detailed case studies. These research stages are outlined in Table 3.1 below.

Table 3.1: Overview of the research design

<i>Research Approach</i>	<i>Nature</i>	<i>Research Question</i>	<i>Level of Analysis</i>	<i>Stakeholder Perspective(s)</i>
1a. Survey Approach	Quantitative	1,2,3(partly)	Macro	Owner-manager
1b. Face-to-Face Interview Approach	Quantitative & Qualitative	1,2,3(partly)	Macro & Micro	Owner-manager
2. Multiple Case Study Approach	Quantitative & Qualitative	1,2,3,4 & 5	Micro	Managers Employees

The survey and personal interview stages formed an introductory research phase. This initial research phase provided an opportunity to identify the preliminary patterns and context of HRM and performance in SMEs, along with identifying firms suitable for case study research. These case studies provided an invitation to explore the patterns and context of HRM and performance in greater detail in order to build a deeper appraisal of the underlying causal mechanisms that exist between HRM and performance (e.g. Paauwe and Boselie, 2005, Fleetwood and Hesketh, 2010). A set of five case studies form the focus of this thesis. The personal interview and case studies used a mixture of quantitative and qualitative research methods. In order to operationalise these data collection stages, and as laid out in section 2.4.3, key dynamics were identified from the detailed literature review to guide this inquiry; these are now outlined in Table 3.2.

Table 3.2: Empirical elements used to operationalise the conceptual framework

<i>Dynamic</i>	<i>Empirical elements</i>
<i>Background</i>	
Ownership ¹⁹	Firm ownership and legal status
Industry sector	Industry sector, main activity of firm
Size	Firm size
<i>HRM, Management Style and Organisation</i>	
HRM Practice	Nature of involvement & participation, human resource, and reward and commitment practices
Managerial style	Managerial style, knowledge and management of HRM
Organisation	Nature of organisational structure, organisational standards & accreditations, technology, and performance measurement
Rules & routines	The nature of rules and routines, the working environment and wider workplace culture
<i>Growth: HRM challenges and transitions</i>	
Growth	Firm age, historical growth trajectory, growth barriers, growth transitions and future aspirations
<i>Product Market, Labour Market and Strategic Choice</i>	
Product market	Role and nature of competition, market, product/service, customer and supplier relationships, strategic choice
Labour market	Role and nature of recruitment and skills
<i>Human Capital, Social Capital and Institutions</i>	
Resources	Human capital (e.g. skills development) and social capital (e.g. business, customer & supplier networks)
Institutions	Role and nature of business associations, advisory services and networks

The order and groups in which these dynamics are presented was informed by the results analysis and prior discourse. A brief explanation has been included against each of these dynamics to provide an insight to the empirical scope of this piece of research. The reader should however note that these descriptors are not to be viewed in a prescriptive sense. For the sake of narrative ease these themes were combined within the results chapters so as to afford

¹⁹ The role description of interviewees and the nature of relationships with and between internal & external actors will be reviewed within section 4.7: Case study selection: identifying suitable settings for further research

the researcher the ability to build a layered explanatory account thereby providing maximal opportunity to identify the underlying causal mechanisms.

The purpose of the following sections will be to expand upon and explain, in turn, each data collection approach as reported in Table 3.1 in section 3.1.5. This is considered important so as to justify the selection of each data collection method and explore how each approach was designed and administered. It is also pertinent at this stage to report, for each approach, the sampling method employed and the response rate achieved.

3.2 Stage one - Survey approach

The first data collection stage included the administration of a short survey by mail and online (see the stage one postal survey in Appendix 6, p328). Where research falling within the HRM-P paradigm traditionally adopts a survey-driven approach to identify regularities and causal associations, the purpose of this survey was to collect a broad range of data across a wide and dispersed geographical sample (Meadows, 2003) maximising the potential for variation and the observation of preliminary patterns and frequencies. The survey also facilitated a process of purposeful sampling through the targeting of participants and particular settings that were appropriate for the personal interview and in-depth case study stages.

An initial survey also eased the burden on the researcher and the researched by reducing time and costs associated with the research process. Commitment required from the organisational 'gatekeeper' at this stage was kept to a minimum, encouraging greater levels of research participation from the SME community. The adoption of an initial survey was also believed to reduce the level of biases, such as 'reactivity' whereby the research participant might reflect upon the researcher's social characteristics, such as age, gender and ethnic origin (Van de Mortel, 2008). It was also apparent that the research participants may seek to convey a more favourable image of their organisation or themselves, a form of 'impression management' (Miles and Huberman, 1994) or 'social desirability' bias (Van de Mortel, 2008) when questioned personally.

However, the lack of researcher presence was also considered to be problematic and the sole use of a survey would have reduced the explanatory potential of a given reply (Bryman, 2004), thus limiting the researchers ability to address the study's research questions. In order that survey respondents could elaborate upon their survey responses a follow-up personal interview

and detailed case studies were conducted; these are explored in greater detail in subsequent sections.

3.2.1 Survey design

Basic information was collected including name of business and participant, job title, business activity, size by employment and sales turnover, proportion of turnover dedicated to labour costs and exporting, and working hours. The key themes as outlined in Table 3.2 were translated into a set of survey questions. Questions that appeared ambiguous or loaded were avoided (Sudman and Bradburn, 1982). A combination of dichotomous (e.g. yes or no), multiple choice and likert scales, ranging from between three and five options, were constructed with data pertaining to:

- The incidence of a wide range of workplace systems and the wider firm context as identified in Table 3.2; and,
- The trend in growth (by employment and sales turnover) and anecdotal reasons for why the organisation might have experienced such a trend.

The survey passed through a number of iterations informed through meetings between the researcher and his supervisors. The draft survey was pilot tested with a group of five academics and five SME owner-managers to minimise the potential for response errors caused by misunderstanding or misinterpretation. The pilot group provided valuable feedback on the face validity of the survey, the ease of comprehension (i.e. the extent to which questions would be interpreted and answered correctly), skip patterns (where used) and general survey layout. The survey took, on average, fifteen minutes to complete, which was not considered overly onerous. Given the funding support available to the wider research programme, the researcher opted for a professional design of the survey. The survey was also available for completion online through a dedicated project website (see Appendix 7, p330).

3.2.2 Sampling method

It was necessary to set appropriate sampling criteria. Only those firms located in the Kent/Medway region of the United Kingdom were chosen for the study and included postcode prefixes of BR, CT, ME and TN. This was because the researcher would need to visit organisations for the latter personal and case study stages of the research. All organisations

were privately owned SMEs having fewer than 250 employees²⁰. Those firms with fewer than ten employees, classed as 'micro' firms, were excluded from the inquiry as it was considered that such organisations would not have the necessary practices and systems to examine in any great detail. This selection criterion was extended on a similar basis to exclude those firms that had operated for less than five years. The overarching population sample for the research inquiry can be viewed in Table 3.3.

Table 3.3: Survey population sample

<i>Sector</i>	<i>SIC code (2 digit)</i>	<i>Sample</i>	<i>Representation (%)</i>
Agriculture	01-02	62	3
Manufacturing	15-37	326	16
Construction	45	319	16
Wholesale and Retail	50-52	488	24
Hotel and Restaurant	55	189	9
Transport and Storage	60-64	116	6
Financial Services	65-67	51	3
Real Estate, Rental & Business Services	70-74	449	22

The population sample was provided by a regional business advisory service, Business Link Kent, containing details (e.g. contact name, position, business name, address, activity, telephone number) of over 9,000 establishments. On receipt of the population sample the researcher undertook a process of database cleaning to omit those establishments that were regional subsidiaries or franchises of larger national or international organisations. This left the researcher with a database of over 6,000 independent SMEs. The researcher applied a random sampling technique to select 2,000 SMEs from this population sample. The sample remained in line with central government statistics through the adoption of Standard Industrial Classification (SIC) codes to two points in order that the population sample could retain characteristics of the wider UK population.

²⁰ Throughout this thesis, and in accordance with the Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124], a small organisation is defined as an enterprise that employs fewer than 50 employees. A medium organisation is defined as an enterprise that employs 249 employees or less. A large organisation is defined as an enterprise that employs 250 employees or more.

3.2.3 Method of administration

The survey was sent out via mail to the named contact provided on the database. This was typically the SME owner-manager, managing director or another member of senior management. Given their seniority in the firm it was considered that they would provide an accurate representation of the organisation and its operations. The survey was accompanied by an explanatory letter (see Appendix 6 on p326 for the stage 1 survey). The letter encouraged participation in the survey through a brief explanation of the research problem in practical terms and the fact that this inquiry would provide organisations with a ‘voice’. It was explained that this ‘voice’ would be anonymous and independently represented through the projects research reports and conference, along with the continued dialogue between the research centre and practitioner and policy communities.

The letter was addressed to a named individual and used professionally designed headed paper to ensure that it was suitably distinguishable and attractive in comparison with other standard correspondence. Time was also devoted to developing relationships with local and regional chambers of commerce, advisory services and councils. It was believed that the depiction of various local and regional support bodies with whom SMEs would be familiar, along with the signature of the research centre director, would add appeal to participation in the project. Consent to participate in this stage of the research was confirmed once the survey had either been returned by post, or submitted online through the web-based survey.

3.2.4 Response rate and sampling error

The ‘response rate’ of a survey is often used to gauge the success, and hence the suitability, of the methods of administration. Also referred to as the ‘completion rate’ or ‘return rate’ this calculation is determined by dividing those responses received by the population sampled and expressing this as a percentage using the following formula (Bryman, 2008; p181):

$$\text{Response Rate} = \frac{\text{Number of usable questionnaires}}{\text{Total sample} - (\text{unreachable} + \text{unusable})} \times 100$$

All necessary steps were taken to maximise the potential response rate to promote the validity of the survey findings. Non-response is considered to be a key limitation of a survey approach (Mangione, 1998). Low response rates hamper the inference of findings to a broader population (Bickman and Rog, 1998) and could be considered as one of the many limitations

of previous work in the HRM-P paradigm. This is because the characteristics of respondents and of non-respondents differ, reducing the validity of the survey findings.

A systematic approach was therefore adopted and issues that that might deter participant response were considered. This approach employed the principles of the ‘Total Design Method’ (Dillman, 1999) and designed a process so as to minimise non-response (see Figure 3.1). TDM is guided by four key principles: trust, reward, the reduction of costs to the respondents and the execution of multiple follow-ups. The principles of TDM meant that the benefits of participation had to outweigh the costs, both monetarily and non-monetarily, to maximise participant response.

Figure 3.1: Survey mail out process

<i>Action</i>	<i>Description</i>
1	An explanatory cover letter on headed paper locating: a) the research participant; b) the research problem; c) the importance of participation; d) details of the web-based survey; e) closure dates; and f) the research sponsors and support partners.
2	Addressing the letter and envelope to a named individual holding a suitable position of responsibility in the organisation, and signing the letter from an equal position of responsibility (in this case the corresponding research centre director).
3	The survey correspondence consisted of: a) an explanatory cover letter; b) a survey; and c) a self-addressed business reply service envelope.
4	A follow up to the initial mail out was progressed after six weeks to all non-respondents.

Source: Adapted from the Total Design Method (Dillman, 1983; p359-373)

Indirect costs associated with the time taken to complete the survey were kept to a minimum. The survey took the form of a booklet over four sides of A4 and presented a series of 47 questions. This lessened the potential for intimidation by reducing the number of pages to be turned. The length of the survey also ensured that errors, as a result of respondent fatigue (Bryman, 2004), could be mitigated. Direct costs were reduced through the inclusion of a business reply service self-addressed envelope. Multiple response paths were also provided as the survey was administered by mail but also as a web-based application. The web-based survey increased the availability of the survey to participants and reinforced the anonymity of responses through the use of unique identifier codes provided within the postal explanatory

cover letter. Incentives were also offered to participants for completing the survey including the offer of a prize (an iPod Touch) along with future access to research findings.

In accordance with the survey process, illustrated in Figure 3.1 above, the survey was sent out to 2,000 SMEs. A follow up to the first survey was carried out, six weeks after the initial survey. In total, two hundred and fifty one surveys were returned, of which thirty four were unusable. Table 3.4 reports the varied reasons for this.

Table 3.4: Nature of survey sampling error

<i>Nature of sampling error</i>	<i>No. of cases</i>	<i>Proportion (%)</i>
Returned unopened, addressee not located	21	
Refusal to take part	3	
Survey returned with missing items	7	
Firm outside of scope of target sample	3	

Interestingly, the response rate was consistent between the initial mail out and follow up mail out. The preference for hardcopy questionnaires and the use of postal mail as a source of response was clear with four fifths (172) of the responses returned through the post. Only one fifth (45) of respondents used the web-based survey to respond. Anecdotal evidence may attribute the low web-based response to the access to, or acceptability of, computer technology by SMEs.

By far the most prevalent reason for sampling error was the failure to locate the firm's premises. These responses were received from the postal services. The addresses of twenty SMEs were not recognised and one other participant had closed down. Six participants failed to fully complete the web-based survey. Of the three firms that submitted a complete survey, but were considered to fall outside of the target sample, two were micro firms classed as 'soletraders' whilst the other was a publically limited company. Adopting Bryman's (2008; p181) formula, the overall response rate, taking into the above sampling error, was 11%:

$$\text{Response Rate} = \frac{217}{2,000 - (34)} \times 100 = 11.03\%$$

3.2.5 Analysis

A database was created in the Statistical Package for Social Sciences (SPSS) version 15. Ninety-four variables were coded into nominal and scale variables. Data was interrogated using exploratory analysis techniques that included forms of univariate (e.g. frequency) and bivariate (e.g. cross tabulations) forms of analysis. The purpose of this quantitative analysis was to explore key patterns in the data that might inform the personal interview stage. For this reason, and on reflection of the aims of the social research inquiry, inferential forms of analysis (e.g. correlations, probability testing) were excluded.

3.3 Stage two - Personal interview approach

Following the preliminary survey stage, personal interviews were progressed with a sample of the survey respondents. The principle aim of the personal interview stage was to identify those firms suitable for case study research. The personal interview stage also provided an opportunity to corroborate and expand upon the responses provided at the initial survey stage. As outlined earlier, the failure to illicit such qualitative information is considered a key limitation of a survey approach.

3.3.1 Interview design

Following an assessment of the types of interview available to the researcher, it was decided that a sample of one-to-one interviews would be progressed. This was considered essential in developing trust between the participant and the observer, enabling the researcher to 'get in close' (Hill and Wright, 2001). This would allow the researcher to collect other contextual information such as the body language and tone of the participant during the interview along with observations of the firm's premises.

Quantitative analysis was undertaken on the survey data (as explained in section 3.2.5) to establish whether any particular patterns were forthcoming. Time was then devoted to expanding upon the survey through a further set of questions. The interview drew upon the same research themes as the survey (as outlined in Table 3.2) with the addition of 'change management'. 'Change management' had been excluded from the survey stage as it was viewed as an intricate issue best unpicked during a latter, more qualitative stage. A

combination of dichotomous (e.g. yes or no), multiple choice, likert scale and open questions²¹ were constructed to both corroborate and expand upon the survey findings, with data pertaining to:

- Growth transitions;
- Employee involvement in strategic development;
- Key issues to address for long term survival;
- Factors constraining product/service, process innovation and ICT adoption;
- The HRM role, including responsibilities, qualifications and experience;
- Working hours;
- The importance of training and skills development;
- Benefits accrued from advisory services, associations and networks.

The front page of the interview contained an overview of the basic quantitative information collected at the survey stage in addition to the skip patterns. Where multiple choice questions were used the participant was presented with a table containing all options. In some instances an open question was provided, and then a closed question was progressed to check and expand upon the qualitative answer. For instance the open question ‘What are the key issues that you need to address for the long term survival of your business?’ was immediately followed with a question ‘does it include any of the following key areas over the next 3-5 years?’

The interview provided further opportunity to collect qualitative data at the beginning of the interview including: main activity; operational structure; ownership, management structure, participant role and responsibilities. Interviews were recorded for later transcription. Where appropriate, a tour of the premises was requested. On departure photos were taken of the facade of the organisation’s premises and of the participant. The images taken and voices recorded would be found to provide further contextual data and would help the researcher to connect the findings to the participant following the interview. Immediately following the interview contextual observational data was recalled and recorded such as:

- Employees, environment and overall impression;
- General management structure, style and responsibility;
- The leaders management style and relations with others;
- Internal procedures, rules, standards and methods;

²¹ The use of semi-structured interviews ensured that interviewees were allowed to expand on interesting themes.

- Culture, values and champions;
- Machinery, equipment, and technical processes;
- Whether the organisation was interesting for further investigation through a case study and if so, why.

As with the survey, the interview protocol was informed from supervisor meetings and a pilot testing process. The interview took, on average, sixty minutes to complete, which was considered an acceptable period of time for a personal meeting. The final version of the stage 2 personal interview can be found in Appendix 5 on p325)

3.3.2 Sampling method

A two-tiered purposeful sampling strategy was devised to select a sample of those SMEs surveyed for the personal interview stage. This approach enabled the researcher to devise criteria to allow for variation amongst the participant sample, thus maximising the opportunity to identify disparities in the data (Creswell, 2003). The sampling criteria that the researcher applied were limited to those questions that had been addressed during the survey stage.

SMEs were first selected on the basis of their aspirations for growth over their next three to five years (See question 19 of the Stage one postal survey in Appendix 6, p326). This was to ensure that only those firms that displayed and increased in growth were to be selected for the case study stage. Those respondents that had recorded a desire to expand rapidly, at a steady pace, or remain the same size were included. Those that had intimated they wished to reduce in size, sell on or close down their business were excluded. Of the 217 survey respondents that entered this part of the selection process, only 19 were omitted.

The second stage of the purposeful sampling strategy included the application of a set of a further five criterion. The aim at the second tier of selection was to identify those firms that were experiencing growth and might be adopting more innovative workplace practices. SMEs had to meet at least one of the following criteria:

- Grown in sales turnover over the last three years;
- Grown in employee size over the last three years;
- Have a business plan/strategy;
- View that product innovation is important;
- View that process innovation is important.

The application of the above criteria led to a further eleven survey respondents being omitted from the population sample, leaving a total population sample of 187 SMEs (please see Table 3.5 for a breakdown) for the personal interview stage. As can be seen through a comparison of the survey population sample (Table 3.3) and the personal interview population sample (Table 3.5), the representative nature of the sample was not unduly affected.

Table 3.5: Personal interview population sample

<i>Sector</i>	<i>SIC code (2 digit)</i>	<i>Sample</i>	<i>Representation (%)</i>
Agriculture	01-02	3	2
Manufacturing	15-37	35	19
Construction	45	31	17
Wholesale and Retail	50-52	44	24
Hotel and Restaurant	55	11	6
Transport and Storage	60-64	13	7
Financial Services	65-67	6	3
Real Estate, Rental & Business Services	70-74	44	24

3.3.3 Method of administration

The participant sample was contacted directly by telephone. In instances when the sampled participant was unavailable a message was left, either with another member of staff or through a recorded answer phone message. This, in the majority of cases, led to the researcher needing to make multiple call backs as rarely did the sampled participant return the researchers call. A telephone script was designed (for a copy of the personal interview appointment script see Appendix 8 on p331) to ensure the consistency and accuracy of dialogue between the researcher and participant sample. Consent to participate in this stage of the research was prefaced on the confirmation of a mutually agreeable appointment. A reminder was sent via email a week prior to the interview.

The interview was undertaken at the participant's premises. Prior to the arrival, an interview script was printed and skip patterns were completed in order to tailor the interview to the participant firm. At the beginning of the interview the researcher provided the participant with a business card and an explanation of the purpose of the research inquiry allowing the participant time to ask any questions. The start and finish time of the interview were recorded.

At the end of the interview an image was taken of the participant and, if appropriate, a tour of the participant's premises was undertaken. On exit of the premises an image was taken of the building facade.

3.3.4 Response rate and sampling error

The principles of TDM (Dillman, 1983), as explored in the survey stage, were also applied to the personal interview stage to reduce sampling error. It was considered that participants may well be cordial to further involvement in the research given the level of commitment already demonstrated through submission of a response to the initial survey. Participants were offered free attendance at a set of workshops and project conference for participation in the personal interview stage. The researcher assumed the burden for travel costs thereby eliminating the direct costs of participation. Indirect costs associated with participant time were limited through the completion of the interview in an agreed time slot of a one-hour in duration. Discussions were recorded by hand on the interview script and via a digital voice recorder so as to ensure answers did not have to be repeated. These actions further reduced the opportunity for participant fatigue. The personal interview covered a total of 55 questions suitably spaced over 12 pages of A4. Eighty four interviews were scheduled. The reasons for sampling error during the appointment and interview process can be observed in Table 3.6.

Table 3.6: Nature of personal interview sampling error

<i>Nature of sampling error</i>	<i>No. of cases</i>	<i>Proportion (%)</i>
<i>Appointment process</i>		
Refusal to take part	8	7
Telephone number not located	1	1
Organisation outside of scope of target sample	3	3
Failure to obtain response	91	81
<i>Personal interview process</i>		
Too busy	7	6
Forgot	2	2
No record of appointment	1	1

By far the most prevalent reason for failing to secure an appointment was the inability to reach the survey participant. Three SMEs were found to fall outside the target sample, two of which were national franchises and the other was a subsidiary of a larger group. Whilst low in number, the continued discovery of firms that fall outside of the study demonstrates the

difficulty of placing complete reliance on the accuracy of survey data. Of the eighty four interview scheduled, seventy four were finally completed. Four of the participants that cancelled were happy to reschedule for a later date but this was deemed too late for inclusion in the study.

Adopting Bryman's (2008; p181) formula as in the survey stage, the overall response rate, taking into the above sampling error, was 42%:

$$\text{Response Rate} = \frac{74}{187 - (10)} \times 100 = 41.8\%$$

3.3.5 Data analysis

A thematic analysis was undertaken on the qualitative data contained within the personal interview. This typically began by recording a label (or a number of labels if treating a multiple response question) that represented the participant response. Typically labels would begin to duplicate after ten interviews at which point a brief review was undertaken on the group of labels to ascertain if they were exclusive labels or if any were co-existing and could be subsumed. Where necessary, interview scripts and recordings were checked. 280 variables were coded into nominal and scale variables. Analysis of these variables was progressed in the same manner as the survey results; details of which can be found in section 3.2.5.

3.4 Stage three – Detailed case study approach

The final stage of data collection involved a set of detailed case studies. In contrast to a survey approach (see Table 3.7), a case study allows for the examination of a particular instance in a detailed, in-depth manner (Hammersley, 1998) providing 'an opportunity to: describe what is happening in a case setting (e.g. events, processes and relationships); explore the key issues affecting those in a case study setting (e.g. problems or opportunities); and compare settings to learn from the similarities and differences between them' (Creswell, 2003; p38). It was believed that the adoption of a case study approach within this thesis would integrate with the overarching mixed methods strategy (Denscombe, 2007). The preliminary research phase helped to draw attention to key themes that required investigation in greater detail along with identifying cases suitable for further research; a process which is important for two reasons, neither of which is antithetical.

First, it is clear from our earlier inquiry that little is still known about the HRM-P link, a predicament promoted through an overtly positivist research agenda. This means that research on the HRM-P link typically fails to get below surface level events (i.e. the what), preferring to connect the presence of particular HRM practices with high level measures of firm performance. However, it is argued here that, the presence of particular HRM practices and their association with performance can only be effectively explained by a deeper appraisal of the underlying causal mechanisms (e.g. Paauwe and Boselie, 2005, Fleetwood and Hesketh, 2010). Through the selection of case studies that represent growing SMEs that are adopting more progressive working practices we ask ‘what caused the events associated with the phenomenon to occur’ (Easton, 2010b; p123). In this manner we look to unpick the relationships between a range of influences (as reported in Figure 2.6, p48), a process likened earlier to peeling of layers of an onion (Paauwe, 2004), therein developing knowledge of the underlying processes that drive firm behaviour (i.e. the ‘how’ and ‘why’) (Downward *et al.*, 2002, Yin, 2009, Easton, 2010b).

Table 3.7: Comparing survey and case study approaches

<i>Focus</i>	<i>Case study</i>	<i>Survey</i>
<i>Detail</i>	Deep	Shallow
<i>Account</i>	The particular	The general
<i>Orientation</i>	Relationship/processes	Outcomes and end-products
<i>Scope</i>	Holistic view	Isolated factors
<i>Setting</i>	Natural	Artificial
<i>Data sources</i>	Multiple	Singular

Source: Adapted from Denscombe (2007; p37)

Second, research on the HRM-P link in SMEs is in its infancy. As we have come to learn, studies concentrate on the HRM practices of larger firms and assume that these practices apply to smaller firms. When little evidence is found of HRM practices in SMEs researchers typically conclude smaller firms to be problematic and somehow inadequate. However this conclusion neglects the fact that SMEs are unique research contexts (Hill and Wright, 2001). It is argued here that an exploratory, detailed analysis will help us to shift the focus away from the formal properties of organisations towards the process by which certain outcomes occur with SMEs (Downward *et al.*, 2002, Rasmussen, 2011). By working backwards from what is observed and examining the underlying causal mechanisms at play, a discovery-led approach

will provide opportunities to develop theory (Denscombe, 2007) that is more applicable to the SME context.

Despite the fact that case studies are increasingly being seen a legitimate approach to conducting rigorous research in the field of management a key question emerges: how can one generalise from a small set of cases? In line with the philosophical stance outlined above the purpose of the case study stage will be to employ deductive reasoning allowing for a general conclusion to be arrived at through the use of specific case examples that it can be argued apply in other cases (Easton, 2010b, Rasmussen, 2011). The best that one can hope for is to identify a 'quasi-regularity', or 'semi-regularity', as the stochastic closure presumed possible by positivism is an unachievable feat (Downward *et al.*, 2002). The goal here will therefore, be to generalise theoretically, a form of 'analytical generalisation', not empirically (Yin, 2009).

Aside to generalisability, other matters of concern relate to defining the boundary of a case, selecting suitable cases and negotiating access (Denscombe, 2007). The selection of suitable cases and research access will be explored within the next chapter following an analysis of phase one of the research. The unit of analysis used within this thesis was the 'SME' (Perren and Ram, 2004). The boundary of the SME was stipulated by the examination of people, practices and processes internal to the SME. Scope was not widened to include interviews with individuals outside of this boundary such as customers, suppliers, or other industry experts.

The researcher chose four methods of data collection to promote a process of data and investigator triangulation (Yin, 2009), these included: documentation; archival records, interviews; and direct observations. We shall now explore the rationale for each of these in turn.

3.4.1 Data collection sources

3.4.1.1 Documentation

Various documentary sources were requested from case studies to cross validate data gathered from interviews (Bryman, 2004). An organisational chart was requested from the organisational gatekeeper prior to investigation to identify and agree upon those employees suitable for interview. When an interviewee made reference to a formal practice or procedure during an interview a request was made to have sight of any formal documentation. The nature of this documentation was recorded within the interview script for later recall.

3.4.1.2 Archival records

Prior to the case study a request was made to the gatekeeper for the completion of historical financial trend (i.e. sales turnover and profit) and employment trend for the preceding five-year period (for a copy of the case study datasheet see Appendix 10 on page 347). This information supplemented the self-reported data collected during the survey stage. This objective data provided important opportunities to explore the growth and performance of the case-firm with the owner-manager at the case study stage and further assess the reliability and condition under which this historical data was produced.

3.4.1.3 Interviews

Interviews would be seen to play an influential role in the collection of case study evidence allowing the researcher to explore alternative perspectives and corroborate certain facts (Yin, 2009). The case study interviews were split into management interviews and employee interviews. An assessment was made of each employee's status prior to arrival at the firm on inspection of each firm's organisational structure. 'Managers' had to be a member of the management team, with all other staff being considered as 'employees'. Employees were typically made up from middle management or supervisory levels and office staff, production or site operatives.

The manager interview (see Appendix 12 on p350) was first addressed to the organisational gatekeeper and the interview built upon evidence collected at the personal interview stage. The manager interview provided an opportunity for semi-structured qualitative interview focussing on issues relating to business structure and performance using the archival performance data outlined above. A range of other semi-structured questions were also addressed to management including: relationships (e.g. with customers and suppliers); work organisation; recruitment & retention; pay, benefits, hours and overtime; and skills and training (see Figure 3.2 for an overview).

Where the owner-manager had delegated specific responsibilities to other managers within the firm, for instance for financial or HR tasks, questions concerning these areas were set aside and asked of those managers in the management interviews that followed. This enabled the research agenda to be tailored to the individual circumstances of each case and ensured that the researcher remained adaptive and flexible. Structured in this manner, the manager interview also offered multiple sources of data which would help build an in-depth understanding of

issues; a particular feature of the inquiry's mixed-method strategy. The management interview took on average an hour to complete.

Figure 3.2: Overview of a manager interview

The interview followed a similar section format regarding key areas for investigation as the postal survey and face-to-face interview stages, and delved deeper into each section than the face-to-face stage using a selection of closed and open questions, the sections used were as follows:

1. *Business Structure and Performance*: in relation to the growth process, market threats, competitive advantage, management of the organisation, performance measurement, strategy and decision making.
2. *Relationships*: supplier, customer and network relationships.
3. *Work organisation*: discuss management and monitoring of staff and the way in which work is organised.
4. *Recruitment & retention*: recruitment and labour turnover trends.
5. *Pay determination*: how pay levels are set, monitored and reviewed.
6. *Hours & overtime*: average work levels and rates.
7. *Non-pay benefits*: other benefits not associated with direct pay.
8. *Skills and training*: skill development activities.

Employee interviews (see Appendix 13 on p360) were singular focussed interviews (see Figure 3.3 for an overview) and followed a set of semi-structured questions defined within the case study protocol (see Appendix 11 on p349). This was for two main reasons. First, there was a balance to be achieved between the most appropriate level of detail and the time available for employee interviews. Given the size of case studies, and the time available to the researcher, it was not considered appropriate to keep employees away from the workplace for extended periods of time. Second, it was noted after the first case study that employees were less aware, in comparison to managers, of the broader issues affecting the firm (e.g. business structure and

performance). Employee interviews therefore, had to focus on employees' immediate role and experiences. Employee interviews took on average half an hour to complete.

Figure 3.3: Overview of an employee interview

This interview discussed more detail around the individual's current job and content and their feeling about the company. The sections covered were as follows:

1. *Labour market experience*: tenure, employment experience, qualifications.
2. *Present job*: current role, reasons for joining, opportunities for career advancement.
3. *Pay and hours*: how pay was calculated and their influence in regard to pay.
4. *Motivation*: trust between managers and employees and employee satisfaction.
5. *Employment practices*: the nature of employment practices experienced.
6. *Training*: the level of training experienced and opportunities for training.
7. *Information & consultation*: the ways management and employees communicate.

Shorthand notes were taken during each interview. Consent to record the interview was obtained from each interviewee. This provided much needed time for the researcher to listen and reflect during the interview so as to explore alternative lines of enquiry, thus remaining open to contrary findings (Yin, 2009).

3.4.1.4 Direct observation

Direct observation served to add further context to the case studies with the body language of interviewees and their working conditions being noted. Where applicable, the location of the owner-managers office was also recorded as this helped to inform the status of such individuals within the firm (Yin, 2009). Digital images were taken of the building facade and internal office and/or production processes in order to assist in building a conceptual understanding and recollection of each organisation.

3.4.2 Data analysis

The first stage of analysis involved building a descriptive report of the events for each case study, a process that was important for three reasons. First, sponsors required sight of basic

reports as part of the wider research programmes. Second, because the doctoral studies were completed on a part-time basis storing data in a suitable format was important to facilitate the retrieval of data in the future. Third, the descriptive reports signalled the beginning of the analysis process, and proved valuable in aligning all of the evidence against the research themes that had been used to operationalise the research inquiry (as outlined in Table 3.2, p55).

Following the descriptive analysis, attention then turned to answering the study's research questions. This involved identifying key entities, the causal powers and liabilities of these entities and the relations between them, the extent to which events occurred as might be expected, and the '...identification of one or more mechanisms that can be regarded as having caused the events' (Easton, 2010b; p128). This approach acknowledged the complexity of individual cases and the importance of rival explanations, whilst capturing meaningful patterns as they emerged (Yin, 2009).

3.5 Ethical considerations

The social research inquiry posed no serious ethical problems. The research methodology was subjected to a stringent ethical review via the University of Kent's Research Ethics Advisory Group (REAG). All SMEs were afforded an equal chance of selection at the initial survey stage. The research process was not a solely one-way process. Informal feedback from personal interview participants demonstrated that the interview process had encouraged them to discuss issues that they would not otherwise have the time or capacity to do so.

Special care was taken to treat research participants with respect in line with Yin (2009; p73). The initial survey stage relied upon the voluntary participation of SMEs. The aims of the project and the intended use of data were provided to participants. Agreement to participate in the personal interview stage was obtained verbally by telephone, and interest and openness for further participation in a case study stage was gathered during the personal interview stage, with follow-up telephone calls being made once the case study selection process was complete.

The anonymity of all organisations was assured through the use of pseudonyms. The use of personal data within this research inquiry met the 1998 Data Protection Act. Quantitative data was retained within a data set that used unique identifiers so that participant organisations were untraceable should the dataset have fallen into less scrupulous hands. Project datasets, interview recordings, scanned copies of interview scripts, transcriptions, images and

supplementary documents were filed under the student's private login on the University's central server.

3.6 Summary

The purpose of this chapter was to explore the research philosophy, strategy and methodology that guided this thesis and make explicit the linkages between theory, the inquiry's conceptual framework, and the research methods. The adoption of a realist philosophy from a pragmatic perspective enabled the researcher to explore not just 'what' but 'how' and 'why' HRM practices operate and interact with performance in an SME context. A mixed-method strategy drawing on three methods of inquiry; a survey, personal interviews and case studies were subsequently explained and justified. Finally, the research process was exposed to, and defended against, customary ethical obligations.

Chapter 4

Survey and Personal Interview Findings

4. Introduction

This chapter will explore the preliminary phase of research that included surveys and personal interviews with owner-managers of SMEs. This initial research phase provided an opportunity to identify the preliminary patterns and context of HRM and performance in SMEs, along with identifying firms suitable for case study research. The structure of this section will be informed by the study's conceptual framework and aligns with Table 3.2 (see p55). A background will be provided to respondent organisations before exploring the nature and context of: HRM Practice, Management Style and Organisation; Growth and HRM Transitions; Product Market, Labour Market and Strategic Orientation; and Human Capital, Social Capital and Institutions. Where appropriate, comparisons will be made with the Workplace Employment Relations Survey (WERS) 2004²². The chapter will conclude with the implications of these findings for both the study's research questions and the detailed case studies.

4.1 Profile of respondent organisations

4.1.1 Formal positions of survey and personal interview respondents

In the main, respondents of the survey and personal interview stages were owner-managers or held a senior management role within the firm (see Table 4.1). Respondents in the majority were therefore key decision makers and seen to represent reliable information sources.

Table 4.1: Formal positions of survey and personal interview respondents

	<i>Survey</i>		<i>Personal Interview</i>	
	Count	%	Count	%
<i>Position within Organisation</i>				
Owner/Chairman/MD/CEO/Partner/Director	178	82.0	61	82.4
Operations Director/Manager	4	1.8	2	2.7
Finance Director/Manager	8	3.7	3	4.1
General Manager (e.g. sales, production, quality)	21	9.7	6	8.1
Company Secretary/Administrator	6	2.8	2	2.7

Base: Survey respondents, n = 217. Personal interview respondents, n = 74.

²² WERS 2004 covered 621 private sector SMEs. This will be referenced as 'WERS 2004' from this point on.

4.1.2 Respondent organisations by size and employment

The majority of respondent firms were small (see Table 4.2). Despite being excluded from the original population sample, a number of respondents were found within the micro (N=34) and large (N=2) categories. These firms may well have declined or grown since the population sample was first obtained and demonstrate possible inaccuracies in the original population sample obtained from Business Link Kent, along with the potential bias due to the self-reported nature of the survey.

Table 4.2: Survey and personal interview respondents by size and employment

	<i>Survey</i>				<i>Personal Interview</i>			
	<i>Organisations</i>		<i>Employees</i>		<i>Organisations</i>		<i>Employees</i>	
	Count	%	Count	%	Count	%	Count	%
<i>Organisational Size</i>								
Micro								
0-4 employees	9	4.1	22	0.3	5	6.8	11	0.4
5-9 employees	25	11.5	195	2.5	10	13.5	76	2.8
Small (10-49 employees)	143	65.9	2877	36.6	46	62.2	861	31.6
Medium								
50-99 employees	21	9.7	1498	19.0	5	6.8	342	12.5
100-149 employees	12	5.5	1455	18.5	3	4.1	320	11.7
150-249 employees	5	2.3	865	11.0	4	5.4	664	24.3
Large (250+ employees)	2	0.9	953	12.1	1	1.4	453	16.6

Base: Survey respondents, n = 217. Personal interview respondents, n = 74.

4.1.3 Distribution of respondent organisations by industry and ownership

The wholesale and retail, and real estate and business services sectors accounted for over half of all responses received²³ (see Table 4.3). The manufacturing and construction sectors were also well represented. As can be noted on comparison with the original population sample (see Table 3.3, p58 and Table 3.5, p65), the representative nature of respondent firms was retained. Three fifths (59.0%) of survey respondents represented SMEs that were wholly or partly family-owned, a figure commensurate with the wider business population (IFB, 2008). Cross tabulations highlighted that larger firms were less likely to be family owned. Given that research has demonstrated that ownership can have an impact on worker relations (e.g. Ram,

²³ Firms were classified according to the two-digit Standard Industrial Classification (SIC, 2003).

1994, Ram and Edwards, 2003) and the practice of HRM (e.g. Reid and Adams, 2001, de Kok *et al.*, 2006), the effect of ownership will be further explored as we move through this chapter

Table 4.3: Distribution of survey and personal interview respondents by industry and ownership

	<i>Survey</i>				<i>Personal Interview</i>			
	<i>Organisations</i>		<i>Employees</i>		<i>Organisations</i>		<i>Employees</i>	
	Count	%	Count	%	Count	%	Count	%
<i>Industry</i>								
A – Agriculture	8	3.7	581	7.4	2	2.7	300	11.0
D – Manufacturing	37	17.1	1467	18.7	14	18.9	761	27.9
F – Construction	38	17.5	1906	24.2	12	16.2	411	15.1
G – Wholesale & retail	50	23.0	1190	15.1	19	25.7	362	13.3
H – Hotel & restaurants	15	6.9	493	6.3	3	4.1	267	9.8
I – Transport	14	6.5	524	6.7	2	2.7	175	6.4
J – Finance	6	2.8	147	1.9	1	1.4	46	1.7
K – Real estate & business	49	22.6	1557	19.8	21	28.4	405	14.9
<i>Sector of Ownership</i>								
Family owned	128	59.0	4957	63.0	39	52.7	1459	53.5

Base: Survey respondents, n = 217. Personal interview respondents, n = 74.

4.2 HRM, management style & organisation

4.2.1 HRM practice

In order to examine the extent to which SMEs were adopting HRM practices survey respondents were asked identify which working practices were present at the firm, an approach adopted in previous HRM studies (e.g. Harney and Dundon, 2006). To support the subsequent interpretation of results working practices were retrospectively hung on a framework of high performance. As noted within chapter 2 of the thesis (see page 12-13), consensus has not yet been reached as to the exact practices that one should include within a system of high performance (e.g. Dyer and Reeves, 1995, Becker and Gerhart, 1996, Sung and Ashton, 2005, Shih *et al.*, 2006, Jan Angelis and Thompson, 2007) although practices are typically split into three dominant components: high involvement practices (HI), human resource practices (HR) and reward and commitment practices (RC). Survey measures were chosen to cover a broad set of HRM practices that might be included in a system of high performance including: work organisation; communication arrangements; training and skills development; employment practices; and pay and reward practices.

It is acknowledged that the presence of particular working practices does not necessarily pertain to a greater understanding as to which practices are of greater or lesser importance to the firm. Indeed, studies highlight that whilst the owner-manager might be able to comment on the overall effectiveness of the firm's HR system, they may not be the individual best placed to observe the effectiveness of individual practices. The appropriateness of individual practices may actually be best addressed at the employee level (Boselie *et al.*, 2005), as coverage, interpretation and experience of HR practice may vary across groups of employees (Duberley and Walley, 1995, Marchington and Zagelmeyer, 2005). The primary aim of the preliminary research phase was to identify the preliminary patterns and context of HRM and performance in SMEs thus the owner-manager was perceived to be most suitable respondent for the purpose of this part of the research.

An analysis was progressed as to the incidence of working practices within those firms surveyed. SMEs typically reported the use of eleven practices (median = 11, mean = 11.9) out of forty working practices measured. Few SMEs had implemented over twenty working practices (15.2%)²⁴. These results agree with those who have found relatively low levels of uptake of working practices across SMEs (e.g. Duberley and Walley, 1995, Cassell *et al.*, 2002, Way, 2002) and reflect scope for greater levels practice adoption (Way, 2002; Sels *et al.*, 2006). When analysed within components²⁵ SMEs were found to be using a greater proportion of human resource and reward and commitment practices when compared to high involvement practices.

Table 4.4: The distribution of working practices by sector

<i>Sector</i>	<i>Total practices</i>	<i>High involve</i>	<i>Human Resource</i>	<i>Reward & Commit</i>
Agriculture	13.4	3.3	6.0	4.1
Manufacturing	14.0	3.3	6.7	4.0
Construction	11.0	2.5	5.1	3.4
Wholesale & retail	10.2	2.4	4.3	3.5
Hotel & restaurant	12.1	3.4	5.3	3.3
Transport & storage	8.0	2.2	3.4	2.4
Financial services	17.0	5.3	7.0	4.7
Real estate, rental & business services	13.0	3.6	5.8	3.6

Base: Survey respondents, N = 217. These results report a mean average score for each sector. Agricultural and financial services sectors in particular should be interpreted with caution due to low sample rates.

²⁴ Under 10 = 41.5%; 10 to < 20 = 41.5%; 20 to < 30 = 15.2%; 30 or more = 0.0%.

²⁵ High Involvement mean = 3.0; Human Resource mean = 5.3, Reward and Commitment mean = 3.6.

Further analysis demonstrated variation in work practice adoption across sector (see Table 4.4). Those SMEs within financial services, manufacturing and hotel and restaurant sectors were found to be using a greater proportion of working practices when compared to transportation, construction and wholesale and retail sectors. These results appeared to partly reflect the levels of technology within a given sector, a point that will be explored later. Further analysis revealed a positive relationship between the adoption of working practices and size, findings that align with others (e.g. Hornsby and Kuratko, 1990, Pearson *et al.*, 2006)²⁶. SMEs with some level of private ownership (i.e. wholly privately owned or partly privately owned) were more likely to have adopted a greater range of practices. These findings align with the HRM literature with family firms being found less likely to use professional HRM practices (Reid and Adams, 2001) in comparison to their non-family counterparts²⁷.

Table 4.5 presents the incidence of individual working practices by component and, where possible, compares these results with WERS 2004. By far the most popular form of practice was team briefings, used by over two thirds (68%) of SMEs. Overall, practices for staff induction (61%) and appraisal (65%) and the tracking of absenteeism (64%) were notably popular used by over three fifths of SMEs surveyed. When compared with WERS 2004 lower overall levels of teamwork were found (43% against 55%), higher levels of team briefings (68% against 50%), and higher levels of mulitskilling (36% against 17%), appraisal (65% against 45%) and harmonised terms and conditions (31% against 4%). On the surface, these results imply that firms within this sample were more progressive than those captured by WERS 2004. Whilst these results provide a welcome introduction to work practice adoption across those firms surveyed they provide little insight to the form that practices took at a workplace level. It is the form of these work practices that we shall now explore through the personal interview findings.

²⁶ Except for job security and culture change which were more likely to be used by smaller SMEs.

²⁷ Further details on the dynamics of family in the ownership and management of the firm were collected at the personal interview stage. However, given the informal manner in which the data was collected, allied with a small sample size, it was not considered appropriate to assess the extent to which the variable of family may mediate the practice of HRM within those organisations sampled.

Table 4.5: The incidence of working practices

	% of workplaces	
	Survey	WERS 2004
High Involvement Practices (HI)		
<i>Strategic integration</i>		
Process improvement	23	-
Culture change programme	2.3	-
<i>Work organisation</i>		
Teamwork	43	55
Quality circles	4	13 ¹
<i>Communication arrangements</i>		
Team briefings	68	50
WC/consultative committee	6	10
Trade Unions	2	3
Staff suggestion scheme	16	13
Staff attitude survey	6	16
Sharing company information via newsletter	19	16
Sharing company information via intranet	16	8
Sharing company information via notice board	50	49
<i>Training/skills development</i>		
Communication skills	29	34
Teamwork skills	24	27
Problem solving skills	16	14
Human Resource Practices (HR)		
<i>Strategic integration</i>		
Forecasting staffing	33	-
Employment practices	22	-
Skills development	38	34 ³
Improving quality	36	-
Customer satisfaction records	52	26
<i>Work organisation</i>		
Multiskill	36	17 ⁸
Quality management certification (ISO 9000)	27	-
<i>Employment practices</i>		
Formal recruitment & selection	38	-
Selection testing (i.e. psychometric)	9	4 ⁴
Staff induction	61	-
Staff appraisal	65	45 ²
<i>Training/skills development</i>		
Equipment operation skills	51	44
Quality control skills	28	29
Leadership skills	26	19
Workforce diversity skills	7	13
Reward & Commitment practices (RC)		
<i>Strategic integration</i>		
Absenteeism records	64	-
Labour turnover records	53	-
<i>Communication arrangements</i>		
Employee job satisfaction records	30	34 ³

<i>Pay & reward practices</i>		
Formal pay system	55	-
Performance related pay	34	34 ⁵
Profit related pay	28	24
Employee Share Options (ESOP)	7	-
<i>Commitment practices</i>		
Internal promotion	53	14 ⁷
Job security	25	-
Harmonised terms and conditions	31	4
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	36	-
<i>Communication arrangements</i>		
Communicate through mgrs	61	57
Communicate by email	31	25
<i>Training/skills development</i>		
Training/skill dev. is important	73	-
Health & Safety training	69	64
Customer service training	33	26
<i>Organisational standards</i>		
Investors in People	14	15
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	81	-
Greater than 35 hours per week incl. OT	88	-
<i>Sources of advice</i>		
Member of EA	7	-
Sought advice from EA	13	-

Base: Survey respondents, N = 217.

Please note: The following results were extracted from WERS (2004) and may not be directly comparable: ¹Problem solving groups; ²Performance appraisals; ³Strategy covering employment relations (employee development, employee job satisfaction, diversity); ⁴Personality or team fit; ⁵Any merit pay or pay-by-results; ⁶Review promotion, pay rates, recruitment and selection; ⁷Preference shown to internal applicants when filling vacancies; ⁸Core employees trained to do a job other than their own.

High involvement practices

The most popular working practices represented within the high involvement component were team briefings (68%), communication via notice board (50%) and teamwork (43%). Given the relatively mixed picture presented in regard to teamwork and the fact that few SMEs had provided employees with training opportunities in teamwork (24%), the nature of teamwork was therefore further explored through the personal interview stage (see Table 4.6). Whilst two thirds of survey respondents at the personal interview stage reported that teamwork was more than just a group of people working together²⁸ it became apparent from the qualitative interviews undertaken at the case study stage that the majority of employees held little responsibility outside of their immediate job role/task.

²⁸ 37 of 95 (38.9%) survey respondents were followed up at the personal interview stage.

Table 4.6: The meaning of team work

	<i>Strongly disagree</i> %	<i>Disagree</i> %	<i>Neither</i> %	<i>Agree</i> %	<i>Strongly agree</i> %	<i>No view</i> %
Teamwork is just a group of people working together	21.6	43.2	10.8	16.2	5.4	2.7
Members of a team cooperate to get work done				76.3	21.1	2.6
Members of team cooperate with other teams to get work done			10.5	76.3	10.5	2.6
Individuals know the goals, objectives of their team		5.3	13.2	68.4	10.5	2.6
Teams can influence long term goals, plans of company		15.8	21.1	47.4	13.2	2.6
Teams have some responsibility over budget	5.3	26.3	15.8	39.5	10.5	2.6
Teams plan and review their own performance		34.2	10.5	42.1	10.5	2.6
Teams analyse and control quality		7.9	15.8	65.8	7.9	2.6
Teams are given time to develop new ideas		34.2	13.2	42.1	7.9	2.6
Teams can initiate change based on analysis of problem		15.8	7.9	60.5	13.2	2.6

Base: Personal interview respondents, N = 37 (38.9% of survey respondents indicating teamwork as a practice)

The majority of personal interview participants agreed or strongly agreed that members of teams; cooperate on an individual level; with members of other teams; know the goals and objectives of their team; analyse and control the quality of what they produce; and can initiate change based on an analysis of problems. However, respondents were divided as to whether teams were given the time to develop new ideas, plan or review their performance or hold a budgetary responsibility. These findings align with those of WERS 2004 in revealing the apparent uneasiness of owner-managers sharing responsibility for reviewing performance with others in the firm.

In addition to the way work was organised, respondents were also asked what form communication and consultation took within the firm. Further insight to the extent to which employees were involved in decision making in SMEs was gleaned through two follow-up questions at the personal interview stage, relating to employee involvement in strategy and in

change. Whilst over half (55.3%) of personal interview respondents noted that consultation took place internally within the firm, such consultation proved to be no wider than the senior management team. Strategy development was a task largely reserved for the owner-manager and/or senior management team. To reinforce this, owner-managers reported that employees were involved in changes relating to teamwork, problem solving, training, and quality control but rarely around strategy, ICT implementation, job redesign or operational planning (see Table 4.7).

Table 4.7: Employee involvement in the change process

<i>Area of involvement</i>	<i>Never involved</i> %	<i>Sometimes involved</i> %	<i>Always involved</i> %	<i>Not applicable</i> %
Strategy	58.9	34.2	5.5	1.4
ICT implementation	52.1	31.5	15.1	1.4
Job redesign	42.5	28.8	11.0	17.8
Operational planning	38.4	39.7	20.5	1.4
Flexible employ practices	35.6	26.0	30.1	8.2
Prod/Proc innovation	28.8	35.6	32.9	2.7
Productivity	27.4	35.6	32.9	4.1
Quality control	24.7	28.8	45.2	1.4
Training	23.3	27.4	49.3	
Problem solving	20.5	28.8	49.3	1.4
Teamwork	13.7	21.9	61.6	2.7

Base: Personal interview respondents, N = 74.

Take as a whole, the results within the involvement and participation component call into question the level and coverage of employee involvement in decision making. Direct forms of communication between managers and workers were prevalent within those firms surveyed, results that align with those of WERS 2004. It was apparent that little opportunity was afforded for involvement and participation outside of an employee's immediate job task/role.

Human resource practices

The most popular working practices represented within the HR component were induction (61%) and appraisal (65%). The use of appraisal practices amongst those firms surveyed was noticeably higher than WERS 2004 (65% against 45%). Over a half (52%) of all firms surveyed placed an importance on recording customer satisfaction²⁹, a practice twice as prevalent as WERS 2004 (26%). Whilst training and skills development activities were

²⁹ Within this study, customer satisfaction referred to formal feedback provided by customers on employee job performance (Sung and Ashton, 2005).

reported as being important by the majority of SMEs, further contextual analysis revealed that training revolved around statutory and task-based efforts such as health and safety (73%), and the operation of equipment (51%) and lacked strategic integration. Only a third of SMEs noted the importance of considering skills development (38%), improving quality (36%) and forecasting staffing requirements (33%) within the business strategy³⁰, or the use of formal recruitment and selection practices (38%).

Reward and commitment practices

A clear mismatch was found between those SMEs reported to record turnover and absenteeism (64% and 53% respectively) at the survey stage and those reporting such issues not to be of concern (82% and 78% respectively) at the personal interview stage. These results indicate the potential reliance placed on anecdotal evidence for decision making within SMEs. Only half (55%) of those SMEs surveyed reported the use of a formal pay system (55%), the presence of which was size-related. Performance related pay schemes were used by only a third (34%) of SMEs sampled, with preference being placed on internal promotion (53%). The relatively low levels of financial incentive schemes are surprising given that, when questioned, four fifths (79.7%) of personal interview respondents either agreed or strongly agreed that wages and financial incentives acted as key motivators. Personal relationships between colleagues (90.5%) were also reported as a key motivator.

Further contextual analysis revealed evidence of a long hour's culture amongst those firms surveyed, with over a half (53.1%) of respondents reporting that workers were expected to work in excess of 40 hours per week excluding overtime. Those employees working over 40 hours per week rose to three quarters (74.3%) when overtime was included within the calculation. When examined in greater detail at personal interview stage, nearly half (48.6%) of SMEs contractually set a working week of 40 hours or above, with the majority of other firms building in flexibility to respond to work requirements reflecting a largely reactive approach towards fulfilling working requirement. Further analysis will be required at the case study stage to establish if high performance is more to do with longer working hours rather than efficiency.

³⁰ These results relate to all survey respondents (N = 217), not just those SMEs that indicated the presence of a strategy (N = 107).

4.2.2 Management style

Just over two fifths (43.3%) of those SMEs surveyed reported the presence of an individual whose sole, or part, responsibility was management of HR within the firm (hereafter referred to as 'HR manager'). The responsibilities of the HR manager were explored in greater detail at the personal interview stage, the results of which can be observed in Table 4.9. The owner-manager was found to hold responsibility for management of HRM in the majority of cases, with a level of internal administration support and external legal advice. These results are in line with those of WERS 2004 which found that the responsibility for HR issues in SMEs falls on proprietorial and line management positions, with SMEs relying on external sources of advice on employment relations matters due to the limited personnel expertise available to them within the firm (Forth *et al.*, 2006).

Table 4.8: The management of the HR function

	<i>Count</i>	<i>%</i>
Owner manager + external legal assistance	16	53.3
Owner manager + Admin/external legal assistance	9	30.0
Owner manager only	3	4.1
Line manager	1	1.4
HRM manager	1	1.4

Base: Personal interview respondents, N = 30 (31.9% of survey sample)

The presence of an HR manager was found to be positively related to firm size, growth and the presence of a business strategy. Indeed, those SMEs with an HR manager were more likely to cover all issues in business strategy than those without. The presence of an HR manager was also found to be positively related to the uptake of HRM practices (except for profit related pay and quality circles). Interestingly, those SMEs without an HR manager are more likely to report skills development to be important and were more likely to have carried out all types of training. Those SMEs without an HR manager were found to favour direct forms of communication.

4.2.3 Organisation

Survey respondents were asked to report on the status of organisational standards and accreditations, the results of which are presented in Table 4.10. What is interesting to note is that by combining the 'not used' and 'considering' section over three quarters of SMEs did not

have any standard or accreditations. By far the most popular form of accreditation, used by nearly a quarter (23.0%) of all SMEs, was some form of quality management system. The Investors in People (IIP) standard had been achieved by one in seven SMEs (14.3%), results that align with those of WERS 2004.

Table 4.9: The status of organisational standards & accreditations

<i>Form of accreditation</i>	<i>Not used</i>		<i>Considering</i>		<i>Implementing</i>		<i>Accredited</i>	
	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>
ISO 9000.01	131	60.4	25	11.5	11	5.1	50	23.0
ISO14001	183	84.3	16	7.4	10	4.6	8	3.7
EMAS	208	95.9	6	2.8	3	1.4	0	0.0
ISO18001	167	77.0	25	11.5	14	6.5	11	5.1
IIP	144	66.4	33	15.2	9	4.1	31	14.3
Preferred supplier	144	66.4	20	9.2	16	7.4	37	17.1
Product/service certification	172	79.3	12	5.5	10	4.6	23	10.6

Base: Survey respondents, n = 217.

A positive relationship was noted between size and the presence of organisational standards and accreditation, results that agree with established debates that work practice sophistication is size-related (e.g. Hornsby and Kuratko, 1990, Pearson *et al.*, 2006). A positive correlation was also noted between those SMEs using the most widely reported organisational standards and the likelihood of keeping records of performance. A negative association was noted between ISO9000 and IIP and the presence of HRM practices; that is, those firms that held accreditation to these standards were more likely to have no HRM practices than those with other organisational standards. This is surprising given that these two organisational standards contain significant people elements within them, and may support the argument that IIP is adopted as a 'badge' to satisfy customer requirements (Ram, 2000).

Survey respondents were questioned as to the forms of technology used by the firm, the results of which can be observed in Table 4.11. Basic forms of technology including PCs, computerised accounts, mobile phones and the internet were in use within the majority of SMEs. However, relatively few SMEs used more complex forms of technology to regulate their external relationships with clients, suppliers, customers, or to organise their internal operations or production. A positive relationship was found to exist between size and the use of technology, observations that support established size and formality debates referenced above. Further analysis also revealed that certain industry sectors were more conducive to the adoption of particular systems, reinforcing similar findings in regard to working practices

outline above. Computerised production control (e.g. MRP) and operations control (e.g. ERP) were more likely to be used by SMEs within the manufacturing sector and systems for client, customer and supplier management were more likely to be used by firms within service sectors.

Table 4.10: Use of ICT applications

<i>ICT application</i>	<i>Count</i>	<i>(%)</i>
Personalised Computers (PCs)	215	99.1
Computerised accounts	199	91.7
Mobile phones	199	91.7
Internet (website)	198	91.2
Client management system	68	31.5
E-commerce customer	59	27.3
E-commerce supplier	57	25.9
Computerised operational control	46	21.3
Computerised production control	22	10.2

Base: Survey respondents, n = 217.

Two fifths (37.3%) of survey respondents reported experiencing constraints with the use of technology with the availability of skilled personnel (64%) cited as the biggest constraint against implementing more advanced systems. SMEs largely reported making decisions as and when required (64.9%) in regard to investing in technology. Few SMEs (16.2%) reported that they made technology investment decisions as part of a wider integrated strategy. Investments in technology, and training outlined earlier, appeared reactive and piecemeal and lacked strategic integration. Survey respondents were also questioned as to the type of performance measurement records they kept, and responses are reported in Table 4.12.

Table 4.11: Types of performance measurement records kept

<i>Performance measure:</i>	<i>Count</i>	<i>(%)</i>
Volume of sales/service	196	90.3
Total costs	193	88.9
Profit/ROI	156	71.8
Training	147	67.6
Absenteeism	138	63.4
Customer satisfaction	114	52.3
Unit labour costs	112	51.4
Quality of product/service	100	45.8
Labour turnover	95	43.5
Productivity	79	36.1
Job satisfaction	65	29.6

Base: Survey respondents, n = 217.

These results reveal that accounting-based performance measures such as volume of sales/service (90.3%), total costs (88.9%) and profit/ROI (71.8%) were by far the most popular. Less of an emphasis was placed on productivity (36.1%) or job satisfaction (29.6%). These results highlight the emphasis that SMEs place on financial output-based measures for decision making and question the extent to which SMEs recognise that historical performance is not a predictor of future performance (Storey, 1997).

Those SMEs reporting trends of increased sales turnover were more likely to place an emphasis on input-based measures relating to human capital such as training, job satisfaction and customer satisfaction. Those SMEs who had described their sales turnover trend over last five years as 'stable' were more likely to keep all records than those who had experienced an irregular trend. Those SMEs reporting the presence of a business strategy were more likely to keep all categories of records, with quality, productivity, job satisfaction and customer satisfaction being most significant. These results highlight that firms experiencing growth are more likely keep a broader range of performance measures and take a more strategic approach to analysing performance.

Having considered the above, what do these findings tell us in regard to this study's research questions, namely: RQ1) the extent to which SMEs were adopting HRM practice and RQ2) the form that HRM took within those firms surveyed? We shall now review the implications of these findings.

4.2.4 Reviewing the extent and form of HRM practice

This introductory section has provided an insight to the preliminary patterns of HRM and performance in SMEs. HRM and wider workplace practice adoption continues to remain low across SMEs (Duberley and Walley, 1995, Cassell *et al.*, 2002) with firms, on average, only using eleven of forty working practices measured. The most popular forms of workplace practice, used by over three fifths of all SMEs surveyed, were team briefings, staff induction, appraisal and recording absenteeism. No evidence was found of SMEs adopting a high performance approach to organisational performance. Further analysis drew attention to the disparity between the reported reality and actual reality of HRM practice in SMEs. Communication mechanisms such as team briefings were, on the whole, direct and management-led (Forth *et al.*, 2006) with little opportunity for employee involvement outside of their immediate work tasks. In addition, those firms reporting the use of organisational standards (e.g. IIP) were found to have adopted a narrower set of HRM practices, lending

support to the notion that organisational standards may be nothing more than symbolic (Ram, 2000).

On the one hand these findings reveal the widespread use of informal HRM practices in smaller firms (Kaman *et al.*, 2001, Bartram, 2005) and show a preference by smaller firms for an unstructured approach to the employment relationship (Edwards and Ram, 2010). On the other hand, they draw attention to the discrepancies between the reported level of practices and the reality (e.g. Duberley and Walley, 1995, Bacon *et al.*, 1996, Marlow, 2002), reinforce the dangers of relying on self-reported survey-driven research and draw attention to the challenges of capturing the particularistic nature of practices in smaller firms (Harney and Dundon, 2006). What can be said with some certainty is that once one had progressed past the practice label it was unclear as to the form that practices took or the degree to which these practices lived up to their 'high performance' label (Rowden, 2002, Way, 2002). These issues will require further investigation during the case study research phase.

Overall, a strong positive relationship was found between HRM and performance (Kerr *et al.*, 2004, Sels *et al.*, 2006b, Zheng *et al.*, 2006). However, association does not prove causal direction and, unlike the studies cited above, these findings did not form the focal point of this preliminary research phase. Further analysis confirmed a relationship between measures of formality, working practices and performance, findings that denote the potentially positive role that formality may play in SME performance. A key relationship was also found between ownership, HRM and performance. Family-owned firms were less strategic, were less likely to use HRM practices (e.g. de Kok *et al.*, 2006), and were underperforming when compared to their private counterparts. This is an important finding given that three fifths of those SMEs surveyed (59%), and within the wider business population (IFB, 2008), involved an element of family ownership/management. Aside to ownership, a relationship was also found between industry sector and HRM practice adoption, with those firms within manufacturing and service-related sectors (e.g. finance, hotel & restaurants) found to be using a greater number of HRM practices.

In addition to firm background (e.g. ownership, size and sector), management style and organisation a range of other contextual factors were found to influence the uptake of HRM practice within SMEs. These shall now be explored.

4.3 Growth: HRM challenges and transitions

Survey respondents had either grown in turnover and employment (57.6% and 42.5% respectively) or remained the same (30.0% and 44.9% respectively) over the past three years. When measured by sales turnover, a fifth (19.4%) of SMEs had experienced high growth, whilst a tenth (10.3%) of firms had experienced high employment growth. The disparities between turnover and employment growth denotes that employment growth lags turnover growth, with employers being more likely to recruit new staff once sales turnover growth is established. The level of SMEs reporting high growth within this study is above those reported by national government statistics (BERR, 2008). This may be explained by bias within the sample due to the self-reported nature of the performance data.

When asked how their historical growth pattern could best be described, just under two thirds (57%) of personal interview respondents stated that growth was achieved in a linear/steady pattern. However, two fifths (39%) of personal interview respondents reported that they were not wholly happy with being presented with a choice of only one of the above growth paths. These results highlight that firms do not necessarily experience a predictive linear growth pattern. When probing deeper into the nature of firm growth, just under half (47%) reported that they were currently experiencing a phase of growth with two fifths reporting a phase of maturity. Few firms reported were found to be experiencing a period of decline (3%). A minority of SMEs revealed that they were currently experiencing an invention/beginning phase (10%) and had already experienced, sometimes multiple, phases of growth and maturity. These results reveal that some SMEs have had to respond to growth & performance challenges.

At the survey stage, SMEs that had grown over the past three years were asked to report the reasons for their growth success. Responses are represented in Table 4.13. By far the most prevalent reasons for growth success, reported by around half of all firms, were product/service or process quality (53.2%), business strategy (49.2%) and market advantage (48.4%). Around a third of SMEs also reported the management of the internal organisation (37.9%) and product/service or process innovation (30.6%), with a quarter of SMEs reporting HRM (27.4%) and resource advantages (24.2%) as important reasons for growth success. These results reveal that growth success is more likely attributed to developments in a firm's product market when compared to internal developments.

Table 4.12: Reasons for growth success

<i>Reason for success</i>	<i>Count</i>	<i>%</i>
Product/service or process quality	66	53.2
Business strategy	61	49.2
Market advantage (niche, competitive position, exporting)	60	48.4
Management of the internal organisation (operational planning, systems & procedures etc)	47	37.9
Product-service/process Innovation	38	30.6
HRM (recruitment, training, reward, appraisal, team work, culture etc)	34	27.4
Resource advantage (information, materials, location, human etc)	30	24.2
Management of the external organisation (suppliers, customers, shareholders, partnerships)	23	18.5
Finance (Management of, sources of, favourability of exchange rate etc.)	16	12.9
Statutory regulation	15	12.1
ICT (computerised production control, E-business etc)	13	10.5
Other	12	9.7
Sources of advice (networks, business support services)	9	7.3
Transport networks (distribution/logistics etc)	8	6.5

Base: Survey respondents, growth in turnover n = 125

When questioned further at the personal interview stage, a half of growing SMEs reported that their growth was most likely coming as a result of a mixture of established (51.1%) and new customers (48.9%). Growth was less likely to come as a result of developing new products or services (26.7%), new markets (17.8%) or maximising availability/minimising delivery times (2.2%). Indeed, when questioned, over half (53%) of all SMEs during the personal interview stage reported that they had not realised any increased sales turnover from new products or services in the last three years. These results reveal that SMEs are more likely to rely on established products and services rather than look to develop new products or services when seeking growth, and are experiencing difficulty in developing and exploiting knowledge.

At the survey stage, SMEs whose growth had either stagnated or declined over the past three years were asked to state three main reasons as to why they believed this to be the case. This was presented as an open question in order to capture qualitative detail. Three of the top four reasons given for underperformance were attributed to a firm's product market. Increased competition faced by SMEs was by far the most prevalent issue, assigned as a reason by over four fifths (84.6%) of all underperforming SMEs, with a reduction in market (31.9%) and customers (18.7%) also cited as important product market influences. To a lesser extent institutional influences including government regulations and external influences (27.5%) and labour market issues, such as the availability of suitable skills (17.6%), were deemed to be reasons for a lack of growth. The results agree with those outlined above in further reinforcing the emphasis SMEs place on product market matters. In order to find out further details in

relation to the dynamics of the growth process, all personal interview participants were asked to describe the key transitions that had occurred in the history/evolution of the business; the results of which can be viewed in Table 4.14.

Table 4.13: Key transitions during company evolution

<i>Transition</i>	<i>Count</i>	<i>%</i>
Expansion	34	45.9
Working practices/systems development/change	23	31.1
Product/service development/change	20	27.0
Market change	17	23.0
Professional expertise/skills	15	20.3
Succession	14	18.9
IT/technology	11	14.9
Downsize	9	12.2
Investment	6	8.1
Regulatory change	6	8.1
Acquisition/merger	5	6.8
Change in legal status	5	6.8
Partnership/collaboration	4	5.4
Higher value added	1	1.4
Outsourcing	1	1.4

Base: Personal interview respondents, n = 74.

Whilst investment in expansion of delivery capacity was cited by just under half (45.9%) of all SMEs as a key growth transition, a third (31.1%) of all firms noted the importance of developing working practices and systems. Personal interview respondents largely reported these developments to have taken place in response to growth, not as a precursor to growth. These results draw attention to the important role that working practices, such as HRM, plays in firm growth (e.g. Kotey and Sheridan, 2004, Harney and Dundon, 2007) and, would appear to suggest that firms only introduce new working practices when pressured to do so. A quarter of SMEs also reported having to overcome challenges in regard to their products/services (27.0%) and their markets (23.0%). Finally, bringing in more professional skills and expertise (20.3%) and taking into account succession issues (18.9%) were also reported as key growth transitions. Overall, these results highlight that whilst responding to the need for expansion and overcoming product market challenges were key developments taken by SMEs, developments to working practices and management skills also featured prominently, but were taken in response to growth and performance challenges.

In order to achieve future growth ambitions SMEs reported that they would largely focused their attention on improving their sales and marketing (73.0%), or reducing costs (see Table

4.15). As might be expected, given the focus on expansion within previous growth transitions outlined above, opening new or expanding existing premises was also seen as important. These results highlight that SMEs initially favour short term, reactive responses to growth and performance challenges, only then do they begin to think about longer term, strategic changes. Indeed, only between a quarter and a third of SMEs were looking at longer term strategic issues such as introducing process changes (37%), developing new markets (30%) or developing new products (28%). Far fewer SMEs were thinking what form of structure would be required to manage the firm in the future (25%).

Table 4.14: Areas of future growth

<i>Area of future growth</i>	<i>Count</i>	<i>%</i>
Improve sales/marketing	54	73.0
Seek to reduce costs	32	43.2
Open new/extend existing premises	28	37.8
Introduce process changes	27	36.5
Invest in IT	24	32.9
Seek out new geographical markets	22	29.7
Introduce product changes	22	29.7
Invest in new equipment	19	25.7
Change ownership structure/control of the firm	18	24.3
Increase exports	13	17.6
Handing onto family members	9	12.3
Increase R&D spending	4	5.4
Investigating overseas production	3	4.1

Base: Personal interview respondents, n = 74.

Whilst SMEs appeared to favour short term solutions when reporting intended areas for future growth, when asked as to the issues that required resolution in the longer term personal interview participants reported more strategic level issues (see Table 4.16). Whilst sales and marketing featured prominently, strategic (56.8%) and managerial development (52.7%) concerns were also noted by a similar number of firms. The need to deal with HRM (39.2%) and delegation (27.0%) issues were also reported as key issues to address for long term survival. These results denote that strategy, management skills and workplace practice are areas considered to be a relatively important in a firm's bid for longer term survival and growth, but a firm's immediate response to the performance challenges faced are short term and simple changes to their sales and marketing.

Table 4.15: Issues to address for long term survival

<i>Issue</i>	<i>Count</i>	<i>%</i>
Strategy	42	56.8
Sales & marketing	42	56.8
Management development	39	52.7
HRM	29	39.2
Quality control	24	32.4
Delegation	20	27.0
Product/process innovation	19	25.7
Partnering/collaboration	19	25.7
Accounting	16	21.6
Operational planning	15	20.3
Productivity	14	18.9
ICT	13	17.6
Department structure	12	16.2

Base: Personal interview respondents, n = 74.

Finally, survey participants were questioned as to whether any barriers were likely to hinder future growth over the next three years. These are reported in Table 4.17.

Table 4.16: Barriers to growth

<i>Barrier to growth</i>	<i>Count</i>	<i>(%)</i>
Competition intensity	96	44.2
Availability of skills	90	41.5
Availability of labour	88	40.6
Employment regulations	78	35.9
Cost of labour	71	32.7
Finance	53	24.4
Management/leadership	49	22.6
Environmental regulations	42	19.4
Suitable premises	36	16.6
Financial regulations (e.g. VAT)	25	11.5
Ability for organisational change	20	9.2
Transport networks	18	8.3
ICT	12	5.5

Base: Survey respondents, n = 217.

As might be expected, given the reasons outlined earlier for a lack of growth and areas for future growth, product market influences relating to competition (45%) was the top barrier cited by just under half of all SMEs. Labour market issues related to three of the top five barriers to growth and included the availability of skills (42%), the availability of labour (41%) and the cost of labour (33%). Institutional influences relating to employment regulations (36%) were also relatively important. Developing the capability of management within SMEs was

only cited by a fifth of all SMEs questioned. These results were further reinforced when personal interview participants were questioned regarding the skills required for future change. The majority of firms (39.2%) reported sales and marketing skills with fewer firms placing an emphasis on communication (28.4%), strategy (20.2%), professional management (18.9%) and HRM (17.6) skills. These results yet again reinforce that that issues relating to human capital were considered less important than those relating to the firm's product market.

4.4 Product market, labour market and strategic orientation

4.4.1 Product market

It is evident from the results revealed thus far that SMEs placed significant importance on responding to product market challenges. This section will therefore delve into the nature of the product market. When asked, survey respondents revealed that they were experiencing high levels of competition. Two thirds (66.4%) of SMEs reported that they faced 'many' competitors, with almost a third (31.8%) facing 'few' competitors. Few SMEs reported that they faced 'no' competitors (1.8%). A relationship was found between size and competition, that is smaller firms reported higher levels of competition. A relationship was also found between ownership and competition, with privately owned firms facing less competition than family-owned firms.

The level of competition faced by SMEs appeared prefaced on a number of issues, but two stood out. First, survey respondents were largely found to be competing in local or regional markets. Nearly half (47.0%) of all SMEs reported that they competed within local or regional markets. Only a third (32.3%) of SMEs reported competing at a national level, with a fifth found to compete internationally (19.8%). When compared against WERS 2004, a considerably higher proportion of SMEs within this sample were found to be competing internationally, a fact that might be partly explained by Kent's proximity to Europe. When the intensity of competition was examined against the nature of competition the only strong relationship found was that those SMEs competing in regional and national markets were more likely to face more intense competition (i.e. many competitors).

Second, when combined, over two thirds of all survey respondents were found to be competing in 'mature' (41.7%), turbulent (18.9%) or declining (9.0%) markets. Fewer SMEs reported competing in a 'growing' (30.4%) market. As with the intensity of competition, relationships were found between the nature of the market in which SMEs were operating and size and

ownership. Smaller firms found more likely to be competing in mature markets, and a higher proportion of medium companies were found to be competing in growing markets. Privately-owned firms were more likely to be found competing in growing or turbulent markets. Family-owned firms were more likely to be found operating within local/regional markets that were reaching maturity or experiencing decline. The picture painted earlier of family-owned firms being less progressive may be partly explained by limitations placed on resources due to the increased levels of competition they were experiencing.

The stage one survey also revealed evidence that SMEs were more likely to compete on the basis of quality, findings that align with WERS 2004 (see Table 4.18).

Table 4.17: Factors critical to competitive success

	<i>% of workplaces</i>	
	<i>Survey</i>	<i>WERS 2004</i>
<i>Price & quality:</i>		
Demand heavily dependent on price	36	10
Demand heavily dependent on quality	69	50
Demand depends on offering both	20	25
Demand depends on neither	9	14
<i>Other factors:</i>		
Offering quality and reliability	70	-
Offering product/service with unique features	18	23
Customising to meet the demands of customers	33	46
Offering complex product or highly skilled service	11	24
Offering low price/no frills	5	-
Maximising availability or minimising delivery times	12	19
Developing a new product/service	3	6
Offering high level of customer service	48	64

Please note: Price & quality obtained from survey respondents, N=217. Other factors obtained from personal interview respondents, N = 74. Other factors are a combined score of respondents being asked at the personal interview stage 'what are the two most important factors for competitive success?'

A conflict was apparent, with a fifth (20.3%) of firms reportedly competing on a high quality/low price continuum (i.e. compete on offering better quality and better price than the competition), a finding that brings into question the extent to which SMEs were dealing with quality and price in a strategic manner. All personal interview participants were further questioned as to what were the two most important factors to the competitive success of their main product or service. The most important factor related to quality and reliability cited by

over two thirds (70%) of all SMEs followed by a high level of customer service (48%). Taken as a whole, these results emphasise the focus on product quality and that competitive success relies on skill and discretionary effort.

In order to better understand the way in which SMEs made decisions in regard to their product market, personal interview participants were probed on the nature of the decisions they took with regard to their market, products/service and competition. SMEs were found to be relying on anecdotal knowledge of their sector/market. Interviewees mentioned that “the competition is well-known to us” or “we know who our competitors are”. Few SMEs were therefore found to undertake any objective research into such issues. Despite this apparent lack of research, ninety five percent of all SMEs surveyed reported that they possessed a competitive advantage. Taken together these results are significant as they denote that the majority of SMEs may not understand competitive advantage in relation to their firm.

In order to gauge the relationship between firms and their customers, SMEs were asked what percentage of sales turnover was attributable to their largest customer. Of those SMEs surveyed, the dependence on larger firms for sales ranged from zero to eighty five percent, with a mean of twenty one percent. Further analysis revealed that in the majority of firms (52%) one customer contributed no more than ten percent of sales turnover, with only fifteen percent of SMEs reportedly trading with a customer for over half of their business. Over a quarter (27%) of SMEs did not supply large firms at all. These results demonstrate that SMEs were, in the main, not as dependent on large firms as previously argued (Rainnie, 1989, Barrett and Rainnie, 2002) and question the extent to which coercive networks play a role in HRM practice adoption (Bacon and Hoque, 2005). These results also highlight the strongly local/regional bias of the market in which firms competed.

4.4.2 Labour market

Labour market issues were earlier reported as key barriers to future growth. This section will therefore attempt to provide an insight to the nature of the labour market that SMEs were experiencing. The majority of SMEs reported recruiting managers using a mixture of internal and external methods (43.8%), resulting in over half (56.7%) of SMEs relying to some extent on internal methods of recruiting employees into management roles. This would not be particularly concerning if it weren't for the limited attention given to managerial training outlined earlier and calls into question the extent to which managers hold the appropriate skills to fulfil their roles. For instance, further analysis identified that those SMEs that had recruited

managers internally (or not at all) were less likely to have a business strategy. Size was also related to the recruitment of employees into management roles; the larger the firm the greater the propensity to recruit managers externally.

Interestingly, three fifths (59.5%) of personal interview respondents reported that they experienced difficulties in recruiting employees. Informal feedback during the personal interview stage largely attributed these difficulties not in terms of attracting candidates, as most SMEs reported plentiful supply, but rather that applicants rarely matched the firm's expectations or requirements in terms of skill levels and aptitude. Additionally, when asked as to the proportion of employees that were skilled when recruited, just over two fifths (41.9%) of SMEs at the personal interview stage reported that their employees lacked the skills required to perform their roles when recruited, with a fifth (18.9%) of SMEs reporting that all new recruits were fully skilled when recruited. The majority of employees that were recruited required further training.

The majority of SMEs reported training/skill development to be important (72.9%)³¹, however this was found to largely be as a result of the specific knowledge required of the firm's products and/or processes (41.9%) and the level of quality and/or customer service (37.8%). Few firms reported that training and skill development was important to personal or professional development (14.9%), employee morale and motivation (12.2%), to retain skills (12.2%) or promote multi skilling (5.4%) or autonomous working (4.1%) across the workforce. Few owner-managers were able to formally describe those skills required by the firm other than those relating to an employee's specific task/role and, as will be reinforced later within 'human capital', this is where training focussed. As a consequence, SMEs are experiencing serious labour market challenges in regard to managers and employees. These results also highlight that firms were not using RBV as an approach to competitive advantage.

4.4.3 Strategic orientation

When asked, half (49.3%) of those SMEs surveyed reported that they had a formal strategic plan which sets out objectives and how they will be achieved, slightly higher than firms reported within WERS 2004 (40%). When asked whether the firm had a formal vision³², two thirds (68.9%) of firms reported that their vision was informal. Few SMEs were able to

³¹ A positive relationship was found between firm size and those companies reporting training/skills development as important.

³² Base: Personal interview respondents, N = 72, 2 = missing.

demonstrate the existence of a formal vision or strategic plan at the personal interview stage. Vision and strategy were therefore, informal and lacked wider involvement and consultation. Not surprisingly, a strong relationship was found between the existence of informal vision and a lack of strategic direction. Privately-owned SMEs were more likely to report the use of a strategic plan when compared to wholly family-owned firms, results that agree with WERS 2004.

Those SMEs that reported the presence of a formal strategy at the survey stage were asked upon which issues the plan focussed. Unsurprisingly, strategic concerns focussed on elements relating to the firm's product market (e.g. market strategy) (78.5%), labour market (e.g. obtaining suitable skills) (75.7%) and improving quality (72.9). The least likely issues to be covered in an SME strategy were process innovation (46.7%) and employment practices (44.3%)³³. These results reveal that, at best, a fifth of SMEs may be adopting more progressive working practices and typically do not form part of a wider strategic planning process in SMEs.

SMEs were also asked at the personal interview stage as to whether they attempted to anticipate change (i.e. market, competition etc.) or not. The majority of SMEs reported that they attempted to anticipate change (60.8%), however it was questionable as to the extent to which owner-managers were reporting this as an aspiration, rather than reality, especially given the informality of strategic planning and the limited formal knowledge of competition and markets highlighted above. Over a quarter (28.4%) of firms reported that they react when necessary, and although a minority, worryingly a tenth (9.6%) of SMEs reported that they remained the same and did nothing at all when a change was required.

4.5 Human capital, social capital and institutions

4.5.1 Human capital

As we have moved through this chapter it has become evident that investments in a firm's product market appear to take precedent over investments in human and social capital. In an attempt to shed further light on these issues this section will aim to provide further insight to the nature of human and social capital and institutional forces. Over half of all managers within those firms surveyed did not hold any formal qualifications, results that align with those of

³³ A third (34%) of SMEs surveyed within WERS 2004 reported that strategy covered employment relations issues.

WERS 2004, and reveal the reliance placed on career-related experience at a managerial level. The presence of managers with formal qualifications was found to be positively related to the presence of a business strategy. Those SMEs with qualified managers were most likely to place a strategic emphasis on skills and process innovation, whilst those SMEs that employed 'some' managers with qualifications focused on strategic issues such as skills and marketing. Those firms that did not have managers with qualifications were less likely to have a written business strategy. These results highlight that formal management qualifications are related to the depth of strategic considerations and the performance of SMEs.

Despite the majority of survey respondents reporting training and skills development to be important (72.9%) and that costs incurred in regard to training were seen as an investment (79.7%), only two fifths (40.5%) of personal interview respondents allocated a budget to such activities. Furthermore, cost and lost staff time were the most significant barriers to training cited by just under half of all personal interview respondents (47.2% and 45.2% respectively). In the main, personal interview respondents reported that training was paid for as and when required, if they could afford it, and that it would be assessed on an individual basis reinforcing the limited investment in human capital alluded to earlier. The intentions of sampled firms therefore appear largely contradictory to their actions, with little conceptualisation of how investment in human capital relates to longer term development.

Surprising was the relatively high levels of training reportedly provided to employees by SMEs. The majority of personal interview respondents reported that employees received between two and five days of training per annum (43.2%) with a quarter of SMEs (28.4%) providing employees with five days or more. Owner-managers reported that training was provided to employees through a mixture of external courses and internal/on-the-job training (51.4%), with a third (33.8%) of SMEs relying solely on in-house/on-the-job training methods. Most interesting, however, was the nature of training provided to employees.

As can be noted in Table 4.19 the most popular form of training provided to employees by SMEs was health and safety (69%). Given the highly regulated nature of health and safety in the UK it is surprising that just under a third (31%) of SMEs had not trained their employees in this area. Aside from health and safety issues importance was notably placed on task-based activities such as computer skills (53%) and the operation of new equipment (51%). The emphasis on the operation of new equipment may be expected given that SMEs were found to draw on their supplier networks for employee training, outlined below. Much less emphasis

was placed on communication (28%), leadership (25%), teamwork (24%) and problem solving (16%). As can be noted these results are not dissimilar to the WERS (2004) findings³⁴. These findings reveal that the skills development activities of SMEs focus on an employee's immediate job role/task and other wider regulatory requirements.

Table 4.18: Topics covered in training for core employees

	<i>% of workplaces</i>	
	<i>Survey</i>	<i>WERS 2004</i>
Health & safety	69	64
Computing Skills	53	40
Operation of new equipment	51	44
Customer service/liaison	32	26
Communication skills	28	34
Quality control proccdures	28	29
Leadership skills	25	19
Team working	24	27
Problem-solving methods	16	14
Reliability and working to deadlines	12	14
None of these	8	6
Equal opportunities	7	13

Base: survey, N=217. Survey respondents within this study were not asked to distinguish between training that was formal off-the-job or on-the-job. WERS2004 data only includes formal off-the-job training.

4.5.2 Social capital

The nature of business, customer and supplier networks were also investigated through the survey and personal interview stages. A minority (43.3%) of SMEs were found to hold membership to a business network or club, with network membership being more likely amongst smaller firms. Of those SMEs that held membership to a business network, only two thirds (67.0%) reported that membership had assisted them in some way, a figure that reduced to half (50.0%) when questioned at the personal interview stage³⁵. SMEs reported that business networks were local and parochial (the term 'a job for the boys' was typically used) and that advice was too generic. Those SMEs that reported benefits noted that membership had assisted with navigating regulatory and legal matters (31%), with business improvement (29%), and had enabled them to share experiences and industry information (26%) along with providing access to more general information (20%). Overall, these findings reveal that a minority of

³⁴ Elevated responses within this study may be attributed to the fact survey respondents were not required to distinguish between formal off-the-job or on-the-job training, whereas the WERS data includes only formal off-the-job training.

³⁵ 37.2% of those SMEs reporting at the stage one survey stage that membership to a business network, club or forum had assisted them were subsequently followed up during the stage two personal interview.

SMEs hold membership to business networks, with three quarters of SMEs either choosing not to interact with other businesses through a formal network of club, or reporting little benefit of such networks.

Similarly, just under two thirds (64.5%) of SMEs at the survey stage reported that relationships with their customers or suppliers had assisted them in some way. Three quarters (77.0%) of those SMEs followed-up at the personal interview stage reported that their customer relationships had assisted them with product development (43.8%), sharing experiences (37.0%), building new contracts (39.7%), providing access to new markets (34.2%) and market intelligence (34.0%). Supplier relationships with SMEs were focussed around skills and training activities (38.4%), market intelligence (35.6%) and new product development (30.1%). These findings, coupled with those above, reveal that few SMEs had developed wider support networks, and those that had focussed their attention around resolving product market (e.g. sales development), labour market (e.g. training development) and regulatory issues.

4.5.3 Institutions

A key challenge was found in attempting to separate out institutions and rules and routines as separate variables, as regulations and custom and practice were engrained in growth. All SMEs within this study were non-unionised. As was been explored above, regulations (e.g. employment, environmental, financial) to varying extents were deemed to play a negative role in future firm growth and the most popular form of training provided to employees was health and safety related. Given that this is an area regulated heavily in the UK these results may explain the coercive role played by regulation (DiMaggio and Powell, 1983, Bacon and Hoque, 2005). More voluntary forms of workplace practice and system adoption (e.g. IIP) had not been taken up by SMEs. As a consequence of the above, and given the limited nature of firm networks outlined earlier, it was considered important within the institutional dynamic to delve into the sources of information and advice that SMEs were drawing upon. As a consequence, this section appeared to sit comfortably following human and social capital.

Whilst half (47.0%) of all SMEs were found to be members of a trade association, membership of the other business associations was much lower. Just over quarter of SMEs were members of a Chambers of Commerce (26.3%) or the Federation of Small Businesses (26.3%). Just under a quarter of all those firms questioned held no membership or affiliation to a trade or business associations (24.0%). When asked, SMEs reported that they were most likely to obtain information and advice from accountants (71.4%) and lawyers (54.8%) and reported

being largely satisfied with the advice provided. Just under half of SMEs sought advice from other professional bodies (48.4%), with two fifths working with other business owners (40.6%). The family was also noted to be integral to the information and advisory needs of just under a third of all SMEs sampled (31.8%).

Taken together with those findings in the previous section, few SMEs were accessing external advisory networks, and those that were focussed on financial, legal and product market related activities.

4.6 Implications: emerging patterns of HRM & performance

This chapter has provided an insight to the preliminary patterns and context of HRM and performance in SMEs. Having explored the extent and form of HRM earlier what has become evident is that investigating HRM on its own means little more than a tick in the box. It is therefore important to examine the wider context if we are to contribute to the debate as to what influences HRM and performance in SMEs.

There appeared sensitivity to HRM issues by most firms, but operational challenges took precedent over longer term developments to HRM and wider working practices. Growth and performance challenges revolved around the product market and related to short term, reactive changes to business need (Duberley and Walley, 1995, Cassell *et al.*, 2002). Investments in physical capital were favoured over human capital and decisions were taken 'as and when required' and lacked strategic integration. Indeed, few firms displayed evidence of strategy let alone one aimed at the management of employees (Scott *et al.*, 1989, Harney and Dundon, 2007). Whilst strategic and managerial developments were positively related to performance (Gilman and Edwards, 2008) SMEs placed a reliance on career-related experience and training focussed on an employee's immediate task/role. Overall, these results denote a limited understanding amongst SME owner-managers of the behaviours that are required to generate longer term competitive success (Lado *et al.*, 2006).

Having said this, results also revealed that SMEs had made changes to working practices in response to growth & performance challenges. A large minority of SMEs had made, and were contemplating, a range of changes to internal structures, systems and practices. It was apparent that those SMEs that had been responded to previous growth and performance challenges were better able to articulate the HRM challenges they faced. It was evident that the *modus operandi* of most firms was prefaced on a short term, reactive approach to product market challenges

faced (e.g. generating more sales), a situation unlikely to change unless survival was threatened. Could these findings reveal a potential role for environmental ‘shocks’ in catalysing a change in firm behaviour (e.g. Ram *et al.*, 2001)? Taken together, these findings uncover the potentially significant role that that growth plays in the development of workplace practice, such as HRM (e.g. Kotey and Sheridan, 2004, Harney and Dundon, 2007) along with the role that the owner-manager plays in limiting or promoting opportunities for the firm growth.

This preliminary phase of research has provided an introduction to patterns of HRM and performance in SMEs and has reinforced the importance of understanding the wider context within which firms operate. However, whilst evidence has been found of a relationship between HRM and performance in SMEs, we are still left asking ‘why’? If we are to build a more detailed understanding on the relationship between HRM and performance in SMEs, and the role played for instance by ‘shocks’ (e.g. Wright and Edwards, 1998), one must move beyond these surface level practices and relationships and uncover the underlying causal mechanisms (Fleetwood and Hesketh, 2010). The remainder of this research will do just that by exploring these unanswered questions through a set of five detailed case studies.

4.7 Case study selection: identifying suitable settings for further research

The central question that emerges is: what are the underlying causal mechanisms that explain why some SMEs are using more progressive working practices and experiencing higher levels of performance than others? In order to identify these underlying causal mechanisms it was considered important to focus attention on a small set of cases. It was believed that a multiple case study approach would increase the robustness of potential findings (Creswell, 2003) and would promote theory development, reinforced by Downward *et al.* (2002):

‘Overlap or consistency in the results of investigations in different contexts adds weight to the realist account of the phenomenon under investigation and, by implication, *increases the basis of a rational belief in that account*’. (p496) [original emphasis]

The survey and personal interview stages provided opportunity to identify suitable settings for further research. The selection process and characteristics of the case studies are now explored.

4.7.1 Sampling criteria

Following the preliminary research phase, attention turned to identifying those settings suitable for further research. It was considered important to identify settings that exemplified 'typical' cases (Seawright and Gerring, 2008) i.e. SMEs that were introducing more progressive working practices and were growing. A purposeful maximal sampling procedure was advanced in two layers (Denscombe, 2007). First, personal interview participants had to show an aspiration to grow and had to satisfy not just one but all five criteria adopted at the personal interview stage (see Personal Interview Approach Sampling method on p64). These criteria were subsequently applied to all 74 personal interview participants. 27 SMEs met all these criteria and thus formed the population sample for the case study stage (please see Table 4.20 for a breakdown by sector).

Table 4.19: Case study population sample

<i>Sector</i>	<i>SIC code (2 digit)</i>	<i>Sample</i>	<i>Representation (%)</i>
Agriculture	01-02	2	2
Manufacturing	15-37	7	19
Construction	45	4	17
Wholesale and Retail	50-52	6	24
Hotel and Restaurant	55	1	6
Transport and Storage	60-64	1	7
Financial Services	65-67	1	3
Real Estate, Rental & Business Services	70-74	6	24

In addition to the criteria outlined above, a second layer of criteria were determined to ensure maximal variation³⁶, along with providing an opportunity to explore the themes identified within the preliminary phase of research. As a consequence, cases varied in terms of age, ownership, structure and industry sector (Trochim, 2006) and displayed key HRM and growth-related challenges. Firms also had to be open to the research and provide suitable research access.

³⁶ This would ensure that the sample would be broader than prior contextual studies. For example, Edwards *et al.* (2006) study concentrates on retail (restaurants and catering) and manufacturing (clothing and food) trades and Gilman & Edwards (2008) concentrate on high tech firms.



Of the 27 SMEs that made up the case study population sample, five firms met the second layer of selection criteria. Following consultation with the literature and reflecting on resource constraints (e.g. time, financial resources) it was considered that five case studies were adequate (Hammersley, 1998) in order to promote the emergence of patterns and rival explanations (Yin, 2009). Case studies represented all key sectors including: manufacturing; construction; hotel and restaurants; wholesale and retail; and financial services. Unfortunately, the firm representing the hotel and restaurant sector later declined to take part in the research. Given that there were no SMEs that fully met the selection criteria outlined above it was decided that a further manufacturing firm would be included. This decision was based upon the appreciation of the inherent diversity of the manufacturing industry, along with the ability to include a contrasting case within the same sector.

4.7.3 Case study characteristics

Table 4.21 briefly summarises the main characteristics of the five case studies. All case studies were non-unionised. As can be observed, case studies were growing, and had implemented a greater quantity of working practices than the average SME within phase one of the research³⁷. Cases were also purposively making changes in response to growth and performance challenges. The decision was also made to include a set of 'diverse' cases (Seawright and Gerring, 2008) within the sample. CCTV Co. and Mortgage Co. were chosen because both firms were experiencing high growth but had implemented a contrasting numbers of working practices. Whilst Kitchen Co. was also growing, the firm had implemented the least number of working practices when compared against the other case examples. For reasons of confidentiality all case studies were allocated appropriate pseudonyms.

4.7.4 Method of administration

Overall, 33 interviews were conducted across the five case studies. All managers within the firm were interviewed. As noted earlier within the methodology, the bias towards interviews with managers was taken because employees were typically not party to wider discussions and were therefore less aware of the broader issues affecting the firm (e.g. business structure and performance). The job title and tenure of interviewees, along with the type of interview, can be viewed in Table 4.22.

³⁷ Survey respondents had implement on average 11 working practices.

Table 4.20: Case study characteristics

<i>Organisation</i>	<i>Description</i>	<i>SIC</i>	<i>Location</i> <i>(Kent)</i>	<i>Age</i> <i>(years)</i>	<i>Size</i> <i>(employees)</i>	<i>3-year growth trend</i>		<i>Working practices</i>
<i>Industry sector</i>						<i>Sales turnover</i> <i>(% increase)</i>	<i>Employment</i> <i>(% increase)</i>	
<i>Cable Co</i> Manufacturing	Manufacturer of cable markers	32	North East	63	28	0-15	0-15	22
<i>Kitchen Co</i> Manufacturing	Kitchen Manufacturer	36	West	12	23	0-15	0-15	12
<i>CCTV Co</i> Construction	CCTV Installers	45	Central	19	12	15+	15+	15
<i>Bearing Co</i> Wholesale	Distribution of bearings	51	North West	18	16	0-15	0-15	23
<i>Mortgage Co</i> Financial Services	Commercial mortgages	67	West	17	52	15+	15+	28

Table 4.21: Interview participants according to case study organisation

<i>Organisation</i>	<i>Tenure (Years)</i>	<i>Interview type</i>
<i>Role title</i>		
<i>Cable Co</i>		
Managing Director	6	Manager interview (Gatekeeper)
HR and Finance Administrator	27	Manager interview (HR)
Technical Director	33	Manager interview
Production Development Manager	25	Manager interview
Production Operative A	20	Employee interview
Production Operative B	11	Employee interview
<i>Kitchen Co</i>		
Managing Director	12	Manager interview (Gatekeeper)
Sales & Marketing Director	5	Manager interview
Office Manager	11	Manager interview (HR)
Workshop Manager	11	Manager interview
Production Operative A	5	Employee interview
Production Operative B	3	Employee interview
<i>CCTV Co</i>		
Managing Director	19	Manager interview (HR)
Finance Director	18	Manager interview (Gatekeeper)
Business Development Director	7	Manager interview
Sales Manager	6	Employee interview
Service Engineer	4	Employee interview
Installation Engineer	10	Employee interview
<i>Bearing Co</i>		
Managing Director	18	Manager interview (Gatekeeper + HR)
Commercial Manager	8	Manager interview
Internal Sales Manager	11	Employee interview
External Sales Manager	10	Employee interview
Marketing Assistant	1	Employee interview
<i>Mortgage Co</i>		
Managing Director	17	Manager interview (Gatekeeper)
Finance Director	6	Manager interview
Operations and HR Director	3	Manager interview (HR)
Head of marketing	5	Manager interview
Office Manager	<1	Employee interview
Administration Executive	1	Employee interview
PA to Head of Sales	3	Employee interview
Mortgage Consultant	1	Employee interview
Product Support Manager	1	Employee interview
Technical Support Analyst	1	Employee interview

The variability in the number of interviews conducted was related to the level of access granted by the organisational gatekeeper, the availability of the interviewees, and a judgement by the researcher of what was considered appropriate. All managers of each case study were interviewed once and interviews were addressed to a cross section of at least twenty per cent of the total workforce in each case study.

Each of these case studies will now be further examined in turn through a within-case analysis allowing for the identification of the underlying causal mechanism between HRM and performance. In order to achieve this, each case will follow the critical realist approach to case analysis outlined by Easton (2010b), which involves:

‘...developing a research question that identifies a research phenomenon of interest, in terms of discernible events, and asks what causes them to happen. The key entities involved, their powers, liabilities, necessary and contingent relationships are then provisionally identified. Research then proceeds by capturing data with respect to ongoing or past events asking at all times why they happened or are happening and taking into account the problems and issues associated with interpreting the empirical data back to the real entities and their actions. The research process is one of continuous cycles of research and reflection. The final result is *the identification of one or more mechanisms that can be regarded as having caused the events*’ (p128) [emphasis added].

The author will then discuss the most significant findings within both research phases and will consider how they interact and extend prior discourse in Chapter 10.

Chapter 5

Case study 1: Cable Co

5. Introduction

This chapter reports the case study findings at Cable Co., a small manufacturing firm that fabricates high performance cable markers for the aerospace, defence and rail sectors. Established in 1934, the firm operates on an industrial estate in Broadstairs, East Kent. The firm had developed a market niche within a multi-billion pound international industry. Where their competitors had diversified to provide a range of ancillary products, Cable Co. had opted to specialise in the fabrication of high quality cable markers that were capable of performing in harsh environments³⁸:

‘...we get our ink sitting under the surface. All our competitors put surface mounted ink on the cable which can be susceptible to extremes and abrasion’. (managing director).

Cable Co. was originally brought to the UK in 1934 from Switzerland, along with another unrelated business (a curtain rod manufacturer), by the HR and Finance administrator’s grandfather. Up until the early 1980s both businesses ran on the same site until they were split through a management buyout and now operate separately. At the time of interview, Cable Co. had 27 employees and had achieved a sales turnover of £1.4 million. As will be explored later, the firm had previously experienced higher levels of sales turnover and employment at various points in its history. In 1984 the firm reached its largest at 53 employees and a sales turnover of £2.2m.

Cable Co. is partly family-owned, with ownership shared between the managing director, who is not a member of the family, and the HR and finance administrator who is the granddaughter of the original founder. The managing director had been with the firm for six years, and prior to this the firm was wholly family-owned and managed by the grandson and granddaughter. At time of interview respondents held an average tenure of over twenty years with the managing director being the most recent to join the firm.

³⁸ The firm’s activity is formally recorded as *installation of insulated wire and cable (manufacture)* and relates to SIC code 33.20 (2007).

5.1 HRM, management style & organisation

5.1.1 HRM practice

The managing director reported at the survey stage that Cable Co. had implemented a total of 22 out of 40 working practices (See Table 5.1). These observations reveal that Cable Co. had implemented twice the number of practices than the average SME within the survey stage and were above the average within their sector. Whilst these results, on the surface, demonstrate positive signs of work practice adoption, they provide little insight to the form that practices took at a workplace level. Table 5.2 presents a more detailed analysis by practice comparing the initial survey with the case study results. It became apparent that practices varied in their form and coverage, and it is this that we shall now explore.

Table 5.1: The distribution of work practices by component at 'Cable Co'

<i>Component</i>	<i>Survey Mean</i>	<i>Sector Mean</i>	<i>Cable Co.</i>	
			Reported	Actual
High Involvement	3.0	3.3	6	6
Human Resource	5.3	6.7	10	8
Reward & commitment	3.6	4.0	6	3
<i>Total</i>	11.9	14.0	22	17

Table 5.2: The incidence of work practice adoption at 'Cable Co'

	<i>Survey</i>	<i>Case study evidence</i>
<i>High Involvement Practices (HI)</i>		
<i>Strategic integration</i>		
Process improvement	✓	Yes – 'Lean team'
Culture change programme	x	
<i>Work organisation</i>		
Teamwork	✓	Yes – at a mgt level
Quality circles	x	
<i>Communication arrangements</i>		
Team briefings	✓	Yes – in production, mgt-led
WC/consultative committee	x	No awareness
Trade Unions	x	
Staff suggestion scheme	✓	Yes – formal, infrequent use
Staff attitude survey	x	
Sharing company information via newsletter	x	
Sharing company information via intranet	✓	Yes – operational
Sharing company information via notice board	✓	Yes – basic
<i>Training/skills development</i>		
Communication skills	x	
Teamwork skills	x	
Problem solving skills	x	
<i>Human Resource Practices (HR)</i>		

<i>Strategic integration</i>		
Forecasting staffing	x	
Employment practices	x	
Skills development	✓	Yes
Improving quality	✓	Yes
Customer satisfaction records	✓	No evidence
<i>Work organisation</i>		
Multiskill	✓	Informal
Quality management certification (ISO 9000)	✓	Yes
<i>Employment practices</i>		
Formal recruitment & selection	✓	Yes – formal
Selection testing (e.g. psychometric)	x	Yes – production employees
Staff induction	✓	Informal
Staff appraisal	✓	Yes – formal
<i>Training/skills development</i>		
Equipment operation skills	✓	In-house - informal
Quality control skills	x	Yes – in-house/formal
Leadership skills	✓	Yes – at a mgt level
Workforce diversity skills	x	
<hr/>		
<i>Reward & Commitment practices (RC)</i>		
<i>Strategic integration</i>		
Absenteeism records	✓	Yes – part of appraisal
Labour turnover records	✓	Informal
<i>Communication arrangements</i>		
Employee job satisfaction records	✓	Yes – part of appraisal
<i>Pay & reward practices</i>		
Formal pay system	x	
Performance related pay	x	Yes – sales employees
Profit related pay	x	
Employee Share Options (ESOP)	x	
<i>Commitment practices</i>		
Internal promotion	✓	Informal
Job security	✓	Informal
Harmonised terms and conditions	✓	No – working hours & pay disparity
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	✓	Yes – production
<i>Communication arrangements</i>		
Communicate through mgrs	✓	Yes - direct and top down
Communicate by email	x	Yes – office only
<i>Training/skills development</i>		
Training/skill dev. is important	✓	Yes
Health & Safety training	✓	Yes – in-house/informal
Customer service training	✓	Yes – in-house/informal
<i>Organisational standards</i>		
Investors in People	✓	Yes – accredited
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	✓	Yes
Greater than 35 hours per week incl. OT	✓	Yes
<i>Sources of advice</i>		
Member of EA	x	
Sought advice from EA	x	

High Involvement Practices

A strategic emphasis had been placed on process improvements at Cable Co. and these linked to a wider strategic plan. On joining the firm, the managing director had recognised that the production process for the firm's established product was labour intensive and inefficient, and relied on old-fashioned processes. In order to develop new processes, and realise greater efficiencies, the managing director had sought to introduce lean manufacturing techniques to the workplace. Subsequently, investments had been made in developing the knowledge of the two employees in particular, the technical director and production supervisor, who assumed 'champion' roles. These champions had attended a government-funded training programme and a local best practice network focussed on Lean. The managing director had placed an emphasis on a 'hands off' approach and time was being released for an internal 'Lean team' to make these improvements:

'...it was decided that rather than top down it would be better to get roots up...to involve a couple of key people in production, two people who have worked here but one is me for 27 years and the other slightly longer...they are part of the Lean team' (technical director).

However, involvement was not just been reserved for these champions, with other employees at a shop floor level also becoming involved in workplace developments:

'I have not personally [had training in lean] but some of the others have and they are passing that onto others, its in-house training if you like...I designed the drying and dipping area, so it is more easy to work in whereas before we were walking a long distance...' (production operative B).

That is not to say that these improvements were progressing smoothly, indeed progress appeared sluggish. This had led to frustrations being voiced by the managing director:

'...we have done training and development and it has been a waste of time...the weakness that I have is that I have not said I want to see this or this change in productivity, but I would have expected them to...come back to me and say 'we think we can do this' and 'improve this'. I have not had any of that so I am a bit frustrated...' (managing director).

It was evident that the Lean champions and other production staff lacked key production and leadership skills and had been afforded little opportunity for involvement prior to the managing director joining. Whilst evidence was found of increasing levels of involvement in process improvement at managerial level, employees in general were not involved in decision making relating to operational and strategic matters. It became clear that teamwork related to the management team, with teamwork operating on an informal basis at an employee level. Team briefings related to management team meetings and management subsequently communicated decisions to the shop floor via daily production meetings.

Communication was therefore, management-led and direct an approach that was believed to work. Employees reported management to be approachable. It later transpired that the firm's intranet was an MRP system which did little more to promote communication outside of operational matters. Whilst employees confirmed the existence of a suggestion box scheme, it was used infrequently. The lack of a formal consultation between management and employees on wider matters outside of production had resulted in a level of mistrust:

'...they give us the idea of it, but there is a lack of communication...you just get rumours, then a little be more would get added, that is just how it goes, it is like Chinese Whispers' (production operative A).

'I think that [communication] has been the biggest problem, it is getting better but it is still a long way short of consultation between management and workers...they seem to think it is them and us...I do not think they mean it but they just say 'nobody told us about that'. Sometimes they do need to tell the staff 'that'' (production operative B).

Human Resource Practices

Training and skills development activities had been recognised at a strategic level within the firm. This was evident not only in the introduction of specific production knowledge, as outlined above, but also through leadership training that managers attended externally at the local college. As will be explored later, attention within production had turned towards the development of a new high-tech product line that required high skilled personnel. Training on the existing production line was delivered informally, on-the-job, through a buddy system:

'It is all in-house training...the new person will shadow an experienced worker; it is a buddy type thing. It works because they get involved in the company a lot more' (HR and finance administrator).

Quality was clearly important, with accreditation forming an integral part of fulfilling the firm's existing and future contracts. Decisions in relation to quality were reserved for the management team. This translated into a limited involvement at an employee level in quality issues other than those relating to their immediate job role. The management-led nature of quality however did not always receive satisfactory buy-in from employees:

'...we have checkers and the last one it goes through signs it, but it doesn't get done. It is not always uniform unfortunately' (technical director).

Whilst induction and multiskilling practices were reported at the survey stage, little evidence was found at the case study stage. The firm's induction process was reported by production employees as 'informal' and multiskilling related to the firm's informal on-the-job training outlined above. Recruitment involved an application and interview procedure, but was infrequent with the majority of employees holding long tenure. Whilst the managing director had initially not reported the use of psychometric testing, it later transpired that some recent new recruits had experienced such tests. A formal appraisal scheme had been developed by the managing director as a consequence of the Investors in People standard. The managing director presented the appraisal as a developmental process to aid communication with the workforce and the generation of new ideas:

'...we have a one to one, it is not an appraisal, and we were very determined not to call it this. It is done by non line managers...it takes about three different areas of the companies vision and strategy and we ask: 'what do you do in your role that you feel you are particularly good at'...'how can that help other people in the team' and you identify that they could be a key worker and a key trainer and they can pass that knowledge onto other people. Then we move on to say 'what areas of your duties do you feel need improvement and how we can provide training for them'. On the form there is always areas for innovation and new ideas because what we have been doing we have been doing for 40 years' (managing director).

Employees confirmed the presence of this practice through the experience of more 'structure', but provided little feedback in regard to its content.

Reward and Commitment Practices

Issues in relation to absenteeism were resolved as and when they occurred between management and employees and were reviewed as part of the appraisal process. Employee job satisfaction was also an element included within the appraisal process. When questioned, the managing director provided detail on employee tenure, but did not need to consult any records. In this respect, size and proximity were seen to facilitate a level of informality. Pay was informal, and decided on a personal basis and related to experience and an element of job content. A number of non-pay benefits were provided by the firm including; pension scheme; private health insurance (applicable to management only) and full sick pay (applicable to employees who had been with the firm for at least two years).

Pay across all employees was reviewed individually and annually, but did not necessarily equate to a wage increase. Production employees reported that wages varied depending on 'who you are' and 'where you work'. Despite production employees reporting that pay was a private issue and not for general discussion, wages amongst production employees were discussed. It was clear that management determined wages, but would review pay if changes were made to job roles. Employees that had taken on increased levels of responsibility had received higher levels of pay as a result. Whilst the managing director reported that the firm did not use performance related pay at the survey stage, it later transpired that sales employees did receive bonus payments.

When asked, production employees felt that their jobs were secure, but reported that they were unsatisfied with pay and promotional opportunities with little opportunity for internal promotion. This appeared somewhat contradictory to reports by the managing director that he had purposely not recruited employees externally, preferring to work with employees within the firm. Evidence demonstrated that internal promotion had not only been progressed at a managerial level (e.g. the promotion of the production manager to a production development role) but also at a shop floor level including the recent promotion of a production operative to a supervisory role:

'I started as maintenance engineer and then I progressed to this [production supervisor], they asked me to do it, and I have been doing it for about a year now' (production operative B).

Despite the managing director reporting at the survey stage that the firm had harmonised terms and conditions, production employees reported this to not be the case. A clear disparity was observed between hours worked and pay rates. Whilst the standard contract for employees in production was 40 hours per week excluding overtime, employees in the offices worked 37.5 hours per week. There was an inequality between male and female employee wages, although this was an area that the firm had recognised and was in the process of rectifying. Production employees commented that the level of effort they had to put into their jobs was quite tiring and that their jobs required them to work hard. Indeed, employees reported working up to 50 hours per week including overtime. When questioned, the managing director reported that working hours responded to fluctuations in work levels, and that this was a regular occurrence.

In general, production employees reported that they were very satisfied with; the quality of relationships with other employees; satisfied with; their ability to influence decisions or how they work; and, their ability to develop skills and knowledge. Production employees reported that their satisfaction had increased as a result of the new managing director and developments made to the management team:

'I think it has increased now. I was a bit concerned at first, but since the management takeover it seems to be going in the right direction' (production operative B).

It was clear that the managing director was appreciative of the pressures of home life and had promoted opportunities for flexible working to all employees. This did not so much translate into a formal policy, but rather that agreements were made on an individual basis with particular employees (e.g. working mothers) and a level of discretion was shown outside of these contractual arrangements. Aside to the relationships held with other members of the workforce, the level of flexibility was reported by employees as a key reason for working for the firm.

5.1.2 Management style

At the survey stage, Cable Co. reported having an individual who held part or sole responsibility for human resources; however it later transpired that the granddaughter balanced

a dual role for human resources and finance. The granddaughter held no formal human resource qualifications and the HR aspect of her role revolved around statutory personnel tasks such as payroll and holiday entitlement. The firm accessed legal advice through an external firm. It was therefore clear that the human resources function was relatively undeveloped and played a functional/administrative role in the firm:

'It was one of those situations when you are a small company, we just had not got the resources so I just fell into [HR] like so many other things and I just do it to the best of my ability. It is not ideal because I cannot concentrate necessarily on one thing and I was doing accounts before' (HR and finance administrator).

The organisational structure of Cable Co. had changed since the new managing director had joined resulting in the creation of a management team. This management team consisted of the managing director, a production development manager, the technical director and a sales and marketing manager. It was clear that the managing director believed that future success would come as a result of accessing the embedded knowledge and skills within the firm. The managing director therefore drove a more inclusive approach and placed an emphasis on employee involvement.

These developments enabled the firm to change its emphasis on fulfilling existing work requirements to the development of new products and processes, a change promoted through the relocation of the production manager into a production development role. This development was supported by the internal recruitment of production supervisors and, as noted earlier, initial training was being provided in leadership and management to develop the skills of these new production operatives:

'They are production supervisors and I very much take a back step. I have said to them [the production supervisors]...come to me if you have a problem, but as far as everyone else is concerned it is your responsibility' (production development manager).

5.1.3 Organisation

At the survey stage, the managing director reported that the firm was accredited for ISO9000 quality management systems, Investors in People (IIP), preferred supplier status, and product/service certification. Further analysis at the case study stage revealed that the firm also held a specific industry standard for the aeronautics industry (EN9100) which placed an

emphasis on quality, safety and technology. Indeed, quality management accreditations were deemed to be critical to the firm's operations due to the nature of the products they supplied:

'...we have accreditations...we have to be approved to a certain standard. Approvals, certification, conformities, everything is fundamental, everything we say to a customer 'it is manufactured to an international standard'...we cannot afford to downgrade that because we are governed by so many approvals and accreditations' (managing director).

The pressure exerted on the firm through customer standards and accreditations had led to the creation of a bijou testing laboratory that processed all goods received and dispatched. Responsibility for quality remained at a management level, through the Technical Director. That is not to say that the Technical Director had not looked to include employees within the management of quality, but there appeared limited understanding as to how he might be more inclusive:

'We try not to put too much pressure on anybody here...we have customers come in who wanted SPC [statistical process control] and records; all that sort of thing...Well he said [production operative] that he did not have time to stop every five minutes and measure loads of stuff and write it down and report it, obviously it is not in his brief so we tended to let it become an inspection operation' (technical director).

Whilst quality procedures were not always followed by employees, as outlined earlier, it was evident that a quality-led approach had been embedded across the workforce:

'...we do try and make sure [the quality of the product]; we know we have got to keep up the quality' (production operative A).

'It is paramount for us as a small company; we are the only ones in the world who do it by hand so it has got to be good quality...' (production operative B).

The managing director had taken steps to formalise the firm's vision and values and a range of other processes (e.g. teamwork, appraisals etc.) and employees reported that they shared the vision and values of the firm. It was evident that the changes being made linked to a wider desire for professionalisation by the managing director and that IIP had played an important role:

'IIP accreditation means that every member of staff understands the mission, the vision and the values of the business. They [employees] understand what we value and they understand what they do every minute, every hour and how that impacts on the business' (managing director).

Aside to specific industry standards, the managing director was also driving the introduction of increasingly complex forms of technology. In addition to basic forms of technology (e.g. PCs, computerised accounts, internet, and mobile phones) investments had also been made in computerised production control (MRP) and a computerised client management system (CRM). As with the introduction of Lean methodologies, the introduction of more complex forms of systems was not without difficulty with resistance to these new ways of working being displayed by employees:

'...we have an MRP system...we have bills for material and cross reference systems to tell you what you have used, how you need to do it, what job has got to be done first, but there is an element of disregarding the MRP system and working on the old system' (managing director).

The managing director had also driven the development of broader forms of performance measurement. Aside to financial measures of performance, records were kept on productivity, quality, training, job satisfaction, and customer/client satisfaction. Whilst the managing director and wider management team could see the value of generating management information through such systems to inform decision making, as outlined above, employees were typically not involved in these wider operational and strategic discussions. Analysing the performance of employees therefore largely relied on personal and direct observation by the managing team and production supervisors.

The neglect of the firm's current MRP system, as with the firm's quality management procedures, typified the limited understanding that employees had as to how these systems worked in reality and what their wider purpose was. It was evident that once one moved beyond the formality portrayed by the managing director and management team an undercurrent of informality was retained and regulated by employees. This reality appeared promoted through long job tenure and a preference for internal promotion. For instance, the recently promoted production supervisors had been recruited from the shop floor. Whilst these individuals were, at time of investigation, attending leadership and management training it was

clear that they were keen on retaining a level of informality and flexibility between themselves and their colleagues:

'It is quite informal which I tend to agree with, I think it is okay if you have got a big company then it has to be formal but when it is small you need the management to be talking, that certainly helps as it is more friendly, in a big company you may only see people once in three years! When there are only about a dozen of you on the shop floor you need to be a little bit more flexible' (production operation B).

Having considered the above, what do these findings tell us in regard to this study's research questions, namely: RQ1) the extent to which Cable Co. was adopting HRM practice and RQ2) the form that HRM took? We shall now review the implications of these findings.

5.1.4 Reviewing the extent and form of HRM practice at 'Cable Co.'

Case study analysis found evidence of twenty out of the twenty-two practices that were reported during the initial survey stage. Limited support was found for the practice of harmonised terms and conditions, with variation being observed in relation to gender and role. No evidence was found of customer records (i.e. relating to formal feedback on employee job performance from customers). In fact, if one were to rate the existence of HRM on the presence of 'formal' HRM practices that covered all employees one would have concluded that Cable Co. had only implemented three practices out of the twenty-two practices initially reported, namely: appraisal; recruitment and selection; and a suggestion scheme. Not only do these results indicate inconsistencies between the data collected during phase one and phase two of this research and provide evidence of over claiming, they also draw attention to the varied form that HRM practices took within Cable Co.

What became evident is that practice coverage varied across employees. For instance, teamwork included the management team but not employees, process improvements involved, to varying extents, those in production but not in the offices, and performance related pay was reserved for employees holding sales-oriented roles. The content of practices also varied. Practices were not static, but were evolving. The attempts made at Cable Co. to transit towards a more formal state meant that a clear line could not always be drawn between formality and informality, and it is even questionable as to the extent to which such a distinction would have been helpful.

Taken as a whole, these findings reveal little formal evidence of HRM practice in Cable Co. The firm held no formal knowledge on HRM. Involvement, in the majority, was reserved for management, with employees being largely confined to their immediate job task/role. Those practices that had been developed were management-led and suffered from a lack of employee buy-in. This predicament appeared exacerbated by the limited investments made in human capital in the past and the limited opportunities afforded to employees for wider involvement in decision making. Employees held a limited understanding as to how and why new practices, processes and systems were being introduced and what their wider purpose was.

Having said this, evidence was found of green shoots of working practices, such as the emphasis placed on process developments and the implementation of an appraisal system. These practices appeared to be promoted through the desire, on the behalf of the managing director, to pass control to other employees within the firm. Formal communications structures had been created, regular management team meetings were held, and management and supervisory staff were receiving training. These changes were, in effect, promoting the introduction of more formalised working practices, and working practices were playing a supportive role to these wider internal developments. The development of formality in this respect was not seen as negative, it was seen as necessary.

What this leads us to ask is, why now? Why was Cable Co. making these changes? It is this that we shall now explore.

5.2 Growth: HRM challenges and transitions

Whilst only five years of archival data had been requested at time of interview, the managing director provided 24 years of financial and employment data. The trends of which can be viewed in Figures 5.1 and 5.2. The firm had grown its sales turnover on average 6.7 percent per annum over the past five years, increasing from £1m in 2002 to £1.3m in 2006, in agreement with the 0-15 percent average increase reported at the survey stage. Whilst the firm had begun to arrest its decline in employment, the overall trend translated into a decline of 2.0 percent per annum over the last five years, well below the 0-15 percent average increase reported at the survey stage. In agreement with the previous section, these findings demonstrate the difficulties of relying on self-reported data. They also denote that employment growth lagged turnover growth at Cable Co.

The managing director explained that whilst the underlying size of the firm was in the region £1.3m, Cable Co. had experienced two noteworthy peaks in sales turnover in 1992 and 1997. This was as a result of securing large refurbishment contracts for London Underground following the King's Cross disaster in 1987. Cable Co. had been chosen for these contracts having developed a cable marker that was flame retardant and did not emit smoke. Following the completion of the second contract in 1997 the firm had entered a period of decline. The gradual decline of Cable Co. is better illustrated by their employment trend in Figure 5.2.

Figure 5.1: Sales turnover and profit trend at 'Cable Co'

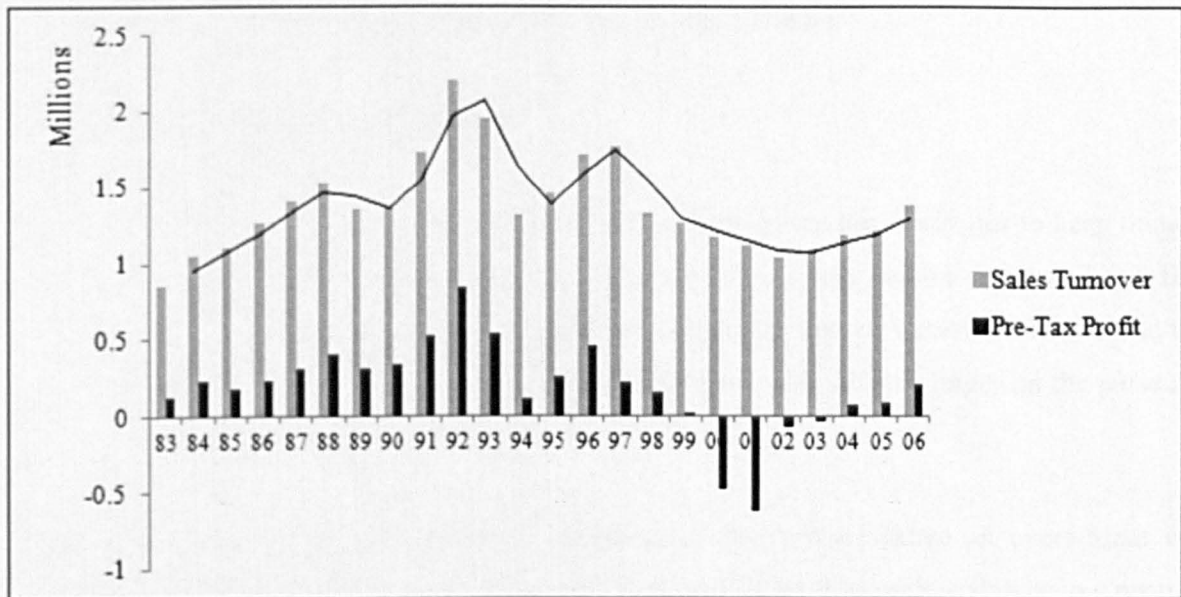
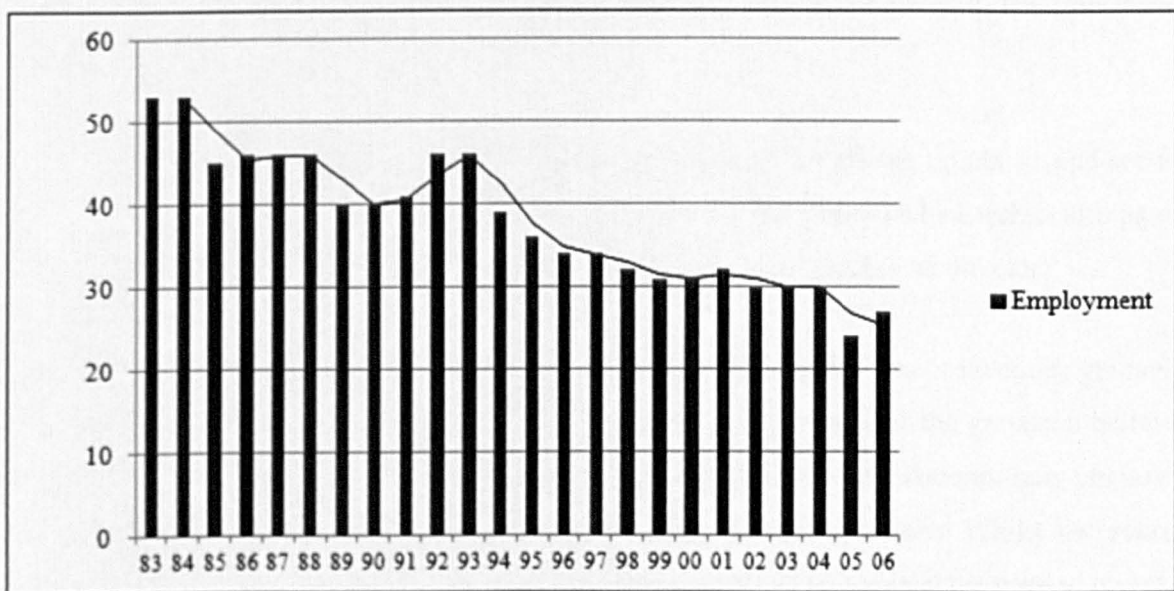


Figure 5.2: Employment trend at 'Cable Co'



The gradual decline that the firm had experienced prior to the new managing director joining appeared to be largely as a consequence of the approach taken by the previous managing director (the grandson). The grandson had managed the firm in a highly autocratic manner which limited opportunities for employee involvement:

‘If you can imagine a managing director running the place pretty much as an autocrat and department managers were not allowed to make any decisions, so they were perceived to be weak...when I came along I asked the managers ‘what are the answers?’ Here was some responsibility and they did not have the skills or the understanding, so it was a scary time’ (managing director).

A fact confirmed by the granddaughter:

‘I was just told to sign a few papers here and there it was obviously just to keep things okay with the accountants. I had very little input it was very much a one-man band. He oversaw everything, even to coming in to open the post at the weekends. He wanted to see all the post before it went anywhere, so he absolutely had his finger on the pulse...’ (HR and finance administrator).

It was also apparent that the grandson’s accountancy background drove an overt focus on financial performance. The granddaughter explained that her brother preferred to accrue profits and earn interest on these profits, rather than reinvesting in the firm’s human and physical capital. This was emphasised by the Technical Manager who had been with the firm during this time:

‘...the previous MD would say petrol is expensive so telephone, do not go and see too many people and do not go if there is a problem. For years we had technical reps not sales reps; they would have a sales meeting once a year’ (technical director).

As a result of the above the grandson had stifled growth and the firm’s revenues gradually declined, until a loss was made in 2000/2001. It was at this point that the grandson believed that ‘the good times were over’ and he sought to exit the firm. The grandson initially employed a general manager as an interim managing director to run the operations. Whilst the general manager left shortly after this due to underperformance, he had recognised the need to invest in the firm’s sales and marketing activities and had employed a new sales manager. When the

general manager left, the new sales manager decided to buy the grandson's shares, recognising the firm's potential:

'There were a lot of good things here that were about the brand with the existing customers, their service and also the high performance products...it was either a failing business or a shining diamond that had gathered a bit of dust' (managing director).

As a consequence, the sales manager took on the role of managing director and set about a process of redevelopment. The managing director reported that the changes made within the initial two years under his leadership revolved around generating increased sales and reducing costs where possible. It was only once sales turnover had been stabilised, and profits were being generated, that investments were made organically in future developments. What this means is that much of the developments to working practices reported within the previous section had come as a result of this change in leadership, and had only taken place in the two years prior to investigation:

'There were a lot of things that we were consumed with in the first couple of years and so without doing too much externally we did stop the revenue going downward. It is only in the last 18 months we have been able to come out from that salvation and say what is it we need to do in terms of development' (managing director).

The managing director reported that he was growing the firm at an organic rate through the reinvestment of profits. Over the last couple of years, profits had been accrued and reinvested in updating existing machinery (£25k), new capital equipment (£150k) for new high technology product line and Information Technology (£25k). It was believed that these investments would provide opportunities to develop new products for existing and new markets and would provide a return in the long term. Employees were buoyed by the new investment-led approach taken by the managing director:

'...you can do so many projects but if you do not finish them off then you cannot use them and if it is not working then it is not earning you any money...there are going to be a lot of changes with the managing director...he is quite happy to spend money on new products and all this sort of stuff, so there are very good times ahead' (production development manager).

The way in which the firm responded to these growth and performance challenges outlined above related to a range of influences. These influences will now be explored at greater length.

5.3 Product market, labour market and strategic orientation

5.3.1 Product market

Cable Co. competed against a small number of much larger competitors, such as BAE Systems and Airbus. The niche that Cable Co. had created in high performance cable markers had allowed the firm to effectively trade under the radar of these larger firms (Rainnie, 1989). The firm's products had also been written into long-standing technical specifications with customers, meaning that barriers to entry for competitors were high (Porter, 1998). Cable Co. supplied a diverse range of customers and did not rely on any one customer. Whilst the firm's product was relatively low cost, pricing was subject to some control by the firm. Taken together, these factors had afforded the firm much of its historical growth success, but had also bred a level of competitive complacency.

Due to the legacy of established contracts the grandson had made little investment in developing new products or markets. However, these contracts that had once provided the firm with protection from competition were increasingly coming to an end. These factors had contributed to the firm's gradual decline in revenues. On joining the firm as a sales manager the new managing director quickly recognised these failings and took a proactive approach in responding to these issues. In order to stabilise the firm initial emphasis was placed on identifying new markets for the firm's existing products and driving efficiencies in the firm's established production processes, as explored earlier. However, the managing director held a belief that the long term future of the firm lay in new product development in order to generate new revenue streams:

'...we have got a £1 million turnover and of that probably £600,000 is this high performance labour intensive way...by growing other areas of the business and automating new products means the dependency on the labour intensive areas of the business is diminished' (managing director).

Subsequently, the managing director set up three new product lines. One product focussed on the supply of low cost pre-approved cable markers, which were imported from China and resold under the Cable Co. brand. Another product resulted from backward integration with an

extrusion firm who located their production process within Cable Co. This meant that Cable Co. were better able to control the quality of the product entering their production process, and greater opportunity was afforded for new product innovation. The third product related to the development of a pre-approved cable marking system that would allow customers to print their own cable markers. This development required a significant investment in high tech machinery and the recruitment of advanced design and production skills that the firm, an investment that could only be made once profits were accrued over the last couple of years.

Whilst under the grandson Cable Co. firm had retained a UK-centric focus, the new managing director looked to develop new international markets for the firm's established and new products. Relationships were developed with distributors who provided access to new markets in Europe (e.g. France, Germany and Italy) and Asia (e.g. China). It became apparent that customers in China held a desire for local forms of supply, so the firm established a satellite office in Hong Kong and recruited a home national employee. New markets were also developed, such as the fibre optic cabling market in Denmark and renewable wind energy locally in Thanet.

The product developments outlined above were made possible through the exploitation of existing knowledge within the firm and the introduction of new forms of knowledge to the firm; this process will now be explored.

5.3.2 Labour market

On assuming his new role the managing director had taken the decision to internally recruit the management team and draw on the embedded knowledge within the firm. However, the formal qualifications of these managers were largely technically based (e.g. chemistry, electronic engineering etc.) and none of them held any formal management or leadership skills. The technical director was a qualified polymer chemist and the production development manager was a qualified electronic engineer. The managing director recognised the weaknesses of existing managers and had invested in skills development opportunities:

'He [the managing director] could see there had been a lack of any real training in management skills. I went on a five day course over at the Thanet High Tech centre. It was called 'how do I manage?' That was quite good and it was nice to be involved with about four or five companies networking and seeing how other people address problems and that sort of thing' (technical director).

Employee recruitment was an infrequent process. The firm reported an average length of tenure of nineteen years across all employees. Where recruitment had been progressed reliance had been largely placed on informal networks and the process of attracting the right skills to the firm was reported as 'challenging'. Whilst production operative B had been recruited through the job centre, production operative A had joined the firm through her sister who worked on the shop floor. New requirements for skills were beginning to emerge, driven by the product developments outlined above. This had led to the recruitment of a production manager from an extrusion supplier, with whom the firm already held a relationship. The firm was also in the process of searching for an employee to lead the development of the production cell for their pre-approved cable marking system. On discussing this issue, the managing director conceded that the recruitment & selection process would likely need to be more formal to attract the advanced programming skills that these new production processes demanded.

5.3.3 Strategic orientation

The managing director had developed a business strategy and a structured set of budgets with other managers in the firm. Prior to the managing director joining the firm did not have a strategy under the grandson. The managing director reported that the firm had developed a five-year plan covering: employee skills development; product/service development/innovation; process improvement and innovation; improving quality of product or service; and market strategy and developing new markets. Examples of these have been highlighted throughout this chapter. It was evident that the managing director was promoting a more structured and proactive approach within the firm.

The managing director reported that he intended on achieving the firm's strategy largely through internal development, which related to the reinvestment of profits and a focus on developing and promoting employees internally as outlined above. Management were involved with the development and review of the business strategy and budgets, and the view below would appear to sum up the approach taken by the managing director:

'He [managing director] started getting involved...and it made you feel part of the team...he was honest so that was a good change...up to that point it was still very autocratic and if someone said do something that is what we did' (technical director).

The nature of the firm's human and social capital played an important role in workplace change. We shall now explore each of these influences in turn.

5.4 Human capital, social capital and institutions

5.4.1 Human capital

The embedded technically-based skill set of employees that had once provided the bedrock of the firm's (now established) product innovations, could be seen to constrain future product and process innovation. Much of this skills shortage appeared to relate to a previous underinvestment in skills development activities within manufacturing. In the main, training was on-the-job and focussed on established skill sets which relied on production techniques that were now out-dated and labour intensive. This resulted in a lack of understanding amongst existing employees of modern production techniques. The shortage of skills in manufacturing appeared to hamper the firm's ability to introduce new product and process innovations which would ultimately allow the firm to realise increased production efficiencies and implement more up-to-date production techniques:

'I think people develop blind spots in what they do because they do not believe anything else is possible because they have been doing it for years and it is really hard to shake them and wake them up. I am not a manufacturing guy but I can look around me and wonder why they do that, and what about if we did this...' (managing director).

It was clear that greater emphasis was being placed behind the development of human capital since the new managing director had joined. The managing director had purposely chosen not to become too involved in managing production. He did not hold any manufacturing experience or qualifications and believed his career-related experience could be put to best use on developing the firm's future markets. Because of this, the managing director placed emphasis on developing the leadership and production (e.g. Lean) skills of other employees, and employees felt that they were being encouraged to develop their skills. Given the investments required for the new production cell, balancing the costs of developing existing human capital was considered to be a major challenge.

5.4.2 Social capital

Whilst the managing director reported at the survey stage that the firm did not belong to a business network, club or forum, an informal business network was maintained between the firm and its sister company. This had led to the sharing of knowledge, particularly in regard to modern manufacturing techniques, and this relationship had influenced their decision to join a formal business network to exchange knowledge on manufacturing best practice. The

managing director had released employees to attend this network and this had acted as a catalyst to implementing workplace improvements and it was evident that employees enjoyed and were motivated by this experience:

‘We are part of the Kent Manufacturers Best Practice Club...we have been involved for about the last two years...time goes so quickly! I love it! ...the production development manager and I started out on the lean route through contacts and other companies’ (technical director).

The managing director reported at the survey stage that the firm had not benefitted from relationships with their suppliers, and appeared cautious regarding the extent to which knowledge was shared within their supply chain. Despite the initial observation of the relatively detached nature of the firm’s supplier relationships, evidence was found of a range of steps that the firm had taken to develop its relationships with its suppliers during the case study stage. This supplier relationship had provided access to new markets enabling Cable Co. to develop two new business entities, outlined earlier:

‘They [the supplier] sell low cost, high quality tubing...this business [new business entity] uses this supplier in Europe...what they do for us is they use their existing networks in France and Germany to get the Cable Co. brand around to businesses in that area that would sell two things, one is high performance markers that we already manufacture and they [the supplier] do not have access to and the second thing would be to sell the high performance cable marking system which they [the supplier] do not have any experience of software/hardware printers...’ (managing director).

The second relationship related to the silicon extrusion supplier. This relationship had developed under the grandson who had purchased the machinery for the supplier but had chosen not to take any equity in the firm. The managing director subsequently led a process of backward integration and the development of a new business entity, as outlined earlier. This provided the firm with a level of independence and a greater level of added value, taking them from merely a printer to a manufacturer. It was believed that this would act as a catalyst for new product development, provide access to new skills and new markets, and provide an ability to share experiences across the supply chain:

'....the production manager from this main supplier will be coming here to bring that technology because we do not have the expertise...The opportunity for us if we can truly become manufacturers of our own product...to become silicon extruders so we can have more control of our supply chain...this will enable us to make parts like different shapes for seals, grommets' (managing director)

The managing director confirmed at the survey stage that the firm had not benefitted from relationships with their customers, although as with supplier relationships this was also found not be the case. The managing director outlined that relationships with customers had stimulated new product development, provided access to business development and improvement information, an ability to build new contracts, access to market intelligence and an opportunity to share experiences:

'About three years ago Airbus called us in and said they had a problem, wires chaffing in the wings...the grade of cable that they used wasn't good enough...they invited us in to find a solution which wraps around existing cables in existing planes to prevent this. It is a two and a half year development phase to invent this part. We have patterned it and we have got the first opportunity to quote and supply them two days ago...'
(managing director).

However, customer networks continued to prove challenging to the firm. Not least was the fact that products took considerable time to take from design to market due to the length of the product development cycle. This example also highlighted the obligation that the firm experienced from the influence of larger customers.

5.4.3 Institutions

As was the case with the phase one research findings, institutional forces were not easily separated during the analysis of the case study firms. Institutional forces were found to be embedded across the range of dynamics. Having said this, the literature review identified key institutional forces (Paauwe and Boselie, 2003) and these were proved to be useful in teasing out institutional forces that played a role in the introduction of working practices. An overview of these institutional forces, along with the practices they influenced, is provided below:

- *Coercive*: Cable Co. had established quality management practices and accreditations in response to customers demands;

- *Mimetic*: the implementation of lean manufacturing practices had been promoted through a government-funded best practice network;
- *Normative*: The managing director had implemented an organisational structure, reporting lines, a management team, management standards (e.g. IIP) and operational systems (e.g. MRP).

The coercive mechanisms outlined above had enabled Cable Co. to secure a number of customer contracts, and these accreditations formed part of the fabric of the organisation. Whilst this mechanism had promoted the implementation of work practices under the grandson, the other two forces had only become recognised under the leadership of the managing director. The managing director had recognised the need to develop greater efficiencies within production and had subsequently promoted the uptake of practices (e.g. Lean) via their sister company and a best practice network. Finally, the managing director had promoted a process of professionalisation, introducing management structure, reporting lines, management standards (IIP) and operational management systems (e.g. MRP) to promote delegation and communication.

5.5 Implications: establishing the underlying causal mechanisms

This case has explored the extent and form of working practice at Cable Co., a small manufacturing firm. What is important here is to understand what these findings tell us in regard to this study's research questions, namely: RQ3) did Cable Co.'s approach to HRM alter in response to growth/performance challenges? and RQ4) what were the underlying [causal] mechanisms that determined the HRM approach taken by Cable Co. in response to the growth/performance challenges faced? We shall now explore these research questions in the context of Cable Co.

The case describes a series of events that occurred at Cable Co. as a result of exchanges at a senior level between key entities including the grandson of the original founder, an interim general manager and the (current) managing director and the internal events that were linked to each of these interactions. The key sequence of events involved the recruitment of an interim general manager by the grandson, the recruitment of a sales manager by the general manager, and the purchase of the grandson's shares by the sales manager who assumed the role of managing director. As a consequence of these changes it was evident that a range of internal events had occurred, with the working practices of Cable Co. being advanced beyond the scope

of the firm's long established quality accreditations that had previously been achieved under the grandson. Cable Co. had developed a management and supervisory structure and an organisational strategy, had appointed a production development manager, had introduced production and management skills (e.g. Leadership, Lean principles), management standards (e.g. IIP) and operational systems (e.g. performance measurement), and were operating basic HRM practices (e.g. appraisal, recruitment and selection, suggestion scheme and so on).

Three interrelated mechanisms were clearly identified to be at work in Cable Co. The principle mechanism related to the 'detection of an imminent shock'. The firm had been experiencing a gradual decline in demand from its traditional market, placing the firm's protective niche under threat. However, the grandson failed to recognise these signals until the firm had reached a loss making situation and sought to exit the firm. The 'desire to exit' the firm formed the second mechanism. It was apparent that the grandson lacked the necessary understanding to lead the firm's redevelopment and respond positively to the challenges the firm faced. The third mechanism was represented through the 'entry of a new owner' to the firm with the grandson taking a decision to sell shares in the business to a non-family member. The new owner held a belief that he could lead a resurgence of the firm and respond positively to the challenges the firm faced. The managing director took a proactive, democratic and investment-oriented, absent under the grandson, and championed the development of structures and working practices as outlined above that unlocked knowledge within and outside of the firm.

An important point to recognise is that the recruitment of the managing director to the firm was a chance contingent event (Easton, 2010). If the grandson had not initially recruited a general manager then the sales and marketing director may never have been recruited to the firm. Indeed, any possible alternative futures could have been envisaged when combining the three mechanisms identified above. It is also important to note that the knowledge held by the (new) managing director informed his management style. On joining Cable Co., the managing director held little knowledge of the firm's manufacturing processes. Rather than getting involved within production, the managing director focussed on the firm's sales and marketing as it was here that he believed he could add most value.

Taken as a whole, these findings suggest an answer to the question 'Why was Cable Co. implementing more progressive working practices?' When aligned against the study's research questions these results reveal that working practices at Cable Co. had altered in response to

growth/performance challenges. These results also suggest three possible mechanisms that might occur in SMEs to drive the introduction of more progressive working practices.

What these results fail to conclude at this stage is whether a particular SME model of HRM and performance exists (i.e. research question five). However, what can be said with some certainty is that these case study findings, allied with the survey results, question the applicability of traditional models of high performance at an SME level. In order to advance our thinking in this area it is believed that further patterns will emerge across the other four case studies. We shall now explore a contrasting case example to Cable Co. Whilst Kitchen Co. was also growing, the firm had implemented the least number of working practices when compared against the other case examples.

Chapter 6

Case study 2: Kitchen Co

6. Introduction

This chapter reports the case study findings at Kitchen Co., a small manufacturing firm that designs, manufactures and installs kitchens for commercial and domestic customers. Established in 1995, the firm operates out of a factory in a rural location in Goudhurst, West Kent. The firm operated with a niche of a highly competitive marketplace providing bespoke kitchen design and installation solutions³⁹. Kitchen Co. focussed on servicing the domestic end user market, whilst retaining some well established relationships with a small selection of trusted building contractors. Kitchen Co. was founded in 1995 by the managing director as a result of his knowledge in kitchen design and his passion for carpentry. The managing director left school and completed an apprenticeship in carpentry before embarking on the restoration of an oak framed house with financial support at the time being provided by his family. He then worked as a sales manager for a local kitchen design and installation firm in Tunbridge Wells for fifteen years, and Kitchen Co. was founded when this firm went bust:

'This role [sales manager for the Tunbridge-based firm] gave me the opportunity to learn about sales and this is where I met Deborah [current office manager at Kitchen Co.]. We both left when the [Tunbridge-based] business went bust...By accident I stumbled back into the kitchen world through a word-of-mouth request for me to make a kitchen. It soon grew to 3 people: myself, Deborah and a machinist [current workshop manager at Kitchen Co.]...working out of a thousand square foot space making purely bespoke kitchens' (managing director).

At time of investigation the firm was of a comparative size to Cable Co, with 27 employees and a sales turnover of £1.5 million. Whilst it was initially reported at the survey stage that the firm was privately owned, it transpired that the firm was wholly-family owned by the managing director. At time of interview respondents held an average tenure of just under eight years with the managing director being the original founder and therefore holding the longest tenure.

³⁹ The firm's activity is formally recorded as *cabinets for kitchens (manufacture)* and relates to SIC code 31.02 (2007).

6.1 HRM, management style & organisation

6.1.1 HRM practice

The managing director reported at the survey stage that Kitchen Co. had implemented a total of 12 out of 40 working practices (See Table 6.1). Whilst this might not be surprising given that the majority of all survey respondents had implemented under twenty practices (83.4%), these observations reveal that Kitchen Co. had implemented less than the average number of practices within their sector, and almost half as many as Cable Co. The comparatively low levels of practice adoption observed at Kitchen Co. are interesting given that the firm was achieving higher levels of growth than Cable Co. Further analysis as to the form and coverage that practices took (see Table 6.2) was therefore required and will now be explored.

Table 6.1: The distribution of working practices by component at 'Kitchen Co'

<i>Component</i>	<i>Survey</i>		<i>Kitchen Co.</i>	
	<i>Mean</i>	<i>Sector Mean</i>	<i>Reported</i>	<i>Actual</i>
High Involvement	3.0	3.3	2	2
Human Resource	5.3	6.7	6	1
Reward & commitment	3.6	4.0	4	2
<i>Total</i>	11.9	14.0	12	5

Table 6.2: The incidence of work practice adoption at 'Kitchen Co'

	<i>Survey</i>	<i>Case study evidence</i>
<i>High Involvement Practices (HI)</i>		
<i>Strategic integration</i>		
Process improvement	✓	No – Ad hoc and unstructured
Culture change programme	x	
<i>Work organisation</i>		
Teamwork	x	
Quality circles	x	
<i>Communication arrangements</i>		
Team briefings	x	Yes – amongst management team
WC/consultative committee	x	
Trade Unions	x	
Staff suggestion scheme	x	Yes – not actively used
Staff attitude survey	x	
Sharing company information via newsletter	x	
Sharing company information via intranet	x	
Sharing company information via notice board	x	
<i>Training/skills development</i>		
Communication skills	x	
Teamwork skills	✓	No evidence
Problem solving skills	x	
<i>Human Resource Practices (HR)</i>		

<i>Strategic integration</i>		
Forecasting staffing	x	
Employment practices	x	
Skills development	x	
Improving quality	✓	No – informal quality procedures
Customer satisfaction records	x	
<i>Work organisation</i>		
Multiskill	✓	No – no practice, employee-led
Quality management certification (ISO 9000)	x	
<i>Employment practices</i>		
Formal recruitment & selection	x	
Selection testing (e.g. psychometric)	x	
Staff induction	✓	Informal
Staff appraisal	✓	Yes – formal pay review
<i>Training/skills development</i>		
Equipment operation skills	✓	Informal
Quality control skills	x	
Leadership skills	✓	No evidence
Workforce diversity skills	x	
<hr/>		
<i>Reward & Commitment practices (RC)</i>		
<i>Strategic integration</i>		
Absenteeism records	✓	Yes – formal records
Labour turnover records	x	
<i>Communication arrangements</i>		
Employee job satisfaction records	x	
<i>Pay & reward practices</i>		
Formal pay system	x	
Performance related pay	✓	No evidence
Profit related pay	✓	Yes – directors only
Employee Share Options (ESOP)	x	
<i>Commitment practices</i>		
Internal promotion	✓	Informal
Job security	x	
Harmonised terms and conditions	x	
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	✓	Yes – production figures
<i>Communication arrangements</i>		
Communicate through mgrs	✓	Yes - direct and top down
Communicate by email	x	
<i>Training/skills development</i>		
Training/skill dev. is important	✓	
Health & Safety training	✓	
Customer service training	x	
<i>Organisational standards</i>		
Investors in People	x	
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	✓	45hrs
Greater than 35 hours per week incl. OT	✓	46hrs+
<i>Sources of advice</i>		
Member of EA	x	
Sought advice from EA	x	

Involvement & participation

There was a general disinterest by management to involve employees in decision making. Management presumed that employees were disinterested and did not want further responsibility. As will be outlined later, delegation was beginning to occur but this was largely retained amongst member of the management team. As a consequence, communication was top down and direct and employee involvement on the whole was disparate and infrequent. Meetings that involved the wider workforce were informal, unstructured and revolved around day-to-day work requirements:

'Once a week we have all the key members of each department in to let them know what is going on and what deliveries are going where and when. I also have a discussion with the production manager and the office also once a week...' (managing director).

General meetings did take place at a more senior level between the directors of the firm, but focussed on financial performance:

'...the monthly meetings only ever started because our accountant said [we should]. So we started having accounts meetings then realised we needed to talk about other things and it became a general meeting (office manager).

Despite the managing director reporting that employees had received training in teamwork over the past twelve months no evidence of this practice was found at the case study stage. In addition, whilst the use of a suggestion scheme was not reported to be in use at the survey stage, employees later reported the existence of a suggestion box. However, this box was largely unused by employees and it became apparent that there was no underlying practice to encourage its use. In addition, employees noted the potential for the scheme to create a source of conflict with management:

'...no one really uses it [suggestion box], hot air and you do not want to make waves' (production operative B)

At the survey stage the managing director reported that process innovation was important and improvements in this area were integrated to wider strategy. However, whilst investments had been made in improving existing processes and introducing new processes these improvements

related explicitly to sales. As with Cable Co., Lean was viewed to hold significant potential for the firm, however there was a general lack of understanding as to how Lean applied in practice at Kitchen Co. and an ad hoc and unplanned approach was evident:

'...I dragged him [production operative] into an early lean manufacturing meeting...he went back to the workshop and acted like he was some kind of chosen mentor...it upset people that he was going back in...I just wanted him to quietly engage and move things forward...he probably did not mean to be like that, but that is how it came across' (managing director).

Human resource practices

As with process improvement outlined above, little evidence was found of any meaningful practices that might promote the improvement of quality within the firm. Kitchen Co. held no formal quality systems or standards. Having said this there was informal recognition amongst employees of the importance of doing a quality job, therefore quality was embedded and did not rely on formal processes or procedures. More formal practices had been developed for employee induction and appraisal. It later became apparent that these practices had been developed whilst implementing the Investor in People (IIP) standard, which will be discussed later. Production operatives commented that employee appraisals were useful and helped them answer important career questions such as 'am I doing a good job' and 'where am I going?' The induction process concluded with a formal meeting with the managing director:

'There is a formal induction...it is almost a site mentoring process...there is a three-month review...we will sit down at the end of three months work out the good and the bad bits' (managing director).

Although it was argued at the survey stage that the firm had implemented practices that encouraged multiskilling, it later transpired that there was no formal system. Training was largely in-house, informal and unstructured and revolved around job-related tasks. No evidence was found of management or leadership training. Whilst management reported that they would accommodate employee requests to experience new roles there was little evidence that this has been actively pursued across the existing workforce:

'Over a period of time you identify people you want to go in that direction and they will get training in that direction...sometimes it happened through someone being ill or

on holiday. It is a bit of a chancy process as to how these people get this experience' (managing director).

The limited nature of skills development activities at Kitchen Co. will be further discussed later within 'human capital'.

Reward and commitment practices

The firm recorded absenteeism rates, but not labour turnover. The managing director reported that labour turnover rates were low, demonstrated by the long tenure of employees. Kitchen Co. did not operate a formal grading structure with pay being decided on a personal basis. Pay was reviewed on an annual basis and linked with an appraisal process. Whilst pay rates across employees appeared to be based largely on tenure and had resulted in wage drift, management did recognise employees that were achieving higher levels of performance and rewarded them accordingly. However, given the lack of formal structure, decisions surrounding pay were based on judgement and anecdotal evidence:

'...[the annual review] comes down to measurements again, you need to be able to measure these things and point out where they are wrong...I do not think anyone addresses it well enough because I do not have the time really, it is an excuse but it is annoying. There is definitely more to be done in that respect' (managing director).

As a consequence of this informality, and the limited ability for employees to influence decision making through other mechanisms, pay formed a flashpoint at Kitchen Co. The managing director portrayed this as a historical issue that had since been resolved; however employees reported continued room for manoeuvre and negotiation:

'You can negotiate with the boss...a year ago I had a better offer from another company and the boss made the same offer for me to stay' (production operative A).

Whilst the managing director had reported at the survey stage that the firm operated a performance related pay scheme it was later reported that bonuses were reserved for directors of the firm. The firm had previously introduced a bonus scheme for production employees but this scheme had later failed. It appeared that the targets management had set for employees had not been achieved and, as a result, the managing director chose to increase wages across the workforce:

'We had a bonus scheme...based on a six month strategy, but the first month did not quite meet the expectations that I had and they [production employees] then said 'well we do not want this we'd rather an hourly rate increase'. I saw it as a cheaper option; they saw it as a more stable answer...it is worked out surprisingly well' (managing directors).

Employees at the firm reported that rates of pay at the firm acted as an incentive to work hard and to stay with the firm. However, the lack of formality surrounding pay and reward had impacted on the firm's ability to retain skills. Rather than providing a rationale for implementing more formal systems, the managing director appeared resigned to losing higher performers:

'We lost someone to Virgin Airways...you could throw anything at him and he would find an answer. When he left we thought...perhaps we should be paying the extra £3 per hour...but if the workshop hears about it...your wage bill goes up...but it is probably worth it?' (managing director).

The managing director reported that they operated an internal promotion scheme and production employees articulated that internal promotion was possible. However, much like multiskilling, it transpired that there was no formal process in place to identify candidates suitable for promotion and development. Employee terms and conditions, such as their pay conditions outlined above, varied considerably. The managing director also reported a disparity between the working hours of office and production employees. The standard contract for production employees was forty five hours a week. This long hour's culture was something the managing director had recognised and was hoping to address. However little action was evident and production employees reported that they regularly worked upwards of fifty hours including overtime. In many respects overtime had become a part of an employee's normal wage in addition to becoming a necessary part of the job.

Having said all this, employees reported that they were largely satisfied with their: level of pay; interest in work tasks; ability to influence decisions over the way they work; ability to develop skills and knowledge; promotion opportunities; and quality of working relationships with colleagues and management. Employees also reported that their job satisfaction had increased over the past few years and that there was a good level of trust between themselves and management.

6.1.2 Management style

At the survey stage the managing director reported not having an individual who held part or sole responsibility for human resources. It later transpired that responsibility for managing human resources lay with the managing director and workshop manager, with the office manager providing administrative support. The workshop manager held responsibility for the management of human resources within production and the managing director held overall responsibility within the firm. No employees held any formal training or qualifications in human resources. This led the firm to rely on human resource advice from the membership associations including the Federation of Small Businesses (FSB) and a private employment consultancy. Together, these external organisations provided support to the office manager in meeting statutory employment regulations. The skill deficiency amongst employees outlined above promoted a relatively unplanned and ad hoc approach to human resources. There was however awareness that this may be an area that would require development in the future:

'I think it was very good what you said earlier about having someone specific trained in human resources. Once again I have not spent enough time on it and need to look at it' (managing director).

The firm had recently developed a management team structure and a chain of command. The majority of communication therefore took place at a management level, but even here meetings remained unstructured, with historical performance data providing a foundation for management decision making. Whereas the managing director at Cable Co. had championed the introduction of these structures it was the management team at Kitchen Co., made up from the sales and marketing director, office manager and workshop manager, who had promoted the introduction of these structures:

'It was Deborah [office manager], David [workshop manager] and Tom [sales and marketing director] who said 'look you have got to set up a management structure – got to spread the load – not keep changing your mind about things and create the structure'' (managing director).

The new management structure outlined earlier had led the office manager to delegate elements of her role to the workshop manager. This included statutory tasks relating to health and safety and supplier contracts. The office manager, who held responsibility for finance at

the firm, attributed the introduction of greater levels of structure with the firm's improved performance:

'Yes, I think that [management structure] must be quite a big part of what we must do, without it we cannot move forward...we have progressed from a minus 60 to a profit of 120 in just over a year and that was by making one person a director and empowering someone to get on with it' (office manager).

However, whilst increased levels of delegation and involvement were beginning to emerge at a management level there appeared little change to existing working practices. The financially-focused director's meetings remained and information was not shared with the wider workforce. This approach afforded few opportunities for employee involvement in decision making at shop floor and lower administrative levels. The managing director's lack of management style appeared to be at odds with these more structured ways of working:

'that [consultation] is probably done quite poorly, there are individual employee reviews...what I have not done is produce a written plan; which is a good idea and I could do that, for them [employees] to buy into' (managing director).

When tasks were assigned the managing director would often change his thinking by the time the task had been completed. It became apparent that although the managing director recognised the need for letting go he was unsure what was expected of him in his new role:

'...listening to the management team...they are kind of saying it needs to be led by me, people listen to me more than anybody in the family...at the end of the day it is down to leadership...it is frustrating in a way that people have to hear it from me and not someone else' (managing director).

6.1.3 Organisation

Whilst the managing director reported at the survey stage that the firm did not hold the Investor in People (IIP) standard, it transpired at the case study stage that the firm had begun to implement IIP but had failed to implement the standard. The managing director attributed this to his traditional and old fashioned mindset responding 'we take a traditional view of a foreman so we take the bits [of IIP] that we like'. The firm also did not have a formal system

for the management of quality and did not hold accreditation to any quality standard. The management of quality was reliant on the judgement of what was considered acceptable:

'If it is not right, you do it again and again until its right. After a while you get to know the quality. You cannot let it go; our customers are paying a lot of money' (workshop manager).

In addition to basic forms of technology (e.g. PCs, computerised accounts, internet, and mobile phones) investments had been made in a bespoke Customer Relationship Management (CRM) package. This system had been introduced by the sales and marketing director to provide a link between sales and production and release capacity in the sales department:

'The Process Flow system has enabled us to automate the design process, allowing for increased numbers of presentations from between five to ten per month to fifteen to twenty with minimum redraw requirements' (sales and marketing director).

However, investments in technology were undertaken as and when required and did not form part of a wider plan, with the general approach summed up by the managing director:

'I did it more by luck than judgement I think...landed up with exactly the right kit [machinery] that has sat in the same position in the workshop and has not been moved' (managing director).

It also became clear that the development of a performance measurement system had been a relatively recent occurrence. Aside to financial measures of performance, it was reported that records were kept on productivity, quality of product/service and workforce training. The introduction of a performance measurement system had been influenced by a Business Link advisor and this knowledge had then been translated to the firm's context by the office manager:

'...when Richard [managing director] first gave it to me it was on the back of an envelope...We have this system called 'egg boxes' which actually works very well...directors will ask for things to be filled in each month and to get to those figures and produce the information as necessary' (office manager).

However on closer inspection it transpired that the measures used by the management team were largely accounting-based and the firm did not record the quality of product/service or productivity, a shortcoming recognised by the managing director:

'I do not think we have enough KPIs [key performance indicators]...we should do more because obviously you can measure what happens in the workshop and it doesn't have to be a financial measure...to measure the number of mistakes for example...we are quite poor on that side...' (managing director).

Whilst the performance measurement system provided a facility to track historical performance, set future targets and create basic pricing structures it was apparent that it did not provide adequate information upon which management could base their decisions:

'...we're not terribly aware on costs of something like that [as he points out a hand-made table]. But maybe we should never make tables like that, maybe we should get some other company to make them for us, sticking ten per cent on them and saying thanks very much and moving on concentrating on getting the best possible cabinets through. That might well be a trick that we are missing out on, and it might be a way of growth' (managing director).

The further development of these measures and appropriate systems of monitoring appeared hampered by a lack of knowledge amongst management within the firm, which will be explored later within 'human capital'.

Having considered the above, what do these findings tell us in regard to this study's research questions, namely: RQ1) the extent to which Kitchen Co. was adopting HRM practice and RQ2) the form that HRM took? We shall now review the implications of these findings.

6.1.4 Reviewing the extent and form of HRM practice at 'Kitchen Co.'

Case study analysis found evidence of five out of the twelve practices that were reported during the initial survey stage. Limited support was found of practices that might promote improvements in processes or quality. No evidence was found of multiskilling, training in teamwork or leadership, and performance related pay. Even those practices that were recorded could be questioned as to their form. 'Appraisal' related to a formal meeting held to review pay on an individual basis and absenteeism records related to the formal recording of sickness

statistics. Neither of these practices linked to wider practices/processes. Appraisal relied on anecdotal evidence against which to review employee performance and absenteeism records were not linked to a wider return-to-work procedure. These results reveal further inconsistencies between the initial reports of the owner-manager and subsequent reports of employees.

As with Cable Co., practice coverage varied across employees. Profit-related pay was reserved for director-level employees. Whilst not initially reported at the survey stage evidence was found of team briefings at a management level and a suggestion box within production. Through the cases of Cable Co. and Kitchen Co. it has become apparent that practices reported at the survey stage do not represent a set of neat formal HRM practices when investigated at the case study stage. Working practices varies in their form and coverage and, in the case of Kitchen Co., often related to no more than a recognition/desire to be doing more.

As with Cable Co., wider structural change and evolution was evident through the introduction of a management team structure and the delegation of tasks. In contrast to Cable Co., these changes had been led by employees who held management roles and who effectively had told the managing director to go away! The fact that these changes were bottom-up rather than top-down was not overly problematic, but the absence of overall leadership in the firm was. It was evident that the managing director was not clear on what was expected of him and this appeared to reinforce a reactive and unplanned approach. Overall, the managing director recognised the need to introduce new practices, processes and systems, but held a limited understanding as to how he might introduce them.

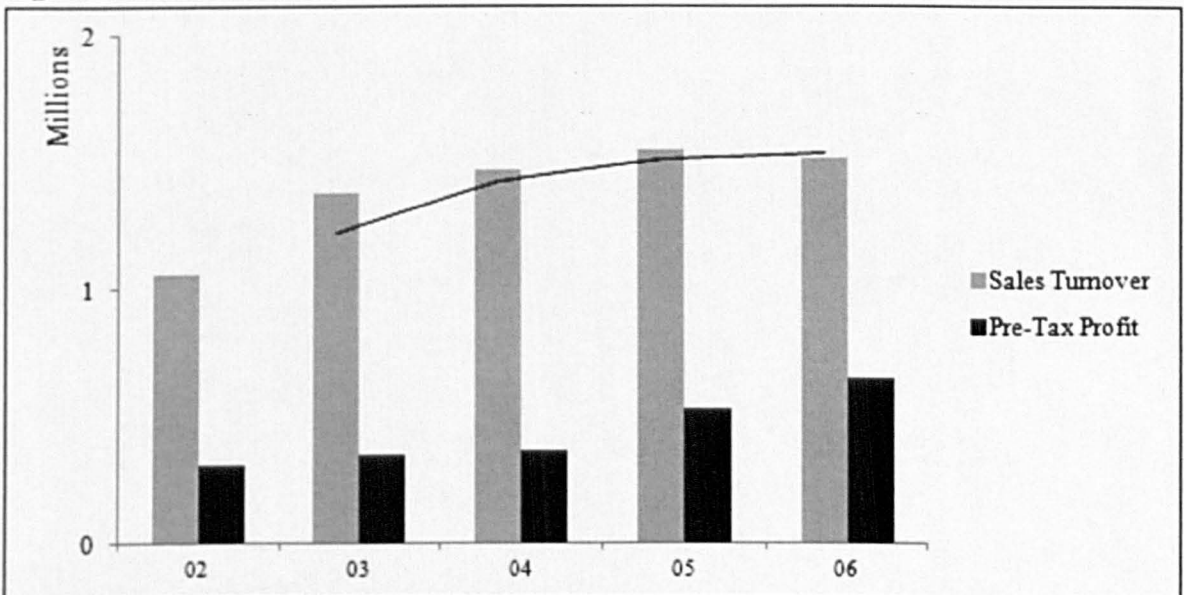
Taken as a whole, these findings reveal little formal evidence of HRM practice in Kitchen Co. The firm held no formal knowledge on HRM. Involvement was reserved for management team members, with employees confined to their immediate job task/role. Those practices that had been developed were management-led and isolated to an individual's knowledge of their immediate role/task, such as the introduction of a CRM system by the sales and marketing director. Whilst there was a recognition and desire by the management team to develop more formal ways of working little progress had been made. Given the limited nature of skills and knowledge it was not clear how the firm might take a different approach in the future. When compared to Cable Co. change at Kitchen Co. was very much in its early stages and management were largely unaware how they might approach such issues in the future. Interactions between management and employees remained informal.

What this leads us to ask is why Kitchen Co. had made changes to their structure? And why were changes taking place at a slower pace than those in Cable Co.? It is this that we shall now explore.

6.2 Growth: HRM challenges and transitions

Five years of archival performance data was requested at time of interview, the trends of which can be viewed in Figures 6.1 and 6.2. Kitchen Co. had grown at a faster rate when compared to Cable Co. On average the firm had grown by 8.5 percent per annum over the past five years, increasing from £1m in 2002 to £1.5m in 2006, and by 5.7% in employment, in agreement with the 0-15 percent average increase reported at the survey stage. The managing director reported that Kitchen Co. had grown historically in successive peaks and troughs and was presently moving into a growth phase. However, one might call this interpretation into question given that the firm's growth trend would appear to denote maturation in sales turnover growth.

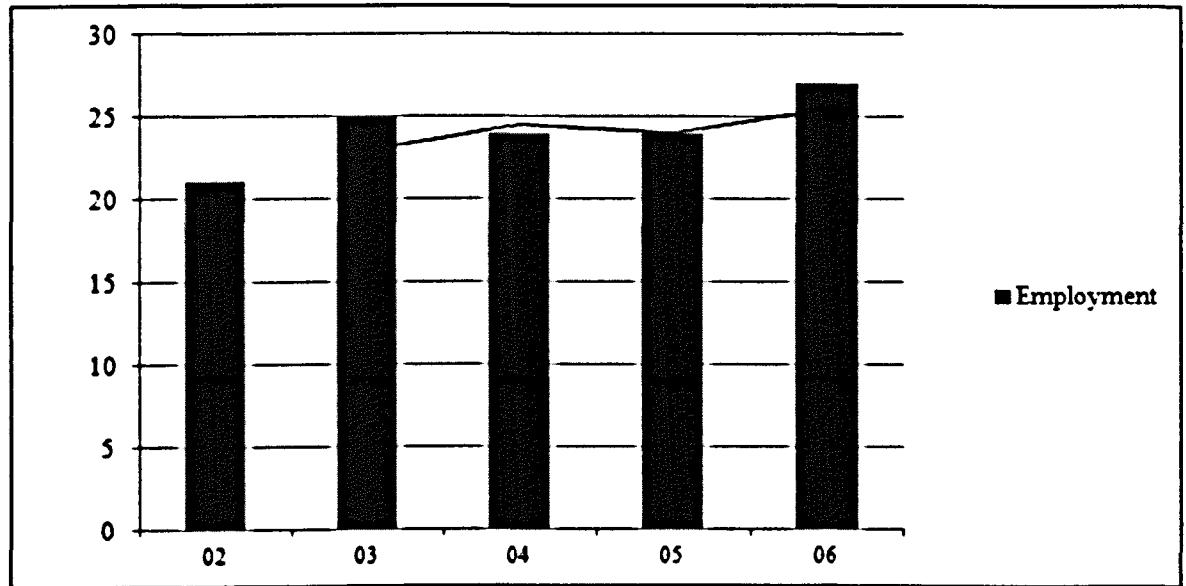
Figure 6.1: Sales turnover and profit trend at 'Kitchen Co'



Kitchen Co. was the youngest firm amongst the case study participant sample. Much of the firm's initial challenges appeared to relate to developing a reputation in the marketplace. In addition, the limited human resources meant that demand and capacity planning were particularly challenging:

'...people did not trust us to produce a kitchen; it was hard to get contracts of any size [in the early days]...and consistency was a real problem; the whole stop-start thing' (managing director).

Figure 6.2: Employment trend at 'Kitchen Co'



Despite these initial teething problems, the firm grew considerably between 1996 and 2003 from three employees to 25 employees. In 2002 the managing director took a decision to employ his brother-in-law as a sales and marketing director:

'His background is a degree in Graphic Design and Marketing...he had his own company marketing companies like BMW...but made no success at all...landed up with partners who ran off with the money and clients did not pay him for his ideas...eventually he just said 'I will work for you Richard' [managing director]. He worked for me as a 17-year old on a building site, he knows me well from a young lad. So I said, well I couldn't believe, because here was a supposedly high flyer chap from Richmond with a tremendous lifestyle suddenly wanting to come and design kitchens' (managing director).

However in the spring of 2003 the managing director decided to make some redundancies. In exploring why this was the case it became apparent that the managing director had not developed appropriate systems (e.g. financial) upon which to base decision making:

'I just did not understand the importance of the financial side of the business...At the time I held the whole thing too close to me. I did not sit down and work out a company plan it just kind of grew from a couple of orders...when it got too much for one person to do, someone joined me, so I think it was a poorly conceived company' (managing director).

Since 2003, the firm had developed a management team structure and financial measures. As with Cable Co., initial emphasis lay in increasing sales. It was evident that the sales and marketing director had played a key role in improving the fortunes of the firm since joining in 2002 '...developing it [Kitchen Co.] from a hand-to-mouth business to a full order book' (managing director) and implementing more up-to-date processes, as outlined earlier. The managing director reported that he was growing the firm at an organic rate through the reinvestment of profits, and investments had most recently been made in a new sales showroom and website.

However developments to working practices failed to take place outside of the sales function and the firm was yet to make changes to wider workplace practices. The reasons why the firm responded to their growth and performance challenges as they did related to a range of influences which will now be explored.

6.3 Product market, labour market and strategic orientation

6.3.1 Product market

Kitchen Co. competed against a small number of similar sized competitors in Kent and London. The majority of their work being secured through informal customer referral networks through a broad base of domestic clients. A conscious decision had been taken by the managing director to supply the end consumer following prior experiences with larger construction firms. The firm had encountered difficulties in the past in ensuring the quality of the end product in homes that were under development. Installing a kitchen in a home that was not yet finished often led to damage, leading to money being withheld from the firm:

'The last thing we want to be is sub contractor, or a minor contractor, to a building firm doing a big house or something because you just do not get paid...and that has happened, we have had two or three poor experiences of that' (managing director).

The local/regional emphasis of their work allied with the bespoke and high quality nature of their product had somewhat isolated the firm from the competition (Rainnie, 1989). Indeed, the quality of the firm's product and service was reported by the managing director as a competitive advantage asserting that other firms 'could not compete'. Having said this, it was recognised that the firm were beginning to experience increased levels of competition as they sought future growth:

'It is something I have raised...as part of our business plan for this year that we should be paying more notice of the competition, so we do need to do more' (managing director).

'Doing more' in this sense related to the formalisation of their sales and marketing processes which the sales and marketing director play an influential role. As outlined earlier, investments had already been made in a CRM system and the managing director was currently leading the development of a new showroom and website. These decisions were based upon little knowledge of the competition and did not link to a wider planning process. As with the need for increased levels of formalisation outlined earlier, the requirement for an integrated planning process signalled little more than a desire. The firm was also being challenged by the scalability of its bespoke product/service and the need to realise efficiencies as the firm grew:

'...we are too generous with customers, we're not hard enough with the customers, and we give too much away without them paying for it...although that has a knock on effect that when you do well you get referrals' (workshop manager).

6.3.2 Labour market

All of the management team had been recruited internally, apart from the sales and marketing director who had been recruited through familial networks. None of the management team held any formal management qualifications and knowledge was technically-based. As outlined earlier, the managing director and office manager relied on career-related experience. The sales and marketing director held a degree in Graphic Design and Marketing and relied on career-related experience when operating his own firm. The workshop manager had joined the firm as a machinist and held a City and Guilds qualification in wood engineering. Whilst there was recognition of the weaknesses in the knowledge of the management team, the firm had not yet made investments in training and development:

'I do see the skills need changing...not necessarily the skills in term of the physical skills...but more mental...we always struggle with it...this thing of passing out responsibility to other people' (managing director).

As with Cable Co., employee recruitment was an infrequent process, and when it took place the reliance was placed on (often local) informal networks. It was acknowledged that the firm's rural location potentially restricted the pool from which the firm could recruit, which provided challenges in attracting the right skills to the firm:

'We do not have that many skilled guys on the shop floor anymore. You can advertise for young guys for a month and they are not out there. It is difficult to get a decent youngster. They are all cottoning on...an experienced guy will command top dollar' (workshop manager).

Steps had been previously taken to invest in apprenticeships, although to date the firm had not achieved much success. The managing director asserted that the apprenticeships provided by the Construction Industry Training Board (CITB) were too generic and did not prepare apprentices adequately to work for the firm. The fact that those employees who were currently being recruited were trained to a sufficient standard to be introduced directly to the production process, allied with the above, appeared to be used as an excuse to not invest in their own training and skills programmes.

6.3.3 Strategic orientation

Whilst the managing director had reported the presence of a formal strategic plan at the survey stage it transpired that this was not the case. The managing director had begun to formulate a business improvement plan since the first phase of research. This improvement plan had been developed following a meeting with an advisor from Business Link and made a range of recommendations. These recommendations ranged from establishing key objectives over the next year, to more specific internal efficiencies such as stimulating improvements in client management and manufacturing processes. The need to improve levels and methods of communication were also noted.

Given the shortage of managerial and manufacturing-related knowledge it was however unclear how the managing director would be capable of taking these recommendations

forward. Most apparent was the managing director's own management style, alluded to earlier, which was in conflict with the approach that the management team wanted to take:

'The MD is full of contradiction...blows hot and cold, with the business strategy changing year on year. Most other director's view that there is not a business plan' (sales and marketing director).

'I do not think the company can grow...it comes from the top which is not here...most people will go with him [managing director], whatever he decides. But he doesn't decide' (office manager).

6.4 Human capital, social capital and institutions

6.4.1 Human capital

Whilst the firm had begun to respond to its sales and marketing challenges through the recruitment of sales and marketing director there was considerable underinvestment in human capital across the firm. Despite the managing director reporting at the survey stage that training and skills development were very important to the firm, it transpired not to be the case. The managing director recognised the need for greater levels of management skills, and that this was integral to growth, but had not yet made investments in this area:

'It [management training] is something we should do more of; I do not think we have done enough of it. Management skills need to be honed. We do not have anybody here who has a business studies degree; I think we are a bit shy on that score' (managing director).

This lack of emphasis on employee skills development was evident in the amount of training the firm invested in. Employees on average undertook less than two days training per annum. Employees remarked that training provided was 'adequate' and enabled them to carry out their immediate work tasks effectively. Training was in-house and informal, with employees being left to learn from each other. One could not help feel that the limited emphasis placed on training, allied with the embedded technically-based skill set, limited the potential for future product and process innovation:

'...we have experienced some lean through a taster meeting...some [of the principles] are alright, but some are farfetched...I can see the problems with the company [that we

visited], I can see where they can improve, but they do not produce what we produce; so what is the relevance? You have to be able to *adapt* what they are saying to your environment' (workshop manager). [emphasis added]

Given the lack of internal systems and structures one could question the extent to which Kitchen Co. was storing up a much larger problem for the future:

'I do not know, I cannot even tell you what sort of formal training Sarah's had in production, scheduling and that type of thing...There are fears, certainly there are, not particularly with Sarah but there are elements that if someone got run over by a bus that would create some problems. We do not have enough time spent on the processes to make it so it can just smoothly pass to someone else's hands' (managing director).

6.4.2 Social capital

Whilst the managing director confirmed at the survey stage that the firm held membership to a business network, club or forum, this later proved inaccurate. The firm had held membership to the Institute of Directors [IoD], but had allowed this membership to lapse. The managing director cited his decision to be based upon the high cost of membership. Aside from the status of more formal networks outlined above, the managing director reported that some informal connections had been made with other manufacturers which had begun to enable the firm to share best practice:

'We have been looking at other companies, particularly on the manufacturing front...techniques that we have seen in other companies that we have brought back here' (managing director).

However it was later discovered that sharing of information on manufacturing best practice was not a regular occurrence at present. There appeared a realisation that informal networks for the reciprocal sharing of knowledge should be built, and the managing director appeared open to such developments, however it was not clear what action, if any, had been taken to progress this:

'We have not [set up an informal relationship]...Tom (sales and marketing director) has talked about it...of spending a bit more time working with other companies that are not

necessarily based in Kent...go and talk to them about how they do things and learn from that...we probably do not do enough of that' (managing director).

At time of investigation the sharing of information appeared greatest with the firm's supplier base. The importance placed on quality by Kitchen Co. translated into a readiness to work with their established suppliers to ensure quality of the final product. Where there were instances of suppliers failing to deliver the appropriate quality the firm made a conscious effort to select new suppliers. Aside from the quality-related issues it was evident that the managing director was also keen to establish relationships with other firms. This was prefaced on the need to broaden their customer network and offer a more comprehensive service. However, no formal plans had yet been made, and in talking around this subject it felt as though the manager director was waiting for firms to approach him:

'I think there are three or four companies that I could start if I met the right people...feeding off their database would be an added benefit...you get phone calls from people looking for a job but you do not get similar approaches from other businesses...people do not seem to look outside of the box...that innovation does not seem to happen' (managing director).

The managing director confirmed at the survey stage that the firm had benefitted from relationships with their customers, however when pressed further at the case study stage he could not articulate how. Kitchen Co.'s customer networks were relatively limited due to the nature of their market. The majority of their products were supplied to the end domestic consumer whose interaction with the firm was typically on a one-off basis. As outlined above, the firm avoided relationships with larger construction firms and relied on informal referrals made by existing domestic customers.

6.4.3 Institutions

As with Cable Co., institutional forces were also found to have influenced the introduction of working practices at Kitchen Co. An overview of these institutional forces is now provided:

- *Coercive*: No evidence was found of coercive forces.
- *Mimetic*: the development of a business improvement and action plan that had led to the introduction of a performance measurement system had been promoted through

government-funded business support service Business Link. The firm had also sought advice for process improvements in sales and more latterly in manufacturing through UK First, a management consultancy set up with assistance from the Furniture Industry Research Association (FIFA), and the Manufacturing Advisory Service. It was clear however that developments in production were very much in their early stages.

- *Normative:* Management members had instigated the introduction of a management structure, reporting lines and a management team. The sales and marketing director had promoted the introduction of operational systems for sales and marketing (e.g. CRM). Management standards (e.g. IIP) had also promoted the introduction of an induction & appraisal process.

6.5 Implications: establishing the underlying causal mechanisms

This chapter presents an analysis of the factors that influenced the workplace practices of a manufacturing SME, Kitchen Co which shared similarities with Cable Co. Both firms were similar in sector and size and competed within market niches prefaced on a high quality product/service. Both firms were also responding to a lull in performance and recognised the need to adopt new ways of working if they were to realise their future growth and performance ambitions. However this is where much of their similarity ended in these comparative cases. Having explored RQ1) and RQ2) earlier, it is important now to turn our attention towards addressing whether Kitchen Co.'s approach to HRM altered in response to growth/performance challenges (i.e. RQ3) and whether this differed to Cable Co., and what were the underlying [causal] mechanisms that determined the HRM approach taken by Kitchen Co. in response to the growth/performance challenges faced (i.e. RQ4).

The case describes a series of events that occurred at Kitchen Co. as a result of exchanges at a senior level between key entities including the original founder (managing director) and a sales and marketing director. As a consequence of the managing director recruiting the sales and marketing director a range of internal events occurred that triggered the development of working practices beyond the scope of what was previously possible under the founding managing director. Kitchen Co. had developed a management structure and reporting lines, had introduced operational systems (e.g. CRM) and were operating basic forms of HRM practices (e.g. induction, appraisal etc.).

Whilst a broad range of mechanisms were observed to have influenced the approach taken by Kitchen Co. towards working practice, three key mechanisms appeared to directly inform the firm's approach. The principle mechanism related to the 'detection of an imminent shock', however the nature of this shock at Kitchen Co. was very different to that at Cable Co. Whilst Cable Co.'s product was, over a period of some time, losing relevance to an international marketplace leading the firm into a loss making position, Kitchen Co.'s products/services were in demand and the firm was making profit. The shock in Kitchen Co.'s case related to financial mis-management with managing director being forced to make a set of redundancies. The nature of this shock held consequences for the way Kitchen Co. responded.

The 'entry of a new director' formed the second mechanism and involved the recruitment of the managing director's brother-in-law to the firm. These mechanisms did not occur over time in a linear fashion, but rather the first mechanism was found to unlock the power of the sales and marketing director in his ability to influence future change at the firm. As with Cable Co., sales became a key focus in Kitchen Co. and the sales and marketing director played a key role in stabilising and growing demand and led changes to sales systems and processes. It is important to recognise that the recruitment of the sales and marketing director was a chance contingent event (Easton, 2010). If the sales and marketing director had not approached the firm it is not clear whether the managing director would have recruited sales-related skills to the firm. Indeed, any possible scenarios could have occurred.

The third mechanism relates to the 'decision by the management to take control'. Management played an influential role in developing a management team structure and reporting lines in order to promote delegation and afford the managing director time to step back. Whilst this form of structural change led to wider workplace change at Cable Co., existing practices were retained at Kitchen Co. (e.g. director meetings). The deficiency in knowledge and understanding limited scope for future change and work practice adoption. It was also not clear that the owner-manager understood what his new position entailed and what was expected of him, and his limited knowledge and capacity for leadership drove a relatively ad hoc and unplanned approach across the firm. The management team were also unclear on the practices that the firm might adopt and how one might go about adapting these to the firm's setting. There was recognition by the managing director of the need for change and initial steps had been taken to introduce a business improvement plan, but it was not clear that he understood what of how to make this change.

Taken together these results suggest that the depth of shock may be related to the depth of response and shed light on the reasons why some firms may implement more progressive working practices than others. Whilst the Cable Co.'s products were losing relevance to their marketplace and the firm was recovering from a loss making position, Kitchen Co. was achieving good levels of profitability and was able to rely on isolated changes to sales processes and systems in order to improve performance. Unlike Cable Co., Kitchen Co. was not forced to make wholesale changes to ways of working in order to survive. As a consequence, changes to working practices were largely confined to the sales function. Wider workplace practice remained largely underdeveloped, informal and particularistic, a predicament that did not look likely to change in the immediate future.

These case study findings, allied with the survey results, continue to question the applicability of traditional models of high performance at an SME level. The case of Kitchen Co. reveals that smaller firms may be able to disregard the introduction of HRM practices for various reasons but if they do the likelihood is that performance may not be sustained. Firm performance at Kitchen Co. appeared to be reaching a plateau at time of investigation and there was a feeling that the new sales processes introduced by the sales and marketing director were effectively covering up the wider issues present at the firm. It was difficult to comprehend how the firm would effectively exploit capacity within production and sustain its growth in the future without investing in its human capital and adopting a more strategic and planned approach to its operations.

Whilst an SME model of HRM and performance is not yet forthcoming, these results are beginning to draw attention to a potential pattern of structural and systemic changes (e.g. management structure, delegation, communication, performance measurement) that smaller firms make as they grow and how these influence wider developments to working practices. In order to continue to develop our understanding on HRM and performance we shall now explore a further case. CCTV Co. was achieving higher levels of growth than Cable Co. and Kitchen Co. and competed within a different industry.

Chapter 7

Case study 3: CCTV Co

7. Introduction

This chapter reports the case study findings at CCTV Co., a small construction firm that installs and maintains closed circuit television (CCTV) systems. The firm operates from a converted barn located on a farm on the outskirts of Maidstone in central Kent. The firm had developed a niche within a national multimillion pound security industry, choosing to focus on the installation and maintenance of CCTV equipment on industrial sites⁴⁰:

'...we actually install CCTV equipment on large sites such as power stations, water treatment works...can be in the retail sector such as department stores, but generally in the industrial sector' (finance director).

The managing director founded CCTV Co. in 1988 on the back of his career-related knowledge of CCTV when the firm he was working for was taken over:

'I started as a service engineer and worked up to engineering manager...I was working seriously long hours...I fell out a wee bit with the management, I thought I'd just start my own business...so started industrial CCTV really as a one man band...I probably had just one day a week worth of work when I started...for the first three months but I still earned more than I did for the old company and it was just a means to an end it was the next step. I really wanted to have a big company with lots of staff and this was the next step' (managing director).

At time of investigation CCTV Co. had 15 direct employees excluding subcontractors and had achieved a sales turnover of £1.4 million. Whilst the finance director reported at the survey stage that the firm was privately owned, it later transpired at the case study stage that the firm was wholly family-owned by the managing director. At time of interview respondents held an average tenure of over six years with the managing director being the original founder and therefore, holding the longest tenure.

⁴⁰ The firm's activity is formally recorded as *electrical contractor (construction)* and relates to SIC code 43.21 (2007).

7.1 HRM, management style and organisation

7.1.1 HRM practice

The finance director had reported at the survey stage that CCTV Co. had implemented a total of 16 working practices (See Table 7.1). These results are on a par with the average SME within the survey sample in regard to the high involvement and reward and commitment components, but twice as many working practices were reported within the human resource component. Whilst this is an interesting point to note it provides limited insight to the nature of practices at CCTV Co. In order to delve deeper into the form that practices took Table 7.2 presents a detailed comparative analysis of practices reported at the survey stage and the form and coverage of practices when investigated further at the case study stage.

Table 7.1: The distribution of work practices by component at 'CCTV Co'

<i>Component</i>	<i>Survey Mean</i>	<i>Sector Mean</i>	<i>CCTV Co.</i>	
			Reported	Actual
High Involvement	3.0	2.5	2	3
Human Resource	5.3	5.1	9	5
Reward & commitment	3.6	3.4	4	3
<i>Total</i>	11.9	11.0	15	11

Table 7.2: The incidence of work practice adoption at 'CCTV Co'

	<i>Survey</i>	<i>Case study evidence</i>
<i>High Involvement Practices (HI)</i>		
<i>Strategic integration</i>		
Process improvement	x	Developing
Culture change programme	x	
<i>Work organisation</i>		
Teamwork	x	No – engineers worked in 'gangs'
Quality circles	x	Yes – mgt-led
<i>Communication arrangements</i>		
Team briefings	✓	Yes – management-led, engineers
WC/consultative committee	x	
Trade Unions	x	
Staff suggestion scheme	x	Informally encouraged
Staff attitude survey	x	
Sharing company information via newsletter	x	
Sharing company information via intranet	x	
Sharing company information via notice board	✓	Yes - basic
<i>Training/skills development</i>		
Communication skills	x	
Teamwork skills	x	
Problem solving skills	x	
<i>Human Resource Practices (HR)</i>		

<i>Strategic integration</i>		
Forecasting staffing	✓	Yes – promoted through CRM
Employment practices	✓	No evidence
Skills development	✓	No – largely task-related
Improving quality	✓	Yes
Customer satisfaction records	✓	Yes – promoted through CRM
<i>Work organisation</i>		
Multiskill	x	
Quality management certification (ISO 9000)	✓	Yes
<i>Employment practices</i>		
Formal recruitment & selection	✓	Developing
Selection testing (e.g. psychometric)	x	
Staff induction	✓	No – relates to trial period
Staff appraisal	✓	No – relates to annual review of pay
<i>Training/skills development</i>		
Equipment operation skills	x	Yes – frequent updates provided
Quality control skills	x	
Leadership skills	x	
Workforce diversity skills	x	
<hr/>		
<i>Reward & Commitment practices (RC)</i>		
<i>Strategic integration</i>		
Absenteeism records	✓	Yes
Labour turnover records	✓	Yes
<i>Communication arrangements</i>		
Employee job satisfaction records	x	
<i>Pay & reward practices</i>		
Formal pay system	✓	No evidence
Performance related pay	x	Yes – part coverage for sales staff
Profit related pay	x	
Employee Share Options (ESOP)	x	
<i>Commitment practices</i>		
Internal promotion	✓	No evidence
Job security	x	
Harmonised terms and conditions	x	
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	x	
<i>Communication arrangements</i>		
Communicate through mgrs	✓	Yes – confirmed by employees
Communicate by email	✓	Yes – confirmed by employees
<i>Training/skills development</i>		
Training/skill dev. is important	✓	Yes – regulatory/technical skills
Health & Safety training	x	Yes – frequent updates provided
Customer service training	x	
<i>Organisational standards</i>		
Investors in People	x	
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	✓	Yes – 37.5hrs +
Greater than 35 hours per week incl. OT	✓	Yes – 43hrs +
<i>Sources of advice</i>		
Member of EA	x	
Sought advice from EA	x	

Involvement & participation

Whilst the finance director reported at the survey stage that process improvements did not form part of a wider strategy, it became apparent that a number of improvements were being made at the firm. These improvements will be explored as we move throughout this chapter. It was apparent that the business development director had played a key role in promoting improvements such as the introduction of a director's meeting to review firm performance:

'We do try to plan more than we did...our business development director is keen and he gets us to have more meetings, we try to have three or four directors meetings a year, before it was only one. We do try to plan more now; he is instrumental in that really' (finance director).

Communication at the firm was largely through managers. Notice boards were used to share more general information across all employees at the firm. Meetings were held between the engineers and management. These quarterly meetings were management-led and did not involve wider office employees. The content of these meetings revolved around task-related issues such as upcoming contracts, although engineers confirmed that these meetings offered a forum for wider discussion. Employees reported that they were very satisfied with the quality of relationships and that a good level of trust existed between themselves and management. There was a general feeling that management tried to take the views of employees onboard:

'...the business development manager has engineers meetings with all levels of staff; there is good communication and everybody gets to contribute, we try to put their [engineers] ideas forward if we can' (finance director).

Aside to these meetings, there was no formal suggestion scheme or incentives to encourage employee involvement. Employees typically represented their views to management on an individual basis. Despite the lack of formality, employees reported that they were actively encouraged to make suggestions and were very satisfied with their ability to influence decisions about how they work.

'We are always kept in the picture about changes, by email and through meetings' (installation engineer).

The firm was found not to operate teams. When interviewed, the engineers reported working in teams, but when probed further these related to groups of engineers who worked together on site as a consequence of health & safety and skill requirements of the job.

Human resource practices

The finance director reported at the survey stage that the firm forecasted its employee requirements. It transpired that the managing director used the firm's Customer Relationship Management (CRM) system to support this activity. The firm also reported integrating employment practices to their ongoing strategy, although no evidence of this, or strategy, was found. Training/skills development activities were clearly taken to heart by the firm, however the firm had reportedly not undertaken any training in equipment operation skills, quality control skills, leadership skills or workforce diversity in the last twelve months. Despite this, it was evident that training that had been progressed. It was apparent that training and skills development activities largely revolved around the operation of new equipment and health and safety issues.

It was evident that considerable effort was placed behind ensuring the quality of the firm's product/service. The firm operated an accredited quality management system and involved employees in reviewing the quality of new equipment released onto the market. The firm recorded faults with their product and service through their CRM system and took appropriate action where necessary, such as referring product faults to their suppliers. The firm also took part in a formal improvement group with a large manufacturer. Setting, maintaining and auditing quality processes and procedures were activities reserved for the firm's directors.

Despite the fact that employees had previously joined the firm through informal and familial networks, the firm had recognised the need to formalise its recruitment and selection procedures. A decision had been taken by the directors to retain information on the skills of recent applicants and develop more formal selection practices that tested the aptitude/skills required to work at the firm. Indeed, the lack of formal procedures in this area had caught them out in the past:

'...I cannot remember how it [the form] was worded...it said if you have any phobias...we have never experienced that before because you think that anyone who

would come for a job as an engineer will know that he has to work on a ladder!' (finance director).

Although the finance director had reported that the firm operated an induction process it transpired that this was unstructured and informal and related to a contractual trial period:

'...it depends on their experience; there is a three-month standard trial period, no set training' (finance director)

The firm's appraisal related to an annual review of pay progressed individually with employees, a point that will be explored further below.

Reward and commitment practices

The finance director reported at the survey stage that the firm recorded absenteeism and labour turnover rates. The majority of employees held long tenure with the firm, and the following quote summed up the accommodating approach taken by the managing director:

'...staff turnover is low...I had to let someone go yesterday...rather than let him go I tried to find him another position...I do not remember the last time someone left of their own accord...' (managing director).

Whilst the finance director reported that the firm operated a formal pay system, it transpired at the survey stage that this was not the case. Pay levels were decided on an informal and individual basis. Employees at the firm reported that pay was a private issue and not for general discussion. Pay levels were reviewed annually by the directors, a process that perversely did not involve the finance director. When investigated further it became evident that this was an area unlikely to be developed in the future. This appeared to relate to the limited understanding held at a director level as to the problems caused by the current informal/unstructured system or what a formal pay system might entail.

As with Kitchen Co., whilst management reported not to negotiate with employees it became apparent that the firm had increased the wages of some employees in order to retain skills:

'...it is hard for companies to get good CCTV engineers...occasionally you do get a situation where you may have to increase rather than loose the staff' (finance director).

It was apparent that the engineers worked considerable levels of overtime, and in return received overtime payments. Whilst the firm initially reported that they did not operate a performance related pay scheme it later transpired that sales employees did receive bonus payments:

'...the sales guys work on a commission basis, [they get] a set basic pay but with commission which is worked out by our managing director. They have certain targets they have to make each quarter to get that commission (finance director).

Aside to commission for sales employees and overtime for engineers, the firm also provided attractive non-pay benefits including a contributory pension scheme across all employees and a range of annual social events. Full sick pay was also provided at the discretion of management.

'Recently Nick [an engineer] had to have an operation and he was off for a month...[he] has been with us for ten years and looking at the sick record had two days off in all that time, so we paid [him]' (finance director).

No evidence was found of internal promotion. The firm had chosen to externally recruit an operations manager as it was felt that these skills did not exist in the firm. The firm did not operate harmonised terms and condition with wage rates and hours of work varying within and between office staff and engineers. When questioned, the engineers reported that they worked at least ten hours overtime per week and sales employees reported working an extra twenty hours. Employees reported that the level of effort they had to put into their jobs was quite tiring and that their job required them and others within the firm to work hard.

When questioned, employees reported that they strongly agreed that they felt loyal to the firm and that they felt that their job was secure. Employee satisfaction amongst engineers related to an ability to become relatively autonomous in their work tasks as they were given their own sites and transport (e.g. a company van) when fully trained. Employees reported that the quality of working relationships with other employees, the working environment and non-pay benefits acted as key reasons for working for the firm.

7.1.2 Management style

At the survey stage, CCTV Co. reported not having an individual who held part or sole responsibility for human resources. Line management issues were resolved between the

managing director and business development director, with statutory personnel issues resolved by the finance director with support from external accountants and lawyers. It later transpired at the case study stage that human resource management played a largely administrative/role in the firm and human resource issues were dealt with as they arose. For instance, employment contracts had provided a recent focus for the firm in light of an employee leaving to set up on his own:

'...you have to decide if you can understand the new rules and regulations or whether you should...hand it over completely, because there are so many things you need to know...we had a incident with one employee and it took up a lot of our time...it did not get legal but we had to ask him [previous employee] to bring back information he had taken away...[as a consequence] we reviewed all of our employee contracts...it is a shame we had to learn that way' (finance director).

In general, there was a lack of understanding of what human resources meant to the firm and management justified this on the grounds of the firm not being big enough. There was however signs that the directors wanted to develop wider structures and working practices further in the future. Initial steps had been taken to formalise the organisational structure and reporting lines, a move motivated by the business development director:

'...it makes more sense to have a structure...originally the managing director was the only director, then when the business development director came in a couple of years later both he and I were [made] directors...we now have a proper sales force and admin team. A proper set of engineers with their assistants...' (finance director).

7.1.3 Organisation

At the survey stage, the finance director reported that the firm was accredited for ISO9000 quality management systems and preferred supplier status and these were confirmed to be present in the firm at the case study stage. The emphasis placed on quality at CCTV Co. could be traced back to the managing director's experience gained when working for a number of high profile customers (e.g. House of Commons, Houses of Parliament, the Queen, and so on) prior to setting up CCTV Co. The managing director experience drove a quality-led approach within the firm and had led to various developments such as the creation of their own bijou testing procedures to assess the supplier quality:

'...one of the things we have done recently is a best of brand 'shoot out' [which involves] lots of testing [of the CCTV equipment]...in the dark, in the light, what the colour was like, how true the video signal was. We chose the best camera and the best colour LCD monitor... [as a result we are] able to prove it is the best and we can charge good money for it' (business development director).

The knowledge that the firm had amassed on product quality had led the managing director to be included within a supply chain improvement group for a large supplier, a matter that will be explored in greater detail later. Whilst the firm did not run an accredited health and safety management system, it was clear that they treated such issues with high importance. The firm were driven by legislative requirements and customer demands in this area with engineers being refused access to site without the proper clearance. Although health and safety represented a financial burden to the firm, they were looking to review and improve this area and were in the process of seeking external advice. The firm's approach in this area typified how they saw themselves in light of their competition:

'...generally we are a safe company. When we hear about how other companies work, how they [engineers] work up ladders on their own and they are not footed. We have never done that...If you look at some quite big companies out there you would be gob smacked at how they actually work on site. We just won't allow it. We will not put people in danger' (finance director).

In addition to quality and health and safety the firm was also introducing IT-based performance measurement. Aside to basic forms of technology (e.g. PCs, computerised accounts, internet and mobile phones) investments had been recently made in a CRM system, with the business development director acting as a key catalyst for these developments:

'Seven years ago we took on another chap [business development director] who had come from a large firm and he put in a lot of systems that we did not have before. We are more organised, have more IT, customer care programmes...he has developed the IT side of the business much more' (finance director).

It was clear that the introduction of greater forms of technology had supported operational management at the firm. The firm's new CRM system had provided a tool for scheduling work and tracking quality allowing them to take appropriate remedial action when necessary:

'...we now have historical information...on what causes our callouts and how many of them...I was able to say that 28% of all our callouts are being caused by the software problem in [a particular] product, state all the instances, open up the report' (business development director).

Attempts were also underway to integrate this system with other systems at the firm (e.g. sales, accounts and so on). In general, investments in ICT were taken as and when required. It is apparent from the above that the firm were attempting to integrate their thinking in this area, but as we shall explore later, the firm did not have a wider strategy. Technology improvements were driven by the business development director on an informal basis as to what was considered appropriate for the firm.

The introduction of a CRM system had also driven the development of broader forms of performance measurement. The introduction of relatively simple and operationally-based performance measurements, as highlighted above, had been met with little resistance from the managing director or finance director who had recognised the need for greater levels of formalisation. The business development director had developed a basic dashboard for the managing director which provided largely financially and operationally-based information:

'We have a package CRM [customer relationship management].....I have got an instrument panel now and I can see everything; the forward loading of work and how much we are owed by customers, how many orders we have got, what orders we can do next week and which ones we need to provide input to get to a ready to go state and that is really quite helpful information' (managing director).

7.1.4 Reviewing the extent and form of HRM practice at 'CCTV Co.'

Case study analysis revealed evidence of eleven out of fifteen practices originally reported at the survey stage. These results, allied with those of the previous two cases, provide further evidence of inconsistencies between phase one and phase two of this research. No evidence was found of the strategic development of employment practices or skills development, and decisions in regard to these areas were taken as and when required. Training focussed on statutory/regulatory demands (e.g. health and safety). The practice of induction related to the firm's contractual trial period, a formal pay system was not found to be in operation and appraisal related to an annual review of pay. Finally, limited evidence was found for internal promotion, with the firm openly admitting that they were looking to externally recruit an

operations manager rather than promote from within. Indeed, if one were to have signalled out the formal practices present at CCTV Co. one would only have noted five practices namely: sharing information via notice boards; quality management system; recording labour turnover and absenteeism; and performance related pay.

As with the previous two case studies, practice coverage also varied. Performance-related pay applied to only those employees within sales-oriented roles. Team briefings related to meetings held at a director's levels and management-led meetings with engineers. No regular forums were held with office staff, and limited evidence was found of practices that might encourage upward forms of communication and problem solving. Practices were also evolving with evidence found of the formalisation of recruitment & selection relating to the redesign of the firm's application form. However, the latter example, allied with others (such as the update made to employment contracts) highlighted a general reactive and piecemeal approach taken towards the management of human resources, with HRM recognised as a largely administrative/role in the firm. One could hardly argue that those practices that were in operation, as outlined above, could be labelled as progressive. Indeed, it was hard to see how the firm's approach might change in the immediate future given the general lack of understanding or strategic intent.

Having said this, the firm had, more recently, introduced a greater level of structural formality, and it was evident that the business development manager was a catalyst in these changes. The firm had introduced an organisational structure, reporting lines and management and wider workforce meetings. A CRM system had also been implemented which provided simple operational performance information and this was being rolled out across sales and financial functions. Management also gauged the views of employees on quality-related matters through product reviews. Whilst these changes were playing a positive role in encouraging worker involvement there remained an overall lack of workplace practice that might support this new approach; management prerogative largely remained.

Overall, what these results lead us to ask why was management of CCTV Co. taking onboard greater levels of formalisation? It is this that shall now be explored.

7.2 Growth: HRM challenges and transitions

Whilst only five years of archival data had been requested at time of interview, the finance director provided the firm's entire financial and employment trend; these trends can be viewed

in Figure 7.1 and 7.2. Overall, these statistics reveal a positive growth trend with a period of decline during the millennium. Since this period of decline the firm had grown its sales turnover on average by 19.1 percent per annum over the past five years, increasing from £700,000 in 2002 to £1.4m in 2006, and had grown in employment by 22.9%, well above the 0-15 percent average increase reported at the survey stage. As with Cable Co., these results denote that employment growth lagged turnover growth at CCTV Co.

Figure 7.1: Sales turnover and profit trend at 'CCTV Co'

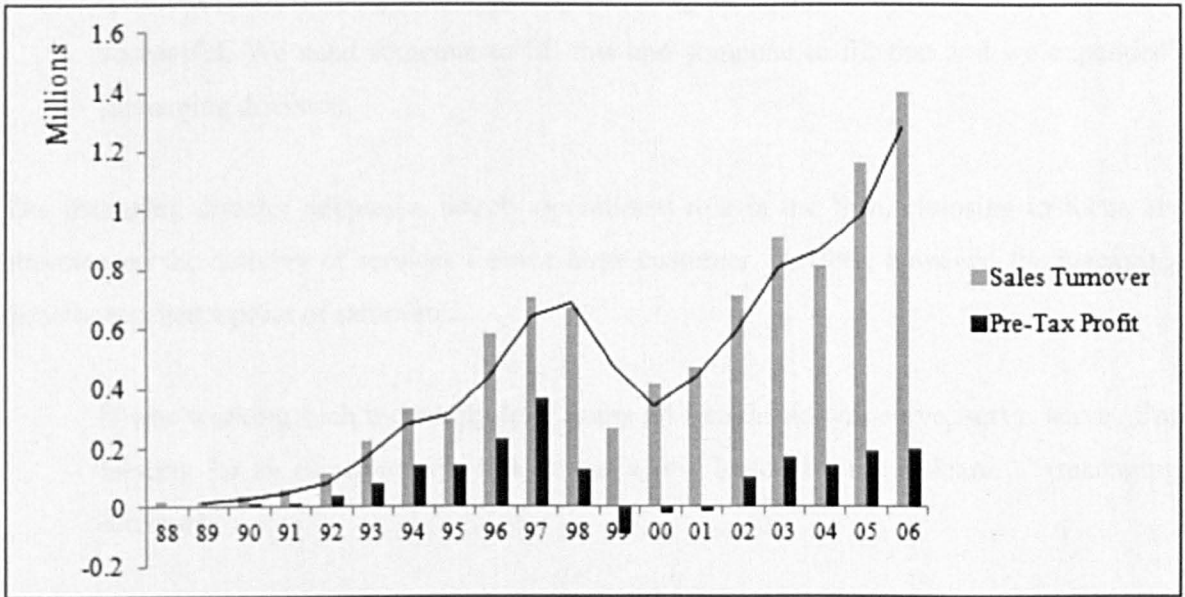
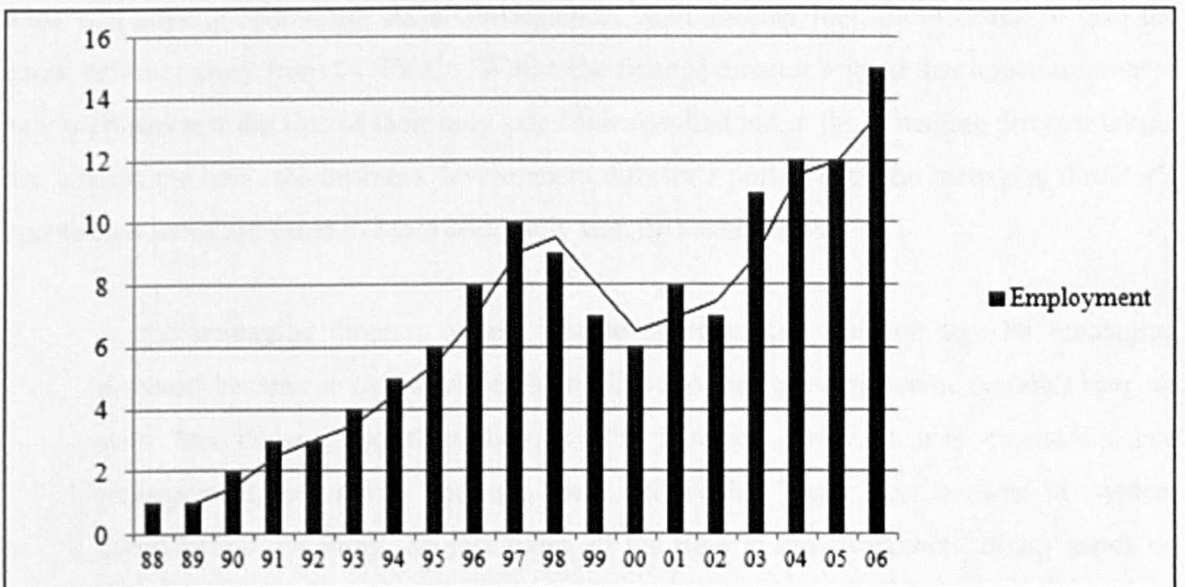


Figure 7.2: Employment trend at 'CCTV Co'



As is evident from the growth profile presented in Figure 7.1, CCTV Co. had entered a second phase of growth twelve years after its initial conception. The firm shared many similarities to Kitchen Co. Shortly after setting up the managing director recruited an office manager (the current finance director) to provide a level of finance and administrative support. This individual had become known to the firm as a result of redundancy from their employer. The managing director reported that this initial phase of growth was largely unplanned:

'...it [CCTV Co.] just kind of expanded by need more than by actually taking it by the reins with a view to expansion, just by servicing the customer well and being relatively successful. We need someone to fill this and someone to fill that and we expanded' (managing director).

The managing director adopted a largely operational role in the firm, choosing to focus his attention on the delivery of services for one large customer. In 1999, however, the managing director reached a point of saturation:

'I was working such incredibly long hours all I could do was serve, serve, serve...I'm looking for an excuse maybe but [it was a] big lesson for me to learn...' (managing director).

At this point the managing director chose to inform this customer, who accounted for ninety percent of the firm's turnover, that CCTV Co. would be unable to fulfil any work in addition to what was already contracted. As a consequence, this customer took the decision to take the entire contract away from CCTV Co. Whilst the finance director argued that a recent move to new premises and the loss of their only sales manager had led to the managing director taking his 'eye off the ball', the business development director's portrayal of the managing director's operational focus appeared to more accurately sum up the situation:

'...the managing director wasn't able to manage...and keep on top...he [managing director] became so overwhelmed he declared to the customer that he couldn't keep up with this demand...so they took it [the contract] away...it was essentially bad management...he never moved away from the coal face...it was a typical owner/proprietor thing...he just spent all his time in the 'workshop' doing hands on work' (business development director).

The combination of these events led the firm's performance to freefall in 1999, and the owner-manager had to inject private capital to stop the business failing. When asked which factors he felt had made a significant contribution to firm growth over the past five years the finance director reported that business strategy and the management of the internal organisation (operational planning, systems and procedures etc.) had helped. It was evident that the managing director and finance director had recognised the need to change as a result of their crisis:

'It was difficult for me at the time...not to just focus on this one customer who is paying me so much money...by all means focus on this customer but take some of your profits and get yourself another bunch of customers...get another sales team going...this won't last forever. That would have been really good advice for me...but I couldn't see that I was doing [anything] wrong...' (managing director).

Whilst the business development director had been initially employed to take a broader operational management role his initial focus lay with professionalising the firm's sales and marketing function. The firm had since made a range changes to structures and systems and it was believed that these developments had played a key role in growth:

'...in seven years we have gone from £400k [sales turnover] to a million [pounds]. It is not earth shattering, there are plenty of people building companies more quickly, but we are very solid and very organic and it has meant putting in good infrastructure as we go, so we have got the IT, we have got the systems and we got the people, we have been training them and we know the technology sector with digital cameras and IT cameras, so we are continually learning and going forward' (business development director).

Over the past year the firm had reinvested £20,000 in research and development, £56,000 in capital equipment and £4,000 in information and communication technology (ICT) and these developments were attributed as reasons for low profitability. The managing director was keen for the firm to grow at an organic rate through the reinvestment of profits. The general speed of reinvestment and change was noted by the business development director to be slow and the family's adversity it felt like this could be a source of future conflict.

'I think it is pretty scary for them [the family] to see it grow...it is an interesting stage in this company's development, in some ways there is more potential but there is adversity to take risk. If we wanted more rapid growth than organic growth we would...be hitting areas harder than we are doing. We are growing at a manageable organic rate' (business development director).

The way in which CCTV Co. had responded to the growth and performance challenges they faced related to the interaction of a range of influences. These shall now be explored in greater depth.

7.3 Product market, labour market and strategic orientation

7.3.1 Product market

CCTV Co. competed against a small number of much larger national firms. It was evident that the firm was subjected to high levels of price competition from their larger competitors who provided broader security products/services. The provision of bespoke high quality CCTV solutions provided the firm with a niche and it became apparent that the approach taken by competitors conflicted with value of management at CCTV Co., a point summed up by the managing director:

'...about zero point one percent [of our competitors] provide quality kit, the other ninety-nine point nine percent do not care... [So long as]...the customer signs at the end of the day...they [our competitors] are happy. It has become a game; the product quality is very low' (managing director).

The firm's niche was confined to the Southern region of the UK, and management reported that they had refused contracts further afield as they could not service them from their existing location. Whilst the finance director suggested that the firm did not have any threats to their current market position, the business development manager recognised that their existing market was maturing and that, in order to achieve future growth, the firm might need to consider opening up satellite offices in other regions.

The firm set themselves apart from the competition by offering a two-year warranty for all new installations. Knowledge on competition was based upon industry experience and familiarity. The quality-led approach had been embedded in the firm by the managing director as a result

of his own career experience, as outlined earlier. However, the firm were increasingly experiencing a range of challenges that had the potential to conflict against their quality-focussed values. The firm reported that because hardware prices were reducing dramatically good quality established manufacturers were going out of business and this was compromising product quality across the industry:

'....A lot of people [customers] just look at the price, not at what the camera actually does...the market has just got flooded with loads of cheap cameras and manufacturers of cheap CCTV...this is not the industry we want, this is rubbish. But that is what is happening' (finance director).

Product/service innovation was important to CCTV Co. and in response to the increased competition the firm were beginning to source more advanced forms of technology. At time of investigation, this was contributing around twenty percent to their sales turnover. However this more advanced technology was causing frustrations at the firm as the technology was relatively unproven and suffered from poor reliability. As a consequence, the firm had developed its own in-house quality testing procedures to select equipment for installation, and noted product faults within their CRM system which were then fed back to their suppliers. However, it was evident that the buying power of CCTV Co, when compared to their lower cost/quality competitors, was low and suppliers were not always cooperative. Despite these frustrations the firm's sustained efforts had led to their inclusion within a formal improvement network with a large original equipment manufacturer, and this will be explored in greater depth later.

The finance director reported at the personal interviews stage that the majority of their customers were large and that at present one customer made up thirty percent of their sales turnover. Since the crisis at the turn of the millennium the firm had become more selective, avoiding low margin work, and had diversified its customer base. However, management continued to promote an inconsistent approach to doing business, with greater importance being placed on particular customers and procedural conformity often being neglected to satisfy particular customers:

'...being small we can react a lot quicker than a larger company which customers seem to like. With other [larger] companies you can wait weeks, whereas we can juggle around with our guys and fit somebody in, even when we are not supposed to do it. They [contracts] are supposed to have order numbers, but we can do it...without order

numbers. I do not approve really but sometimes *you have to do it if you want to please the customer*' (finance director) [emphasis added].

7.3.2 Labour market

Managers at CCTV Co. held largely career-related experience and technically-based qualifications. No managers within the firm held any form of professional managerial qualifications. When asked how CCTV Co. recruited their managers at the survey stage the managing director reported 'externally'. The business development director was the first manager to be recruited to the firm outside of the family. The business development director had trained as an electrical engineer and had worked his way through various positions in process management and project management for a large paper mill. The business development director had been recruited through an informal network when the firm that he worked for closed down:

'...I looked after the security of the [paper mill] site so I was a customer of the managing director...he heard the site was closing and contacted me and asked to join this company to quote 'make this company more professional'. It was very much the small company that needed developing from a family business type scenario and they needed someone from a big company with [knowledge of] structures...' (business development director).

One might therefore question whether an individual like the business development director would have been recruited to the firm if this chance event had not occurred. The firm was also looking to recruit another manager to supervise the installation and service engineers to release the managing director from this operational role. There was recognition that these skills did not currently exist in the firm, but rather than train an existing employee up the firm were looking to recruit these skills into the firm:

'...you have to do that [internal promotion], but if I am honest there is probably not anyone suitable of doing it [managing the engineers] here...there is a particular type of skill that is required to organise, to supervise...I'm not too worried about the technical ability because we can train that' (managing director).

Having said this, the firm had internally developed employees through apprenticeship schemes and two engineers interviewed at the case study stage had been supported through college by

the firm. However, the firm reported that they were now experiencing employee skills shortages in service and installation engineers, which would impact on their ability to cope with demand. As a consequence, the firm was beginning to turn towards more formal networks, such as agencies, to fulfil their recruitment needs:

'We have used agencies, I think there is a phase in a small business's growth where you outgrow your ability to hire brothers and sisters, aunts and uncles, and then you have to be a bit more professional about it. You need to advertise and use agencies and the website and other means at your disposal' (business development director).

7.3.3 Strategic orientation

The finance director reported at the survey stage that the firm had a formal strategic plan or vision, however on closer investigation at the case study stage no formal evidence was found. As outlined above, there was a clear emphasis placed on product/service quality across the firm and, when asked, employees strongly agreed that they shared the values of the firm. These values, however, had not been formalised but were implicit, informal, and embedded in the ways of working:

We have not got anything written down. I suppose various leaflets and emails, just the *general way we operate*, we do not have a mission statement, it is informal really' (finance director) [emphasis added].

Instead, the finance director revealed a structured set of budgets. Whilst formal evidence of a strategic plan was limited, it was evident that the firm was beginning to adopt a more planned approach with the management of the internal organisation (e.g. operations planning, systems, and procedures) reported to have played a key role in growth. Much of this change was attributed to the business development director who had introduced key concepts to the other directors helping them to manage more effectively:

'The helicopter theory and having that explained...you really need to be able to stand back every now and then...you cannot see the overall picture...that is absolutely so important, it is the wood from the trees thing' (managing director).

Further delegation was reported as a key aspect for long term survival, especially in regard to operational and financial functions. Changes in these areas would allow the managing director

and finance director to begin to stand back and focus more on strategic matters. However, at time of investigation it felt as though the managing director and finance director were not clear on what their future roles might entail. Despite the attempts of the business development directors, it was evident that both members of the family remained embedded in the operational aspects of their roles:

'We need to get someone to help on...the financial side of the business. Because we have expanded at such a rate it is too much for me to do...The managing director also needs someone to assist with projects...but it is hard to let go' (finance director).

7.4 Human capital, social capital & institutions

7.4.1 Human capital

The managing director reported at the survey stage that training and skills development was very important to the firm. Further investigation at the case study stage revealed that the firm made a budget available for training. The managing director reported that the cost of courses placed a constraint on training activities. Despite these constraints employees reported completing, on average, five to ten days training per annum. Much of the training activities revolved around task-related skills such as health and safety, operation of new equipment and product training to meet statutory and customer demands. As will be further discussed within the 'social capital' section suppliers were noted to provide a level of low cost training support to the firm. Overall, employees strongly agreed that they were encouraged to develop their skills

Training was provided to employees through a mixture of in-house on-the-job training and external courses. In-house training remained relatively unstructured and informal and this was attributed to the firm's size and workplace proximity:

'I think it [training] is very important. You can really tell when someone has not got the skills because if you are in a smaller company you cannot really hide anywhere. I know in a larger company you can get away with doing very little, but when you are in a smaller company and someone has not got the skills it is quite obvious straight away' (finance director).

Training and skills development activities were seen to be crucial to ensure that the firm maintained its high levels of service quality. However, the depth of competency required for problem solving on maintenance contracts, for example, provided the firm productivity challenges:

'...they [engineers] all have different skill sets which can be hard in some respects because you only have the one person that knows how to do the really technical side...sometimes you need someone who will fault find and understand all the technical side and can trouble shoot if you send someone not as qualified they will have to come back and someone else will have to go' (finance director).

As outlined above, skills were largely technically-based and reliance was placed on career-related experience. As a consequence of the crisis in 1999 the firm made further investments in skills. Initially this involved the recruitment of the business development director, and later a sales team and apprentices. It was evident however that future challenges lay in the development of the managing director and finance director:

'We need to up-skill ourselves...I think particularly the managing director and the finance director need to catch up...there is a kind of gap. The sales guy is twenty-three, the receptionist is nineteen...they have twelve GCSE's and four A-levels...apparently [they are] amongst the top five percent of people [in the UK]. You stick them in front of a computer and it is done. The managing director literally says 'I want to do a word document; is that the big blue W?' So there is a real mismatch' (business development director).

7.4.2 Social capital

The initial reports at the survey stage that the firm did not hold membership to a business network, club or forum were confirmed at the case study stage. The managing director did, however, see merit in releasing time to exchange ideas with other business owners but was not aware of any appropriate networks. The firm therefore placed reliance on the advice of the business development director, which was problematic in itself given that this individual relied on career experience and had not received formal management training.

The managing director confirmed at the survey stage that the firm had benefitted from relationships with their suppliers, many of whom were large. The nature of these relationships

appeared challenging for a number of reasons. Not least was the fact that suppliers demonstrated a preference for reciprocity, which CCTV Co. had purposely avoided in order to sustain their high levels of quality:

'Sometimes you get referrals, not an awful lot...if you are buying all of their equipment and you only buy their equipment they do tend to offer you more business leads. They only want their equipment in there whether it is good or not. We do not tend to buy like that. We want the customer to have the best of what is available in the market' (finance director).

Having said this, the persistence of providing regular feedback to suppliers had led to their inclusion within a formal improvement network. This had provided an opportunity to share experiences and solve problems resulting in product updates, notably on digital products, and wider service improvements. The firm's emphasis on quality had also led to new contracts and the firm's approach facilitated open and productive working relationships:

'...[the customer asks] 'we want Digital Video Recorders what do you recommend?'...[the trouble is] we do not think any of them are that good. What we will do for you is we will check four or five makes...use this as a test case...you decide what you want. When we find the one, we will change all the others to that grade and send the others back' (managing director).

As a consequence of the previous crisis the firm had also developed relationships with subcontractors in order to promote flexibility and mitigate risk:

'You are not so susceptible...because it is very expensive to employ an engineer...[with sub contractors] you are not paying for retention, maternity pay and all the different things that you have to pay as an employer' (finance director).

7.4.3 Institutions

CCTV Co. was at a similar stage to Kitchen Co. Both firms were in the early stages of introducing working practices. However, both firms were being influenced by institutional forces in different ways. The way that institutional forces (Paauwe and Boselie, 2003) influenced CCTV Co. will now be explored.

- *Coercive*: CCTV Co. had established quality management practices and accreditations in response to customer demands. The firm also provided regular health and safety training to employees in response to government and construction industry (e.g. Construction Skills Certification Scheme) regulations. Training was also heavily influenced by suppliers and the firm was forced to use product suppliers. Finally, in order to respond to customer demands the firm often circumnavigated procedural conformity.
- *Mimetic*: No evidence of mimetic forces was found.
- *Normative*: The business development director had instigated the introduction of a management structure, reporting lines and a management team, and had implemented operational systems for sales and marketing (e.g. CRM) which were being spread to other functions (e.g. finance).

7.5 Implications: establishing the underlying causal mechanisms

This case has provided an analysis of the forces that influenced the introduction of structures, systems and wider working practices at CCTV Co., an SME in the construction industry. As with the previous two cases, CCTV Co. was also found to be responding to growth and performance challenges. Having drawn out particular conclusions earlier in respect to RQ1 and RQ2, this section will seek further clarification on the extent to which the approach taken by CCTV Co. towards HRM altered in response to growth/performance challenges (RQ3) And the underlying mechanisms that determined the approach taken by CCTV Co. in response to the growth/performance challenges faced (RQ4).

The case describes a series of events that occurred at CCTV Co. as a result of exchanges between key entities that included the managing director (original founder), a sales manager, a business development director, and a large customer. These entities were related through a range of internal events. In order to identify the underlying causal mechanisms it is important to explore these interactions further. The key sequence of events involved the managing director informing a customer (whom accounted for ninety percent of their sales turnover) that he could no longer fulfil their requirements. This decision subsequently led to the customer withdrawing the contract and plunged the firm into performance freefall. Rather than see the firm fail, the managing director injected private equity to the firm. At a similar time, the firm's sales manager left to set up on his own, taking two of the firm's service engineers with him.

As a result of the above events a range of internal changes had taken place that had led to the formalisation of structures and systems at the firm, beyond what had previously been achieved under the founder's leadership. The firm had recruited a new employee in the role of 'business development director', had recruited new sales employees and implemented new sales processes, had implemented an organisational structure, reporting lines, communications mechanisms (e.g. directors & engineers meetings) and operational systems (e.g. CRM) and had made changes to their employee contracts and recruitment practices.

Three interrelated mechanisms were clearly identified to be at work in CCTV Co. The primary mechanism, in agreement with the prior two cases, related to the 'detection of an imminent shock'. This shock was deeper and quicker than those discovered within the other cases. The firm lost the majority of its turnover overnight and required an injection of equity to keep the firm afloat. The 'injection of private equity' formed the second mechanism. Unlike the grandson at Cable Co., it was apparent that the founding managing director harboured the ambition and belief that he could rebuild the firm. The third mechanism was represented through the 'entry of a new director' to the firm with the managing director taking the decision to relinquish control of the firm's operations. Much the same as the new managing director in Cable Co., the new director whom entered the firm proactively championed the development of sales and wider structures and systems.

Despite these changes, however, the developments to wider structures, systems and working practices at CCTV Co. were not as far advanced as those at Cable Co. It is worth spending a little time exploring possible explanations for this. First, the depth of response required at CCTV Co. was much greater than the previous two cases. The firm was left rebuilding their order book and sales team from scratch, and only then could attention be diverted to the development of wider structures and systems. Second, the managing director of CCTV Co. continued to retain a tight control on the operations, and was yet to transit to a more strategic role at time of investigation, a role assumed early on by the managing director of Cable Co.

Whilst at time of investigation CCTV Co. was looking to recruit employees to support the delegation operational tasks by the managing director and finance director it was unclear how successful this would be. The managing director and finance director lacked formal managerial and leadership expertise and initial impressions were that they lacked understanding as to what their new roles might entail. Internal structures and systems at CCTV Co. had not kept pace with growth and whilst these were under development at time of investigation, strategic intent

remained worryingly absent. This deficiency in managerial capability was accompanied by an adversity to risk. The family's mindset therefore, appeared to conflict with the business development directors more ambitious future plans for the firm. It was therefore unclear, for how long the family directors would remain receptive to the changes being suggested and introduced by the business development director given that the firm's performance had picked up, and even whether they would be sustained given their lack of strategic integration.

As with the prior two cases, the recruitment of the business development director to the firm was a chance contingent event (Easton, 2010). If the managing director had not been contracted to install CCTV cameras on the industrial at which the business development director worked it is unlikely that their paths would ever have crossed. This chance meeting held significant implications for CCTV Co. as the business development director played a key role in reviving the firm's fortunes. Indeed, any possible scenarios could have been envisaged. Equally possible could have been the firm failing rather than growing, or the managing director choosing to undergo leadership and management training and subsequently leading the revival of the firm.

Taken together with the results of the previous two cases, these results reinforce management induced 'shocks' as a key mechanism influencing the introduction of working practices in SMEs. Wider patterns are also beginning to emerge. Whilst firms were at various stages evidence has been found of key structural changes that firms take in response to growth and performance challenges. In addition, whilst wider working practices were in their infancy at Kitchen Co. and CCTV Co., they were under development at Cable Co. What appears to distinguish these firms is the role played by a 'champion' and strategy. Whilst inconclusive, these results begin to provide evidence of a structural hierarchy that firm's pursue during growth and point to the supportive role that wider workplace practices might play to these systems and structures. In addition, three mechanisms emerged within this case study that drove the introduction of greater levels of formalisation at CCTV Co.

In order to advance our thinking further we shall now investigate the case of Bearing Co., a firm that competed within a different industry to the prior three cases.

Chapter 8

Case study 4: Bearing Co

8. Introduction

This chapter reports the case study findings at Bearing Co., a small wholesale supplier of bearings and lubricants. The firm operates from an industrial estate in Gravesend in North West Kent. Bearing Co. was founded in 1989 when the managing director left a national distributor. At time of interview the firm had achieved a sales turnover of £2.95 million and had 16 employees. The firm's sale turnover which is considerably higher when compared to the previous three cases can be explained by the resale value of products they supplied. Bearing Co. had developed a specialist niche for bearing procurement in a regional market within the national bearing and lubrication industry⁴¹:

'...from small industry up to large heavy industry, the guy who will come in on the trade counter [to] cement mills and cement works, power stations...' (managing director).

The managing director reported at survey stage that the firm was privately owned, however it later transpired at the case study stage that the firm was partly-family owned. Ownership was shared jointly between the original founder and the owner of a firm that supplied lubricants to the same market. It became apparent that the relationship between Bearing Co. and the lubricant supplier had existed for some time; however these firms had only recently merged following the exit of a third director:

'We are co-directors...fifty percent each...we used to be two companies...we are now incorporated into one company...our third co-director was in lubricants and then he left so there was no reason to keep two companies separate' (managing director).

When questioned, the managing director was not prepared to divulge why the third director had left the firm. At time of interview respondents held an average tenure of over nine years with the managing director being the original founder and therefore holding the longest tenure.

⁴¹ The firm's activity is formally recorded as *ball and roller bearings (wholesale)* and relates to SIC code 46.69 (2007).

8.1 HRM, management style & organisation

8.1.1 HRM practice

The managing director confirmed at the survey stage that Bearing Co. had implemented a total of 23 out of 40 working practices. As Table 8.1 reveals, Bearing Co. had reportedly implemented twice as many practices within each component when compared to the average survey firm and against others within their sector. The high reported levels of work practices adoption is intriguing and requires further investigation. The nature and form that individual practices took was therefore further examined, the summary of which is presented in Table 8.2.

Table 8.1: The distribution of work practices by component at 'Bearing Co'

<i>Component</i>	<i>Survey</i>	<i>Sector</i>	<i>Bearing Co.</i>	
	<i>Mean</i>	<i>Mean</i>	Reported	Actual
High Involvement	3.0	2.4	7	2
Human Resource	5.3	4.3	10	2
Reward & commitment	3.6	3.5	6	2
<i>Total</i>	11.9	10.2	23	6

Table 8.2: The incidence of work practice adoption at 'Bearing Co'

	<i>Survey</i>	<i>Case study evidence</i>
<i>High Involvement Practices (HI)</i>		
<i>Strategic integration</i>		
Process improvement	x	
Culture change programme	x	
<i>Work organisation</i>		
Teamwork	✓	No evidence
Quality circles	x	
<i>Communication arrangements</i>		
Team briefings	✓	Yes – reserved for management team
WC/consultative committee	x	Not aware
Trade Unions	x	
Staff suggestion scheme	✓	No evidence
Staff attitude survey	x	
Sharing company information via newsletter	x	
Sharing company information via intranet	x	
Sharing company information via notice board	✓	Yes - basic
<i>Training/skills development</i>		
Communication skills	✓	No evidence
Teamwork skills	✓	No evidence
Problem solving skills	✓	No evidence
<i>Human Resource Practices (HR)</i>		
<i>Strategic integration</i>		
Forecasting staffing	✓	No evidence

Employment practices	✓	No evidence
Skills development	✓	No evidence
Improving quality	✓	No evidence
Customer satisfaction records	✓	No evidence
<i>Work organisation</i>		
Multiskill	x	
Quality management certification (ISO 9000)	x	
<i>Employment practices</i>		
Formal recruitment & selection	x	
Selection testing (e.g. psychometric)	x	
Staff induction	✓	Informal
Staff appraisal	✓	Yes – annual performance review
<i>Training/skills development</i>		
Equipment operation skills	✓	Yes – product training
Quality control skills	✓	No evidence
Leadership skills	✓	No evidence
Workforce diversity skills	x	
<hr/>		
<i>Reward & Commitment practices (RC)</i>		
<i>Strategic integration</i>		
Absenteeism records	✓	Yes
Labour turnover records	x	
<i>Communication arrangements</i>		
Employee job satisfaction records	x	
<i>Pay & reward practices</i>		
Formal pay system	x	No – decided on a personal basis
Performance related pay	✓	No evidence
Profit related pay	✓	Yes – overall firm performance
Employee Share Options (ESOP)	x	
<i>Commitment practices</i>		
Internal promotion	✓	No evidence
Job security	✓	No evidence
Harmonised terms and conditions	✓	No – hours & wages varied
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	x	
<i>Communication arrangements</i>		
Communicate through mgrs	✓	Yes
Communicate by email	✓	Yes
<i>Training/skills development</i>		
Training/skill dev. is important	✓	Yes – product-based training
Health & Safety training	✓	Yes
Customer service training	✓	No evidence
<i>Organisational standards</i>		
Investors in People	x	
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	✓	44 – 60hrs per week
Greater than 35 hours per week incl. OT	-	No overtime facility
<i>Sources of advice</i>		
Member of EA	x	
Sought advice from EA	x	

Involvement & participation

The involvement of employees in process innovation was limited at Bearing Co. and process innovation was omitted from the firm's wider strategic thinking. Involvement in decision making was generally reserved for the management team and directors. Whilst the managing director reported leading an annual strategic review, and that this involved all employees, this was not confirmed by employees. It emerged that employees were involved only when management deemed it important, which typically revolved around the firm's product market such as the recent decision to become a sole distributor for a large manufacturer:

'...when we were asked by SKF [large manufacturer] to become a distributor, it was a decision that the directors made but prior to making that decision everybody was involved. We bought everybody into a meeting and told them what had happened and involved everybody and asked them for their feedback. That is what we try to do, try and involve everyone' (managing director).

Whilst the managing director reported the existence of teamwork at the survey stage, it later transpired that this practice related solely to the management team. Although employees reported feeling part of a wider 'team', team working related to groups of employees that worked together as a result of their proximity and job roles:

'Well what we do is we tend to have work stations...three of them working together, so they would all rub off on one another' (managing director).

Team briefings therefore related to meetings between management team members, not with the wider workforce. Meetings were held between management once a month and more formal meetings once a quarter. Communication was top down and direct:

'The management have a team meeting every Monday morning and discuss what is going on, and then we would individually let our staff know what is going on and what they need to do' (external sales manager).

Communication between management and the wider workforce remained relatively informal. Employees reported that meetings with the wider workforce had been introduced but had later been stopped. It became evident that meetings in general revolved around operational matters in relation to an employee's immediate job task. Whilst employees showed a preference for

informality, it was acknowledged that the current lack of formal communication processes posed a problem:

'...it is just a notice board and word of mouth. Communication is the hardest...I thought that being a small company communication would be a lot easier...even at director level, you ask where the managing director is today and nobody knows and you ring him and he is on holiday. I'm sure it happens in every company?' (external sales manager)..

Employees reported that formal methods of communication were only used in regard to disciplinary. Overall, little evidence was found of upward forms of communication, summed up by the following comment:

'...if you have got an idea...their [the directors] door is always open, you just go and have a chat with them and if they feel it is okay then we run with it. It is very informal' (internal sales manager).

Despite the limited formal involvement of employees, employees reported that high levels of trust existed between themselves and management and that they were very satisfied with the ability to influence decisions in general and those relating to their particular role. Employees were very satisfied with the quality of working relationships with management and their colleagues. No evidence was found of the presence of communication, team working or problem solving skills development over the past twelve months.

Human resource practices

Whilst the managing director had reported at the survey stage that issues relating to: the forecasting of staffing requirements; employment practices; skills development, improving quality; and, customer satisfaction were integrated to a wider strategy it was later revealed that the firm did not have a formal strategic plan. The firm also did not run a formal induction process. Evidence was found of a formal appraisal process, confirmed by employees, which had been implemented three years prior to investigation.

No evidence was found of training in quality or leadership skills. In reality, skills development activities revolved around employees' immediate job task and included product-specific

training from suppliers (e.g. large manufacturers), health and safety training and IT training following the installation of a new system:

'We probably had a week of computer training because we had the new computer installed. I have done forklift training which was a day and a half and then half a day on product training with one manufacturer' (external sales manager)

Reward and commitment practices

Evidence of records being kept for absenteeism were found, but not of employee turnover. The limited emphasis on employee turnover appeared to relate to the long tenure held by most employees at the firm:

'...we are lucky in that respect, most of the people that work for us are long timers, we have got four this year coming up for ten years, so we do not get a very big movement of staff...I think the reason that most people stay with us is because they do not want to go with anyone else [within the industry]' (managing director).

No evidence was found of a formal pay system. Pay was reported by employees as a private matter not for discussion and that there was some opportunity for negotiation. Pay was decided on an informal and personal basis:

'It tends to be very informal, it is dependent upon the person we are employing, if he has got experience and what position he is moving from. That would really give us some indication of the salary we would need to be offering' (managing director).

Employees reported the presence of other non-pay benefits including sick pay, a pension scheme and a health scheme. The managing director felt that wages at the firm acted as a motivator and employees confirmed that they were satisfied with wages rates, a point reinforced by the internal sales manager:

'I think if anything happened here I would be struggling to make the pay packet I do now unless I went into London again, which I do not want to do' (internal sales manager).

There was evidence that a profit-related pay scheme was in operation and was based on overall firm performance. However given the firm's recent stagnation in growth, a point that will be discussed later, employees had found it hard to hit bonus targets:

'There is a bonus structure but we will never hit it...not at the moment so predominately it is basic [pay]...it is achievable but...the industry is not that buoyant at this moment in time. Five years ago, yes we were steam rolling, if they had had a bonus structure in place then, we were hitting it every month. Now it is very, very difficult to hit our monthly targets' (internal sales manager).

Whilst there was no formal practice for internal promotion, pockets of evidence was found of employees who had progressed internally. For instance, the external sales manager had been promoted to a management role since joining the firm as a sales representative. More broadly there was little evidence of internal promotion. This may be partly as a consequence of employee's long tenure at the firm coupled with the firm's recent stagnation in growth. Whilst the firm did not operate a formal job security policy, when asked, employees strongly agreed that their jobs were secure. Whilst the managing director reported at the survey stage that harmonised terms and conditions existed amongst the workforce it became evident that rates of pay varied amongst employees as did working hours. Indeed the director's approach appeared to promote a long hour's culture within the firm:

'...I am contracted for forty hours...I do a voluntary Saturday every month, so there is another four hours. Probably, in an average week you might put in an extra hour of two to get things done...there is no overtime, it is just *expected*' (internal sales manager) [emphasis added].

Given the above it was unsurprising then that employees reported their jobs to be 'quite tiring' and that they had to work hard. Evidence was also found of the firm's long hours culture leading to employees voluntarily separating in the past:

'We ask a lot from our employees, in our industry you get an extreme amount of loyalty and people work extremely hard...we have had one or two people come and go. People come into it and either love it and say 'yes I am happy with this' or they want to leave very quickly' (commercial manager).

Employees reported that they worked for the firm because of the small business/team environment, being treated as more of an individual, being a nice firm to work for and having an opportunity to satisfy customers.

8.1.2 Management style

Whilst the managing director reported at the survey stage that the firm had an individual whose part or sole responsibility was for human resources, it later transpired that this role was shared between the managing director and his co-director. HRM was found to play a largely administrative role at the firm, with the director's drawing on external advice from the Institute of Directors (IoD) in order to keep abreast of employment regulations. At time of investigation it was felt that the firm were too small to justify investing in an internal HR resource, but there was recognition that this would need to change as the firm grew:

'...our requirements for HR of any sort are minimal because of the *size* of company we are. I want the company to grow, as do the directors, and then there will be a need for more strength in those areas' (commercial director). [emphasis added]

The directors had recently changed the firm's organisational structure, introducing a management team and formalising reporting lines. These changes signalled a more organised and proactive approach by the managing director to the firm's operations. The managing director had made these changes in order to relinquish control over the firm's operations and release time to focus on the development of the firm's product market:

'...I think that [the development of the wind power market] would not have happened if time could not have been devoted [by the managing director] to looking at that specific industry without the pressures of the everyday operation...I think that is why we have been successful in that particular market...we cannot afford to sit back...we need to be looking forward all of the time' (commercial manager).

The managing director reported these changes to be working well, however it became apparent that the changes were incomplete. Whilst more formal structures and systems had been implemented at a managerial level interactions between management and employees remained relatively ad hoc and informal. It emerged that the other co-director was finding the process of delegation challenging and this translated into confusion across the management team as to their role and scope for decision making:

'...the company will keep hold of the purse strings. If they [directors] were to say 'we have x amount of budget and that is what we are going to have for that department' then we know what we can work to, but we have not got that...That is the only area that I find difficult with this company' (external sales manager).

8.1.3 Organisation

The firm did not use any organisational standards or accreditations. Aside to basic forms of IT (e.g. PCs, computerised accounts, internet and mobile phones) the firm had also introduced more complex systems including a Customer relationship Management (CRM) system to support the management of customer and supplier demands. The implementation of a new ICT system at the firm, as with CCTV Co., had been a relatively recent development and provided management with a form of control:

'It will show the staff exactly what margin they can get on that product...we can actually have control there. We can give employees a visual warning...'do you realise this is below an acceptable margin'...and there is loads of reporting things on the new system we could never get off the old system' (managing director).

However this decision had not been taken as part of a wider strategy. It was clear that investments in ICT were made as and when required. Indeed, the recent decision to implement a new IT system had been based upon its cost saving potential when compared to their old system:

'...we had the same computer system for quite some time...a company came in and asked if we were considering updating our computer system...when I looked at it seriously I realised I was being a bit blinkered because if I looked at the costs we were actually paying just to stop the [old] computer system from falling over and what we were actually getting from it, it was cheaper for us to go down the route of a new system' (managing director).

When asked whether they kept any performance measurement records the finance director reported that the firm kept: volume of sales/service; profits/return on investment; total costs; quality of product/service; absenteeism; workforce training; and customers/client satisfaction. As with CCTV Co., it was evident that the firm's new ICT system had supported the collection of data, although it was not always clear how this data was used.

8.1.4 Reviewing the extent and form of HRM practice at 'Bearing Co.'

Inconsistencies between the incidence of practices reported at phase one of the research and those uncovered during the case study stage were greatest at Bearing Co. Case study. These results provide further support to the fact that reported levels of practice adoption signify little about the reality of HRM within SMEs. As with the previous three cases, there was little formal evidence of HRM. Only six practices, with any certainty, were identified including: team briefings, sharing information via notice board; an annual performance review; absenteeism records; training in the operation of equipment (e.g. computing and product training); and profit related pay. Having said this, the extent to which the recording of absenteeism was backed up by a formal practice was questionable, and the profit-related bonus scheme was yet to come into effect due to firm's current stagnation in performance. Practices were also found to vary in coverage with team briefings reserved for management team members and training provided only to those in sales oriented roles.

Although issues relating to the management of HRM were reportedly integrated to strategy at the survey stage, no formal strategic plan was present. There was recognition that HRM would require development in the future but at time of investigation HRM was treated as an administrative and regulatory function. The owner-managers jointly shared responsibility for HRM and drew upon a business association for external legal support. Involvement and participation was largely reserved for management team members and 'teamwork' related solely to the management team. Upward forms of communication were informal and revolved around product or job-specific issues which reflected the extent of employee knowledge. Direct forms of communication between management and employees were prevalent. Despite the undercurrent of informality and the lack of harmony evident in work conditions (e.g. pay, working hours etc.) high levels of trust existed between management and employees. In addition, employees reported that they were largely satisfied with their ability to influence decisions about the firm and in relation to their direct role. Employees also felt their jobs to be secure.

Whilst HRM was embryonic and little evidence was found of strategy, wider structural changes were beginning to take place. The firm had implemented a management team, formalised reporting lines, introduced communications mechanisms (e.g. management meetings) and had introduced a performance measurement system (e.g. IT system). Whilst these changes were in their infancy they signalled a wider desire for increased levels of

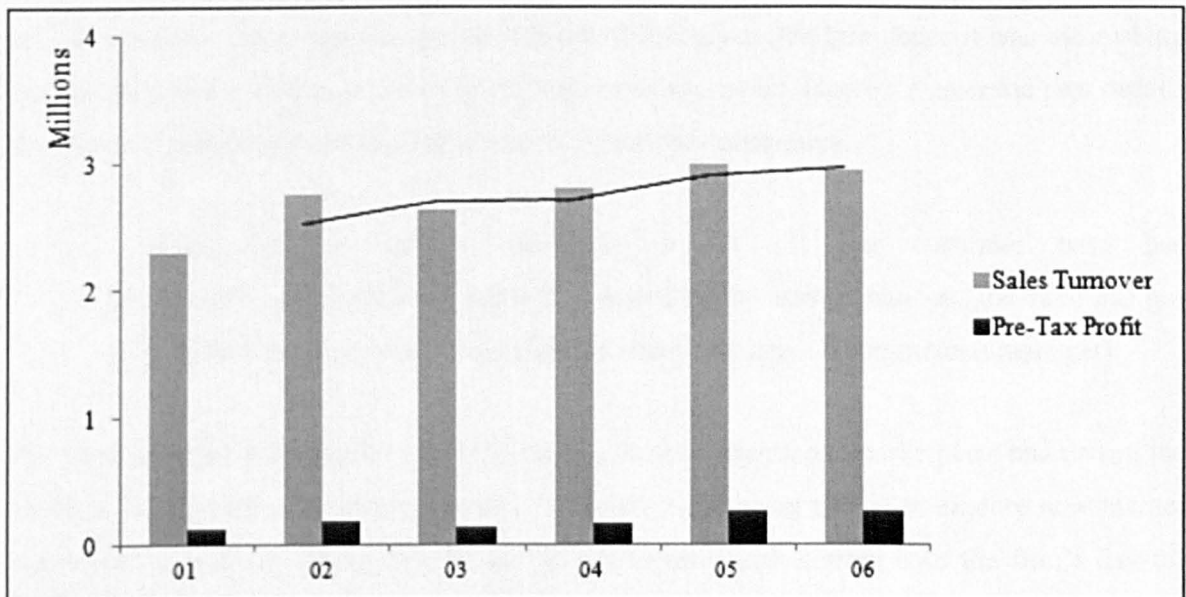
formalisation. But why now? Why was Bearing Co. making these changes? It is this that shall now be explored.

8.2 Growth: HRM challenges and transitions

Although only five years of archival data on sales turnover and employment had been requested at time of interview, the managing director of Bearing Co. provided data for six years that the firm had been operating. The firm's sales and employment trends can be viewed in Figure 8.1 and 8.2. Bearing Co. had grown its sales turnover on average by 1.6 percent per annum and in employment by 2.0 percent over the past five years. This archival data agreed with the average growth performance calculations reported by the managing director at the survey stage, but denotes the lowest level of sales turnover growth amongst the case study firms. When questioned in regard to the firm's growth trend, the managing director reported that the firm had grown in a linear steady pattern and had, more recently, reached a plateau:

'We have never gone down [in sales turnover]...there was quite a bit of growth when we were younger...for the past three or four years it [sales turnover] has been quite stable' (managing director).

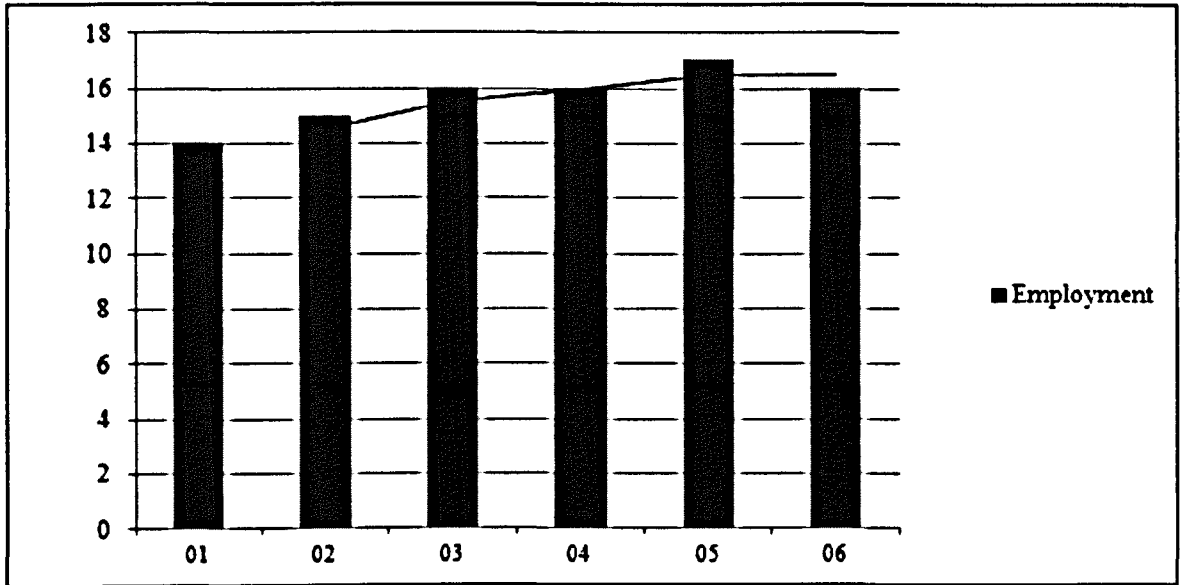
Figure 8.1: Sales turnover and profit trend at 'Bearing Co'



Bearing Co. had experienced good rates of growth in its early years of operation and had purchased its current larger premises ten years ago:

'We started off in a starter unit along the road which was eleven hundred square feet. When we outgrew that we moved into two units...[we] outgrew those and then moved here' (managing director).

Figure 8.2: Employment trend at 'Bearing Co'



The traditional markets within which Bearing Co. were competing were reported as 'turbulent' with the loss of heavy industry from the UK being seen as a key threat to the firm's current market position. The managing director remarked that given this turbulence it was astonishing that the firm had achieved a relatively constant revenue stream. However, over the past decade the firm had become increasingly challenged to find new customers.

'...competition has grown drastically...[a lot of] our customer base has disappeared...partly abroad, partly swallowed up by amalgamations...the cake has got slightly smaller than what it was eight or nine years ago...' (commercial manager).

The pressures that Bearing Co. was experiencing in their traditional marketplace had driven the firm to change their competitive strategy. The firm were being driven to explore new market opportunities. The managing director had begun to relinquish control over the firm's day-to-day operations in order to support these developments, as outlined earlier. At time of investigation the firm was appraising the renewable energy market which was seen as a growth market:

'We are having a look at new niche markets...we are looking at wind energy because that is growing at thirty percent per annum at the moment...we did an exercise for about eighteen months...to build up information before we were happy to go to market' (managing director).

The way in which the firm was responding to these growth and performance challenges related to a range of influences and these will now be explored.

8.3 Product market, labour market and strategic orientation

8.3.1 Product market

Like CCTV Co., Bearing Co. competed against a small number of much larger competitors. The firm did not undertake any formal research into their industry, with knowledge being based upon experience and familiarity. It was apparent that the firm sought to emulate their competitors, developing a professional facade more often witnessed within larger firms. It was argued by the managing director that this approach, allied with high levels of service quality, had provided the firm with much of their competitive success.

However, at time of investigation, Bearing Co. was experiencing increasing levels competition at a regional level and this was threatening their future growth prospects. As outlined above, the heavy industry upon which the firm had relied for much of their historical growth was reducing. This had led to increasing levels of price competition, with Bearing Co. being regularly outcompeted. In addition, Bearing Co. was also witnessing the unit cost of products decreasing:

'We are finding more and more now that we are up against price...because a bearing is being treated as a commodity...it is no longer a high precision quality item' (managing director).

As a consequence of these pressures, Bearing Co. had taken a conscious decision to diversify their products/services. In making these changes it was apparent that the firm was attempting to differentiate themselves on their levels of service quality. At a regional level, the firm provided a twenty-four hour breakdown service and adopted a 'one-stop shop' approach:

'...in the past ten years we have seen a complete change...there is no money in bearings...seems to be in other products...consumables...anything from plumbing

product parts to fixtures, fittings...you can see it is a changing market we are becoming more of a 'one-stop' shop...what is funny is what the managing director said the other day: 'what I have supplied most is shingle from the site'. It is all about survival is not it?' (external sales manager).

Given the labour intensive nature of these services it was questionable how scalable they were. The managing director voiced his desire to exit the firm through sale, but given the reliance placed on the long, antisocial working hours by the director's and other senior staff at the firm it was unclear how sustainable their current business model was. Having said this, the firm had begun to develop a technical support service that tracked the performance of bearings using vibrations and remote sensors. This higher value added service held the potential to reduce the wear and subsequent maintenance costs for their customers. However, given the price sensitive nature of the markets that Bearing Co. competed within the firm was finding it challenging to attract interest:

'We have not had as much interest [for vibration analysis] as we would have liked...people are very wary about paying money for a service that will eventually save them money...' (managing director).

More recently the firm had begun to explore new markets for their products/services. As outlined above, this business development role had been assumed by the managing director who had released time through increased levels of delegation.

8.3.2 Labour market

Bearing Co. had recruited all of their managers through internal means and the firm relied on career-related experience. The external sales manager had joined the firm from a large regional newspaper group. Both the internal and external sales managers were educated to GCSE level and had been recruited from large national bearing distributors through informal networks:

'...when he [managing director] was with the national [distributor] he came along and approached me and asked if I wanted to work for him...I went from van driver to managing two branches [for a national distributor], then he set up [Bearing Co.] and I got another call...so that is how it has panned out...word of mouth really' (internal sales manager).

As outlined above the firm showed a preference for recruitment through informal networks, but had recently attempted using formal methods. The firm had recently interviewed a new recruit, attracted through a regional newspaper advert, but they had later turned down the role. It was not entirely clear why this had happened, but the managing director attributed it to personal reasons. Since this failed attempt, the firm had placed an increasing reliance on personal and informal networks. The firm had recruited a marketing and communications assistant through personal networks with a German-based supplier. The new knowledge that the marketing and communications assistant brought to firm had already helped to develop closer relationships with French and German suppliers and open up opportunities in international markets:

'...we have just done a mail shot to Germany...and the response to that has been fantastic because people just like [the fact] that you are actually writing to them in their own language' (managing director).

At time of the investigation the managing director was also looking to open up a new branch, but it was clear that attracting the right skills was proving problematic. This had led to the managing director to use his personal networks in order to open up confidential talks with a competitor:

'...the person that we are talking to...cannot be seen to be talking to us. That is a major development and that is to be part of our expansion plan...he is the same breed as us, I have been in competition with him for thirty years, I know him well and he feels the same...' (managing director).

8.3.3 Strategic orientation

Whilst the managing director reported at the survey stage to have developed a strategy no formal evidence was found of a strategic plan with decision making revolving around a set of structured budgets. The managing director confirmed that the firm tended to react to change as it occurred and this was typified by the rather laboured response to the decline of its traditional markets. Having said this, the firm had begun to operate in a more strategic manner since this market shock. As outlined above, the firm had introduced a management structure which had enabled the managing director to step back and consider the future of the firm:

'...it has enabled the two directors to sit down and see where the company is and to enable us to move forward and look where the company needs to be in two to three years...it has enabled the company to become stronger, because if you have two people that do absolutely everything there is only a limit to what any one man can do. This way they can concentrate their efforts on developing the company and looking forward rather than always having to run just to keep up with the day-to-day business. I do believe it is a good move and it was the right move' (commercial manager).

However, strategic decisions were limited to the firm's product market and did not include wider considerations. As outlined earlier, investments in IT systems had been based on cost reduction and, as will be explored below, little investment had been made in human capital.

8.4 Human capital, social capital and institutions

8.4.1 Human capital

The managing director reported at the survey stage that training and skills development was very important to the firm and that training was seen as an investment rather than a cost. It was confirmed at the case study stage that the firm held a budget for training activities and employees reportedly completed, on average, five to ten days training per annum. The managing director noted that the knowledge of employees was necessary in order to respond to developments that were taking place in the firm's markets. As a consequence, the majority of training revolved around the development of product-specific knowledge through the firm's supplier base:

'...supplying so many different products, we are not just selling one product. Training for us is so important and ongoing because you can never have enough training; there is always a new product on line...' (internal sales manager).

Training was informal and unstructured. The firm placed a reliance on career-related experience and, as outlined earlier, had recruited the majority of its employees from within the industry. It was apparent that the embedded expertise of the firm's technical manager had begun to provide future product innovations, such as the remote vibration analysis outlined earlier, and that there was a need to develop further skills in this area in the future:

'...we are extremely lucky that our technical manager is a very skilled individual with hands on experience. Obviously as time develops and we develop new products we will need to add personnel to support it...that is definitely for the future...that is the way I see we should go' (commercial manager).

It also became apparent that the directors of the firm lacked management skills. Managers at Bearing Co. reported the existence of a skills gap between themselves and the directors and it became evident that managers at the firm had received training when working for larger firms. This skills disparity created an apparent tension:

'I think the biggest issue from the director level is the word delegation. They do suffer with letting go of certain responsibilities...if you can imagine the accounts manager has been in business for many years, the commercial manager has been here nine years, the technical manager eight years. If you have got a management team that have been in place for that long and you trust them that much to make them managers and do not let them get on with it. I think they [the directors] need to let go...they could do with some training to help them to delegate' (internal sales manager).

8.4.2 Social capital

Whilst the managing director reported at the survey stage that not to belong to a business network, club or forum, it later transpired that formal membership was held to a trade association known as the European Power Transmission Distributors Association (EPTDA) although it was not clear of the benefits of this membership. The firm also held affiliation to the Institute of Directors (IoD), and sought advice employment regulations. The managing director held some informal networks with other business owners in their industry, and the selection of an appropriate CRM system had been informed through these networks:

'We looked at several systems...went to see at some colleagues of ours who have it installed it...we went there and we took their advice. They said it was a very, very good system, particularly for this industry so that was why we went for it' (managing director).

The managing director reported that relationships with customers and suppliers had assisted the firm. The dynamics of these relationships will now be explored. Bearing Co.'s supplier

relationships revolved around large manufacturers with the firm securing contract to act as an approved distributor:

'...we were the first independent distributor to be appointed by SKF in thirty years...that is quite a big feather in our cap...they are the world's largest bearing manufacturer' (managing director).

Bearing Co. had embraced this relationship in the attempt to raise their profile and reputation within their marketplace. It became apparent that the introduction of a more formalised organisational structure had been influenced by this large supplier with whom the firm had developed a close relationship. This manifested itself in the use of particular job titles such as 'commercial manager', who was in essence an operations manager, and the distinction between 'external sales' (i.e. customer sales reps) and 'internal sales' (i.e. supplier purchasing). The firm also recommended the supplier at every tender. In return, Bearing Co. received sales and product-related training support from this supplier, although it later transpired that training support was not unique to this supplier relationship. Indeed, Bearing Co. received training support from a range of its bearing and lubricant suppliers:

'...it is the same on lubricants...the support that they [large supplier] have given us over the last year is tremendously important and I think that will continue to be a factor in any development we do with any manufactured goods' (commercial manager).

The managing director reported at the personal interviews stage that the majority of their customers were large and that at present one customer made up only ten percent of their sales turnover. Historically, customers had provided a useful source of personal recommendation and referrals and had helped the firm resolve stock issues through the short term loan of bearing stock. More recently a customer had stimulated the development of the firm's new service outlined earlier:

'...when a customer raised a problem we have developed a system whereby if a bearing needs oil a text message can be sent to a mobile phone and an operator can send a text back to instruct the machine to add lubricant to the bearing' (managing director).

The firm placed increasing emphasis on developing relationships with its customer base as competition had increased. However, relationships with large customers continued to prove challenging, especially in regard to balancing price and quality. Instances emerged where

customers had taken business elsewhere, but still called upon the firm in emergencies. The managing director of Bearing Co. continued to respond positively to these demands hoping that customers would one day return to Bearing Co.:

'...there was an instance last week we lost a big contract...he [managing director] got called out at ten o'clock at night by the same customer for a breakdown. I said 'why are you doing it, they are using us'. It is just difficult...a lot of companies with buyers know they cannot lose' (internal sales manager).

8.4.3 Institutions

As within the previous cases, institutional forces (Paauwe and Boselie, 2003) were found to play a role in promoting the introduction of working practices at Bearing Co. however it was clear that this was to a lesser extent than the other case study firms. These institutional forces are now reviewed:

- *Coercive*: the firm's main bearing supplier had influenced the design of the firm's organisational structure.
- *Mimetic*: in implementing a performance measurement system (i.e. CRM) the firm had sought to emulate others in their industry.
- *Normative*: No evidence was found of normative forces.

8.5 Implications: establishing the underlying causal mechanisms

This case has provided an insight to the influences that guided the introduction of structures and systems at Bearing Co., an SME in the wholesale sector. As was evident in the previous case studies, Bearing Co also found itself responding to growth and performance challenges. Having explored RQ1 and RQ2 earlier within this chapter, what is important now is to turn our attention towards RQ3 and whether Bearing Co.'s approach towards HRM altered in response to growth/performance challenges, and RQ4 which will look to shed light on the underlying mechanisms that determined the approach taken by Bearing Co. in response to the growth/performance challenges faced.

The case describes a series of events that occurred at Bearing Co. as a result of exchanges at a senior level between key entities including three directors, Bearing Co., a lubricant supplier, and a large bearing supplier. These entities were related through a range of internal events, the interactions of which provide key insight to the underlying causal mechanisms. The key sequence of events involved the exit of one of the director's from an associated lubricant supplier, the merging of Bearing Co. with this lubricant supplier and the decision by Bearing Co. to become sole distributor for a large supplier of bearings. As a consequence of these changes it became evident that a range of internal events had occurred, with developments taking place to the firm's structures beyond what had previously been achieved at the firm. The firm had recently changed its organisational structure, and had formed a management team and reporting lines.

Three interrelated mechanisms were clearly identified to be at work at Bearing Co. The primary mechanism related to the 'entry to a new director' who was the director of the associated lubricant firm. This decision led to the merger of Bearing Co. with this lubricant supplier and resulted in two co-directors at Bearing Co., the managing director and his co-director. The second mechanism related to the 'detection of an imminent shock'. The decline in the firm's established regional markets had led to stagnation in firm growth. In order to investigate new markets (e.g. renewable wind energy) and diversify their product/service offering (e.g. technical services) the managing director had made changes to the organisational structure, outlined above, to release him from his day-to-day operational tasks. The third mechanism related to a decision to 'partner with a large supplier'. This decision played a role in influencing the way that the firm's organisational structure formed.

Taken together, the evidence within this chapter explains why Bearing Co. had begun to implement new organisational structures. It also suggests reasons why these developments failed to include deeper developments to working practice. Bearing had experienced a shock in relation to a reduction in their traditional market, however this shock was shallower when compared to the previous three cases and had not yet led to underperformance. The firm had begun to explore new market opportunities but had not made more radical changes to their working practices. Strategic thinking at the firm was limited to the firm's product market and did not include links to wider issues (e.g. IT, HRM etc.). The merger of Bearing Co. with the associated lubricant supplier was also noted to have constrained the development of working practices. Whilst both directors retained an involvement in the firm's operations (e.g. 'out-of-hours' service, HR regulations etc.) it appeared that the director that had joined Bearing Co. as

a consequence of the merger was finding it challenging to let go of his operational responsibilities. As a consequence, full responsibility and accountability had not yet been bestowed to the managers within the firm.

The lack of working practices at Bearing Co. appeared to be promoted not only by the continued involvement in the firm's operations at a senior level but also through the managing directors' limited managerial expertise. As was the case in CCTV Co., a management gap was evident between the managing directors and members of the management team, some of whom had received managerial training prior to joining the firm. This created confusion and tension at a managerial level in the firm. It was hard to see how this might be resolved in the future given that the director's neither recognised their need for development nor were looking to recruit a greater level of managerial expertise to the firm. Given their actions in relation to their product market and labour market it was unclear whether such development would be purposeful or left to chance. Training at the firm remained unstructured, informal and product-focused. Despite the managing director commenting that he was 'open to learning' the reality did not live up to the rhetoric. An example of which was evident when he had been quick to reject an improvement to the firms IT systems which it was later revealed led to improved process efficiencies across the firm.

It is now time to turn our attention towards Mortgage Co. our final case study in this thesis. Mortgage Co. had experienced rapid growth, had implemented the most working practices and was the largest firm within the case study sample.

Chapter 9

Case study 5: Mortgage Co

9. Introduction

This chapter reports the case study findings at Mortgage Co., a medium-sized independent financial advisory firm that supplies buy-to-let, commercial and residential mortgage products. The firm was founded in 1990 and has headquarters in a central town location in Sevenoaks, West Kent, along with a regional office in Manchester. Mortgage Co. largely supplies the commercial and buy-to-let mortgage market, but also deals with development finance and residential mortgages⁴²:

‘Residential’ is a person buying a business, and ‘commercial’ are for those investing in property to rent to a tenant’ (head of marketing).

The firm was formed seventeen years ago as a result of the owner-manager’s career-related knowledge of the financial services industry. The managing director held a bachelors degree in civil engineering and had worked as an officer in the Royal Engineers for ten years prior to joining a national mortgage broker in 1987. At time of interview the firm had 52 direct employees and had achieved a sales turnover of £6.7 million. The regional office in Manchester contributed £1.5m to total sales turnover and had five employees. Respondents held an average tenure of over three and a half years with the managing director being the original founder and therefore holding the longest tenure.

The managing director reported at survey stage that the firm was wholly family owned, however it later transpired at the case study stage that the firm was partly-family owned. At time of interview eighty-three percent of the ownership was shared between the managing director and finance director (his brother), with seven percent shared by minority shareholders. The remaining ten percent was shared amongst employees through the firm’s Employee Share Ownership Scheme (ESOP) a percentage that the managing director was keen to see increase to twenty percent over the coming years (see ‘Management style’).

⁴² The firm’s activity is formally recorded as *mortgage broker activities* and relates to SIC code 66.19 (2007).

9.1 HRM, management style and organisation

9.1.1 HRM practice

The managing director reported at the survey stage that Mortgage Co. had implemented a total of 28 out of 40 working practices. These results reveal that Mortgage Co. had implemented more than twice the number of practices when compared to the average survey firm and were above the average for their sector. Whilst these results demonstrate positive signs of work practice adoption, one must look beyond these surface-level practices to understand the true nature and form of those practices reported. It is this that shall now be explored.

Table 9.1: The distribution of work practices by component at 'Mortgage Co'

<i>Component</i>	<i>Survey</i>		<i>Mortgage Co.</i>	
	<i>Mean</i>	<i>Sector Mean</i>	<i>Reported</i>	<i>Actual</i>
High Involvement	3.0	5.3	10	7
Human Resource	5.3	7.0	10	9
Reward & commitment	3.6	4.7	8	7
<i>Total</i>	11.9	17.0	28	23

Table 9.2: The incidence of work practices adoption at 'Mortgage Co'

	<i>Survey</i>	<i>Case study evidence</i>
<i>High Involvement Practices (HI)</i>		
<i>Strategic integration</i>		
Process improvement	✓	Yes
Culture change programme	✓	No – no formal programme
<i>Work organisation</i>		
Teamwork	✓	Informal around job roles/tasks
Quality circles	x	
<i>Communication arrangements</i>		
Team briefings	✓	Informal around job roles/tasks
WC/consultative committee	x	Introducing
Trade Unions	x	
Staff suggestion scheme	x	
Staff attitude survey	x	
Sharing company information via newsletter	✓	Yes
Sharing company information via intranet	✓	Yes
Sharing company information via notice board	✓	Yes
<i>Training/skills development</i>		
Communication skills	✓	Yes – part of mgt training programme
Teamwork skills	✓	Yes – part of mgt training programme
Problem solving skills	✓	Yes – part of mgt training programme
<i>Human Resource Practices (HR)</i>		
<i>Strategic integration</i>		
Forecasting staffing	✓	Yes – 'headcount model'
Employment practices	✓	Yes

Skills development	✓	Yes – managed through appraisal
Improving quality	✓	Yes – managed through appraisal
Customer satisfaction records	✓	Yes – IT systems gauge employee performance
<i>Work organisation</i>		
Multiskill	✓	No evidence
Quality management certification (ISO 9000)	x	
<i>Employment practices</i>		
Formal recruitment & selection	✓	Yes
Selection testing (e.g. psychometric)	x	
Staff induction	✓	Yes
Staff appraisal	✓	Yes
<i>Training/skills development</i>		
Equipment operation skills	x	
Quality control skills	x	
Leadership skills	✓	Yes – management development
Workforce diversity skills	x	
<hr/>		
<i>Reward & Commitment practices (RC)</i>		
<i>Strategic integration</i>		
Absenteeism records	x	
Labour turnover records	✓	Yes
<i>Communication arrangements</i>		
Employee job satisfaction records	✓	Yes – assessed through appraisal
<i>Pay & reward practices</i>		
Formal pay system	✓	Yes – formal pay scales
Performance related pay	✓	Yes – at an individual level
Profit related pay	✓	Yes – bonus relates to profitability
Employee Share Options (ESOP)	✓	Yes – 8% increasing to 20% over the next two years
<i>Commitment practices</i>		
Internal promotion	✓	Yes
Job security	✓	Informal
Harmonised terms and conditions	x	
<hr/>		
<i>Other contextual variables</i>		
<i>Strategic integration</i>		
Productivity records	✓	Yes – through intranet/IT system to gauge employee performance
<i>Communication arrangements</i>		
Communicate through mgrs	✓	Yes
Communicate by email	✓	Yes
<i>Training/skills development</i>		
Training/skill dev. is important	✓	Yes
Health & Safety training	✓	Yes
Customer service training	✓	Yes
<i>Organisational standards</i>		
Investors in People	x	Considering
<i>Working hours</i>		
Greater than 35 hours per week excl. OT	x	35 – between 5-30hrs extra dependent on role
Greater than 35 hours per week incl. OT	x	No overtime payments made
<i>Sources of advice</i>		
Member of EA	x	
Sought advice from EA	x	

Involvement & participation

Employee involvement and participation at Mortgage Co. was the most developed of all of the case study firms. A cross section of all employees took part in the firm's annual planning review process:

'...every September we have a series of breakaways and it starts off with a senior team but not necessarily the entire senior management team, senior managers and employees, finance director and myself...there is no paperwork, how do we feel about ourselves, what have we done this year, how do we feel about what we are up to and where do we want to go' (managing director).

The ideas generated through this process formed the basis of a strategy that was presented back to employees during an away-day. This was confirmed by employees who reported attending an away-day prior to Christmas to discuss and review the firm's future plans, finances and work organisation. Employees reported that they were in the majority satisfied with their ability to influence decisions in general and in regard to their specific role. It was also reported that regular breakout days were held to encourage employees to discuss wider development issues informally:

'breakout days for the teams...keep them informal...they go go-cart racing or...end up at a barbecue that is very good as it gives a chance to chat away from the office and check that we are providing the professional and skills training and preparation' (managing director).

Unlike any of the other case studies, senior management at Mortgage Co. reported that they were aware of the Information & Consultations of Employees (ICE) regulations and were looking to introduce a consultative committee in the next 12 months. It became evident that the firm were implementing a consultative committee as a consequence of being medium-sized. It was believed that this would likely need to be management initiated:

'We are just going to bring one in [consultative committee]...I will try and go for staff elected membership on the consultative committee but at the moment we have not got one. We talked about it in last week's management meeting. We do have a staff representative, for the shareholders' (operations & HR director).

Whilst the existence of a formal culture change programme was reported, no evidence was found of such a programme. Indeed employees actually reported that the firm had historically taken a rather traditional view towards the improvement of working practices and had only recently begun to take on board new ideas. Having said this, it was clear that process innovations were being progressed across the firm and that these provided various opportunities for employee involvement at Mortgage Co. For instance, IT system upgrades were being led by a team of three employees who formed a dedicated IT department.

The managing director reported that the firm had developed team working structures and disagreed that a team was 'just a group of people working together'. Not all employees reported that team working existed, and those that did highlighted that they were relatively informal. The product support manager was the only employee to report the use of monthly team meetings to review customer service quality, workloads, future plans, work organisation, health and safety and training. Having said this, employees reported that they were largely kept informed about developments and were consulted.

Evidence was also found of a newsletter and an intranet which was used to share information in relation to current HR policies:

'...some things we deliberately do not have, we do not have an employee hand book because they are very passive and go out of date very quickly...most of our employment stuff is on the intranet...all our policies on training, sickness, accidents, whistle blowing all that sort of stuff...we do not keep it as a hard copy' (operations & HR director).

Training in communication, team working and problem solving were included within the firm's management development programme.

Human resource practices

The firm forecast employee requirements through what they termed as a headcount model. This quantitative model compared current and future anticipated workloads and informed the firm's recruitment and selection procedures. Employee skill development needs were also reflected through the firm's recruitment process. As will be explored later (see 'Human Capital'), the firm had begun to move away from a reliance on technical/industry knowledge.

The firm were also actively seeking management and leadership skills in order to support the development of the firm's management structure. It was evident that the formation of a management structure had led to the development of wider working practices, such as the employment of administrative support (e.g. in finance and HR) and the provision of management training to facilitate the process of delegation. Although initially reported to be a formal practice at the survey stage it later transpired that multiskilling was informal, did not cover all employees and was down to the discretion of the individual manager.

All employees had experienced formal recruitment and selection, induction and appraisal practices. In introducing these formal practices it became apparent that the managing director was keen to retain a personal approach and met with every new recruit during their induction:

'Unfortunately [tongue in cheek] everyone who joins the company gets thirty minutes in here with me talking about where we have come from, so they can understand what has made us good and bad, it is made clear to them that they can always come and talk to me' (managing director).

Whilst the induction was a standardised practice it was also noted that the varied learning curve of new recruits was taken into account.

Reward and commitment practices

Employee turnover was reported by the managing director to be running at six percent and did not represent a significant problem to the firm. Recruitment was taking place largely in response to growth. Although low turnover was seen from a positive perspective in regard to costs, the long term impact of low turnover on the firm's knowledge base was acknowledged:

'Our recruitment costs are high, our training costs are high, having no turnover is good from that respect...the only reason I am worried about our turnover is...[bringing in] fresh ideas...[when] your growth slows down...that is when we can go a bit stale' (operations and HR director).

It was confirmed at the case study stage that Mortgage Co. operated a formal pay system. The firm's pay system included a basic element of pay and a discretionary performance-related element:

'...we have a number of salary bands and levels...we tend to pay each person the same figure for the same job in salary terms and then they have a bonus element to their role which is performance related...pretty much everyone in the organisation has a mixture of salary and a bonus' (operations and HR director).

It was confirmed by employees that pay was reviewed on an annual basis and changes took into account job role changes/developments. In the future the firm was looking to integrate a skills-related aspect to their pay system to encourage continuous learning. In general, employees reported that they were satisfied with their level of pay. Pay was reported as a key reason to work hard and stay with the firm. Indeed, employees reported that their wages were good to high when compared to other firms within the industry and a couple of employees even reported that they were paid salaries equivalent to those for similar positions in London. When asked whether they agreed that employees were motivated by a range of particular issues the managing director strongly agreed with wages & financial incentives. Pay was seen as an investment in order to attract the right people to the firm:

'I would say we would probably want to be in the upper quarter to top ten percent [of firms in the industry]...we see our payroll as very much an investment not a cost' (operations and HR director).

Employees reported that pay increases were largely fair and were increased in line with inflation, with some employees reporting higher increases (e.g. mortgage consultants). Although pay was reported as a private issue not for discussion, employees reported that pay was discussed and that consultant pay was 'transparent'. All employees reported the use of performance-related pay and profit-related pay practices and that these systems provided an opportunity for employees to influence their pay. The firm's total 'bonus pot' was based upon overall firm performance and varied in form and coverage. The level of bonus was administered at an individual level using the firm's IT system, for case managers this related to customer service standards:

'We pay the bonus twice yearly...the case managers have a bonus pot of £3,000 [which is equal to] one hundred percent. So if the company pulls in one hundred and twenty percent of budget their bonus gets stretched by twenty percent, if it is eighty percent it is reduced by twenty percent...individual measures...are customer service standards, average time it takes to get to offer, average time it takes to get to completion, data

accuracy...we have some grids...we then add up their scores...and we give them a percentage' (operations & HR director).

In addition to good levels of pay, the firm also provided employees with non-pay benefits including sick pay, a contributory pension scheme, private medical and life insurance and twenty five days holiday, which increased by one day for every three years of service. Employees also confirmed the presence of a share option scheme and the operation of this scheme was later expanded upon by the managing director:

'We have a share option scheme, it is one of these schemes that does allow you to get all the staff involved...it was tax effective and it was our way of transferring ownership to the staff, currently we are committed to more than twenty percent of the stock so that is quite a commitment...' (managing director).

All employees reported the use of internal promotion however the majority of employees were unsatisfied with the promotional opportunities available to them. Employees confirmed that there were opportunities for advancement and job role changes in the majority of support roles (e.g. HR, IT, admin etc.), however in the more frontline administrative or sales-oriented roles (e.g. mortgage consultant) this did not appear to be the case. The firm had not achieved harmony in their terms and conditions. Disparity was evident in employee wage rates, outlined above, and working hours. All employees holding support roles (e.g. HR, IT etc.) reported working at least five hours extra a week on top of their normal working hours, with the mortgage consultants working up to 65-70 hours per week. Employees reported that the amount of effort that they had to put into their jobs was not very tiring to quite tiring and that compared to their last jobs their current roles were less stressful, apart from the consultant position which was seen as excessively tiring and stressful. Given the customer-focussed nature of the firm's service there appeared little opportunity for flexible working.

9.1.2 Management style

At the survey stage Mortgage Co. reported having an individual who held part or sole responsibility for human resources. It transpired at the case study stage that a senior manager at held responsibility for HR matters, with support provided from a recently appointed office manager:

'I have just employed Donna as office manager...she has a lot of HR experience...she is picking up the HR administration...we will provide help for her, that will be the receptionist downstairs' (operations & HR director).

The office manager later confirmed that she also sat on the management team along with the operations and HR director. The firm also drew on an external firm for legal advice. Neither the operations & HR director nor the office manager held any formal qualifications in HR. The managing director had recently offered the office manager support to advance training through the Chartered Institute of Personnel and Development (CIPD), although she was yet to decide if this was something she wished to take forward. It was apparent that the managing director had played a key role in encouraging the introduction of HR policies and practices. The firm was in the process of centralising aspects of the management of human resources, taking responsibility away from line management for recruitment and selection:

'...the finance director does the models...the finance director will deliver all of that planning and accountability and the operations director will deliver the HR and the operations...[the manager] can join the final interview but we will whittle the selection down from twenty to three' (managing director).

The managing director had instigated the development of an organisational structure. Aside to the employment of an office manager to support the development of HR and wider working practices, the firm had also recruited a financial controller. These steps had been taken to allow the managing director and finance director to relinquish their operational duties:

'Well it evolved slowly, what we are now doing is we're building a management structure that we want for the future...we have got five key senior managers...with operational line managers under them...the plan is increasingly for me and the finance director to step back and allow them to grow' (managing director).

It was apparent that other managers within the firm were afforded authority and responsibility, with budgets being devolved to departmental managers:

'I spread out the budget and say this is what I am going to do...as an owner-manager he recognises people's expertise and he doesn't pretend or pertain to know that person's functions better than they do. He lets people get on and manage' (head of marketing).

Whilst there was an undercurrent of formality, it was apparent that the managing director was keen to ensure that this structural formality did not conflict with the firm's implicit culture and values:

'I think it was when we went from eight or nine [employees] and we drove it up into the thirties very quickly. I wished to hold onto the cultural values but implement a structure...it is fairly subtly done' (managing director).

9.1.3 Organisation

The managing director reported at the survey stage that the firm did not hold accreditation to a quality or environmental management system but were considering implementing Investors in People (IIP). Whilst employees reported the emphasis of quality within the firm, employees reported that quality sometimes take a back seat in response to working pressures. At time of investigation the firm was implementing preferred supplier status and a product/service certification:

'...we were the first broker to be awarded the Fellowship Kitemark because of our audit process and our general underwriting skills and financial viability' (managing director).

Mortgage Co. had implemented by far the most advanced technology of all of the case study firms. Aside to the basic forms of technology (e.g. PCs, computerised accounts, internet, mobile phones etc.) the firm also operated e-commerce applications with customers and suppliers and a client relationship management (CRM) system. It became evident that IT developments formed part of the firm's wider strategy and significant investments were being made. The ability for Mortgage Co. to invest in the long term development of their IT infrastructure was seen as important:

'...we will be ahead of the game...we are building the infrastructure...on a long term view...smaller firms might wish to do it but they cannot take the time out or financial cost to do it' (managing director).

The firm had also developed a broader range of performance measures than had been witnessed at the other case study firms. The implementation of these measures had been led by the finance director and the firm ran models to forecast future revenue generation:

'...we can change the mark ups and downs across the divisions...so we can see what the impact of that is on the business...currently we have the model for this year, we are ten percent up on turnover and it is fairly uniform across [the firm]' (managing director).

It was clear that the managing director and finance director had spent considerable time debating how to measure performance within the firm. These debates related not only to high level output measures outlined above, but also translated into measurements at an employee level. As outlined above, measures were integrated to the firms pay and reward system. The desire to introduce measures that drove ethical behaviour amongst their employees was evident:

'...arguably we shouldn't measure revenues as a proportion of loan amounts...that might be a dangerous one to track...or to target...you might be deemed to be pushing brokers down the route of going for high margin products and under Financial Service Authority [FSA] rules we must give them [customers] the most appropriate product and not a product which pays the highest commission' (finance director).

In addition, management did not see employees as a homogenous group, but rather that employees needs varied across job role and by task content:

'...there are two different groups [of employee]: you have got the consultants and brokers who have a very strong emphasis on performance, targets, finance...and we support them with professional skills training...the other side of the scale is you have got the case managers who whilst we have the monitoring...they had much more regular one-to-one's...with these other material objectives in the background' (finance director).

9.1.4 Reviewing the extent and form of HRM practice at 'Mortgage Co.'

As has become evident, Mortgage Co. had developed relatively formal working practices. Case study analysis provided evidence of twenty-three out of the twenty-eight practices reported at the survey stage and, whilst lower than the other case studies, provided further support for overclaiming. Working practices at Mortgage Co. were the most developed of all the case study firms. Whilst none of the interviewees directly expressed the existence or development of a system of high performance, working practices had been integrated. HRM played a strategic role at the firm and specific employees held responsibility for HRM.

Employee involvement, whilst management-led, was relatively well developed. The firm had developed consultative mechanisms that involved employees with a strategy review process through a series of away-days, culminating in a presentation by senior management to all employees. Employees were also involved in particular process improvements, such as the IT support and development team which had been formed and provided with a remit to drive forward the firm's systems. The firm were looking to increase employee involvement & participation through the introduction of a consultative committee.

Wider HRM and reward and commitment practices were also well developed. The firm had implemented formal recruitment, selection & induction procedures and supported employee skills development activities through professional development, external courses and in-house training programmes. The firm had also developed an advanced performance management system driven by the collection of quantitative and qualitative data. This system was linked to employee pay and reward, which purposely varied in form and coverage. The firm was also in the process of expanding their Employee Share Option Scheme in order to transfer a greater proportion of ownership to employees.

It became apparent that Mortgage Co. had transited to a more formal state over the past five years and were beginning to centralise elements of their HRM. In making these changes, the firm was being challenged by the ability to retain elements of informality to preserve the firm's culture and values. But why had Mortgage Co. developed these more formal and integrated working practices? It is these influences that shall now be explored.

9.2 Growth: HRM challenges and transitions

The finance director provided sales turnover and employment data for five years that the firm had been operating, the trends of which can be viewed in Figures 9.1 and 9.2. Over this five-year period the firm had grown its sales turnover on average by 28.6 percent, increasing from £2.7m to £6.7m, and had grown in employment by 8.1%. This historical accounting data agreed with the estimates provided by the managing director at the survey stage. The level of sales turnover uncovered at Mortgage Co. places the firm in the 'high growth' category (BERR, 2008).

The firm had experienced many of the similar challenges in its initial conception phase as that of the other case studies such as work consistency and financial management expertise. The

managing director attributed the firm's more recent growth success to the creation of an appropriate business model:

'The business did not come out of its first stage, the painful bit, until everyone understood the business model...it took us the first ten to eleven years to be one of the pioneers in that sector and to work out the scalability of our business going forward' (managing director).

Figure 9.1: Sales turnover and profit trend at 'Mortgage Co'

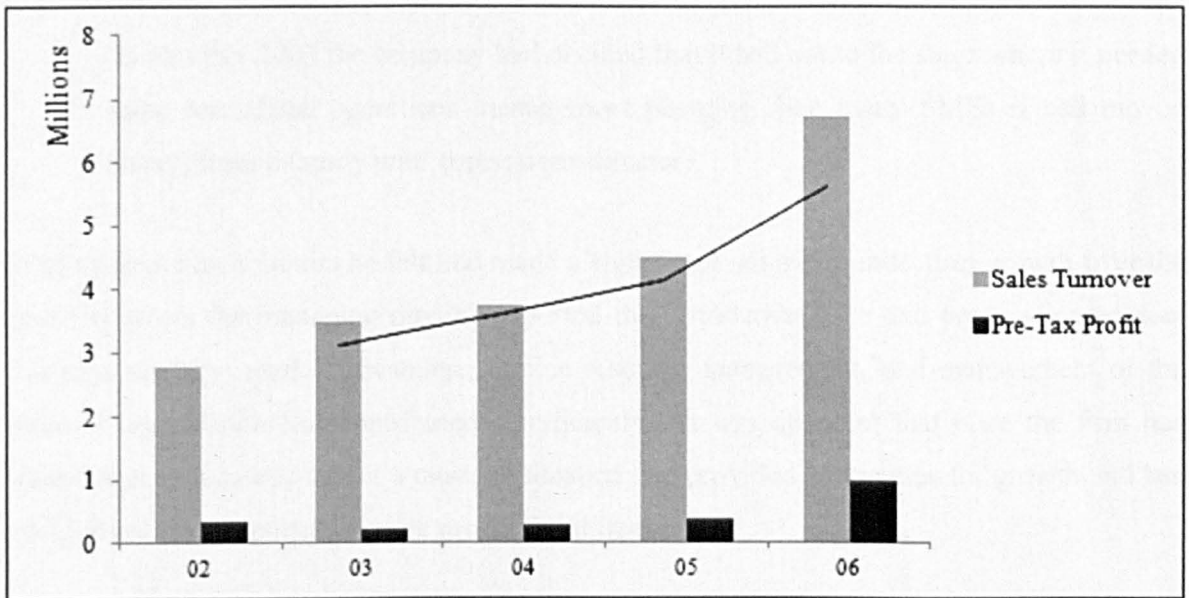
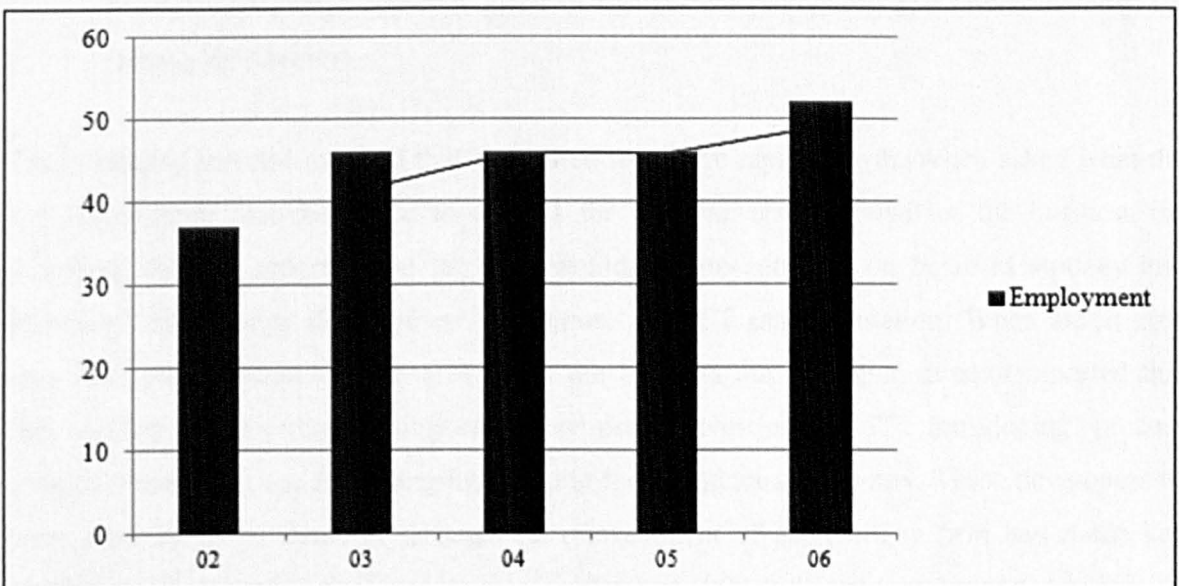


Figure 9.2: Employment trend at 'Mortgage Co'



It transpired that firm growth prior to the formalisation of the firm's business model had been relatively limited:

'...it wasn't until we got to 2001 that we broke the million pound turnover barrier...1990 to 2001 was meaningless, there really wasn't much [turnover] before then' (managing director).

And there had since been recognition of the need to develop the firm's management structures, systems and processes:

'In October 2003 the company had decided that it had got to the stage where it needed some formalised operations management planning...like many SMEs it had moved [away] from a family unit' (operations director).

When asked which factors he felt had made a significant contribution to firm growth over the past five years the managing director reported that: product/service and process innovation; business strategy; market advantage; human resource management; and management of the internal organisation had contributed significantly. It was apparent that once the firm had established its business model a move of location had provided an impetus for growth and had enabled the firm to portray a more professional image:

'...we have really gone to town, not just for the benefit of our own people, but also just for the visual impressions it gives to the lenders [suppliers] and clients coming in' (managing director).

The managing director reported that he aspired for future rapid growth. When asked what the key issues were that they need to address for the long term survival of the business the managing director reported that the firm would be concentrating on business strategy and planning, management development, delegation and ICT implementation. When asked how they intended to achieve future growth for the business the managing director reported that they would be moving/opening new premises; investing in IT; introducing process changes/improvements; and changing/adapting their product/service mix. These developments were reported to be financed through the reinvestment of profits. The firm had made key investments in human capital (see 'human capital') of £90k and in physical capital committing £105k to IT system developments in the last year alone. It was apparent that investments made by the firm were part of a wider strategic plan.

Unlike the other four case studies who were responding to various 'shocks', Mortgage Co. were responding to the challenge of managing rapid growth. In addition, a range of other influences impacted working practices at the firm; these will now be explored at greater length.

9.3 Product market, labour market and strategic orientation

9.3.1 Product market

Mortgage Co. experienced competition on a national level. The majority of the firm's business was in the south of England (estimated at 80%) and the firm's regional office in Manchester contributed a fifth of the firm's turnover. The majority (75%) of the firm's turnover came as a result of repeat business. Mortgage Co. did not rely on any one customer for a large proportion of turnover, but instead managed a large database of over twenty thousand clients, regularly transacting with over three thousand of these clients per annum. Historical growth had come from a combination of established customers and opportunities to develop new markets as a consequence of new product development.

The firm had created a niche in buy-to-let market mortgages and this was reported to account for over two thirds of their sales turnover. This level of specialisation was seen as the key to gain commitment from lenders:

'What we have done is what we are good at doing...once you step outside of that...lenders start getting squiffy [nervous]...the lenders start walking away because their operation is working on a very thin margin; they do not want anything complex' (managing director).

It became apparent that lenders held significant power in the supply chain, and the firm's organisational structure had been informed by their lenders:

'They [lenders] can be incredible hierarchal. They love their hierarchy. We change job titles and job roles we have to be very careful that we brief them so they understand they are dealing with a different person that they have not been marked down it is just that we have moved things up a gear' (managing director).

The industry had become increasingly transparent over the two years prior to investigation as a result of regularity changes. Known as 'M-Day', the UK mortgage market came under regulatory protection of the Financial Service Authority (FSA) in October 2004. This change

drove greater transparency across lenders allowing consumers to compare mortgages more easily, understand the nature and costs of services, and gain access to the Financial Ombudsman for complaints. It became apparent that these regulatory changes had afforded customers greater buying power. The availability and transparency of the sector had also resulted in the need to develop a research and analysis capacity in order to compete effectively. Overall, these industry level changes drove a strategic and analytical approach to the firm's operations:

'The one thing about the mortgage market is it is incredibly transparent...you know who all the players, exactly what margins the suppliers work on with the lenders...You can see what they are selling for and work the whole model back and at certain points push for certain products because you know how they are funded. They do not like you knowing that and it is amazing how many brokers do not do that' (managing director).

Despite the managing director reporting at the survey stage that the firm had few competitors for their product/service, the intensity of competition was seen to be a potential future barrier to growth. As a consequence, the managing director had formed a cooperative with competitors to reduce the potential for competition. As a consequence, competition was kept at a relatively modest level and those within the partnership held cordial relationships. Outside of the cooperative, open competition within the market was seen as healthy, helping to motivate improvements in service quality. The cooperative generated significant purchasing power and resulted in highly competitive products:

'Yes, it is the product they [the lender] give you...that product is only available from ourselves and our colleagues within UK CFG [a cooperative]...a price point that is cheaper than you get by going to that lender direct and that is where our buying power works...' (managing director).

Once custom had been won on price, customer service became a key differentiator. Customer relationships were based on customer services and trust and the managing director was keen to retain a personal approach with clients. Customer service related to the ability to add value through the advice they provided to their clients:

'A property investor seeking to widen his area in the market...he or she will probably go to a bank, a building society or two...they [property investor] will be asking us to

add value to the process and asking us to provide more options and better options than they can source themselves. What they [property investors] tend to be good at is finding properties and financing is important...but it is really not their skill so we are there to add [value] to their process' (managing director).

The firm undertook research into potential market opportunities and product/service developments, with product innovation being clearly important to the firm. Mortgage Co. had introduced a new lender programme that was complimentary to their existing portfolio and this had contributed around fifteen percent to their net profit. The firm had also diversified their product range, something they labelled 'brand stretch', enabling them to capture an increased level of market share:

'...We try to stick to markets we understand...we would not want to jeopardise the relationship with customers by not giving added value and advice. We do back up the call operations with two other units: general insurance and life and pensions. They are both small slick tight operations to add value, customers do not have to use them, we just make it available to them' (managing director).

9.3.2 Labour market

The managing director cited the availability of suitable skills/qualifications and managerial/leadership capability as key areas that would influence the firm's ability to grow. The managing director reported at the survey stage that managers had been recruited internally and externally. External recruitment related to more senior employees with the finance director, operations and HR director and head of marketing having all been recruited to the firm. The majority of these employees held formal qualifications. Given the rapid growth that the firm was experiencing, recruitment was a relatively frequent process and had, until recently, remained relatively informal:

'Certainly in the early days - family, friends and colleagues tended to join the business' (operations and HR director).

Recruitment of the finance director and the operations and HR director had been relatively opportunistic through informal and familial networks. The finance director (brother to the managing director) had joined Mortgage Co. for a short period of time to unravel mistakes in the firm's finances made by a previous employee. The finance director had since stayed with

the firm providing key input on strategic finance matters, skills not evident at the other case study firms. The finance director was a trained chartered accountant and held a masters level degree. His experience prior to joining Mortgage Co. was grounded in corporate finance and the provision of strategic-level financial planning advice. It became apparent that the finance director held strategic financing skills, not evident at the other case study firms, which had clearly supported firm growth.

The operations director had previously held several director and general management positions within large insurance firms and had developed experience in organisational change through these roles. The operations director had joined the firm initially to cover an office management position for a six-month contract, but had since stayed at the firm:

'...she [office manager] went off on maternity leave in June 2004. At that point in time I was looking for something else to do in the interim, so I saw the finance director again and said 'look things are not working out with what I am doing, I need a bit of a bolt hole for six months...I will come in for six months and hold that [office management] role...that is how I got in' (operations director).

More recently, the firm's recruitment and selection procedures had become more formalised and greater emphasis had been placed on the use of agencies and even head hunters. Whilst the firm had reportedly not experienced any recruitment difficulties for residential mortgage brokers and case managers they were finding themselves increasingly competing against London-based firms:

'We rarely, having interviewed and offered, get a turn down from the employee. We lost one recently because he went to a West End broker where he thought there would be more opportunities...a view I would dispute...we rarely keep people when they have been offered another job' (managing director).

The increased levels of competition for labour, especially in relation to mortgage consultants, had led the firm to recruit individuals from outside of the industry. It appeared that senior management at the firm had retrospectively recognised that a lack of technical knowledge did not disadvantage these new recruits if they held key sales and negotiation skills:

'We brought in [recruited] a couple of people over the last year. One in particular has more than made her mark in terms of value. She had only been here about nine months

and she had already applied to the business at the same level as the rest of them. That is far better than we dared hope for. She then in turn stirred up the girl who was recruited just over a year ago and she's now starting to fire on all cylinders. Those two girls could soon be whipping the pants of these established guys. It is the flip side if you like. They do not have the same background and training as the bank managers' (finance director).

As outlined earlier, the firm had integrated recruitment decisions with wider strategy through the operation of a forecasting model and this model provided them with the necessary information to plan ahead for recruitment (see 'Human Resource Practices').

9.3.3 Strategic orientation

Mortgage Co. had a formal and structured business plan that was reviewed on an annual basis with managers and employees at the firm (see 'Management of HRM'). Employees reported that they shared the vision and values of the firm. Unlike the other four cases, this plan integrated a range of themes together that included: forecasts of staffing requirements; employee skills development; employment policies and practices; product/service innovation; process improvement/innovation; improving quality of product or service; and market strategy/developing new markets. It was apparent that the managing director's approach, allied with the transparency of the mortgage industry outlined earlier, promoted the firm's strategic approach:

'I have always been strategic...I think that is the one advantage of working in the mortgage industry, you have to be absolutely transparent...we know the exact boundaries...I do not think any other industry in this country would be like this' (managing director).

In order to assist with planning the firm had developed collaborative relationships with their consumers and suppliers:

'We try and be one of the drivers of that change...we try to lead with products or initiatives...the buy-to-let sector this year is worth about thirty-five billion pounds a year and that is our core business...we have about ten percent of the market as we are one of the drivers for change...we try to anticipate what will happen...we try to educate

and advise our customers...and our customers provide us with information that we can use to advise the lenders' (managing director).

9.4 Human capital, social capital and institutions

9.4.1 Human capital

The managing director reported at the survey stage that training and skills development was very important to the firm. It was confirmed at the case study stage that the firm held a budget for training activities and the managing director articulated that this was calculated as a proportion of sales turnover to reflect growth. Despite the existence of a budget it was reported that the firm would exceed its budget this year:

'...we had a budget of about forty five to fifty grand for training this year and I have completely mucked it up. I am going to spend about ninety grand this year because there are some things we wanted to do' (managing director).

Investments made in training were recorded within employees' contractual terms and conditions and employees had to reimburse course costs should they leave the firm within six months of completing the training. The managing director reported that the firm had not experienced any barriers to training and skills development. It was reported by the managing director that employees completed, on average, five to ten days training per annum with some receiving ten days of more. Yet, when questioned, employees reported receiving three training days on average per annum, although given that some employees questioned held relatively low tenure this may not provide an accurate representation. Indeed, on reflection, all staff strongly agreed that they were encouraged to develop their skills and were generally satisfied with the ability to develop skills and knowledge. Employees reported that the training they had received was adequate to allow them to carry out their roles effectively, that the firm was committed to training, and that they were regularly asked if they needed more training.

Training was provided to employees through a mixture of in-house on-the-job training and external courses and this was confirmed by employees. At time of investigation, employees were progressing professional qualifications and had attended short courses (e.g. customer services). The firm had also developed its own management development programme and was looking to roll this out to the wider management team. General office staff received in-house training and the firm were in the process of introducing a structured training programme. This

new structured programme was to be linked to the firm's performance appraisal process, which took account of employee training & development (see 'reward and commitment'). This meant that employees would be able to submit verbal requests for further training and discuss their wider development needs:

'...if someone says by the end of this year 'I think I ought to have moved on; can you help me?'...we want them to be happy when they are here and that is something that we are now doing' (managing director).

Aside to skills development activities outlined above, key skills had also been attracted to the firm (see 'labour market' for more details). For instance, the operations director brought with him key practitioner skills in operations and HR and he had played a key role across the business:

'I have been through several roles, process management...developing structures...I have spent time looking at all areas...take it, reorganise it, and ask 'what do you want to do with it?' (operations director).

The firm had also developed their own internal capability for systems design through the formation of an IT support and development team:

'We have also upgraded the IT so there is only one unqualified person and we will shortly be having two managers, one looking after software and web development, and one for the infrastructure management then one junior person which may grow to two juniors; one on each side' (finance director).

9.4.2 Social capital

The managing director confirmed at the survey stage that the firm held membership to a business network, club or forum. It transpired that the managing director held board-level membership of the Commercial Mortgage Securities Association (CMSA) and was a previous president of the National Association of Commercial Finance Brokers (NACFB), a trade body that promotes best practice and self regulation in the commercial finance industry. It was apparent that employees across the firm held membership to various networks:

'There are various ones that either I am a member of or my senior managers are members of and we compare notes... we take in a mass of information...and we mark it for the future' (managing director).

The managing director reported that membership had helped the firm to improve its human resource management (e.g. policies, practices or procedures). The managing director sought advice from a range of sources including: central government; management consultants; external lawyers/solicitors; external accountants; family and other business owners. Management consultants related to 'Kent Trainers', a private training provider run by an ex-Business Link consultant. The managing director reported that he was satisfied with the advice provided from all sources. In reflecting on central government support provided by Business Link, the managing director reported that he did not believe the financial expertise was at an appropriate level to support the growth of Mortgage Co.:

'I think we are in a unique position because we are doing some of the functions that arguably are more proactive than the government. If the business did not grow then the government should help and be more proactive to help the business grow...I think Business Link has tended to stick to cash flow finance...go and see your High Street bank, the people they [Business Link] employ were bankers...'

The managing director also reported that relationships with their customers and suppliers had also assisted them. Mortgage Co. had developed specific IT systems (see 'Technology') and job titles and roles to support its lender relationships (see 'Organisation'). The managing director had established a cooperative called the 'UK Commercial Finance Group (CFG)' in 1997 in partnership with three other competitors. This provided an opportunity to combine their purchasing power with others in the wholesale buy-to-let and commercial mortgage market. This cooperative worked between Mortgage Co. and a select number of lenders (i.e. brokers) to drive product and service quality:

'We moved beyond the relationship between us and [the] broker...you have got to get the best out of the lender...we have a system...[called] 'total partnership status' where you sit down [with the lenders] at the beginning of the year to discuss and make sure we are mutually aligned with product design and delivery and service delivery...there are not many brokers who will do that, they usually want the cheapest product with the highest commission...we do it with seven key lenders and they probably get eighty

percent of our business. It is not because we guarantee to give them that; it is because of the range of products and the quality of service delivery' (managing director).

The managing director confirmed at the survey stage that the firm had benefitted from relationships with their customers. The managing director reported that relationships with customers had; provided access to general and specific business development and improvement information; market intelligence; provided an opportunity to share experiences; and for social activities.

9.4.3 Institutions

As in the previous four case studies, a range of institutional forces influenced the evolution of structures and wider working practices at Mortgage Co., and these are now briefly reviewed.

- *Coercive*: Suppliers (i.e. lenders) played a key role in the development of structures (e.g. job titles and roles) and IT systems at the firm. Government regulations introduced via the FSA had also driven greater transparency across the industry. The firm were also aware of the ICE regulations and were looking to introduce a consultative committee.
- *Mimetic*: As outlined above, the managing director was a previous president and board-board of various trade bodies and senior members help membership to various trade networks and associations. These associations provided access to examples of good practice in financial services which became embedded to the firm.
- *Normative*: The managing director, with help from the operations and HR director had implemented an organisational structure, reporting lines, a management team, communication mechanisms, operational systems (e.g. CRM), performance measurement systems and a range of wider working practices.

The coercive mechanisms outlined above could be seen to promote an analytical and strategic approach to the firm's operations with a clear emphasis being placed on analysis before action. The managing director had encouraged a process of professionalisation and formalisation at the firm to promote delegation and communication.

9.5 Implications: establishing the underlying causal mechanisms

This chapter has explored the nature of working practices at Mortgage Co., a medium-sized financial services firm that was experiencing high levels of sustained rapid growth⁴³. We explored the form and extent of working practices at Mortgage Co. earlier within this analysis, specifically in relation to research questions one and two. In this section our attention will now turn towards research question three (RQ3) did Mortgage Co.'s approach to HRM alter in response to growth/performance challenges? and RQ4 what were the underlying mechanisms that determined the HRM approach taken by Mortgage Co. in response to the growth/performance challenges faced?

This case provides insight to the events that occurred at Mortgage Co. as a result of exchanges between key entities including the managing director (original founder), the HR and operations director, and a cooperative. The key sequence of events involved the formation of a cooperative with competitors, and then recruitment of the HR and operations director. As a consequence of these changes it was evident that a range of internal events had occurred, with the working practices of Mortgage Co. being advanced beyond the scope of what had been previously achieved under the managing director. Mortgage Co. had developed an organisational strategy, a management and supervisory structure, and had introduced management skills and operational systems (e.g. CRM and supplier integration). Mortgage Co. had also formalised a range of practices, far beyond what had been achieved at the other four cases.

Three interrelated mechanisms were clearly identified to be at work at Mortgage Co. The principle mechanism related to the 'formation of a partnership' with other competitors that became known as the 'UK Commercial Finance Group (UKCFG)' in 1997. The purchasing power of this combined group provided access to competitively priced financial products, with Mortgage Co. specialising in buy-to-let mortgages. This resulted in Mortgage Co. forming a business model that held significant growth potential. The second mechanism related to the 'introduction of government regulations'. Since 2004, the FSA had encouraged greater levels of transparency within the marketplace for consumers and this had provided access to comparative performance data across the industry. These regulations drove a deep analytical approach at Mortgage Co. and promoted the subsequent development of systems and structures. The third mechanism relates to the 'entry of a new director' in 2004 and the

⁴³ Mortgage Co. had achieved an average annual growth in turnover of 28.6% over the previous five years.

employment of the operations and HR director. The recruitment of the operations & HR director, as with the managing director at Cable Co., the sales and marketing director at Kitchen Co. and the business development manager at CCTV Co. was the result of a chance contingent event (Easton, 2010). The operations and HR director had personally approached the firm, and had only joined initially for a period of sixth months to cover maternity leave.

Mortgage Co.'s labour market also informed the nature of human capital available to and employed by the firm. Whilst the firm was located in Kent it competed against City-based brokers for employees. This drove the introduction of more advanced systems, processes and practices than were found in the other case studies. New recruits were, in general, well educated and brought with them preconceived views of what was expected. In order that Mortgage Co. could attract high quality personnel the firm had to portray a professional approach to working and 'live up' to the images held by recruits. Significant ongoing investments were observed in skills development activities with the firm supporting the attainment of professional qualifications and delivering in-house and external training programmes for its employees and managers. Managers were also given time to pursue a level of CPD through professional memberships of industry bodies which provided a wider level of social interaction observed amongst the other case studies.

The firm had also developed a senior management structure and were in the process of adding a middle management tier at time of investigation. This had enabled the owner-manager and finance director to stand back and concentrate on more strategic-level matters. Unlike the other case studies, all of the management team had been recruited externally and held good all-round levels of education as well as considerable experience within their respective fields. For instance, the financial director was a trained chartered accountant who held a masters degree and career-related experience in the provision of strategic-level financial planning advice in related sectors. Whereas finance at Kitchen Co. and CCTV Co. was managed by administrative level staff. Access to this level of expertise facilitated a strategic and measured approach to the firm's operations.

Taken together, these results provide key insight as to why Mortgage Co. had implemented more formalised working practices. Working practices had responded to, and were observed to play a key role in firm growth and performance. The above commentary also provides three possible mechanisms that might be observed in other SMEs in driving the introduction of more progressive working practices. The next chapter will now explore the analysis presented in

chapters four through to nine and will compare and contrast this with current thinking and discourse in order to explain *the role that HRM plays in the performance of SMEs*.

Chapter 10

Discussion of Research Findings

10 Introduction

This study set out to establish the role that HRM plays in the performance of SMEs. Given the economic importance of SMEs to the UK economy (BERR, 2008, EC, 2009, CBI, 2011), such an understanding of HRM and its relationship with performance is crucial for employers, employees and policy makers. The development of a new conceptual framework that built upon prior studies (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) and gave greater weight to HRM and growth, and how these dynamics interact, assisted in the progression of a qualitative and context-sensitive analysis of HRM and performance in SMEs. This social research inquiry therefore, provided a welcome opportunity to build new insight on HRM and performance and move away from examining not only *how* firms differ (Arthur & Hendry, 1992; MacMahon, 1996) but *why* they differ. This was made possible through the collection and assessment of a rich range of hermeneutic material that was capable of illuminating the embedded nature and social context of HRM and the relationship HRM holds with performance in SMEs. This chapter has five main aims which will now be explored.

First, this chapter will explore the extent to which SMEs are adopting HRM. Typically, studies find little evidence of HRM in SMEs when compared to larger firms (e.g. Duberley and Walley, 1995, Way, 2002) and that this is a consequence of resource deficiency (Hornsby and Kuratko, 1990, Pearson *et al.*, 2006) and a preference for the unstructured management of the employment relationship (Matlay, 1999, Edwards and Ram, 2010). This study confirms low levels of HRM practices and HRM expertise across those SMEs surveyed, but suggests the positive role that HRM and measures of formality play in performance. Whilst little evidence is found of strategy with this study, let alone a defined approach towards the management of employees (Scott *et al.*, 1989, Harney and Dundon, 2007), patterns within the data suggest the strategic role that formality plays in performance along with the important role played by employees. In the main, employees were found to be content, satisfaction that was determined by the extent to which the working environment lived up to expectations and prior experiences.

Second, this chapter will aim to unpick the form that HRM takes within SMEs. Despite limited evidence being found of HRM in SMEs, initial exploratory analysis reveals that those firms that embrace practices to involve, consult, train and motivate employees are experiencing higher levels of performance. More detailed qualitative analysis however points to clear discrepancies between the reported and actual reality of HRM in those firms surveyed (e.g. Duberley and Walley, 1995, Bacon *et al.*, 1996, Marlow, 2002). Evidence suggests that HRM is not neat, uniform or formulaic and cannot be adequately assessed on an either/or classification (Marlow *et al.*, 2010). Practices are found to vary in form and coverage and once one progresses past the practice label it becomes unclear as to the certainty that a practice actually exists (Rowden, 2002, Way, 2002).

No evidence is found of SMEs taking a high performance approach to organisational performance. Having said this one should not overlook the important role played by the high performance work system (HPWS) model as an investigatory tool. Within this study the HPWS model served to cast a wide net over working practices and capture the true reality of HRM in SMEs. It became evident that the heterogeneity in practices was not only attributable to firm context, as will be explored below, but was also informed by the rate of development at time of investigation. Practices were evolving and developing, they were not static. The role of a champion is found to play a central role in promoting more progressive and formalised working practices (e.g. Cassell *et al.*, 2002). Evidence within this study suggests that firms can transit towards more progressive organisational forms that are more adept at taking onboard the ideas within models of high performance (Edwards *et al.*, 2009).

Third, the extent to which firms are altering their approach towards HRM in response to performance and growth challenges is explored. Evidence reveals that all the firms were responding to performance challenges and that, in the main, this related to a prior period of underperformance. In this respect performance acted as a catalyst to identify what was not working, with SMEs being challenged to review and adapt. Performance within this study was multidimensional and multifaceted, having the ability to inform as well as be informed by HRM and wider working practices in SMEs; a matter often overlooked by traditional linear HRM models (Fleetwood and Hesketh, 2008). It was here that the important role of champions as interpreters of shock and wider strategic planners became evident

Fourth, the underlying causal mechanisms that determined the approach taken towards HRM by SMEs are teased out. The role that performance plays in catalysing a change in firm behaviour is confirmed. It becomes evident that SMEs were more willing to embrace changes in working practices and wider systems and structures in response to a shock. Clear heterogeneity is observed across all firms as to the ability for firms to respond appropriately to these challenges, disparity that emerges from unique interaction of firm specific constraints (product market, labour market and strategic orientation) and resources (human capital, social capital and institutions) (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). A clear strength of this research is its depth afforded through an analysis of the interaction of these dynamics.

The human capital of the owner-manager, and the nature of the role they assume, is found to heavily influence decisions taken to respond to the performance challenges faced (Leitch *et al.*, 2010, Wright and Stigliani, 2013). The future performance of the firm is found to be heavily reliant on the owner-manager's comprehension and ability to deal with a common set of themes that influence the structure of the firm, namely: power and control; delegation; management skills; communication and (in)formality. The entry of new forms of human capital to the firm is also found to play a central role in championing change, and the extent to which this positively supports firm response is heavily determined by the owner-manager. Interesting to note here is the prevalence of a chance contingent approach to the introduction of new forms of human capital (Easton, 2010), reinforcing the emergent and reactive nature of strategy in SMEs (Duberley and Walley, 1995, Cassell *et al.*, 2002, Harney and Dundon, 2007).

Finally, in order to piece together the empirical evidence presented within this study, and in light of prior attempts, a new model of HRM and performance in SMEs is presented. This model suggests that HRM and performance cannot be simply viewed as a smooth and sequential process in SMEs: performance does not follow from a specific set of HRM practices that are consciously and rationally designed. From the findings contained within this study it is suggested that wider workplace structures have to be developed before working practices can be supported, and their development is determined by the owner-manager. This finding reinforces that research into the working practices of smaller firms cannot and should not be separated from the wider context within which the firm operate. It is believed that the model proposed within this study provides a vehicle through which HRM academics can broaden their horizons in order to capture and understand the true nature of HRM and wider working

practices in SMEs and how this influences performance. These results confirm the importance of including the dynamics of growth in future HRM and small firm studies and provide important insights to the obstacles and challenges inherent within the growth process (Davidsson *et al.*, 2005).

This chapter will now explore each research question in turn in light of the empirical evidence presented within this thesis, and will compare and contrast these findings with current thinking and discourse.

RQ1): To what extent are SMEs adopting HRM practice?

Phase one of the research provided an insight to the preliminary patterns of HRM and performance in SMEs. Table 10.1 provides continued support for comparatively low levels of HRM practices in SMEs (e.g. Duberley and Walley, 1995, Way, 2002). Survey respondents had adopted an average of eleven working practices (median = 11, mean = 11.9), with the majority adopting fewer than twenty of the forty practices measured (For a more detailed quantitative analysis see Gilman and Raby, 2012). Further qualitative analysis revealed discrepancies between the reported and the reality of HRM practices (e.g. Duberley and Walley, 1995, Bacon *et al.*, 1996, Marlow, 2002). Lower than average levels of working practices were found at Kitchen Co., CCTV Co. and Bearing Co. despite these firms reporting higher than average levels of HRM practices at the survey stage. These results draw attention to the dangers of relying solely on self-reported data and frame the challenges of capturing the particularistic nature of practices in smaller firms (Harney and Dundon, 2006).

Table 10.1: The distribution of work practice by component across survey and case respondents

<i>Component</i>	<i>Survey</i>	<i>Cable Co.</i>		<i>Kitchen Co.</i>		<i>CCTV Co.</i>		<i>Bearing Co.</i>		<i>Mortgage Co.</i>	
		RP	AP	RP	AP	RP	AP	RP	AP	RP	AP
<i>High Involvement</i>	3.0	6	6	2	2	2	3	7	2	10	7
<i>Human Resource</i>	5.3	10	8	6	1	9	5	10	2	10	9
<i>Reward & Commitment</i>	3.6	6	3	4	2	4	3	6	2	8	7
<i>Total</i>	11.9	22	17	12	5	15	11	23	6	28	23
<i>Sector (mean)</i>	-	14.0		14.0		11.0		10.2		17.0	

Base: Survey respondents, N = 217 SMEs.

Note: RP = reported practice; AP = Actual practice.

Some might conclude that these results confirm the largely widespread use of informal HRM practices in smaller firms (Kaman *et al.*, 2001, Bartram, 2005) and that SMEs show a preference for the unstructured management of the employment relationship (Edwards and Ram, 2010). However, evidence within this study revealed that working practices and formality matter to the success of SMEs. Survey analysis revealed a strong positive relationship between HRM practices adoption and performance (Kerr *et al.*, 2004, Sels *et al.*, 2006b, Zheng *et al.*, 2006) and between HRM practice adoption and firm size⁴⁴ (Hornsby and Kuratko, 1990, Pearson *et al.*, 2006). Further measures of formality were also found to be positively related to firm size including the presence of organisational standards and the use of technology and performance measurement.

Further qualitative analysis demonstrated evidence of a range of wider structural and system changes that firms were making in response to growth and performance challenges. It was evident that working practices played a supportive role in regulating these wider systems and structures, a point that will be expanded upon later. These results suggest that the strategic elements of formality, such as the recruitment and retention of appropriate forms of human capital, are related to growth and performance. These results allude to the complex interaction of formality and informality (Marlow *et al.*, 2010) and that strategic intention is of central concern to performance. These findings therefore, add context to the established debates of informality, pointing to the positive role that formality and structure can play in SME growth and performance.

Whilst a positive association was found within the survey between the presence of an HR manager⁴⁵ and HRM practice uptake⁴⁶ (Kerr *et al.*, 2004, Way and Thacker, 2004) few SMEs were found to have an HR manager (Gilman and Raby, 2012). As Table 10.2 reveals, in the majority of cases owner-managers were found to hold responsibility for management of HRM, with a level of internal administration support and external legal advice. In all cases, those who held part responsibility for HRM matters held no formal HRM qualifications. The limited level of knowledge held by employees on HRM, allied with above resource constraints, meant that HRM concerns focused on statutory and legal activities deemed necessary to keep the firm operating (e.g. payroll, annual leave etc.).

⁴⁴ Apart from 'job security' and 'culture change' which were found to be more likely used by smaller SMEs.

⁴⁵ An individual who held part or sole responsibility for HR issues within the firm.

⁴⁶ Apart from profit-related pay and quality circle practices for which no significant relationship was found.

Employment relations matters therefore rarely formed a major job role and fell on the responsibility of those holding proprietorial and/or line management responsibilities, findings that are cognisant with others (Bowen and Ostroff, 2004, Forth *et al.*, 2006). Whilst there appeared sensitivity to HRM issues, operational challenges took precedent over longer term developments to working practices and there appeared little opportunity to dedicate time to HR matters, a point summed up by the managing director of Kitchen Co.:

‘I think it was very good what you said earlier about having someone specific trained in human resources. Once again *I have not spent enough time on it* [HRM] and need to look at it [HRM]’ [emphasis added].

Table 10.2: The management of the HR function

	Survey		Case studies				
	Count	%	Cable Co	Kitchen Co	CCTV Co	Bearing Co	Mortgage Co
OM + external advice	16	53.3			✓		
OM + admin + external advice	9	30.0	✓	✓		✓	
OM only	3	4.1					
Line manager	1	1.4					
HRM manager	1	1.4					✓

Base: Personal interview respondents, N = 30 (31.9% of survey sample)

Notes: OM = owner-manager

The importance of an HR manager was even more significant when one considers that those SMEs that had an HR manager were more likely to be larger, be experiencing growth and adopt a more strategic approach to their operations. Evidence of this was displayed by Mortgage Co. who of all the case study firms was experiencing the highest levels of growth and had achieved most success with work practice adoption. HRM was given considerable attention within the firm and HRM roles had been created at senior and middle management levels. Whilst those employees with a responsibility for HRM did not hold formal HRM qualifications they did hold career-related knowledge of HRM, expertise that was absent in the other four case studies. The level of managerial skills in general available within Mortgage Co. appeared to drive a more strategic response to the HRM challenges they faced⁴⁷.

Strategic and managerial developments were found to be positively related to performance (Gilman and Edwards, 2008), however there was little evidence of strategy, let alone one

⁴⁷ Within the survey, the presence of other managers with formal qualifications was also positively related to the presence of a business strategy.

aimed at the management of employees (Scott *et al.*, 1989, Harney and Dundon, 2007). Growth and performance challenges for most firms revolved around the product market and related to short term, reactive changes to business need (Duberley and Walley, 1995, Cassell *et al.*, 2002). Investments in physical capital, such as new machinery or IT systems, took precedence over investments in human capital. These cases, allied with the majority of firms surveyed, failed to keep a ring fenced budget for training activities. Where training was progressed it predominantly revolved around specific product/service knowledge and quality (e.g. health & safety, computing, equipment operation). It was therefore difficult to see how the large proportion of SMEs might benefit from greater levels of HRM given their limited understanding of such matters or generate behaviours required for longer term success (Lado *et al.*, 2006).

There were examples in Cable Co. and Mortgage Co. of SMEs that were deliberately adopting an investment-led, strategic approach towards the development of human capital. It was clear that the owner-managers of these respective firms championed the involvement and training of employees. Whilst the majority of SMEs possessed aspirations for a more developed HRM capability in the future, these aspirations related to a longer term desire rather than translating into purposeful action. Strategic considerations tended to focus on sales, markets and product/service quality and translated into piecemeal and reactive changes. There was not so much an unwillingness to further develop HRM, but rather the resource constraints and reactive mindset of the owner-manager outlined above allied with the failure to seek external advice⁴⁸ tended to hamper the ability for SMEs to take a longer term view. HRM was therefore on the 'to-do' list but in many cases never became a reality:

‘What *we will try* to do is make individuals responsible for certain areas [of HR], rather than us all being a little bit involved *we are trying* to delegate that and make an individual responsible’ (managing director, Bearing Co) [emphasis added].

However it would be wrong to assume that those SMEs that displayed lower levels of formal HRM could be allied with a bleak house perspective (Wilkinson, 1999). One could easily overlook that employees for the most part were satisfied with the ability to influence decisions in general and those relating to their particular role, had received an adequate level of training to carry out their respective job roles. Employees were also found to be largely content with

⁴⁸ SMEs were most likely to obtain information and advice from accountants and lawyers and few held membership to a business network, club or forum that encouraged the sharing of best practice.

their levels of pay, which was on a par if not higher than their larger competitors (e.g. Bearing Co, Mortgage Co.). Generally speaking employees were satisfied with the quality of working relationships with management and their colleagues and good levels of trust were exhibited between management and employees. Employees held long tenure with the firm and felt their jobs were secure, even in those firms that had made redundancies (e.g. Kitchen Co) or efficiency savings (e.g. Cable Co).

In this regard it did not seem to matter how many working practices firms had implemented, employee satisfaction was more to do with the working environment in general. There appeared a number of possible interrelated explanations as to why this was the case. First, employees for the most part held long tenure within the case study firms, often not having worked for another firm in their career. Second, employees had not been exposed to other, possibly more formal, work environments. Third, employees held relatively low expectations of management and the work environment in general. Having said this, Mortgage Co. illustrated an example of a firm being challenged by its employees to develop more formal ways of working. This appeared as a consequence of employees having joined from larger, more formalised environments and the emphasis placed on investment and strategy at the firm, results that emphasise the expectations that employees bring with them to the workplace.

On the one hand these findings demonstrate a continued apathy towards HRM by SMEs. On the other, they add weight to the argument that traditional HRM measures fail to capture the particularistic nature of HRM in SMEs (Harney and Dundon, 2006, Taylor, 2006). Further qualitative analysis revealed that practices varied in form and coverage and were continuously evolving, and it is these points that shall now be explored.

RQ2): What form does HRM take in SMEs?

Whilst we have established to this point that SMEs within this study demonstrate comparatively low levels of HRM practice uptake, we have learnt little of the realities of HRM and performance in SMEs. This section will therefore attempt to present further analysis as to the form that HRM took within the growth-oriented case study organisations. Before delving deeper into working practices through the triangulation of employer and employee responses across the case study firms it was first considered important to establish the patterns of working practices and performance. A logistic regression was therefore progressed that tested working practices against measures of performance within those firms surveyed, the results

which are displayed in Table 10.3. Positive coefficient values are associated with firms that had grown⁴⁹ and negative coefficient values are associated with firms that had not grown⁵⁰.

On the surface, these results suggest that SMEs that involve, consult, train and motivate employees are experiencing higher levels of performance. Have we not heard this somewhere before? These results also suggest that direct forms of communication and more strategic forms of performance measurement are present within higher performing SMEs. However, taken as a whole these findings confirm that SMEs experiencing higher levels of performance are adopting relatively few HRM practices. They also reveal that strategy is negatively correlated with measures of performance. Do these findings therefore suggest that high performers are not adopting practices as part of a wider integrated system or strategy?

Table 10.3: Patterns of HRM and performance in survey respondents

	<i>HRM practices</i>	β / sig
HI	Suggestion scheme	1.206**
	Team briefings	0.925**
HR	Selection testing	1.281**
	Multiskill	.712**
	Equipment operation skills	-.937***
RC	Profit related pay	.962**
	Absenteeism records	.682*
Other	Communicate through managers	.730**
	Customer service training	.730*
	Productivity records	.698*
	Business strategy	-.627*

Note: *** Significant to 0.01, ** Significant to 0.05, * Significant to 0.10

The larger the coefficient is, the better this variable is at discriminating between growth and no-growth firms.

Whilst the above findings provide further quantitative insight to the patterns of HRM and performance in SMEs (the 'what' of HRM) they do little to extend our thinking as to *why* this might be the case. Given the discrepancies outlined earlier between the reported and the actual reality of HRM practices one could understandably call into question the extent to which the

⁴⁹ Growth-oriented firms including those SMEs that reported an increase in sales turnover of 0-15% or 15%+

⁵⁰ Those SMEs that had either remained the same (+/- 0-5%) or had declined by 0-15% or 15% were classed as firms not achieving growth.

above results can be regarded as representative of the wider population. Similarly, whilst these findings confirm association, they do not confirm causation (i.e. whether working practices lead to high performance or vice versa). Acknowledging that the coverage, interpretation and experience of HR practice may vary across groups of employees (Duberley and Walley, 1995, Marchington and Zagelmeyer, 2005) and that the form of individual practices may actually be best addressed at the employee level (Boselie *et al.*, 2005) this section will now focus on the findings gleaned from the case study firms, an overview of which is displayed in Table 10.4. This in-depth qualitative analysis provided a unique opportunity to penetrate the empirical domain and compare the perceptions of working practices at management & employee levels.

Given that these case studies were experiencing growth at time of investigation⁵¹ these findings provide important new insights to the nature of working practices in growth-oriented SMEs⁵².

First, practices varied in form. Once one had progressed past the practice label it was hard to establish the nature of the practice in question. A good example of this was in regard to appraisal practices. Within Kitchen Co., CCTV Co. and Bearing Co. appraisal related to a formal meeting with employees to review pay, decisions which were based upon largely financial and anecdotal evidence of performance. Given the lack of structure and secrecy surrounding such issues, pay often formed a flashpoint at these firms. However at Cable Co. and Mortgage Co. appraisal systems drew on objective measures of performance and integrated pay, reward and developmental needs of employees.

At Cable Co., these more formal practices had helped to identify disparities present between male and female wages, a point that was being addressed at time of interview. Another good example of the variation in practice composition was found in relation to induction practices. At CCTV Co. and Bearing Co. induction related to the firm's contractual trial period, not an induction process *per se*. Taken as a whole, these results question the extent to which those practices reported at the survey stage could be considered practices in the traditional sense, and reinforce the inconsistencies between the initial reports of the owner-manager at phase one of the research and subsequent reports of employees at the case study stage. It was apparent that the reality of HRM was often not uniform, neat or formulaic.

⁵¹ Please see the study's purposeful maximal sampling procedure explained within section 3.4.2 of the research design and methodology.

⁵² All case studies were non-unionised.

Table 10.4: The realities of Human Resource Management in SMEs

	<i>Survey</i>		<i>Case studies</i>								
	<i>%</i>	<i>Cable Co</i>		<i>Kitchen Co</i>		<i>CCTV Co</i>		<i>Bearing Co</i>		<i>Mortgage Co</i>	
		RP	AP	RP	AP	RP	AP	RP	AP	RP	AP
<i>High Involvement</i>											
<i>Strategic integration</i>											
Process improvement	23	✓	M - Lean	✓	No - ad hoc	x	Developing	x		✓	E - IT
Culture change programme	2.3	x		x		x		x		✓	No evidence
<i>Work organisation</i>											
Teamwork	43	✓	M	x		x		✓	No evidence	✓	Informal
Quality circles	4	x		x		x	M - supplier	x		x	
<i>Communication arrangements</i>											
Team briefings	68	✓	M - Production	x	M	✓	M - engineers	✓	M	✓	Informal
Consultative committee	6	x	Not aware	x	Not aware	x	Not aware	x	Not aware	x	Developing
Trade Unions	2	x		x		x		x		x	
Staff suggestion scheme	16	✓	All - not active	x	All - not active	x	All - Informal	✓	No evidence	x	
Staff attitude survey	6	x		x		x		x		x	
Sharing info - newsletter	19	x		x		x		x		✓	All - formal
Sharing info - intranet	16	✓	M - operations	x		x		x		✓	All - formal
Sharing info - notice board	50	✓	All - Basic	x		✓	All - Basic	✓	All - Basic	✓	All - formal
<i>Training/skills development</i>											
Communication skills	29	x		x		x		✓	No evidence	✓	M
Teamwork skills	24	x		✓	No evidence	x		✓	No evidence	✓	M
Problem solving skills	16	x		x		x		✓	No evidence	✓	M
<i>Human Resource</i>											
<i>Strategic integration</i>											
Forecasting staffing	33	x		x		✓	M - IT	✓	No evidence	✓	M - IT
Employment practices	22	x		x		✓	No evidence	✓	No evidence	✓	M
Skills development	38	✓	All - appraisal	x		✓	No evidence	✓	No evidence	✓	All - appraisal

Improving quality	36	✓	All - appraisal	✓	No – informal	✓	Accreditation	✓	No evidence	✓	All - appraisal
Customer satisfaction	52	✓	No evidence	x		✓	M - IT	✓	No evidence	✓	All - appraisal
<i>Work organisation</i>											
Multiskill	36	✓	Informal	✓	E - informal	x		x		✓	No evidence
QMS (e.g. ISO9000)	27	✓	M	x		✓	M	x		x	
<i>Employment practices</i>											
Formal recruit & select	38	✓	All - formal	x		✓	Developing	x		✓	All - formal
Selection testing	9	x	E - Production	x		x		x		x	
Staff induction	61	✓	Informal	✓	Informal	✓	No - contractual	✓	Informal	✓	All - formal
Staff appraisal	65	✓	All – dev. +pay	✓	All - pay	✓	All - pay	✓	All - pay	✓	All – dev. +pay
<i>Training/skills development</i>											
Equipment operation	51	✓	IN/E - informal	✓	Informal	x	EX/E - suppliers	✓	EX/E - suppliers	x	
Quality control skills	28	x	IN/E - informal	x		x		✓	No evidence	x	
Leadership skills	26	✓	EX/M	✓	No evidence	x		✓	No evidence	✓	M
Workforce diversity	7	x		x		x		x		x	
Reward & Commitment											
<i>Strategic integration</i>											
Absenteeism records	64	✓	M - appraisal	✓	M	✓	M	✓	M	x	
Labour turnover records	53	✓	Informal	x		✓	M	x		✓	M - appraisal
<i>Communication arrangements</i>											
Employee job satisfaction	30	✓	All - appraisal	x		x		x		✓	All - appraisal
<i>Pay & reward practices</i>											
Formal pay system	55	x		x		✓	No evidence	x		✓	All - formal
Performance related pay	34	x	E - sales	✓	No evidence	x	E - sales	✓	No evidence	✓	All - formal
Profit related pay	28	x		✓	M - directors	x		✓	All	✓	All - formal
ESOPs	7	x		x		x		x		✓	All - formal
<i>Commitment practices</i>											
Internal promotion	53	✓	Informal	✓	Informal	✓	No evidence	✓	No evidence	✓	All - formal
Job security	25	✓	Informal	x		x		✓	No evidence	✓	Informal
Harmonised T & Cs	31	✓	No - hrs + pay	x		x		✓	No - hrs + pay	x	

Please Note: M = management-led/level; E = Employee led/level; All = full coverage; IN = training delivered in-house; EX = training delivered externally; IT = IT system; OT = overtime; Tech = technical/job specific skills; Mgt = Management & leadership training; ESOPs = Employee Share Options.

Second, practices varied in coverage. Detailed qualitative evidence revealed that not all employees were covered by those working practices reported at the survey stage. For example, team briefings at Kitchen Co. and Bearing Co. translated into management team meetings, excluding the general workforce. Communication mechanisms such as team briefings were direct and management-led (Forth *et al.*, 2006) with little opportunity for employee involvement outside of their immediate work tasks. Indeed, at Kitchen Co., CCTV Co. and Bearing Co. no regular forums were held with staff, and limited evidence was found of practices that might encourage upward forms of communication and problem solving. The nature of performance-related pay at all firms was also illustrative of the variation observed in practice coverage. Cable Co. and CCTV Co. performance-related pay practices applied to sales-oriented roles only and profit-related pay was reserved for the company's directors at Kitchen Co. These examples were in contrast to Mortgage Co. whom had developed formalised pay structures and performance review systems across all employees.

Finally, practices were not static but were evolving. The case study analysis provided an opportunity to capture the dynamic and evolutionary nature of practices. The reality of working practice at the case study firms in many respects reflected the nature of human capital and rate of development at each firm. For example, CCTV Co. had recently formalised part of their recruitment & selection process in response to poor recruitment decisions in the past. Examples such as these illustrate the reactive and piecemeal approach taken towards the management of human resources at Kitchen Co., CCTV Co. and Bearing Co. However, Cable Co. and Mortgage Co. provided examples of SMEs that were proactively developing more comprehensive and inclusive working practices and were recognising the role that greater levels of formality played in supporting firm growth and performance.

In summary, these results continue to question whether HRM academics can rely on simple measures to investigate the nature of HRM in SMEs, along with the extent to which those working practices uncovered are worthy of the 'high performance' label (Rowden, 2002, Way, 2002). One must not however overlook the benefits of the high performance work system model as a qualitative investigatory tool. Within this study, the adoption of a high performance work system model⁵³ served to cast a wide net over working practices and it is unlikely that the true nature of workplace practice in SMEs would have been established if such a systematic approach had not been adopted. For instance, process improvements encouraged through Lean

⁵³ The HPWS model utilised within this study was grounded in prior literature.

methodologies at Cable Co. revealed more formal opportunities for employee involvement that might not have been captured by more traditional measures of HRM.

What became glaringly apparent was that practices lacked consistency in design, coverage and interpretation (Truss, 2001, Hui *et al.*, 2009). Contrasting reports were uncovered between management and employees, HRM was not neat, uniform and formulaic and formality was dynamic and not an either/or classification (Marlow *et al.*, 2010). The more formal practices that were found at a management level had not yet been cascaded to lower employee levels. Taken as a whole, these results question the appropriateness of relying solely on survey-driven research within SMEs and lend support for methods that recognise the value of context-sensitive research (Edwards, 2005) that are better able to capture the complexity of HRM (Harney and Dundon, 2006).

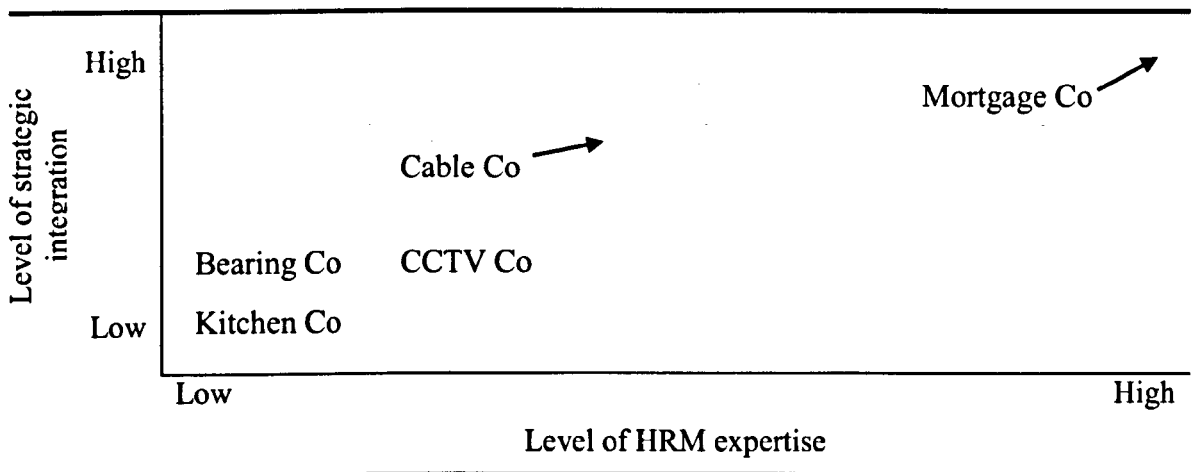
In general, these results confirm that these SMEs are not adopting a high performance approach to organisational performance. Having said this, there were signs amongst the (growth-oriented) case studies of firms that were taking onboard greater levels of HRM practices. Whilst firm's had not created a system *per se* or adopted the language of HRM theorists, understanding of HRM was developing and more progressive working practices were being implemented. In these cases, champions were found to play a central role in promoting the development of more progressive and formalised working practices (e.g. Cassell *et al.*, 2002). For this to occur however, In addition, the role of champion was not formally recognised in any firm, but is a term used here to represent the key initiator of change.

Within the more progressive firms (e.g. Mortgage Co. and Cable Co.) the owner-manager assumed the role of champion, one which extended beyond the boundaries of HRM and/or their immediate job role. Within this study, champions within the more progressive firms acted as an interpreter of shock and led a more purposeful strategic response. This finding denotes the importance of understanding how HRM, growth and change interact and that the dynamics of HRM and growth are not mutually exclusive. The implementation of more progressive and formalised working practices in these cases was supported through wider changes to structures and systems. The champion role within the less progressive cases (e.g. Kitchen Co., CCTV Co and Bearing Co.) was assumed by a new member of the management team who held no formal ownership in the firm. Whilst these individuals drove change in response to performance challenges, improvements were typically restricted to their immediate job roles (e.g. sales and marketing), and lacked integration with more strategic level matters. Limitations placed on

champions at these firms were as a consequence of a mismatch between the ambitions and knowledge of the champion and that of the owner-manager, a predicament that did not look like changing. These results reveal the extent to which new forms of human capital positively supports firm response to shock is heavily determined by the owner-manager.

Overall, these results reveal the importance of and variation in managerial approach and human capital to the development of HRM in growth-oriented SMEs. In an attempt to bring to life the evolutionary and transitory nature of HRM in those SMEs studied, along with acknowledging the role of champions and their strategic integration a diagram comparing the case study organisations has been developed and is depicted in Figure 10.1. This diagram helps to highlight the transitory spaces that the case study firms occupied between various organisational forms (Edwards *et al.*, 2009). Case studies were attempting to transition to more formal states, but at time of investigation did not fit neatly within any particular organisational type.

Figure 10.1: Illustrating the transitory nature of organisational forms across the case studies



Note: arrows denote direction of transition

It is suggested here that Mortgage Co. was best placed to apply the ideas embedded within model of high performance and was most representative of the ‘modern firm’ as depicted by Edwards *et al.* (2009). HRM was afforded attention at a strategic level; the firm had embedded its own HRM expertise and were introducing a range of working practices. It was apparent that the owner-manager of Cable Co. clearly recognised the value that greater levels of HRM could bring to the firm and was supporting the development of more progressive working practices but developments at time of investigation revolved around wider workplace initiatives and

isolated practices. Interestingly, Mortgage Co. and Cable Co. did not represent the norm amongst the growth-oriented case study firms. Like Cable Co., there was a deficiency in HRM knowledge within Kitchen Co., CCTV Co. and Bearing Co., however champions within these firms were limited by their roles, their expertise and ultimately the influence they had on decision-making wider than their immediate job tasks (e.g. sales and marketing). Given this, it was difficult to see how champions within these firms would ever be in a position to drive the necessary changes to organisational structure that would be necessary to support a particular model of high performance.

These findings reveal that smaller firms are unlikely to exploit HRM to the extent espoused by HRM theorists and raises serious performance issues (i.e. how can SMEs improve their performance if they cannot strategically address key performance variables such as HRM)? This being the case, where does that leave HRM theorists? How might one better understand why particular SMEs were taking on board greater levels of structural formality and working practice than others? It is this that we shall now explore.

RQ3): Does a firm's approach to HRM alter in response to growth/performance challenges?

In the previous section we failed to find evidence that traditional systems of high performance, as portrayed in HRM literature, exist in SMEs. However, it was also established that SMEs were attempting to transit to new, arguably more progressive, organisational forms. A large minority of SMEs had made, and were contemplating, a range of changes to internal structures, systems and practices in response to performance challenges. In this respect, HRM was embedded to the responses made by SMEs but was not necessarily articulated by owner-managers through the 'HRM' label. These results indicate the potentially significant role that performance plays in catalysing changes to workplace practice, such as HRM (e.g. Kotey and Sheridan, 2004, Harney and Dundon, 2007) and the knowledge of the owner-manager in limiting or promoting opportunities for the firm growth (Leitch *et al.*, 2010, Wright and Stigliani, 2013). We shall now look to explore the performance challenges that the case studies faced, and the way in which this influenced HRM practice.

The Drivers of HRM in SMEs: Responding to Growth and Performance Challenges

Within the case studies, the nature of HRM was closely related to the growth and performance challenges that each firm faced. All five firms had, within the last five years, made significant changes to the organisation of work and the labour process in response to growth transitions,

despite a general lack of HR expertise, formal training and/or champion. Mortgage Co was the exception with a specific HR role and function created. Four of the five case studies had made employment relations changes in response to a crisis, with Mortgage Co responding to rapid growth. The triggers for change in the other firms related largely to a range of management failures. These performance challenges and the HRM-related responses are summarised in Table 10.5.

It was apparent that under the previous owner, little investment had been made at Cable Co. in developing new products or processes. The firm's products had been written into longstanding agreements with customers; however, interest in these established products had begun to decline. The protected niche that the firm inhabited was under threat. In addition, the firm's production process relied on an out-dated and labour intensive process. The previous owner-manager's cost-centric model had driven the firm from a stage of maturity into decline (Harney and Dundon, 2007). The challenges faced by Bearing Co were not dissimilar to those of Cable Co. Bearing Co had begun to witness a gradual decline in demand for their products, primarily as a result of the decline in large heavy manufacturing in the UK; the firm's principal customer base. This resulted in the firm experiencing increased levels of competition and led to a growth plateau.

The shock experienced by Kitchen Co was not due to the firm's product losing relevance in the marketplace or a reduction in the firm's customer base. In fact, Kitchen Co's products were actually in high demand. Rather, it was the result of an overconcentration by the owner-manager on the internal production process at the expense of sales development. The owner-manager operated at the coalface of the firm focussing his interest on the carpentry process, displaying little affection for sales. Whilst the inconsistent nature of work and cash flow were mitigated when the firm was relatively small, these issues amplified as the firm grew, ultimately leading to a financial crisis. The catalyst for change at CCTV Co was similar to that at Kitchen Co, only quicker. The owner-manager of CCTV Co also assumed an operationally-focussed role; one that revolved around the day-to-day management of the firm's engineers. As a consequence, the owner-manager had little time to consider strategic issues. CCTV Co. had grown as a result of a particular customer, who they later became reliant upon.

Table 10.5: The drivers of HRM in SMEs

<i>Organisation</i>	<i>Life cycle stage</i>	<i>5-year growth trend</i>		<i>Performance challenge</i>	<i>HRM-related responses</i>
		<i>Sales</i>	<i>Employment</i>		
<i>Cable Co</i>	Beginning/growth	6.7	-2.0	<i>Decline in customer base</i> Gradual decline in demand from traditional market	Change ownership structure/control of the firm Professional expertise/skills – sales, management and improvement Product/service innovation Process innovation Supportive working practices
<i>Kitchen Co</i>	Growth/maturity	8.5	5.7	<i>Decline in customer base</i> Sudden decline in demand from traditional market	Professional expertise/skills – sales
<i>CCTV Co</i>	Beginning/growth	19.1	22.9	<i>Decline in customer base</i> Sudden loss of major customer	Professional expertise/skills – sales and improvement
<i>Bearing Co</i>	Maturity	1.6	2.0	<i>Decline in customer base</i> Gradual decline in demand from traditional market	Change ownership structure/control of the firm Product/service innovation
<i>Mortgage Co</i>	Growth	28.6	8.1	<i>Rapid growth</i> Managing increased market demand	Change ownership structure/control of the firm Professional expertise/skills – management and improvement Product/service innovation Process innovation Supportive working practices

As the demands of this large customer continued to increase, contractual requirements placed increasing strain on the owner-manager of CCTV Co. and the firm's adolescent structures and systems. Rather than dealing with the issues that would allow them to sustain their growth (e.g. skills, systems etc.) the owner-manager focussed on his inability to cope. This declaration was met with little sympathy by the customer who immediately withdrew the full contract from CCTV Co causing the firm to enter a rapid decline.

A reappraisal of constraints: changing the way we do things around here

In all five firms, a performance acted as a catalyst to identify what was not working. Management realised that they could no longer continue as they once had. The manner in which firms responded to the growth and performance challenges faced presented various opportunities for the development of HRM. The way in which firms dealt with these issues varied and the realities of working practices were summarised earlier (see Table 10.4). The success of these new ways of working however appeared reliant on the owner manager's comprehension of a common set of issues, namely: power and control; organisational structure; delegation; management skills; communication; (in)formality, and the development of more sophisticated working practices. We shall now explore each of these in turn.

All owner-managers were challenged to stand back, let go and relinquish control and their ability to achieve this depended on a range of variables (e.g. management style, human capital, social capital etc.). Whilst the changing role of the owner-manager within each of the case studies provided various opportunities for increased levels of HRM, developments were largely isolated at a managerial level. Increased managerial involvement was driven through the recognition by owner-managers of a need for organisational structures and defined reporting lines, in order to support the practice of delegation. The ability for owner-managers to step away from their day-to-day operational responsibilities, thereby releasing time to concentrate on more strategic matters was important, and in many respects, determined the degree to which employees became involved in the firms' operations. That is, those owner-managers that struggled with the changing nature of power and control, notably in Kitchen Co, CCTV Co and Bearing Co, were less likely to be in a position to deal with change management, employee resistance, communication, employment relations, and, the development of more sophisticated working practices.

In the context of a reappraisal of constraints, the ability of owner-managers to recognise and support skills development activities amongst their newly formed management team reinforced the degree to which delegation was a success across all firms. As will be explored later, the origin of members of the management team combined with the skills and development opportunities provided by the firm reinforced the extent and nature of HRM. Whilst Kitchen Co, CCTV Co and Bearing Co retained a shorter term, operational focus, Mortgage Co and Cable Co recognised the need to promote a longer term strategic approach, indicated by management team development:

‘He [the owner-manager] could see there had been a lack of any real training in management skills. I went on a five day course over at the [local college]. It was called ‘how do I manage?’ That was quite good and it was nice to be involved with about four or five companies networking and seeing how other people address problems’ (Technical Director, Cable Co).

It was clear that all five owner-managers grappled with the introduction of process efficiency improvements during the reappraisal of constraints. Limitations placed upon improvements were often a by-product of a lack of buy-in from the owner-manager for particular improvement initiatives, such as Lean, and/or a limited understanding of how generic process improvement techniques applied to their own unique firm context. It was also evident in Kitchen Co, CCTV Co and Bearing Co that product-related change (e.g. generating new sales) took precedence over longer term process improvements, meaning that these firms made few changes. Those firms that were attempting to introduce process innovations, such as Cable Co and Mortgage Co, encountered staff resistance, often due to employees’ experiencing negative consequences to change in the past and/or a fear of new working practices:

‘People have been working here for thirty to forty years...some since school...they do not like it [the change]...it is very difficult for them to adapt’ (Production Operative A, Cable Co).

This resistance and trepidation was not helped by the persistent failure of management to keep staff informed and updated through formal voice channels, as explained by a production operative in Cable Co:

There is a lack of communication...you just get rumours....that is how it goes; it is like Chinese Whispers' (Production Operative B, Cable Co).

It was evident that firms responding to a shock were struggling with the introduction of more formal employment relations practices. It was apparent that those firms (e.g. Mortgage Co, Cable Co) that were proactively responding to issues of power and control, organisational structure, delegation, management skills, communication and (in)formality were championing the development of more sophisticated working practices. These structural issues were therefore a precursor to the formalisation of working practices and shaped HRM in the case study organisations. Working practices played a supportive role in these wider structural changes. For example, the owner-manager of Bearing Co had struggled with the successful implementation of a management team structure and the more formal methods that had been introduced were later stopped in favour of informal conversations:

'...we used to have a staff meeting, but to be honest we all thought they were a little bit silly to continue so we knocked it on the head...because it [the firm] is so small and we are talking to each other all the time anyway. If anything happens you just bring it up there and then' (Sales employee, Bearing Co).

The lack of recognition by the respective owner-managers of the importance of the formalisation of working practices at Kitchen Co, Cable Co and Bearing Co hampered the influence that employees had in decision making and constrained meaningful involvement. Evidence highlighted the informal and functional use of communication arrangements, rather than involvement and communication being used as a strategic or democratic process.

'...I dragged him [production operative] into an early lean manufacturing meeting...he went back to the workshop and acted like he was some kind of chosen mentor...it upset people that he was going back in...I just wanted him to quietly engage and move things forward...he probably did not mean to be like that, but that is how it came across' (managing director, Kitchen Co).

The results outlined above reveal that firm performance was a key catalyst in identifying that was not working in the case study firms. Firms were underperforming either because their products/services were losing relevance to the market place (Cable Co. and Bearing Co), or as a consequence of internal mismanagement (Kitchen Co. and CCTV Co.). In the former cases,

in agreement with Levie & Lechtenstein (2010), underperformance was a result of a mismatch between the firm's products/services and the demands of the marketplace, these firms had failed to innovate. In the latter cases, the firm's products were still relevant to the marketplace and in demand, but the respective owner-managers had failed to effectively manage the delivery of these products/services.

In all cases underperformance was a result of the inability for owner-managers to appropriately configure the resources (human, physical and financial) available to them (Levie and Lichtenstein, 2010, McKelvie and Wiklund, 2010) a capability determined by their comprehension of a common range of issues including: power and control, organisational structure, delegation, management skills, communication and (in)formality. These findings provide further insight to the composition of the human capital of owner-managers/entrepreneurs and how these individuals make decisions that ultimately influence the process of growth (Leitch *et al.*, 2010, Wright and Stigliani, 2013) in SMEs. These findings also reveal that a period of underperformance was most likely to precede a period of growth, providing further support for the fact that growth is a discontinuous process (Storey, 2011).

These findings also denote the positive role that performance can play in HRM. Performance was not simply an output of a specific HRM style (as HRM texts would have us believe) but acted as a trigger (Bacon *et al.*, 1996, Wright and Edwards, 1998, Ram *et al.*, 2001, Cassell *et al.*, 2002, Keller and Werner, 2010) to identify what was not working. In response, owner-managers made changes to the way in which the firm operated including: ownership and managerial structure, skills development, and product/process innovation (see Table 10.5). The introduction of more formalised working practices supported the above changes and reinforced a drive by respective owner-managers to professionalise the firm. In so doing, issues in relation to human and social capital came to the fore in order to develop an appropriate response to the product market. In the immediate term (i.e. the period of growth covered by the research) this led to an improvement in performance. However, given that this research is not longitudinal, it is hard to conclude how these changes would influence the trajectory of the firm over the longer term.

These findings therefore support those outlined earlier that HRM in SMEs is not static, but evolves over time in response to firm-specific performance challenges (Guest, 2011) and confirms the importance of including the dynamic of growth in studies on HRM in SMEs. These results also confirm performance to be multidirectional and multidimensional in nature,

having the power to drive firm behaviour. The performance challenges that SMEs faced led all owner-managers to reappraise the constraints placed upon the firm and provided increased opportunities for greater levels of HRM. The heterogeneity in firm response was a consequence of the way in which firms were responding to the underlying causal mechanisms faced and how firm specific constraints (product market, labour market and strategic orientation) and resources (human capital, social capital and institutions) coalesced. It is these issues that shall now be explored in further detail.

RQ4): What are the underlying [causal] mechanisms that determine the HRM approach taken by SMEs in response to growth/performance challenges?

Whilst the findings presented above have confirmed *how* firms were changing in response to growth and performance challenges and the central role played by HRM, they only partly explain *why* firms responded as they did. All cases were, to a lesser or greater extent, experiencing growth but HRM and wider working practices were at different stages of development. In order to further advance our understanding of why this is the case we need to examine the underlying causal mechanisms that catalysed firm response, along with firm specific resources and constraints. Table 10.6 summarises the underlying causal mechanisms found to be in operation in the case study organisations. It is these mechanisms that were found to unlock the development of working practices within these firms. One must be careful not to interpret this table along a simplistic continuum (i.e. mechanism 1 led to mechanism 2 and so on...). These underlying causal mechanisms did not represent discrete stages within a firm's history, they co-habited time and space and have been presented in order of similarity.

The detection of an imminent shock and the entry of new forms of human capital, which brought new skills, resources and relationships (e.g. social capital) to the firm, were the most prevalent causal mechanisms across the case study organisations and it was these mechanisms that helped to challenge embedded custom and practice. A performance-related shock, aligned with Wright and Edwards (1998), was found to play an influential role in changing the behaviour of four of the five case studies. In Cable Co. and Bearing Co. owner-managers recognised performance was suffering as a result of the decline in demand from the firms' established customer base. The owner-managers of these firms sought to make changes prior to entering a loss making situation. The owner-managers of Kitchen Co. and CCTV Co. had placed too high a value on responding to operational requirements of existing contracts at the expense of sales development and did not foresee the impending performance shock. In the

case of CCTV Co. concentration focussed on one customer in particular who accounted for the majority of the firm's sales turnover. A central issue to these case study organisations was not so much underperformance *per se*, but a level of performance that was no longer sustainable. Case study organisations were quite prepared to continue along an inefficient path as long as there was still a profit involved.

Table 10.6: The underlying causal mechanisms of HRM and performance in SMEs

<i>Case study organisation</i>	<i>Underlying causal mechanisms</i>		
	Mechanism 1	Mechanism 2	Mechanism 3
<i>Cable Co</i>	Detection of shock - performance	Entry of new human capital - owner	Owner exits firm
<i>Kitchen Co</i>	Detection of shock - performance	Entry of new human capital - sales director	Management take control
<i>CCTV Co</i>	Detection of shock - performance	Entry of new human capital - sales director	Owner injects private equity
<i>Bearing Co</i>	Detection of shock - performance	Entry of new human capital - joint owner	Formation of partnership - supplier
<i>Mortgage Co</i>	Detection of shock - regulatory	Entry of new human capital - Finance, marketing, Ops & HR	Formation of partnership - competitor

Owner-managers responded to performance shocks in a diverse set of ways. Firms responding to underperformance initially focussed on survival. The most severe shock was that experienced at CCTV Co. The firm lost the majority of its sales turnover overnight and required an injection of private financial capital to keep the firm afloat. All case study organisations responding to a performance shock initially focussed on rebuilding sales and marketing and only then were resources allocated to wider structural and systemic changes, the development of which related heavily to firm context (e.g. human capital, social capital, product and labour market etc.). When set against more immediate performance challenges longer term strategic concerns at Kitchen Co., CCTV Co. and Bearing Co. took a back seat. In contrast Mortgage Co. had access to greater levels of financial resources to invest in HRM and wider working practices as a consequence of rapid growth. Institutional mechanisms (in the form of new government regulations) also drove a deeper, more analytical approach to the firm's operations, a point that will be explored in greater detail later.

Commonality was observed across all firms in regard to the recruitment of new forms of knowledge. In recognition of the need for owner-managers to reduce their dictate and introduce more professional management skills, all firms introduced a new senior member of

staff. These individuals provided new knowledge and learning opportunities, brought with them a fresh perspective and challenged existing structures and practices therein promoting change. Underperformance at Cable Co., Kitchen Co., and CCTV Co. unlocked the power of new directors to introduce new sales and marketing processes. This subsequently meant that the lion's share of involvement was retained for those who held knowledge of product development: an established Production Manager at Cable Co, the Sales and Marketing Director at Kitchen Co, and a new Business Development Manager at CCTV Co.

However, given that owner-managers at these firms failed to adequately resolve crucial matters surrounding the distribution of power and control, these new forms of knowledge became constrained. This simultaneously limited opportunities for wider delegation and investment and created tension at a managerial level within these firms. The importance of, and an understanding of, issues of power and control determined the degree to which owner-managers responded to a range of other internal challenges, and ultimately determined the breadth and depth of HRM. Those owner-managers that struggled with the changing nature of power and control were less able to deal with issues relating to: change management; employee resistance; communication; and management skills (in terms of development and investment). HRM and wider working practices within these firms remained adolescent and informal. Indeed, at Kitchen Co. this uncertainty effectively led the management team to take over and order the owner-manager to step back and delegate:

'...listening to the management team...they are kind of saying it needs to be led by me, people listen to me more than anybody in the family...at the end of the day it is down to leadership...it is frustrating in a way that people have to hear it from me and not someone else' (managing director).

In contrast, those owner-managers that embraced internal challenges championed more formal HRM practices. Issues in relation to power and control were tackled successfully by the owner-managers of Cable Co. and Mortgage Co. who personally championed the development of structures, systems and working practices. Working practices within these firms were found to play a supportive and regulatory role to these wider structural changes. At Mortgage Co. new regulations played an important role in driving a more strategic analytical approach to their operations (e.g. Ram, 1994, Ram *et al.*, 2001, Paauwe, 2004, Edwards and Ram, 2006, Edwards *et al.*, 2006). Taken as a whole, these results provide important insight to the underlying causal mechanisms that determine the role that HRM plays in SMEs. In the main a

point of crisis had to be experienced before changes were made in the way firms operated. As has been further explored above, champions played an influential role in responding to growth/performance challenges, stimulating new growth and promoting the introduction of working practices across the case study organisations. However the role that such champions played was promoted and constrained by their role within the firm and the relationship held with, and the approach taken by, the owner-manager. One must also not overlook the fact that champions entered all case study organisations as a consequence of chance contingent events (Easton, 2010) through informal and personal networks, not as a result of a purposeful and/or a rational recruitment process. This demonstrates that even growth-oriented SMEs leave a lot to chance and adopt a largely responsive mode to their operations.

The extent to which working practices were embraced across the growth-oriented case studies were informed not only by changes in performance and knowledge but also as a consequence of a cocktail of firm specific constraints (product market, labour market and strategic orientation) and resources (human capital, social capital and institutions). The conceptual framework developed within this study (outlined in section 2.4.3) built on prior contextual studies (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) affording an opportunity to appreciate how these dynamics interacted and influenced SME performance. The growth-oriented case studies were subsequently analysed and aligned against these dynamics, the findings of which are displayed in Table 10.7. Having explored the dynamics of growth and performance above, the remainder of this section will now discuss the role of these wider contextual factors played in shaping the HRM in the order presented on the left hand side of Table 10.7. As a consequence, this section will shed important insight on the relationship that HRM holds with performance in SMEs.

Human and social capital: unlocking established patterns of decision making

All five firms appeared to share a common openness to new knowledge and learning. All firms had developed customer and supplier relationships and were also developing social and personal business networks; however the rationale for developing such relationships varied greatly. For Cable Co. and Mortgage Co. the development of human and social capital formed part of a wider strategic plan, for Kitchen Co., CCTV Co. and Bearing Co. interaction with these dynamics amounted to 'dabbling' rather than a defined approach to continuous improvement.

Table 10.7: Empirical classification of growth-oriented SMEs

		<i>Degree</i>					
Outer Dynamics							
Ownership	Family	M2 C	F	M1 W			Private
Size	Small	C W		M1 M2		F	Medium
<i>Growth</i>							
Mgt. of Transition	Reactive	M2 C	W		M1	F	Strategic
Performance – Sales	Low	W	M1	M2	C	F	High
Performance – Emp.	Low	M1 W	M2 F			C	High
<i>Resources</i>							
Human Capital	Negative		M2 CW		M1 F		Positive
Social Capital	Negative	M2	C W	M1	F		Positive
- Business Networks	Limited	C W	M2	M1 F			Extensive
- Supplier Networks	Limited	M2	W	C		M1 F	Extensive
- Customer networks	Limited	M2	M1	C W		F	Extensive
Financial Capital	Negative		M2 CW		M1 F		Positive
<i>Institutions</i>							
Network Integration	Low	M2 CW		M1 F			High
Network support	Low	C W	M2	M1 F			High
Intermediate Dynamics							
<i>Product Market</i>							
Product Market: Nature of	Comp	C W		M1	M2 F		Control
Strategic Choice	Reactive	M2 CW			M1 F		Strategic
Level of Competition	Low	M2		M1	C W		High
Nature of Competition	Local	M2		C W F		F	International
Quality	Low		W	F	C	M1 M2	High
Price	Low		M1	M2	C	W F	High
Nature of Cust. Relations	Negative		C W	F	M1 M2		Positive
<i>Labour Market</i>							
Flexibility	Restricted		M2 CW	M1	F		Open
Strategic Choice	Low	M2 C	W	M1	F		High
Resources: Human capital	Reactive	M2 W	C		M1	F	Strategic
	Negative	M2 W	C	M1	F		Positive
Inner Dynamics							
<i>Organisation</i>							
Structure	Crude	M2 CW			M1	F	Sophisticated
Standards	Crude	M2 W			C F	M1	Sophisticated
Systems: Technology	Crude		M2 CW		M1	F	Sophisticated
Systems: Performance	Crude	M2	C W		M1	F	Sophisticated
<i>Management Style</i>							
Strategic Choice	Authority	C	M2 W			M1 F	Democratic
HRM: Management of	Reactive	C	M2	W		M1 F	Strategic
	Unskilled	M2 CW		M1	F		Skilled
<i>HRM Practice</i>							
High Involvement	Reactive	M2 CW			M1	F	Strategic
Human Resource	Crude	M2 W	C	M1	F		Sophisticated
Reward & Commitment	Crude	M2	M1 CW		M1	F	Sophisticated
	Crude						Sophisticated
<i>Rules & Routines</i>							
	Particular	M2 CW		M1	F		Universal

Key: M1 = Cable Co., M2 = Kitchen Co., C = CCTV Co., W = Bearing Co., F = Mortgage Co.

Note: Key relates to firm sector: M = Manufacturing, C = Construction, W = Wholesale, F = Financial Services.

This was demonstrated by an example highlighted earlier whereby, following attendance at a best practice meeting, an employee of Kitchen Co. sought to introduce lean manufacturing techniques at the workplace. The owner-manager recognised that further training was required but had failed to provide this training or clarify the employee's specific role or responsibilities. In contrast, the owner-manager's of Mortgage Co. and Cable Co. took an investment-led approach with resources being made available to up-skill employees.

The context of human capital was very important for the owner-manager in all five firms. The introduction of a management team/structure did signal a departure from an operationally myopic approach towards more effective decision making; albeit with varying levels of success. Owner-managers could be described as technically competent, but not always managerially competent. All owner-managers, other than at Cable Co., were the original founders and had initially set up their business as a result of their passion and technical competence which was directly related to the firm's product/service. These original founders found it notably harder to relinquish control over operational duties. Cable Co. was different in this respect. The owner-manager had entered the firm as a sales manager, before buying out the previous owner. This meant that owner-manager of Cable Co. held expertise in the firm's products, but had little expertise in the firm's manufacturing processes. This resulted in the delegation of decision-making power to other management levels, but did not automatically lead to increased levels of autonomous working or employee involvement.

In some firms, such as Kitchen Co., CCTV Co. and Bearing Co., the introduction of new, senior members of staff created a mismatch of skills, whereby the management team held a greater level of skill/expertise than the owner-manager. This mismatch translated into frustrations at a management level and confusion regarding individual responsibilities. The owner-manager of Kitchen Co was unsure of what his role entailed. At CCTV Co., a tension existed between the owners and the Business Development Manager who was being perceived as becoming too involved. At Bearing Co., the apparent mismatch of skills between the management team and the owner-managers impacted on opportunities for delegation. As outlined above, because the owner-manager of Cable Co. did not hold an in-depth understanding of the firm's production operations, the management team were afforded an increased level of autonomy to make decisions. This led to a greater reliance on management team members and a deeper level of involvement in the strategic direction and operations of the firm. Mortgage Co. had taken the decision to externally recruit members of staff into management team roles with defined responsibilities. This initially involved the employment

of managers through familial and informal networks, however more recently the firm had drawn on more formal networks and practices.

The way in which employees performed their roles and interacted with HRM was critically reliant upon the interaction of human and social capital and the firms' constraints, in the form of product market, labour market and institutional orientations. The strategic orientation of the firm was also integral in shaping unique combinations of human capital and social capital, and the product market challenges to which firms' were responding. These influences will now be explored.

Product market, labour market and institutions: Influencing strategic choice

The strategic orientation of the firm was an important determinant of the development of HRM. All firms differed in their formalisation of a strategy or vision. Cable Co., Bearing Co. and Mortgage Co. all held ambitious growth strategies, with varying levels of clarity. The owner-manager of Cable Co. and Mortgage Co. shared their vision within the firm, whilst in Bearing Co. this occurred to a lesser extent. Kitchen Co. and CCTV Co. were less aware of how to express the future vision of the firm to employees. The strategic orientation of the firm appeared to be related to the unique form of human and social capital outlined earlier, allied with the product market in which the firms competed.

The traditional marketplace that Cable Co. inhabited was relatively free of competition. The firm's traditional product was of high quality and locked into customer specifications which, given the nature of the end consumer product to which they contributing (an airplane), held an air of permanence. The longevity of a number of these specifications however was coming to an end as complex designs were being renewed by customers. This opened up the firm's traditional market to greater levels of international competition in the specification of new designs. In an attempt to meet these challenges, the firm had begun to take, under the leadership of its new owner-manager, a more proactive strategic approach to its product market by reorienting its role in the value chain. The firm had invested in the development of new products that would no longer rely on the specification process, thereby reducing the quality requirements imposed upon them.

As was the case with Cable Co., Kitchen Co. had few competitors for their products. Unlike Cable Co. however, Kitchen Co.'s products remained in high demand. The firm occupied a high quality niche within its regional marketplace. The majority of the firm's business came as

a result of referrals and reflected the attention to service quality. Indeed, the firm tried so hard to please customers that it often produced one-off items of furniture at a loss, to complement a customer's new kitchen. The firm had only just begun to advertise and had recently invested in a new showroom in an attempt to generate increased interest in its products. The firm remained largely reactive and continued to respond to the product market challenges they faced.

CCTV Co. and Bearing Co. operated within niches of nationally competitive industries, viewing competitors as low quality/cost, with the owner-manager of both firms referring to competitors as 'cowboys'. This had much the same result as in Kitchen Co.; the firms were not strategically oriented, yet did maintain key unique selling points to ensure they differentiated themselves from the competition. CCTV Co. for instance graded the performance of the equipment they supplied through a range of in-house tests. This insight enabled CCTV Co. to advise customers on which equipment was most suited to the task at hand. The firm also offered a two-year warranty for all installations. Bearing Co. was in the process of taking a service to market which would remotely monitor the vibration of bearings and provide real-time information on maintenance and renewal needs.

Like CCTV Co. and Bearing Co., Mortgage Co. operated within a highly competitive national marketplace. Additionally, the market in which Mortgage Co. competed was heavily regulated and highly transparent. As a consequence, the firm had purposefully retained a niche in the commercial mortgage market and were taking an aggressive strategic approach in responding to the challenges they faced. They had also led the formation of a cooperative with competitors, which provided its members with increased bargaining power with lenders. This development promoted intimate supply chain relationships and provided these firms with highly competitive lending rates.

The nature of the labour market also influenced the approach of all five firms. Mortgage Co. was expanding rapidly, necessitating the attraction of employees from a pool of skills that typically resided in large London-based firms. This translated into a professional approach towards staffing in order to attract employees through well-developed recruitment, selection, training and compensation practices. As alluded to earlier, employees who joined the firm had typically worked for larger professional service firms and held high expectations. This resulted in a professional approach to the firm's operations and, in response to these demands, the firm had developed HRM and wider working practices. For instance, the firm operated collective voice channels, including an annual away day to encourage employees to engage with and

provide input into the firm's plans. Individually, employees could also provide suggestions through the firm's intranet and a formalised appraisal system.

The other four firms were not expanding at quite the same rate; employees had 'grown up' with the firm and held long tenure. The knowledge held by employees limited the pressure upon management to implement more sophisticated, substantive HRM practices. In the majority of cases employees held long tenure with the firm and had therefore not been exposed to larger, more professional working environments. As a consequence, employees held different expectations of the working environment. Equally, employees at these firms remained embedded in existing ways of working and formal practices were met with disinterest and/or limited understanding as to their importance. For instance, a consultative committee had been met with employee disinterest at Cable Co. and team meetings had later been stopped at Bearing Co.

As has become clear as we have moved through this chapter, institutional pressures (Paauwe and Boselie, 2003) were also found to play a range of roles in promoting the introduction of working practices. All firms apart from Kitchen Co. were responding to coercive forces. Cable Co. and CCTV Co. had established quality management practices and accreditations to secure customer contracts. Training efforts at CCTV Co. and Bearing Co. were heavily influenced by larger suppliers. At Bearing Co. and Mortgage Co. the design of organisational structure had been informed by their suppliers. At Mortgage Co. government regulations introduced via the FSA had also driven greater transparency across the industry and, as outlined above, had formed an underlying causal mechanisms for the adoption of a more strategic and planned approach to the firms operations.

Investigations into lean manufacturing tools and techniques at Cable Co. and Kitchen Co. had been promoted through government-funded best practice networks but, as outlined earlier, attempts at Kitchen Co. had amounted to little more than dabbling rather than any defined approach to continuous improvement. Likewise, whilst Bearing Co. had implemented a performance measurement system (i.e. CRM) to emulate others in their industry this decision have been based on cost not in order to improve productivity *per se*. Normative forces had also influenced the development of working practices across all firms. As a consequence of the performance challenges combined with the constraints and resources outlined earlier firms had implemented, to varying degrees, an organisational structure, reporting lines, a management

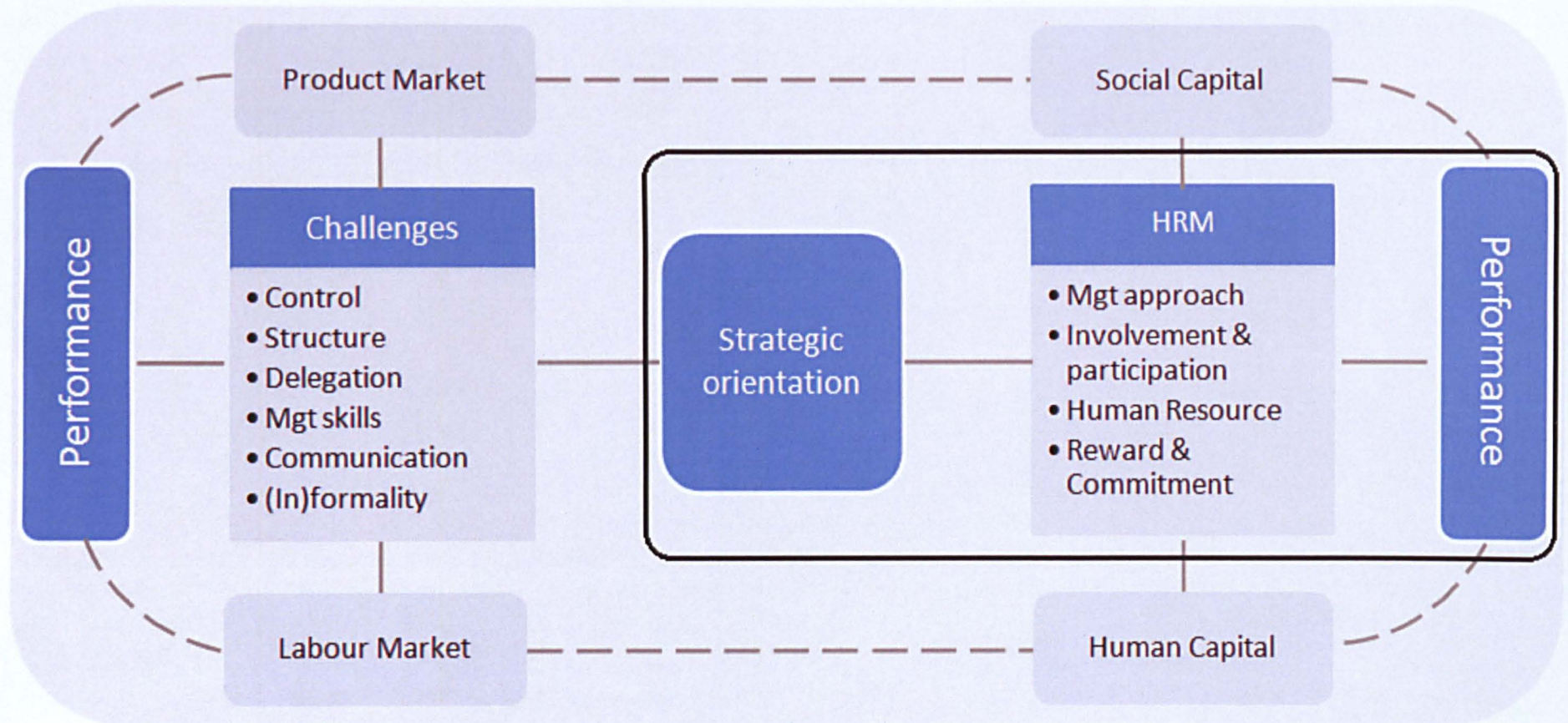
team, communication mechanisms, operational systems (e.g. CRM), performance measurement systems and a range of wider working practices.

This section has explored the underlying (causal) mechanisms and how these interact with wider dynamics to determine the HRM approach taken by SMEs. These results confirm that SMEs are unlikely to change their *modus operandi* unless they experience a shock (e.g. performance, regulatory). As a consequence of this shock firms opened themselves up to new forms of knowledge and ways of working. However the extent to which SMEs had implemented HRM was determined by the approach of respective owner-managers to issues of power and control. Those owner-managers (Kitchen Co., CCTV Co. and Bearing Co.) who assumed an authoritarian approach struggled to relinquish control and constrained workplace change. Human and social capital at these firms remained underdeveloped. Those owner-managers that promoted a democratic approach embraced delegation, made changes to structures, developed the skills of management and implemented appropriate communication mechanisms. These owner-managers understood the positive strategic role that formality played in firm growth and were implementing greater levels of HRM and wider working practices.

RQ5) Does a particular SME model of HRM and performance exist?

This thesis has presented an exploratory analysis of HRM and performance in SMEs. Drawing on prior contextual studies (e.g. Edwards *et al.*, 2006; Gilman & Edwards 2006), this research explored how and *why* HRM operates in high growth SMEs, a research agenda that remains largely neglected, understudied and undertheorised (Wilkinson, 1999, Marlow, 2006, Fleetwood and Hesketh, 2008, Gilman and Edwards, 2008). The findings to this point have revealed considerable diversity in the HRM practices employed, and the myriad of external and internal forces that coalesce to determine the contours and practice of HRM and employment practices in SMEs (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008). On the basis of this exploratory research, a model has been derived for HRM and performance in SMEs (See Figure 10.2). This model serves as a coat hanger upon which to hang the empirical results that emerged from the analysis of the case study data, hence being grounded in analysis and prior literature (e.g. Gilman & Edwards 2008 etc.). This model will now be explored.

Figure 10.2: An evolutionary model of HRM and performance in SMEs



Traditional models of HRM and performance presume that performance emerges sequentially and smoothly from a set of defined HRM practices and a rational strategy (Huselid, 1995, MacDuffie, 1995, Ichniowski and Shaw, 1997, Appelbaum *et al.*, 2000) as represented by the activities encompassed within the bold black rectangle in Figure 10.2. However this was not the case within this study. First, little evidence was found amongst SMEs of a strategic orientation towards performance, let alone a strategy aimed at employment relations (Scott *et al.*, 1989, Harney and Dundon, 2007). It wasn't so much that strategy was emergent, but rather than the majority of actions were taken in a piecemeal, responsive manner and did not link to wider or longer term business issues/developments (Duberley and Walley, 1995, Cassell *et al.*, 2002). In effect, a purposeful strategy was not a starting point for the majority of SMEs.

Second, few SMEs had dedicated HRM expertise or wider knowledge of HRM matters. It was therefore unsurprising that little evidence was found of practices associated with a high performance approach (e.g. Duberley and Walley, 1995, Way, 2002). Where evidence of practices were found it was often not clear what shape practices took, or how relevant the original practice label actually was. In essence, practices varied in form and coverage (Truss, 2001, Tsai, 2006, Hui *et al.*, 2009) and the simple measures used during the survey stage were inadequate in capturing this complexity (Blasi and Kruse, 2006, Harney and Dundon, 2006). Deeper supplementary qualitative analysis drew attention to significant discrepancies between actual and reported practices and it became apparent that few firms, if any, recognised what they did in regard to HRM let alone its link with organisational performance (Drummond and Stone, 2007).

If one were therefore to base the conclusions of this study on the results above (i.e. the inclusion of only those elements within the bold black rectangle in Figure 10.2) then one would assert that SMEs are resource deficient and display a preference for the largely informal and unstructured approach towards the employment relationship (Edwards and Ram, 2010). One would also conclude that an approach to organisational performance as espoused by HRM traditionalist does not exist in SMEs. However such conclusions would do little to add to our understanding as to the role that HRM plays in the performance of SMEs. What the results above overlook, however, is the fact that SMEs were making changes to structures and wider working practices in response to growth and performance challenges. Within this study, aside to a regulatory shock in the case of Mortgage Co., performance was found to play a central role in catalysing a change in behaviour across all other cases. Performance was therefore

multidirectional and multidimensional, not merely an output of a defined approach towards HRM.

SMEs were found to be taking a range of steps in order to respond to these performance challenges. Whilst these internal developments were not universal across all SMEs, common themes were noted. Those owner-managers that had taken to heart issues of power and control, organisational structure, delegation, management skills, and communication were championing the development of more sophisticated working practices. In effect, only those once owner-managers that embraced these wider structural challenges (as identified on the left of Figure 10.2) were they able to acknowledge the value and necessity of increased levels of strategy and formalisation of working practice (as laid out on the right side of Figure 10.2). Working practices were promoted by, and played a regulatory and supportive role to, wider structural changes and signalled the start of a more robust and strategic response to the growth and performance challenges faced. Structural evolution in response to growth/performance challenges was therefore a precursor to more formalised HRM practice. Those owner-managers who retained an operational mindset, and lacked the necessary knowledge, struggled to resolve the balance of power within the business (Delaney and Godard, 2001, Osterman, 2006) an approach that ultimately constrained structural evolution.

These findings build upon those of the existing growth literature (see section 2.4.3) by providing further insight to the human capital of owner-managers/entrepreneurs and how these individuals make decisions that influence the process of growth (Leitch *et al.*, 2010, Wright and Stigliani, 2013) in SMEs. The role of the champion also came to the fore in helping the firm to interpret and respond to performance-related shocks and develop appropriate responses. For the role of a champion to be a successful one their influence had to extend beyond the boundaries of HRM and/or their immediate job task. Within this study, champions within the more progressive firms acted as an interpreter of shock and led a more purposeful strategic and integrated response across the firm. Champions within the less progressive firms were limited by their role, their expertise and ultimately the influence they had on decision-making wider than their immediate job tasks (e.g. sales and marketing). This research confirms that growth is a discontinuous process (Storey, 2011) and non-linear. The challenges that owner-managers (and SMEs) must embrace in order to navigate the growth process (Levie and Lichtenstein, 2010) are also unpacked.

This thesis also builds upon the existing HRM literature and proposes the need to reconceptualise HRM. Current research on HRM-P would appear to concentrate on the bold black rectangle on the right hand side of Figure 10.2 (typically referred to as the 'black box') at the expense of the left hand side. The extent to which HRM plays a role in the performance of SMEs within this study was embedded within firm specific responses to the growth challenges faced, allied with the way in which the growth process was managed. That is, it is how the broad ranging variables are related within Figure 10.2 that is important. If HRM and small firm researchers continue to focus their investigatory lens solely on those issues within the black box on the right hand side of Figure 10.2 (as much of the existing research on HRM-P does) they will only ever reach the same conclusion: that SME's lack HRM expertise and use simple and informal forms of HRM practice. Because of this, HRM researchers may well be narrowing their understanding of HRM in SMEs hampering their attempts to build more convincing theory on the link that HRM holds with performance.

If the nature of HRM is contingent on the process of growth in smaller firms then this study alludes to a new form of fit: that one might label 'evolutionary fit'. Just as children outgrow shoes and clothes, small firms outgrow their unstructured practices. It is not merely the fact that SMEs display a preference for the informal or unstructured management of the employment relationship, but actually the extent to which firms show a willingness and ability to manage the dualities of growth and HRM. Greater levels of structural formality would appear to play a positive supportive role in SME growth and evolution. Rather than a specific set of practices leading to competitive advantage in SMEs it is the overall approach firms take towards growth that is important and the human capital and social capital that this approach entails. Those firms that continue to rely on an unstructured approach to growth and fail to overcome issues of power and control may well be constraining their opportunities for future growth.

In addition to adding to our understand as to why some firms behave differently (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) this social research inquiry has shed new light on explaining why some SMEs may be more open to the ideas of high performance than others (Edwards, 2009). Those SMEs that are better able to manage the duality of growth and HRM are better placed to take advantage of the ideas embedded within models of high performance. These results shed further light on the dynamic nature of formality through the changing role of the owner-manager as they look to challenge existing systems of power and control (Marlow *et al.*, 2010).

It is apparent that HR infiltrates all organisations whether formal or not. HR is part of everyday working life and, as a consequence, is integrally wrapped up with other business issues. HRM researchers must be careful not to overtly concentrate on the 'black box' as defined by the black bold rectangle in Figure 10.2, as this study clearly demonstrates that this black box exists within a larger box. If one were to draw on an analogy: we will never understand the universe by merely studying our own galaxy (i.e. the Milky Way). These findings demonstrate the need to more readily bridge the gap between HRM and growth literature by incorporating the dynamics of growth within future contextual studies⁵⁴. In doing so, this study provides key insight to small business managers to the structural changes and obstacles that they will encounter during growth (Davidsson *et al.*, 2005).

How might one use this new model to explain how within CCTV Co. and Mortgage Co. differed and what role this played in performance? Both firms were classed as 'high growth' but occupied seemingly opposite ends of the conceptual framework (see Table 10.7). One possible explanation is that Mortgage Co. had built greater resilience and responsiveness to effects of a downturn and held greater potential to achieve sustainable growth having more effectively managed the growth process and embedded more integrated, sophisticated and supportive working practices that supported the development of human capital. In contrast, the performance improvements at CCTV Co. were a consequence of prior underperformance rather than real growth *per se*. Issues at CCTV Co. revolved around shorter term developments to their sales and marketing processes and little attempt had been made by the owner-manager to manage the process of growth or tackle issues relating to power and control, strategy or HRM. Unfortunately we are not in a position to address these questions within the scope of this study and further research is required to test this model longitudinally.

⁵⁴ Only Arthur & Hendry (1990) and Schuler & Jackson (1995) include 'growth stage' and define this as an internal infrastructural characteristic.

Chapter 11

Conclusions

11 Introduction

The final chapter of this thesis will review the key findings that have emerged from this social research inquiry. The implications of these findings for academic, public policy and SME communities will then be explored. The chapter will finish with an outline of the limitations of this study, and will make suggestions for further research.

11.1 Implications of the research

In light of the research gaps identified during the literature review, the primary objective of this thesis was to examine *the role that HRM plays in the performance of SMEs*. Current research on HRM-P has been widely criticised due to its weak theoretical foundations and overt focus on quantifying the relationship between surface level HRM practices and measures of organisational performance (e.g. Fleetwood and Hesketh, 2008). In short, the rationalisation of the employment relationship allied with the predominance of a scientific approach has led to a focus on what at the expense of understanding how and why HRM influences firm performance. This means we hold a relatively emaciated understanding of the generative mechanisms and processes at work between HRM and performance. In addition, much of our current thinking focuses on larger firms and presumes that normative HRM theory is easily transferable and applicable to SMEs. However HRM lacks theorisation and remains a 'fuzzy concept' to small firms (Marlow, 2006). Given the economic importance of SMEs to the British economy (BERR, 2008, EC, 2009, CBI, 2011) particularly in a time of austerity, such an understanding of HRM and performance is critical for employers, employees and policy makers.

For academics

This thesis signals a genuine attempt at advancing a causal explanatory account of the relationship that HRM holds with performance in SMEs. The study combined *a priori* contextual frameworks on employment relations and HRM practices (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) to support a context-sensitive analysis that examines how a wide range of determinants interact and influence firm performance. This

study extends these frameworks through the inclusion of the dynamic of growth therein offering key insight into the behaviour of growth-oriented SMEs, an area that has previously received little attention. The use of the high performance work system (HPWS) model as a framework upon which to retrospectively hang practices facilitated a broader and deeper analysis of the labour management practices of SMEs than has been achieved within any other prior study. Respect for a critical realist ontology and the application of a mixed-method strategy afforded a deeper dynamic and exploratory examination (Downward and Mearman, 2007) of a diverse set of HRM within five growth-oriented SMEs helping to overcome the weaknesses of prior quantitative studies on the HRM-P link (Guest, 1997, Edwards and Wright, 2001). This approach led to an explanation of why some firms might be open to the ideas of high performance than others (Edwards, 2009) and helped to identify the origins of HR practices (Guest, 2011) within those SMEs studied.

The first phase of the research provided further support for low levels of HRM in SMEs (Way, 2002, Sels *et al.*, 2006a), unsurprising given that SMEs were found to hold limited knowledge on HRM. Employment relations matters focussed on regulatory matters and relied on those holding proprietorial and/or line management responsibilities (Bowen and Ostroff, 2004, Forth *et al.*, 2006). A positive relationship was found between size, the presence of an HR manager and the breadth and depth of HRM practice at the survey and case study stages. These results also agree with established debates in the HRM field (Hornsby and Kuratko, 1990, Pearson *et al.*, 2006) and support the notion that the presence of an HR manager facilitates practice uptake (Kerr *et al.*, 2007, Marlow *et al.*, 2010). The presence of more sophisticated working practices were also found to be positively related to the more strategic aspects of formality such as the presence of organisational standards, the use of technology and performance measurement.

Clear discrepancies were found between the actual and reported practices of SMEs providing further evidence of over claiming (e.g. Duberley and Walley, 1995, Bacon *et al.*, 1996, Marlow, 2002). Working practices lacked consistency in design and coverage (Truss, 2001, Hui *et al.*, 2009) and HRM was primitive when compared to business management texts. Having said this, more formal practices were found at a management level, formality that had not yet been cascaded to lower employee levels. Formality was therefore, dynamic and was not an either/or classification (Taylor, 2006; Harney and Dundon, 2006; Marlow *et al.*, 2010). It was often questionable as to the extent to which practices in use by the majority of SMEs, such as induction and appraisal, had been purposefully adopted in order to improve performance and thus were worthy of the 'high performance' label (Rowden, 2002, Way, 2002). These

results continue to question the appropriateness of relying on survey-driven research when investigating HRM-P and lend support to methods that recognise the value of context-sensitive research (Edwards, 2005) better able to capture the complexity of HRM (Harney and Dundon, 2006).

Despite the low levels of HRM practices found amongst those firms surveyed, little evidence was found of a bleak house environment within the case studies (Rainnie, 1989, Wiesner and McDonald, 2001). Employees in the main held cordial relationships with management and reported good levels of satisfaction. It became apparent that satisfaction related to the working environment in general rather than the sophistication of working practices. Those employees whom held long tenure had effectively grown up with the firm and held relatively low expectations of the working environment. The knowledge held by employees limited the pressure upon management to implement more sophisticated, substantive HRM practices. At these firms formal practices were met with disinterest and/or limited understanding as to their importance. In contrast, those firms that recruited employees from larger, more formalised environments experienced greater pressure to develop more formal ways of working.

No evidence was found of SMEs taking a high performance approach to organisational performance. It was not so much that SMEs did not show an interest in HRM matters, but merely that other short term product-related issues, such as sales and marketing, took priority (Duberley and Walley, 1995, Cassell *et al.*, 2002). Having said this, SMEs noted a range of internal developments/transitions that had been made to support growth. What became evident, therefore, was that these internal developments were not articulated by SMEs using the traditional 'HRM' label. These findings add further weight to inclusion of growth as a dynamic in SME studies and suggest that traditional HRM studies are failing to capture the complex and particularistic nature of workplace practice in SMEs (Taylor, 2004, Harney and Dundon, 2006).

There were signs amongst the more progressive case studies (e.g. Mortgage Co.) of firms that were taking onboard greater levels of HRM. Whilst managers at these firms had not purposely created a system or adopted the language of HRM theorists (Drummond and Stone, 2007), it was evident that their understanding of HRM was developing. Within these firms thinking was taking place in a more strategic and integrated fashion with wider practices, beyond those associated with sales and marketing, being implemented to support growth & performance aspirations. Findings which indicate that the adoption and implementation of more

sophisticated working practices is related to the nature of performance and the state of wider structural change and evolution.

This study alerts HRM researchers to the multidirectional and multidimensional nature of performance. Performance was not merely a planned and expected output of an approach towards HRM as traditional linear positivist HRM models would have us assume (Fleetwood and Hesketh, 2008) but was a key catalyst in identifying that was not working in the case study firms. Performance acted as a trigger in catalysing a change within those firms studied (e.g. Bacon *et al.*, 1996, Ram *et al.*, 2001, Cassell *et al.*, 2002). Performance-related shocks, aligned with Wright and Edwards (1998), and the entry of new forms of human capital, which brought new skills, resources and relationships (e.g. social capital) to the firm, were the most prevalent causal mechanisms across the case study organisations that helped to challenge embedded custom and practice.

Firms were underperforming either because their products/services were losing relevance to the market place (Cable Co. and Bearing Co), or as a consequence of internal mismanagement (Kitchen Co. and CCTV Co.). In all cases underperformance was a result of the inability for owner-managers to appropriately configure the resources (human, physical and financial) available to them (Levie and Lichtenstein, 2010, McKelvie and Wiklund, 2010) a capability determined by their comprehension of a common range of issues including: power and control, organisational structure, delegation, management skills, communication and (in)formality. These findings provide further insight to the composition of the human capital of owner-managers/entrepreneurs and how these individuals make decisions that ultimately influence the process of growth (Leitch *et al.*, 2010, Wright and Stigliani, 2013) in SMEs. These findings also reveal that a period of underperformance was most likely to precede a period of growth, providing further support for the fact that growth is a discontinuous process (Storey, 2011).

New forms of human capital entered the firm and assumed the role of 'champion' (Ulrich, 1997, Cassell *et al.*, 2002). Within the more progressive firms (e.g. Mortgage Co. and Cable Co.) the owner-manager assumed the role of champion, acting as an interpreter of shock and leading a purposeful strategic response. The champion role within the less progressive cases (e.g. Kitchen Co., CCTV Co and Bearing Co.) was assumed by a new member of the management team who held no formal ownership in the firm. Whilst these individuals drove change in response to performance challenges, improvements were typically restricted to their immediate job roles (e.g. sales and marketing), and lacked integration with more strategic level

matters. Limitations placed on champions at these firms were as a consequence of a mismatch between the ambitions and knowledge of the champion and that of the owner-manager.

For those owner-managers unable to overcome their largely operational mindsets, HRM remained at the bottom of a long list of priorities, and working practices remained crude and particularistic and revolved around sales and marketing concerns. Those owner-managers that had recognised the potential value that greater levels and sophistication of structure and practice could have in promoting and supporting their growth and performance aspirations were seen to be taking a more purposeful approach towards the implementation of working practices. The approach towards work practice adoption was therefore, noted to vary across the case study organisations, illustrating the dynamic and transitory nature of organisational forms (see Figure 10.1, p243) (Edwards *et al.*, 2006). These results reveal the extent to which new forms of human capital positively supports firm response to shock is heavily determined by the owner-manager and denote, the importance of understanding how HRM, growth and change interact and that the dynamics of HRM and growth are not mutually exclusive. Overall, these results confirm the importance of including the dynamic of growth in studies on HRM in SMEs

This research also draws attention to the central role that wider structural forces play in HRM sophistication and small firm growth and evolution and, in so doing, moves thinking beyond the traditional conceptualisation of SMEs as resource deficient and informal. HRM practices in the main were only developed once key structural changes had taken place in the case studies. Those owner-managers that acknowledged the need to delegate control of operational matters were developing structures to support their transition to a more strategically-oriented role. In taking this step, owner-managers had to overcome key issues relating to the balance of power and control, organisational structures, delegation, management skills, and communication. Only once firms had taken to heart the resolution of these wider structural and resource challenges (as identified on the left of Figure 10.2, p260) were they able to acknowledge the value and necessity of increased levels of strategy and formalisation of working practice (as laid out on the right side of Figure 10.2). Working practices at these firms were promoted by, and played a regulatory and supportive role to, these wider structural changes and signalled the start of a more robust and strategic response to the growth and performance challenges faced. Structural evolution was therefore a precursor to more formalised HRM practice. These results shed further light on the dynamic nature of formality (Marlow *et al.*, 2010) and power and control (Townley, 1993, Blasi and Kruse, 2006, Edwards, 2006) during firm growth.

This study develops a new model grounded in prior discourse that is more capable of explaining *why* SMEs take a varied approach towards HRM and performance. This study expands on the work of Edwards *et al.* (2006) and Gilman and Edwards (2008) by more readily capturing the dynamic and evolutionary nature of HRM in SMEs. This model provides optimism that SMEs are able to pass from one organisational form to another that is more capable of supporting the ideas embedded with a high performance approach. Examples of Cable Co. and Mortgage Co. provided evidence of SMEs that were attempting to move towards a 'modern firm' as depicted by Edwards *et al.* (2009). These firms were taking a deeper strategic response to the growth and performance challenges they faced. HRM at these firms was developing and both firms were introducing more universal and sophisticated working practices. As highlighted above, however, cases did not fit into neat organisational forms. SMEs were in transit at various stages of their growth and performance journey. The speed at which firms were navigating the evolutionary process, and the subsequent sophistication of HRM practices, relied heavily on the owner-managers recognition of, and approach to, the growth and performance challenges faced by the firm and the nature and development of human capital.

This research alerts HRM academics to the danger of concentrating their investigatory lens solely on the bold black rectangle on the right hand side of Figure 10.2. This approach neglects the left hand side of Figure 10.2 which draws attention to the fact that the nature of HRM in SMEs is contingent on the responses taken to the growth challenges faced and that researchers must understand how a broad range of variables interact in their totality. Whilst this may seem obvious now, this is an area neglected within the current HRM literature. If researchers continue to focus their investigatory lens solely on the right hand side of this model (as has much of the existing research on HRM-P) they will only ever reach the same conclusion: that SME's lack HRM expertise and use simple and informal practices. This study questions whether HRM researchers are narrowing their understanding of HRM in SMEs, hampering their attempts to build more convincing theory on the link that HRM holds with performance. This study therefore calls for a reconceptualisation of HRM to include the evolutionary process of wider workplace structural change alongside the specifics of HRM. In so doing, this study alludes to a new form of 'evolutionary' fit, which provides a welcome bridge between 'best fit' and 'best practice' approaches. Central to this argument is the need for HRM researchers to give greater attention to the dynamics of growth when investigating the relationship that HRM holds with performance in SMEs.

A final point to note is that the researcher held a full-time research role and completed this thesis on a part time basis. Whilst this is not interesting in itself, the researcher found himself contributing to, and taking a lead, on other research projects. These projects held synergistic qualities and provided a welcome voice to many of the findings within this study, magnifying the impact of this piece of research. The author will be happy to discuss these outputs in greater detail during the oral examination, and the examiners can learn more about these outputs by turning to the study's 'Impact Plan' that has been included within Appendix 4 (p322).

For policy makers

For policy makers this research reveals that best practice approaches to high performance (e.g. Sung & Ashton, 2005) cannot be considered in isolation to SME performance. Performance is more than just an output: it determines the willingness and ability for SMEs to take a best practice approach. In shedding further light on the dynamics of firm context (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) this research highlights the role that wider structural change plays in work practice sophistication. If wider structural change is at an adolescent stage then it is unlikely that firms have the incentive or basis upon which to build more sophisticated working practices. Equally, this research highlights that managers very much remain the architects of a high performance approach. If managers within SMEs remain unaware of high performance models it is likely that they will ever be in a position to take to heart the ideas of high performance no matter what size they are.

This research also calls into question the extent to which policy makers should continue to rely on the current EU definition of high growth when investigating SMEs (BERR, 2008, Lunati, 2011). This study provides evidence of firms falling within the current EU definition that were recovering from a previous period of underperformance and were, in response, making piecemeal changes to their sales and marketing processes. It is therefore questionable how sustainable these improvements in performance were, to what extent they contribute to growth at a national level and, as a consequence, whether these are firms that should be held up as exemplars of best practice. This research calls for a reconceptualisation of high growth, and the need for future work to pay greater attention to the ebb and flow of the process of growth through longitudinal research.

For practitioners

For practitioners, this research provides guidance on how best to use their time when working with SMEs. Given that the majority of firms within this study were responding to growth and performance challenges the question becomes: how can we get firms to change the way they operate without experiencing a shock? It is suggested that education focuses on helping SMEs relinquish old patterns of decision making that are detrimental to the performance of the firm and focus is placed on the process of growth. It is apparent that leaders of SMEs need to become more adept at understanding the duality of short term revenue generation and longer term competitive advantage. This advice could not come at a better time as yet another change in the form that business support provision will take under the current Conservative Government. Whilst the Business Link advisory service has been reduced to little more than a web-based presence, the Government has launched a new programme targeted at the owner-managers of SMEs entitled 'Business Coaching for Growth' (BIS, 2012). This scheme, worth an estimated £160m over three years, will attempt to target 10,000 businesses per annum with personalised coaching on business development⁵⁵.

The current Government must ensure that this new programme is more than just a reincarnation of Business Link. The findings within this survey reveal that less than a quarter of those firms surveyed turned to local or national government for their business advice. The case studies provided further qualitative insight as to why this might be the case. In general, advice took a shallow, generic and 'one size fits all' approach. The focus of the Business Link advisory service appeared to be on particular referral services (e.g. Carbon Trust, Environwise etc.) at the expense of truly understanding the growth and performance challenges that firms were facing. Those firms that had embarked on a business improvement planning process, such as Kitchen Co., were limited in their understanding as to how they were to respond appropriately to any recommendations made. The advice provided appeared to fall short of what was required to catalyse a change in embedded customs and practice.

Universities are also set to play a larger role in business support provision and at the present time are caught in a 'perfect storm'. The funding allocated to Universities from central Government has reduced dramatically. As has been widely publicised, from the 2012/2012 academic year University students will pay an increased level of fees to their chosen University. The role of the student has therefore changed to that of the end consumer. It is

⁵⁵ The Leadership & Management Advisory Service will be subsumed into this programme, and referral links will be made with other support programmes including 'help to innovate' and 'access to finance'.

argued that the 'student experience' will become ever more important and Universities will need to look at how they work with business across their teaching and research activities (BIS, 2011b). Universities are also becoming increasingly challenged to demonstrate the 'impact' of their research through the current Research Excellence Framework (REF) due to be assessed in 2014 (HEFCE, 2011). Universities will need reduce their reliance on traditional forms of income and find alternative routes for revenue generation. These changes will have a dramatic effect on the Higher Education sector and makes purposeful and constructive links with SMEs and wider business ever more important.

For managers of SMEs

For the SME community, this research draws attention to the challenges that they will encounter during the process of growth and evolution. Whilst there is 'no one size fits all' approach this study highlights key steps that SMEs can make to respond favourably to the growth and performance challenges they face. These challenges have been subsumed into an evolutionary model of HRM and performance in SMEs. This model provides a means of diagnosing a firm's current state, and a framework within which SMEs can progress future change and development. As a consequence, this study has created a common language that can be used between SMEs, practitioners, policy makers and academics. As a consequence, this may well hold the key to making the concept of high performance more accessible to owner-managers who will be better able to make more informed decisions in response to their future business support requirements.

11.2 Limitations and avenues for further research

This section explores the limitations of this research, and identifies suitable avenues for further research. One of the central concerns relates to the ability to infer generalisations from the results of this study. Whilst a survey was advanced as part of the overarching research methodology, the focus of this research was five case studies. These case studies were chosen to provide maximum opportunity for patterns to emerge and for rival explanations to be explored (Hammersley, 1998, Creswell, 2003). Case studies represented a diverse cross section of SMEs, offering distinction in regard to size, sector, industry and the nature of workplace innovation.

Whilst this thesis produced results that one could argue are more generalisable to the wider population than other contextual studies (Edwards *et al.*, 2006, Gilman and Edwards, 2008)⁵⁶ it would be wrong to assume that the growth challenges that firms faced, along with the implementation, operation and effectiveness of working practices, are identical. Generalisability was also limited by the location from which the participant sample was taken. The experience noted by firms located in Kent may well not be symptomatic of firms elsewhere in the UK. Further research could therefore take the model that has emerged from the study (as depicted in Figure 10.2) and test its applicability on a larger sample population. A survey approach could even be advanced to permit access to a wider and more dispersed geographical sample (e.g. Meadows, 2003).

Whilst the challenges of generalising from the results of this study have been acknowledged above, one might argue that the process used to generate the results could be generalised. Through the combination of *a priori* frameworks on employment relations and HRM practices (e.g. Edwards *et al.*, 2006, Harney and Dundon, 2006, Gilman and Edwards, 2008) it is argued that this study has developed a valuable new conceptual framework that can be employed by other HRM and small firm researchers to investigate and solve similar problems in a dynamic and non-linear fashion.

Negotiating access to the case studies was not overly problematic given the trust that had formed between the researcher and the participant during the research phases prior to the case study stage. The personal interview stage provided a vehicle through which the researcher was able to assess the suitability of the respondent firms for further study. However, the level of access granted by the case studies and the availability of the interviewees varied. The number of interviews conducted within each case study ranged from a minimum of five to a maximum of ten. Given the size of case studies, and the time available to the researcher, it was also not considered appropriate to keep employees away from the workplace for extended periods of time. Whilst at least twenty per cent of the total workforce was released by each case-firm for interview, this limited the ability to triangulate managerial and employee responses and hence limited the overall depth of the research.

Additionally, one cannot assume that the experiences of those managers and employees questioned were the same as those excluded from the study. Indeed, prior research draws

⁵⁶ Edwards *et al.* (2006) focussed on low-wage family-owned firms and Gilman and Edwards (2008) focussed on high tech firms.

attention to fact that workplace practices may not be perceived uniformly between management and workers (e.g. Truss, 2001, Bowen and Ostroff, 2004). Furthermore, given the infantile nature of HRM found in the majority of those firms surveyed, managers and employees within these firms held limited experience of HRM. Unpicking the nature of workplace practice in SMEs proved to be a considerable challenge. Given the constraints outlined above, employee interviews played a largely confirmatory role, checking the existence of practices and where possible probing employees as to their experience of these practices. Whilst not an aim of this study, it was not always clear why particular practices had been introduced, or the degree to which they were considered to be a success at a manager and employee level. The author would therefore support the extension of other work that sheds light on the nature of individual practices, and employees experience of them, within SMEs (e.g. Harney and Dundon, 2006, Taylor, 2006), and extend these to include the dynamics of growth.

Last, but by no means least, it became evident that SMEs had undergone a significant amount of change prior to investigation. The in-depth exploration of growth transitions provided a rare opportunity to chart the patterns of growth, and ultimately added to the richness of the research findings. However what must be recognised is that this research relied on a cross sectional dataset. What this means is that one cannot determine the direction of causation from these findings. Whilst the case studies were experiencing growth at time of investigation, this does not mean that firms would have continued to realise high levels of sustained performance following the data collection phase. Indeed, academics have noted that historical performance is not a good predictor of future performance (e.g. Smallbone *et al.*, 1995). If we are to truly understand the relationship that HRM holds with performance it is crucial that efforts are put into longitudinal research that is capable of tracking change and evolution. There is a real need to develop further insight on the impact of growth and also its decline on HR processes, strategies and policies.

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Appendices

Appendix I

A REVIEW OF THE LITERATURE ON HRM AND PERFORMANCE: REACHING CONSENSUS?

This section reports a systematic review that the author undertook in an attempt to gain some clarity on HRM and performance (hereafter referred to as HRM-P). The aim of the review was to establish whether consensus exists amongst the academic community as to what HRM practices leads to higher levels of organisational performance. Much of the research that has emerged on HRM-P has done so under the banner of 'high performance work system' (HPWS) models. As a consequence, this review focussed on empirical articles published on HPWS models between 1994 and 2010. These were found to largely appear within the HRM literature, but were also found within general management, social psychology and economic literature. In total 66 articles were reviewed and the following evidence was charted from each article:

1. Practice incidence: the number of workplace practices included within a HPWS;
2. System incidence: whether a study presents practices as a system (i.e. within bundles);
3. Practice labels: the labels given to practices included within a HPWS;
4. Cumulative nature of studies: whether a study tests, or builds upon a HPWS used within a previous study;
5. Publication year: year in which a publication was released by the respective journal;
6. Methodology: the type of method used to collect data (e.g. quantitative, qualitative or mixed method), the research instrument, and the level of respondent (e.g. management, employee etc.).
7. Sample: the size of organisation, size of sample, industry sector and country of origin.
8. Outcomes: the form of outcome and strength of any relationships found.

The remainder of this section will now review this evidence in turn and will finish with a summary of the main findings.

1. Practice incidence

As can be observed in Table 13.1 the number of practices that make up a HPWS was noted to vary significantly. Academics were found to include anywhere between four (e.g. Danford *et al.*, 2004) and forty practices (e.g. Huselid and Becker, 1997) within a HPWS. By far the most popular were those systems that comprised between ten and twenty practices, making up over half (53%) of all HPWS models, with a third of academics developing systems with under ten practices (32%). Most popular were systems with either 10 practices (20%) or 18 practices (18%). Far less popular were systems that included over twenty practices. What is evident from these findings is that there is little agreement on how many practices a makeup a HPWS. This lack of consensus was further confirmed when the author investigated whether these practices combined to form a system of high performance, which we shall now explore.

Table 13.1: HPWS practice incidence

<i>No. of practices</i>	<i>Count</i>	<i>References</i>
4	3	Danford <i>et al.</i> (2004); Colvin (2006); McBride (2008)
5	1	Drummond & Stone (2007)
6	5	Truss (2001); Shih <i>et al.</i> (2005); Leffakis & Doll (2005); Colombo <i>et al.</i> (2007); Gong (2010)
7	6	Delaney & Huselid (1996); Way (2002); Murphy (2003); Kerr <i>et al.</i> (2004); Zheng (2006); Kintana <i>et al.</i> (2006)
8	3	Ichniowski <i>et al.</i> (1997); Blasi & Kruse (2006); Wang (2009); Liao <i>et al.</i> (2009);
9	3	Preuss (2003); Gittell (2003); Tsai (2006)
10-14	20	Arthur (1994); Huselid (1994); MacDuffie (1995); Wood (1999); Barnard & Rodgers (2000); Capelli & Neumark (2001); Godard (2001); Rowden (2002); Handel & Gittleman (2004); Zacharatos <i>et al.</i> (2005); Caspersz (2006); Kalleberg <i>et al.</i> (2006); Shih <i>et al.</i> (2006); Erickson (2007); Gibson (2007); Scotti <i>et al.</i> (2007); Yalabik <i>et al.</i> (2008); Takeuchi <i>et al.</i> (2009); Martin-Tapia & Aragon-Correa (2009); Gittell (2010)
15-19	15	Appelbaum <i>et al.</i> (2000); Bailey <i>et al.</i> (2001); Den Hartog & Verburg (2004); Richard & Johnson (2004); Chow (2005); Harley <i>et al.</i> (2006); Sels <i>et al.</i> (2006); Connolly & McGing (2007); Flood <i>et al.</i> (2007); Luna-Arocas (2007); Macky & Boxall (2007); Danford <i>et al.</i> (2008); Guthrie <i>et al.</i> (2009); Qiao <i>et al.</i> (2009); Armstrong (2010)
20+	10	Huselid & Becker (1997); Jayaram <i>et al.</i> (1997); Ramsay (2000); Harley (2002); Chow (2004); Sung & Ashton (2005); Orlitzky (2005); Thompson & Heron (2005); Angelis & Thompson (2007); Takeuchi <i>et al.</i> (2007)

2. System incidence

Whilst the number of practices within any one system may differ, the way in which these individual practices combine to form a HPWS can also tell us much about agreement amongst the academic community. Unfortunately, as with practice incidence, little consensus was found as to how academics present a HPWS (see Table 13.2). Most popular were studies that presented practices as one system (50%), although evidence was also found of academics that divided practices into anything between two and seven components. Of those studies that presented a HPWS as a system divided into components, most popular were three components (18%), followed by two components (12%). Overall, four fifths (80%) of all studies adopt systems with between one and three components. Again, these results reinforce the lack of consensus within the HRM and performance literature as to what a HPWS is.

Table 13.2: HPWS components

<i>Number</i>	<i>Count</i>	<i>References</i>
1	33	Arthur (1994); Ichniowski <i>et al.</i> (1997); Wood (1999); Ramsay (2000); Truss (2001); Harley (2002); Way (2002); Rowden (2002); Gittell (2003); Murphy (2003); Kerr <i>et al.</i> (2004); Danford <i>et al.</i> (2004); Shih <i>et al.</i> (2005); Leffakis & Doll (2005); Zacharatos <i>et al.</i> (2005); Caspersz (2006); Blasi & Kruse (2006); Tsai (2006); Kintana <i>et al.</i> (2006); Zheng (2006); Drummond & Stone (2007); Macky & Boxall (2007); Ericksen (2007); Scotti <i>et al.</i> (2007); Takeuchi <i>et al.</i> (2007); Colombo <i>et al.</i> (2007); Danford <i>et al.</i> (2008); McBride (2008); Wang (2009); Guthrie <i>et al.</i> (2009); Qiao <i>et al.</i> (2009); Liao <i>et al.</i> (2009); Gong (2010); Armstrong (2010);
2	8	Huselid (1994); Huselid & Becker (1997); Capelli & Neumark (2001); Richard & Johnson (2004); Shih <i>et al.</i> (2006); Colvin (2006); Takeuchi <i>et al.</i> (2009); Martin-Tapia & Aragon-Correa (2009);
3	12	MacDuffie (1995); Delaney & Huselid (1996); Barnard & Rodgers (2000); Appelbaum <i>et al.</i> (2000); Bailey <i>et al.</i> (2001); Godard (2001); Preuss (2003); Handel & Gittleman (2004); Sung & Ashton (2005); Thompson & Heron (2005); Gibson (2007); Angelis & Thompson (2007);
4	3	Kalleberg <i>et al.</i> (2006); Flood <i>et al.</i> (2007); Yalabik <i>et al.</i> (2008)
5	2	Jayaram <i>et al.</i> (1997); Chow (2005);
6	3	Den Hartog & Verburg (2004); Sels <i>et al.</i> (2006); Luna-Arocas (2007)
7	4	Chow (2004); Harley <i>et al.</i> (2006); Connolly & McGing (2007); Gittell (2010);
25	1	Orlitzky (2005)

3. Practice labels

To highlight the diversity in the practices that make up a HPWS the author recorded the individual practices labels that academics have used when examining a HPWS; these can be observed in Table 13.3. What is glaringly apparent is the variety of labels that academics use to

describe what might be considered as very similar practices. Equally, it is often unclear from the label alone as to what might be included within a particular measure. This ultimately hampers the ability to appreciate how measures differ, or not, to those practices used by others and reinforces the limited cumulative nature of findings.

Table 13.3: HPWS measures

<i>Themes</i>	<i>Measures</i>
Involvement & participation	Arthur 1994 (group problem solving, monitor data, extent of supervision); Huselid 1995 (information sharing, labor-management participation, job design); MacDuffie 1995 (production worker involvement in: work teams, involvement groups, suggestions received & implemented, job rotation and quality tasks); Delaney & Huselid 1996 (decentralised decision making; vertical hierarchy; internal labour market); Huselid & Becker 1997 (Job rotation, Job analysis, job structure, information sharing, communication); Ichniowski <i>et al.</i> 1997 (teamwork (high participation, multiple teams, formal team practice), Communication (information sharing, meet workers, meet union); Wood 1999 (Teamworking, quality circles, Job rotation); Jayaram <i>et al.</i> 1999 (Communication, Cross functional teams, employee autonomy, employee impact, open organisations); Ramsay (2000) (Problem-solving groups, consultative committees, Formal team structures, Team autonomy, upward communication, job control, employee consultation); Barnard & Rodgers 2000 (team-based operations, quality-control circles, self-direction, employee involvement; multilateral communication); Appelbaum <i>et al</i> 2000 (autonomy in decision making, self directed team membership, off-line team membership, communication);
Skills development	Arthur 1994 (General Training, Skill mix); Huselid 1995 (av. no. hrs train/emp/yr); MacDuffie 1995 (training for new starts and ongoing); Delaney & Huselid 1996 (training effectiveness); Huselid & Becker 1997 (training (new & ongoing), training); Ichniowski <i>et al.</i> 1997 (Flexible job assignment (job rotation), (Skills training (High train, low train); Wood 1999 (cross-training); Jayaram <i>et al.</i> 1999 (Employee training, Broad jobs, cross training); Ramsay (2000) (Formal training systems, induction); Barnard & Rodgers 2000 (developmental performance appraisal, training, employee development); Appelbaum <i>et al</i> 2000 (formal training, informal training, seniority, education);
Reward	Arthur 1994 (Benefits & Bonus, % employment costs in Wages); Huselid 1995 (incentive compensation, performance appraisal + link to pay, promotion criteria (seniority versus merit)); MacDuffie 1995 (hiring criteria, compensation linked to performance, status barriers); Delaney & Huselid 1996 (incentive compensation); Huselid & Becker 1997 (promotion (merit-based, internal), compensation (bonus), Performance appraisal & measures, ESOPs, perf mgt, compensation, mgt of poor perf); Ichniowski <i>et al.</i> 1997 (Incentive pay (profit sharing, line incentives), employment security); Wood 1999 (internal recruitment, employment security policy); Ramsay (2000) (PRP, Profit share, ESOPS, performance appraisal, job security, Internal labour market); Barnard & Rodgers 2000 (employment security and rewards for loyalty, internal promotion, selection criteria, internal staffing); Appelbaum <i>et al</i> 2000 (Employment security, promotion opportunities, pay);
Grievance & disciplinary	Arthur 1994 (Due Process – grievance & disciplinary); Huselid 1995 (grievance procedures); Delaney & Huselid 1996 (grievance procedure); Huselid & Becker 1997 (grievance procedures); Ramsay (2000) (grievance procedures);
Recruitment & selection	Huselid 1995 (recruiting efforts, personnel selection test, recruiting efforts (selection ratio)); Delaney & Huselid 1996 (staffing selection); Huselid & Becker 1997 (selection (ratio & testing), hiring); Ichniowski <i>et al.</i> 1997 (Recruitment & selection (high screening); Wood 1999 (human relations skills as a selection criteria); Ramsay (2000) (sophisticated recruitment & selection)
Strategy & leadership	Huselid & Becker 1997 (HR plan, QWL programmes, HRM mgrs and chg agents, HR involvement in strategic plan, HR seen as cost, leadership (visionary, motivating), clear strategic mission, link with diversity & strategy); Jayaram <i>et al.</i> 1999 (Management commitment, labour mgt relations); Ramsay (2000) (TQM, IIP accreditation,

harmonisation, EEO/Diversity mgt, EEO/Diversity mgt, downward communication);
Barnard & Rodgers 2000 (organisational culture);

Despite this, when charting individual practice labels clear themes emerged. Most popular were those practices that promoted involvement and participation; skills development and reward and commitment. In addition, grievance & disciplinary, recruitment and selection and the inclusion of HRM and quality in strategy also emerged. Other themes that emerged, but were of a lesser importance and were therefore not included within Table 13.3, included social events (Arthur, 1994); attitude and satisfaction surveys (Huselid, 1995, Huselid and Becker, 1997); union representation and labour relations (Arthur, 1994, Ichniowski and Shaw, 1997, Ramsay *et al.*, 2000); and production and inventory management (MacDuffie, 1995, Wood, 1999a) practices.

Whilst it is reassuring in one sense that the dominant themes that emerged from the authors review align with keystone texts within the high performance debate such as those of Appelbaum *et al.* (2000) and Sung and Ashton (2005), it is disappointing that academics have continued to explore a diverse range of models and that greater agreement has not yet been reached. This is further reinforced through the lack of effort academics have placed on building upon previous HPWS models; which we shall now briefly explore.

4. Cumulative nature of studies

In reviewing the articles on HPWS models the author also examined the extent to which models of high performance had built upon previous work in the area, whether through testing (e.g. testing an existing model within a different context) or extension (e.g. building upon a previous model). The author found that only eleven (17%) of the studies attempted to build upon the practices/components used by previous studies. This means that over for fifths of studies had developed their own concept of a HPWS.

Pfeffer's (1998) '7 practices of successful organisations' (Murphy and Southey, 2003, Zacharatos *et al.*, 2005, Kintana *et al.*, 2006) and Appelbaum's (2000) system of 16 practices, divided into three bundles labelled 'AMO' (Bailey *et al.*, 2001, Thompson and Heron, 2005, Kalleberg *et al.*, 2006) were used on three further occasions. Huselid's (1995) 10 practices⁵⁷ divided into two factors of 'Employee Skills & Organisational Structure' and 'Motivation' (Martin-Tapia *et al.*, 2009, Takeuchi *et al.*, 2009) was used on a further two occasions. Osterman's (1994) three bundles of flexible working, work organisation and supportive HRM

⁵⁷ Huselid's 10 practices were originally adapted from Delaney, Lewin, and Ichniowski (1989).

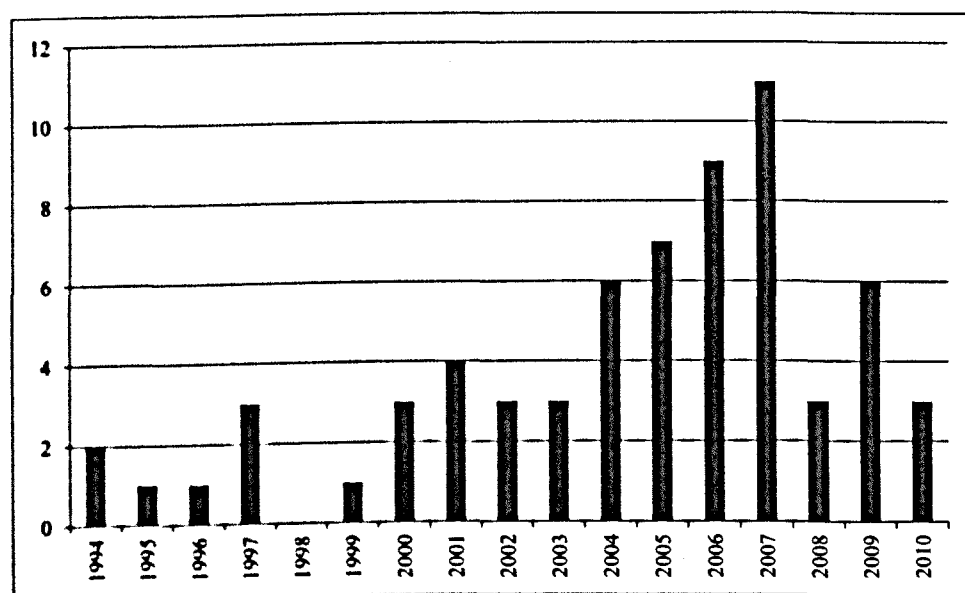
Practices and Way's (2002) seven practices have also been used for singular extension studies (Wood, 1999a, Leffakis and Doll, 2004).

This evidence demonstrates that academics have largely chosen to adopt and design their own HPWS models. This can only contribute further to the lack of consensus as to the practices and components that make up a HPWS and means that findings are not cumulative. Despite this, optimists might assert that clarity may emerge as further research is progressed, but as the next section will reveal research interest in the HPWS model appears to be in decline not on the increase.

5. Publication year

In order to gauge the level of research activity, and hence interest, in HPWS models the author recorded the publication dates of journal articles. These findings reveal that interest in the HPWS model began to build in the early 90's through the work of Arthur (1994), Huselid (1995), Macduffie (1995) and later Ichniowski and Shaw (1997). These seminal works stimulated further research inquiry, with a third (32%) of all studies reviewed published between 1994 and 2003. However it was by the mid-2000's that studies of the HPWS model appeared to gain significant pace with half (50%) of all studies reviewed being published between 2004 and 2007, and nearly one fifth (17%) of publications being released in 2007 alone. Since 2007, however, publications on the HPWS model have since declined. This could be for a number of reasons.

Figure 13.1: The trend in publications on HRM-P



For instance, one might question whether the lack of consensus outlined previously has led academics to become disinterested in HPWS models, viewing that agreement may never be reached. As will be reviewed later, whilst early work found what was believed to be strong positive associations between HRM practices and performance, more recent work has called into question the existence of such strong relationships. Journal editors may have become more stringent in their reviewing processes rejecting those papers that fail to demonstrate adequate contributions to management theory; noted as a key criticism of previous work on HPWS models. One might even argue the extent to which the HPWS model is no more than a reincarnation of previous popular beliefs as to the management practices that lead to improved organisational performance. If this were the case, HPWS models might be portrayed as little more than new wine in old bottles, destined to fade along with many of the other management fads and fashions (Spell, 2001).

Table 13.4: HPWS publications by year

<i>Year</i>	<i>Count</i>	<i>Authors</i>
94	2	Arthur (1994); Huselid (1994);
95	1	MacDuffie (1995);
96	1	Delaney & Huselid (1996);
97	3	Ichniowski <i>et al.</i> (1997); Huselid & Becker (1997); Jayaram <i>et al.</i> (1997);
99	1	Wood (1999);
00	3	Ramsay (2000); Barnard & Rodgers (2000); Appelbaum <i>et al.</i> (2000);
01	4	Truss (2001); Capelli & Neumark (2001); Bailey <i>et al.</i> (2001); Godard (2001)
02	3	Harley (2002); Way (2002); Rowden (2002)
03	3	Gittell (2003); Murphy (2003); Preuss (2003)
04	6	Kerr <i>et al.</i> (2004); Danford <i>et al.</i> (2004); Richard & Johnson (2004); Handel & Gittleman (2004); Den Hartog & Verburg (2004); Chow (2004);
05	7	Shih <i>et al.</i> (2005); Leffakis & Doll (2005); Zacharatos <i>et al.</i> (2005); Sung & Ashton (2005); Thompson & Heron (2005); Chow (2005); Orlitzky (2005)
06	9	Caspersz (2006); Blasi & Kruse (2006); Tsai (2006); Kintana <i>et al.</i> (2006); Zheng (2006); Shih <i>et al.</i> (2006); Colvin (2006); Kalleberg <i>et al.</i> (2006); Sels <i>et al.</i> (2006); Harley <i>et al.</i> (2006)
07	11	Drummond & Stone (2007); Macky & Boxall (2007); Ericksen (2007); Scotti <i>et al.</i> (2007); Takeuchi <i>et al.</i> (2007); Colombo <i>et al.</i> (2007); Gibson (2007); Angelis & Thompson (2007); Flood <i>et al.</i> (2007); Luna-Arocas (2007); Connolly & McGing (2007)
08	3	Danford <i>et al.</i> (2008); McBride (2008); Yalabik <i>et al.</i> (2008)
09	6	Wang (2009); Guthrie <i>et al.</i> (2009); Qiao <i>et al.</i> (2009); Liao <i>et al.</i> (2009); Takeuchi <i>et al.</i> (2009); Martin-Tapia & Aragon-Correa (2009)
10	3	Gong (2010); Armstrong (2010); Gittell (2010)

6. Methodology

The author found within his review that ninety per cent of all HPWS studies adopted an overtly positivist agenda, using traditional predictive, inductive and deductive modes of inference that characterise scientific explanation, typically a form of principal component analysis and/or regression. Only seven (11%) studies (see Truss, 2001, Rowden, 2002, Danford *et al.*, 2004, Caspersz, 2006, Taplin, 2006, Drummond and Stone, 2007, McBride, 2008) had progressed more qualitative methods of analysis in an attempt to build a deeper understanding of the link between HRM practices and performance. Given the lack of consensus outlined previously as to what an HPWS is, one might question the extent to which more, or better, theory will emerge from further empirical tests. This relates to, as argued at length within section 2.3, that further theoretical insight will not emerge from *testing* what are rather vague and formless models, but that emphasis should be placed on theory *development*. However the overbearing positivist metatheoretical stance that plagues much of the research that falls within the HRM and performance paradigm would appear to hamper this agenda.

Given the popularity of statistically driven analyses it is unsurprising that the most popular research instrument was some form of questionnaire or survey found to be used in two thirds (68%) of all studies and typically administered by post. Such an approach is contrary to evidence that suggests that the mere presence of certain practices or a specific bundle of practices does not automatically indicate that the practices were implemented (Tsai, 2006) and that one should not automatically assume that practices will be uniformly accepted by employees or that management and employee views will be comparable (Truss, 2001, Hui *et al.*, 2009). Just under a quarter (23%) of studies used some form of interview although not all of these were face-to-face, with two fifths progressed by telephone. Only 4 (6%) of studies advanced a case study approach and only two of these progressed multiple cases studies. Similarly, mixed method approaches were relatively unpopular with only two studies (3%) using interviews to corroborate survey findings.

On further inspection, much of the research was also focussed at a managerial level which one might argue is not appropriate to gain a full and rounded picture of the impact of management practice on the firm. Of all those studies reviewed, three thirds (61%) collected data purely at a managerial level, over two fifths (42.5%) of which questioned HR managers/directors, just under two fifths (37.5%) focussed on middle management (e.g. plant manager, general manager etc.) and one fifth queried senior managers (20%). Whilst 17 (26%) of studies

purported to sample 'all staff' only nine (13%) studies were found to focus solely at an employee level.

7. Sample

The author also recorded the nature of the participant samples, including respondent size, sample size, sector focus and country of origin. It was difficult to remain wholly accurate in noting the size of respondent firm. This was for three main reasons. First, two fifths (39%) of studies reviewed failed to disclose the size of firm sampled (see Table 13.5). Second, studies often reported sampling organisations greater than a particular size (say >50 employees) but then failed to report a response rate (e.g. Handel and Gittleman, 2004 sampled firms >50 employees in size). It was therefore unclear how large the firms included within the sample actually were. Third, studies used other units of analysis aside from 'the firm' (e.g. the plant, the workplace etc.) again adding to the complexity of unpicking which size of firm the results represented.

Table 13.5: HPWS studies by size of firm

<i>Size of firm</i>	<i>Count</i>	<i>Author</i>
SME <250	17	Capelli & Neumark (2001) (>20); Way (2002) (20-100); Rowden (2002) (50-200); Harley (2002) (>20); Kerr <i>et al.</i> (2004) (<100); Handel & Gittleman (2004) (>50); Chow (2004) (<50 (48%), >100 (32%)); Sels <i>et al.</i> (2006) (10-100); Tsai (2006) (>80); Huselid & Becker (1997) (>100); Blasi & Kruse (2006) (>20); Orlitzky (2005) (>20); Kintana <i>et al.</i> (2006) (>50); Drummond & Stone (2007) (50-250); Macky & Boxall (2007) (median + 100); Ericksen (2007) (<150); Connolly & McGing (2007) (>50 bedrooms);
Mixed	6	Den Hartog & Verburg (2004) (>50 (only 1% <50, 80% <1,000, 18% >1,000); Zheng (2006) (20-500); Murphy (2003) (0-500); Thompson & Heron (2005) (<250 77%); Taplin (2006) (200-500); Flood <i>et al.</i> (2007) (270 (median-size) 0-100, <500 and 500+ boundaries used);
'Large' >250	17	Huselid (1995); Ichniowski <i>et al.</i> (1997); Barnard & Rodgers (2000); Appelbaum <i>et al.</i> (2000); Bailey <i>et al.</i> (2001); Truss (2001); Gittel (2003); Danford <i>et al.</i> (2004); Shih <i>et al.</i> (2005); Zacharatos <i>et al.</i> (2005); Chow (2005); Colombo <i>et al.</i> (2007); McBride (2008); Danford <i>et al.</i> (2008); Qiao <i>et al.</i> (2009); Kalleberg <i>et al.</i> (2006) (1-5,000!); Armstrong (2010);
Undisclosed	26	Arthur (1994); MacDuffie (1995); Delaney & Huselid (1996); Wood (1999); Jayaram <i>et al.</i> (1999); Ramsay (2000); Godard (2001); Preuss (2003); Richard & Johnson (2004); Caspersz (2006); Shih <i>et al.</i> (2006); Sung & Ashton (2005); Leffakis & Doll (2005); Colvin (2006); Harley <i>et al.</i> (2006); Luna-Arocas (2007); Gibson (2007); Scotti <i>et al.</i> (2007); Takeuchi <i>et al.</i> (2007); Angelis & Thompson (2007); Yalabik <i>et al.</i> (2008); Wang (2009); Takeuchi <i>et al.</i> (2009); Guthrie <i>et al.</i> (2009); Martin-Tapia & Aragon-Correa (2009); Liao <i>et al.</i> (2009); Gittel (2010); Gong (2010);

A quarter (26%) of all studies reviewed focussed on large firms and SMEs respectively, although given the second point highlighted above it is difficult to conclude that those studies

purporting to include SMEs did not include larger firms and hence might better be represented within the ‘mixed’ category. Please note that ‘mixed’ studies were not comparative in nature, they were those studies that contained all firm sizes. What can be confirmed with some certainty is that only six (9%) of studies were found to focus solely on SMEs (Rowden, 2002, Way, 2002, Kerr *et al.*, 2004, Sels *et al.*, 2006b, Zheng *et al.*, 2006, Drummond and Stone, 2007). In total, the studies reviewed covered 17,219 organisations.

As Table 13.6 illustrates, over a quarter (29%) of all studies were progressed within firms within the manufacturing (e.g. steel, automotive, clothing, aerospace) and just over a tenth (14%) were progressed within the service sector (e.g. healthcare, finance, hotels). Most popular were those studies that covered ‘all industries’ representing over two fifths (44%) of all studies. Few studies however compared whether practices differed between sectors.

Table 13.6: HPWS studies by industry sector

<i>Sector</i>	<i>Count</i>	<i>Authors</i>
All industries	29	Huselid (1995); Delaney & Huselid (1996); Huselid & Becker (1997); Wood (1999); Ramsay (2000); Barnard & Rodgers (2000); Godard (2001); Capelli & Neumark (2001); Harley (2002); Murphy (2003); Den Hartog & Verburg (2004); Handel & Gittleman (2004); Chow (2004); Chow (2005); Orlitzky (2005); Blasi & Kruse (2006); Kalleberg <i>et al.</i> (2006); Flood <i>et al.</i> (2007); Luna-Arocas (2007); Yalabik <i>et al.</i> (2008); Guthrie <i>et al.</i> (2009); Takeuchi <i>et al.</i> (2009); Gong (2010); Armstrong (2010); Way (2002); Kerr <i>et al.</i> (2002); Sels <i>et al.</i> (2006); Zheng (2006); Drummond & Stone (2007);
Manufacturing	19	Arthur Steel (1994); MacDuffie Automotive (1995); Ichniowski <i>et al.</i> Steel (1997); Jayaram <i>et al.</i> Automotive (1999); Appelbaum <i>et al.</i> Steel, clothing & medical (2000); Bailey <i>et al.</i> Steel, clothing & medical (2001); Danford <i>et al.</i> Aerospace (2004); Thompson & Heron Aerospace (2005); Zacharatos <i>et al.</i> manufacturing (2005); Caspersz electronics, textiles, rubber, medical & chemical goods and transport equipment (2006); Tsai Semi-conductor industry (2006); Taplin Clothing (2006); Kintana <i>et al.</i> manufacturing (2006); Angelis & Thompson Aerospace (2007); Colombo <i>et al.</i> manufacturing (2007); Takeuchi <i>et al.</i> 50% manufacturing (2007) McBride Maritime Construction (2008); Qiao <i>et al.</i> manufacturing (2009); Martin-Tapia & Aragon-Correa Food manufacturing (2009); Rowden Manufacturing (2002);
Service	9	Truss IT (2001); Preuss healthcare(2003); Gittell Finance (2003); Richard & Johnson Finance (2004); Harley <i>et al.</i> Aged care (2006); Connolly & McGing hotels (2007); Scotti <i>et al.</i> healthcare (2007); Gittell healthcare (2010); Liao <i>et al.</i> Finance (2009)
Undisclosed	5	Shih <i>et al.</i> (2006); Macky & Boxall (2007); Ericksen (2007); Gibson (2007). Wang (2008)
Mixed	4	Shih <i>et al.</i> , manufacturing, banking and service (2005); Sung & Ashton, manufacturing, real estate, whole & retail (2005); Colvin, chemical production and building maintenance (2006); Danford <i>et al.</i> , aerospace manufacturing, finance, insurance, NHS (2008);

In terms of country of origin, the majority of studies reviewed (41%) emanated from the US (which included Canada) with a fifth of all studies sampling firms in Asia (incl. Malaysia, Singapore, Hong Kong, Korea, Taiwan, Thailand) and the UK (incl. Britain and Ireland) respectively. Given their size it was surprising that only a tenth (9%) of studies were found to emerge from wider Europe (incl. Belgium, Netherlands, Spain Italy) and Australia (8%).

8. Outcomes

Finally, the author noted the purported outcomes found by each study. Early studies included within the review appeared to find strong statistical associations between the existence of a universal HPWS and measures of organisational performance (see Arthur, 1994, Huselid, 1995, MacDuffie, 1995, Ichniowski and Shaw, 1997) and more recent studies have also argued to have found such correlations (see Shih *et al.*, 2006, Ericksen, 2007, Takeuchi *et al.*, 2007, Guthrie *et al.*, 2009, Armstrong *et al.*, 2010). Within these studies, organisational performance outcomes were measured as financial, productivity, quality, turnover intentions or operating costs. However, later studies would appear to question both the existence of a universal system and the strength of association between HRM and performance.

Conflicting evidence was found during this review arguing that no one coherent bundle of practice exists (Barnard and Rodgers, 2000, Truss, 2001) and that practices are more likely to be used in an ad hoc and opportunistic fashion (Harley, 2002). Some academics even question the extent to which a HPWS is different to traditional working practices (Richard and Johnson, 2004). HPWS models may not be as widely used as initially presumed (Blasi and Kruse, 2006). This predicament is summed up parsimoniously Drummond and Stone (2007):

'Few businesses, if any, set out to purposely construct HPWS or to deliberately implement an externally defined set of practices. Few, Indeed if any, firms recognise what they do in terms of HPWS'

Additionally, other studies reviewed call into question the existence of strong positive correlations between HRM practices and performance. For instance, evidence was uncovered during the review of studies that found little evidence of statistical relationships between HRM practices and organisational performance (e.g. Chow, 2004, Tsai, 2006), turnover intentions (Yalabik *et al.*, 2008) or employee pay levels (Handel and Gittleman, 2004). The costs of implementing a HPWS may even outweigh their benefits in smaller firms (Sels *et al.*, 2006a). Academics note that practices may actually result in negative effects such as increased levels

of employee stress (Godard, 2001) and work intensification (Caspersz, 2006), lead to decreased opportunities for skills development and information sharing (Danford *et al.*, 2004) and there may exist few overall benefits for employees (Danford *et al.*, 2008). Given the fact, as explored earlier, that employee views are relatively silent within the existing literature on HPWS models it is difficult to conclude as to the veracity of these findings.

9. Summary

This review has found significant variation in the conceptualisation of a HPWS. Considerable diversity was found as to the number of practices and components that make up a HPWS and the labels used. It appeared that academic placed a preference on developing their own systems of high performance, rather than building on previously espoused models. Whilst one may argue that further insight may be gleaned in the future, it is worrying that interest in HPWS models is on the decline. This lack of consensus may be destined to remain as an unresolved issue with the HRM and performance paradigm.

The review also noted evidence on the relationship between practices and performance is uneven. Early studies reviewed appeared to find what believed to be strong statistical associations between particular HRM practices and measures of organisational performance. However as research interest has built conflicting evidence has emerged that appears to question the strength and existence of these relationships. Evidence has come to light that relationships are not as strong as previously espoused and may actually lead to negative consequences. This evidence is reinforced by Combs *et al.*, (2006) who progressed a meta analysis of 92 studies on link between HRM and performance:

'.....the wide variety of sample characteristics, research designs, practices examined, and organizational performance measures used has frustrated efforts to estimate the size of the link between HPWPs and organizational performance' .

However, as this review has alluded, it would appear that we still know relatively little about systems of high performance and their effects. One might argue that the discovery of a relationship between surface level practices and organisational performance, an approach progressed by much of the research on HPWS models, tells us very little about this relationship summed up by Blasi and Kruse (2006):

'....most users of the term HPW practices....are referring to a significant amount of behavioral change at the workplace level. We believe that a "lighter" measure [used

within this research] of HPW does not capture the depth of social change implied in this innovation movement....[as] a “lighter” measure can overstate... how much progress establishments made....in addressing substantial organizational change. Real workplace change challenges the existing systems of distributing power, prestige, and rewards in social organizations' .

This predicament appears hampered by the ability for existing research to provide adequate explanation as to *why* particular associations are found and that the relationship between HRM practices and performance may not be as straightforward as some would have us believe.

Indeed, during his review the author found a range of mediators relating the organisation, to the sector and country in which the firm competes that can influence the approach taken towards a HPWS model. For instance studies noted that for an HPWS model to be successful a firm must take into account how it develops and uses information (Preuss, 2003), human capital (Takeuchi *et al.*, 2007); cultures and structures (Drummond and Stone, 2007, McBride, 2008); climate (Takeuchi *et al.*, 2009); and underlying values and philosophies (Drummond and Stone, 2007). Certain practices have also been found to be more appropriate for specific industry sectors than others (Sung and Ashton, 2005, Kalleberg *et al.*, 2006) such as high technology sectors (Kintana *et al.*, 2006) or those that involve significant product/service complexity (Jan Angelis and Thompson, 2007). Such findings alert one to the existence of significant complexity and the notion that one must appreciate how firms are embedded within their wider social context

Studies included within the review were beginning to call for further research that might provide a deeper understanding of the processes at play therein aiding our understanding of the direction of causation and capture what are actually multi-level and rather complex issues (Drummond and Stone, 2007, Takeuchi *et al.*, 2009). The predominant positivist metatheoretical approach outlined within this review would appear to overlook much of this complexity.

Appendix 2

AT THE INTERSECTION OF GROWTH AND HRM: EXPLORING HRM TRANSITIONS ACROSS THE ORGANISATIONAL LIFE CYCLE

Academics have developed a multitude of theories in an attempt to better explain the phenomenon of growth, and in doing so draw attention to the range of influences that impact upon growth and performance. These include, but are not limited to: the industrial economics stance; strategic management perspectives; the personality of the entrepreneur; and, the stage-of-growth models. Studies also consider broader sectoral or spatial matters and particular constraints placed on growth within regions (for reviews see O'Farrell and Hitchens, 1988, Gibb and Davies, 1990, Levie and Lichtenstein, 2010).

One of the most popular theories of growth is that of the 'stage-of-growth' models also referred to as 'organisational life cycle' models or 'growth and development' models that typically present growth as a sequence of stages. These models originate from the field of economics and presumed the growth of the firm to be S-shaped (Steinmetz, 1969) and hence a function of age, that is, as one grows older, one gets bigger (Davidsson *et al.*, 2005). This section reports on a systematic review of stage-of-growth models. The review focussed on empirical articles published between 1967 and 1998. In total 20 articles were reviewed and the following evidence was charted from each article:

1. Stage incidence & labels: the number of stages that are included within growth models, their labels and the nature of stages included within growth models;
2. HRM & Growth: the way in which HRM changes across organisational growth stages;
3. Critiques of growth models: the weaknesses that plague research on growth models and recommendations for further research

1. Stage incidence

Models included within the review were typically found to have three, four, or five stages, although evidence was also found of models with six and even ten stages. Models typically contained a birth, growth, maturity and death phase. When defined, empirical studies tended to focus on high technology concerns (Galbraith, 1982, Smith *et al.*, 1985, Kazanjian, 1988, Hanks *et al.*, 1993, Hanks and Chandler, 1994), although authors did also raise the importance of investigating the growth processes of successful compared with unsuccessful firms

(Churchill and Lewis, 1983), public institutions (Kimberly; 1979; Quinn & Cameron, 1983) and young firms (Garnsey, 1998).

The stage that a firm inhabits was typically a function of age, or size, although studies also reported phases to be dependent on: predictable crises (Lippitt and Schmidt, 1967); management style (Adizes, 1979); effectiveness (Cameron and Whetten, 1981, Quinn and Cameron, 1983, Smith *et al.*, 1985); organisational complexity (Hanks *et al.*, 1993, Hanks and Chandler, 1994, Churchill, 1997), or the approach taken towards strategic planning (Robinson *et al.*, 1984). Kazanjian (1988) was one of first to test a stage-of-growth model. In doing so, the authors identified a range of ‘gestalts’ or common configurations of problems, strategies and structures that Technology Based New Ventures (TBNV) progressed through in a somewhat predictable pattern, a pattern that was by no means representative of a linear set of stages. The notion of a set of common organisational configurations has also been supported by others (Miller and Friesen, 1984, Hanks and Chandler, 1994, Moy and Luk, 2003).

Whilst much criticism has been levelled at stage-of-growth models, which we shall explore in greater detail later, there is a general agreement that such models may well provide managers with a better understanding of how to navigate growth challenges (Flamholtz, 1995) with HRM being seen as a core issue (Cowan, 1990, Dodge and Robbins, 1992). We shall now turn our attention to HRM and how the nature of HRM changes as a firm grows.

2. HRM & Growth

The literature precludes that the HRM requirements of small firms vary with the life cycle of the firm (Cardon and Stevens, 2004, Kotey and Sheridan, 2004). The stage at which a firm begins to experience HRM challenges varied across the models reviewed but was found to impact the firm as early as the first stage or ‘birth’ at which point recruitment & selection issues may come to the fore (Lippitt and Schmidt, 1967). More often than not the resolution of HRM issues appeared more pronounced as a firm ‘grows’ or ‘expands’ akin to stages two and three of a typical stage-of-growth model (Lippitt and Schmidt, 1967, Kimberly, 1979, Miller and Friesen, 1983, Robinson *et al.*, 1984, Smith *et al.*, 1985, Kazanjian, 1988, Hanks *et al.*, 1993, Hanks and Chandler, 1994). Such growth or expansion stages were also referred as the move from ‘direct supervision to supervised supervisor’ (Steinmetz, 1969), ‘direction’ (Greiner, 1972), ‘formalisation and control’ (Quinn and Cameron, 1983), ‘model shop’ (Galbraith, 1982), ‘profitability and stabilisation’ or even ‘success’ (Churchill, 1997). Although rarer, some models even contest that HRM issues are not of particular importance until later stability stages (Adizes, 1979, Dodge and Robbins, 1992).

Table 13.7: HRM transitions across the organisational life cycle

<i>Author</i>	<i>Year</i>	<i>Org. type</i>	<i>No. stages</i>	<i>Stage determinant</i>	<i>Empirically tested/sample</i>	<i>SME focus</i>	<i>HRM issues become relevant at....</i>	<i>HRM issues</i>
Garney	1998	Young	5-7	Age, assets	No	Yes	ND	-
Churchill & Lewis	1997		6	Age, size, complexity, dispersion	No		Stage 3 – ‘profitability & stabilisation’	Delegation Vision Communication Performance facilitation
Hanks & Chandler	1994	High-tech mixed	4	Age, size, growth rate structural variables (vertical differentiation, structural form, formalization, specialization, and centralization)	Yes (133) -Chi square -Contingency table analysis	Yes	Stage 3 – ‘Expansion’	Payroll Personnel function
Hanks <i>et al.</i>	1994	High-tech mixed	6	Age, size, growth rate structural variables (vertical differentiation, structural form, formalization, specialization, and centralization)	Yes (133) -Cluster analysis	Yes	Stage 3 – ‘Expansion/early maturity’	Payroll Personnel function Functional organization structure
Dodge & Robbins	1992		4	OLC stage down to researcher judgement based on their interpretation of a 4-stage OLC model	Yes (ND) -Chi-square - Contingency table analysis -Goodness of Fit		Stage 4 – ‘Stability’	Organisation design and personnel
Kazanjian (use of same data as 1988 study)	1988	High-tech computer	4	Size, age, rate of sales growth	Yes (ND) -Del procedure		Stage 3 – ‘Growth’	Formal structure & reporting lines Functional skills Professional skills

<i>Author</i>	<i>Year</i>	<i>Org. type</i>	<i>No. stages</i>	<i>Stage determinant</i>	<i>Empirically tested/sample</i>	<i>SME focus</i>	<i>HRM issues become relevant at....</i>	<i>HRM issues</i>
Kazanjian	1988	High-tech computer	4	Size, age, rate of sales growth	Yes (105+2 case studies) -MANOVA -Factor analysis -ANOVA		Stage 3 – ‘Growth’	Formal structure & reporting lines Functional skills Professional skills
Smith <i>et al.</i>	1985	Electronics	3	Age, size	Yes (27) -Cluster analysis -MANOVA -ANOVA	No	Stage 2 – ‘High growth’	Centralised formal structure Formal communication Professional management Reward - impersonal
Robinson <i>et al.</i>	1984	Mixed	3	Size (employees & annual sales turnover), strategic planning	Yes (ND) MANOVA and t-tests	Yes	Stage 3 – ‘Later Growth’	Delegation
Miller & Friesen	1984	ND	5	Age, Information processing, decision making, innovation	Yes (ND) -Case study (histories) -ANOVA	No	Stage 2 – ‘Growth’	Functional structure Formalisation of policies
Miller & Friesen	1983	ND	5	Age, Information processing, decision making, innovation	Yes (ND) -Case study (histories) -ANOVA	No	Stage 2 – ‘Growth’	Functional structure Formalisation of policies
Quinn & Cameron	1983	Public hygiene dept	4	Age, organisational effectiveness	Yes (1) -Longitudinal case study observant	No	Stage 2 – ‘Formalisation & Control’	Lines of authority/control Work standards

<i>Author</i>	<i>Year</i>	<i>Org. type</i>	<i>No. stages</i>	<i>Stage determinant</i>	<i>Empirically tested/sample</i>	<i>SME focus</i>	<i>HRM issues become relevant at....</i>	<i>HRM issues</i>
Churchill & Lewis	1983	'Successful' small firms	5	Age, size, complexity, dispersion	Yes (83)	Yes	Stage 3 – 'Success'	People quality & diversity Delegation
Galbraith	1982	High-tech	5	Age, factor	No	Yes	Stage 2 – 'Model shop'	Delegation/hierarchy Career Reward Formal systems
Cameron & Whetton	1981	Production firm	4	Age, level of analysis, effectiveness	Yes (11 or 18?) -Simulation -ANOVA	No	Stage 2 akin to simulation phase 6 of 11	Delegation Reward Unions Work standards & change
Adizes	1979	ND	10	Age, behaviour as a function of production (P), administration (A), entrepreneurship (E), and integration (I)	No	No	Stage 4 – 'Adolescence'	Labour policies Training
Kimberly	1979	Public medical school	4	Growth in students (on programme)	Yes (1) -Longitudinal case study observant	Yes	Stage 2 – 'Growth'	Delegation Communication Reward/motivation Skills
Greiner	1972	ND	5	Age, size, stage of evolution (growth), stage of revolution (crisis), industry growth rates	No	No	Phase 2 – 'Direction'	Delegation Organisation structure Reward Work standards & change Communication

<i>Author</i>	<i>Year</i>	<i>Org. type</i>	<i>No. stages</i>	<i>Stage determinant</i>	<i>Empirically tested/sample</i>	<i>SME focus</i>	<i>HRM issues become relevant at....</i>	<i>HRM issues</i>
Steinmetz	1969	ND	3	Size in assets and employees	No	Yes	Stage 1 – move from 'direct supervision' to 'supervised supervisor'	Recruiting & selection Training Compliance with employment law Delegation
Lippitt & Schmidt	1967	ND	3	Crises	No	No	Stage 1 – 'Birth' Stage 2 – 'Growth'	Recruitment & selection Delegation Training Reward Communication Involvement Leadership training

Please note: ND = Not Defined

In undertaking the review the author charted the HRM issues raised by models (please see Table 13.7). For the sake of narrative ease this section will present them in italics and in order of incidence.

First, the delegation of tasks is found to be of greatest importance, denoting a transfer of decision making power from the owner manager to employees within the firm. In a study of US firms, Ardichivilli *et al.*, (1998) determined that specific business functions are delegated at different times in an organisations life cycle. The study found that owner-managers were more likely to retain functions related to the development of new products longer than accounting-based tasks or internal production functions. The changing role of the owner manager is highlighted within the majority of models, with problems of a management nature being of major concern to the growth of the small firm (Dodge and Robbins, 1992). Scholars point to the need for the owner to delegate effectively and redesign managerial structures (Clifford, 1973) in order that decision making and information processing are supported (Miller and Friesen, 1983). Scholars highlight that managers must be aware of the changing nature of the criterion of success throughout the stages of growth (Smith *et al.*, 1985) and in turn must be capable of making changes to the way in which the firm competes (Lester *et al.*, 2008).

The delegation of tasks could be argued to be highly correlated with the formalisation of reporting lines and organisational structures, signalling a move from a less formalised to more formalised organisation. Whilst formality has been noted as the most common feature of growth models (Levie and Lichtenstein, 2010), studies indicate that formality may well act as a hindrance to small firm growth. Indeed, evidence has been found that formal structures and systems may work against those attributes that permit the small firm to develop competitive advantage, for instance through their innovation capability (e.g. Kimberly, 1979). In a study of the organisational and HR challenges faced by high growth/high tech firms in Silicon Valley, Baron and Hannan (2002) identified a number of 'HR blueprints', each of which impacted on a firm's future performance. Those firms' that adopted an autocratic blueprint were more likely to fail, in contrast to those firm's that adopted a commitment approach. Barron and Hannan (2002) recommend that owners identify an HRM style that the firm can grow into; as failure was also correlated to those firms that dramatically changed their blueprint during growth.

The changes made to organisational structures during growth relates to the change in focus from specialised skills to more functional skills through the introduction of more professionally oriented management skills. A challenge during this time is for the owner to

adapt their role for one doing to one of managing (Ardichvill *et al.*, 1998), or in Galbraith's (1982) terms move from a quarterback to a player/coach, summed up by Churchill and Lewis (1983):

'he or she must spend less time doing and more time managing....the inability of many founders to let go of doing and begin managing and delegating explains the demise of many businesses' (p10)

The new found reliance placed upon other individuals by the owner introduces a fresh range of personnel-related issues, not least the provision of suitable reward mechanisms. The introduction of skills and greater levels of training are also used to ensure staff are kept motivated and continue to reproduce behaviour in line with that expected by the owner-manager. In turn, firms must support these implementations with a range of works standards and changes and the introduction of more formal systems and policies such as communication and involvement. In a more recent study, Ciavarella (2003) applied Miller & Friesen's (1984) five-stage model in order to investigate the nature of High Involvement Work Practices (HIWP) across the organisational lifecycle. The incidence of HIWPs was seen to increase with firm growth, a fact that may relate to increased levels of decentralisation as owners delegate responsibility and in turn increase the sophistication of the firm's systems to cope with this change. Interestingly the study found that the level of HIWPS within those firms experiencing a decline or revival stage fell back to levels observed at birth with communication seen to return to more centralised methods.

Other factors acknowledged to be of concern as a firm grows include the compliance with employment law such as payroll (Hanks and Chandler, 1994), recognition of unions, diversity and recruitment and selection. Through a study of four firms in the electronic industry in Singapore, Leung (2003) found evidence of the changing nature of strategies used by founders in the recruitment of managerial skills. Within the start-up phase founders were more likely to recruit through personal networks, whereas in growth stages business networks were seen as a key source of talent. Whilst scholars indicate the use of contingent labour may support small firm growth and development (Cardon, 2003) others point to the complexities of multi-employment relationships (Rubery *et al.*, 2002).

Heneman *et al.* (2000), through a study that drew on focus groups with 'growth oriented' founders, discovered that CEO's placed greater importance on identifying those workers

whose social values 'fit' with those of the firm, rather than using more formalised practices through which to identify individual skills or experience. These findings are to be contrast with others (for example see Kotey and Sheridan, 2004, Nguyen and Bryant, 2004) that demonstrate the adoption of more formal HRM practices are heightened during early stage of growth. In two related publications on the study of HRM practices in small growing firms in Australia, Barrett and Mayson (2007) note that growing firms are more likely to use formal recruitment and selection practices than non-growing firms. However this study would appear limited in a number of ways, not least whether one might expect to find evidence of formal HRM practice in firms under 20 employees in size. Recently Harney and Dundon (2007) found that Irish SMEs reaching maturity were more likely to orient their HRM approach towards cost minimisation, and that firms did not respond to growth process in a consistent fashion.

The conflicting and limited nature of studies that investigate the form that HRM takes across the organisational life cycle has been acknowledged. Cardon and Stevens (2004) presented a systematic review of the growth literature and highlighted a greater need to appreciate the growth aspirations of small firms. Growth-related HRM studies appear to suffer from considerable methodological weaknesses and therein provide modest insight into the causal relationship between growth and HRM (i.e. do particular HRM styles contribute to growth, or vice versa). Studies are, more often than not, concentrated at the manager level and fail to explain how such practices are enacted in reality. In conclusion, the literature calls for further research that links HRM with organisational growth models (Cardon and Stevens, 2004, Kotey and Sheridan, 2004). It is these more overarching weaknesses in the growth literature that we shall explore next.

3. Critique of the stage-of growth models

The highly positivist premise of the stage-of-growth models (Stanworth and Curran, 1976) that prospered within the shadow of an industrial economic approach, purporting growth to be an inevitable process (Steinmetz, 1969), is not without criticism. Many of the early publications featured within the management science literature, inevitably treating the growth of the firm as a science, rather than recognition of growth as a 'social' science. Scholars have continued to apply somewhat linear, deterministic models, limiting understanding of the forces at play, as an approach denounced in an early paper by Penrose (1952):

'.....such laws would rid the social sciences of the uncertainties and complexities that arise from the apparent 'free will' of man and would endow them with that more reliable power of prediction which for some is the essence of 'science' .

Early studies were largely conceptual in nature, and were formed by shoehorning large firm historical growth patterns into normative configurations. As empirical studies emerged, and comparisons made, the lack of consensus in explaining the process of growth was exposed (Levie and Lichtenstein, 2010). In a re-analysis of Miller and Friesen's (1984) data, Drazin and Kazanjian (1990) do not find any evidence that firms pass through a set of pre-defined stages but rather that firms fall into other idiosyncratic configurations outside that which was expected, findings reinforced by those of others (e.g. Birley and Westhead, 1990, Hanks *et al.*, 1993, Greene *et al.*, 1997, Vinnell and Hamilton, 1999, Hill *et al.*, 2002).

A clear fault of organisational development models is in their lack of appreciation of growth as a multidimensional construct. This has led research to focus on the internal constraints to growth that concentrate on the 'what' rather than 'how' growth actually occurs; a debate that is related to the ability of firms to manage both individual and operational change. Studies typically see growth as a function of age and size and ignore other determinants such as those factors external to the firm including the nature of dependency relationships (O'Farrell and Hitchens, 1988) or the structure of product markets in which the firm competes (Birley and Westhead, 1990). Whilst a range of 'business burden' studies (Carter *et al.*, 2004) have more recently emerged, they often fail to get beyond the rhetoric of popular opinion (Kitching, 2006, Doern, 2009).

The fact that organisations spend most of their time in transition rather than a stable form (Dodge *et al.*, 1994) also brings to the fore the difficulties in defining what a 'stage' actually is. In response, scholars call for a more systems-based approach to investigating growth (Gupta and Chin, 1994), one that shifts thinking away from small firms as closed homogenous units, towards an understanding of the roles of complexity and uncertainty (Covin and Slevin, 1997, Phelps *et al.*, 2007) in the management of the growth process, which has been neglected, as Davidsson and Achtenhagen (2005) conclude:

'.....the critique of this literature seems to have led not to better research but to no research at all in this stream more recently. This is unfortunate as research-based knowledge on growth processes and transitions would have high practical relevance

alongside for small firm managers with research findings on growth facilitators and obstacles. Process knowledge can make entrepreneurs aware of possible crises and solutions, and researchers should be able to present better alternatives to the portrayals of inevitable growth problems and universally applicable snake oil cures that one finds in the non-research based management literature' .

Appendix 3

**EXPLORING HOW HRM & PERFORMANCE IS EXPLAINED IN SMES:
DEVELOPING A CONCEPTUAL FRAMEWORK**

In order to build a conceptual framework capable of examining the interplay between HRM and performance in SMEs a review was undertaken of key publications in the area of ER/HRM in SMEs. A set of publications was subsequently identified each of which, to varying extents, acknowledged the role of context in understanding firm behaviour, these are depicted in Table 13.8.

Table 13.8: Frameworks & methods that attempt to capture how HRM is explained

<i>ID</i>	<i>Author(s)</i>	<i>Year</i>	<i>Perspective</i>	<i>Approach</i>	<i>F = Framework M = Method</i>
1	Arthur & Hendry	1990	HRM		F
2	MacMahon	1996	ER		F
3	Schuler & Jackson	1995	HRM		F
4	Fuller & Moran	2001	Complexity Science	Open systems	M
5	Cassell <i>et al.</i>	2002	HRM		F (practice)
6	Bowen & Ostroff	2004	HRM	Psych contract	M
7	Pauwe	2004	HRM & performance		F
8a	Edwards <i>et al.</i>	2006	ER		F
8b	Edwards & Ram	2006	ER		F
9	Harney & Dundon	2006	HRM	Open Systems	F
10	Fleetwood & Hesketh	2006	HRM & performance	Critical Realism	M
11	Taylor	2006	HRM	Critical Realism	M
12	Gilman & Edwards	2008	ER		F

Each publication was then cross-examined in order to identify the various techniques and dynamics argued to be important when exploring the nature of ER/HRM. Eight articles were subsequently identified that provided key insight into the dynamics that one might include within a more encompassing framework and these are outlined in Table 13.9.

Table 13.9: The dynamics of HRM

<i>ID</i>	<i>Dimensions</i>	<i>Author(s)</i>	<i>#</i>	<i>Order</i>
A	Labour Mkt	1; 3; 8a; 9; 12	5	2
B	Product Mkt	1; 2; 7; 8a; 9; 12	6	1
C	Industry Sector	1; 3; 9	3	4
D	Ownership	1; 8b; 9	3	4
E	Size	1; 9	2	5
F	Growth Stage	1; 3	2	5
G	Management	1; 2; 7; 8a; 9; 12	6	1
H	Technology	1; 3; 7; 9; 12	5	2
I	LSP	2; 3; 7; 9	4	3
J	Culture	1; 3; 7; 12	4	3
K	Trade Unions	2; 3; 7; 9	4	3
L	Strategy	1; 3; 7; 8a; 9; 12	6	1
M	Supply/vale chain	1; 2; 9; 12	4	3
N	Rules & Routines	7; 8a; 12	3	4
O	Org/Admin/Structure	1; 7; 12	3	4
P	Resources	8a; 12	2	5
R	Networks	12	1	6

Note: This table is based on 8 articles cited in Table 13.9, namely: 1; 2; 3; 7; 8a; 8b; 9; 12

Table 13.10: Comparing frameworks of HRM in context

<i>ID</i>	<i>Dimensions</i>	<i>Arthur & Hendry</i> 1992	<i>Macmahon</i> 1996	<i>Schuler & Jackson</i> 1995	<i>Paauwe</i> 2004	<i>Edward s et al.</i> 2006a/b	<i>Harney & Dundon</i> 2006	<i>Gilman & Edwards</i> 2008
A	Labour Market	Internal; External; National; Regional		External		Lab Mkt	External	Flex; Strat; HC; Rules & Routines
B	Product Market	Prod Strat; Prod folio; Supply Chain; Innovation	Prod. Mkt & Inter-org. Relations		PMT: Competitive Mechanisms	Prod Mkt	External product market structure	Prod Mkt: Nature; Strat; Comp; Supply Chain, Strat; Rules & Routines
C	Industry Sector	Tech; diversity; Ind. Region; Ind. Survive		External			External	
D	Ownership	Founder; Family; Employees; Outsiders				Kinship relations	Internal	
E	Size	Size effect					Internal	
F	Growth Stage	Growth stage		Internal				

G	Management	Mgt	Internal: Managerial Influence		Dominant Coalition	Mgt style	Mgt Style	Mgt Style; Line Mgt
H	Technology	Ind. Sector			PMT: Competitive Mechanisms		External: Tech	Tech
I	Legal, Social, Political		External: legislation; taxation	External	SCL: Institutional Mechanisms		External Legislation	
J	Culture	Culture		External: Nat. Culture	SCL: Institutional Mechanisms			Org: culture
K	Trade Unions		Internal	External	Dominant Coalition		Internal	
L	Strategy	Prod: strategy	Internal		Strategy: RBV	Strategic choice	Emergent: Strat	Strat; Prod Mkt; Lab Mkt; Org
M	Supply/value chain	Prod Mkt: Supply Chain	External				External: Value Chain	Prod Mkt: Supply Chain
N	Rules & Routines				OA & CH: Configuration	Rules & routines		Prod Mkt; Lab Mkt; Org
O	Org/Admin/ Structure	Structure			OA & CH: Configuration			Org: Structure
P	Resources					Resource s		Prod Mkt: F; Lab Mkt: HC; Org: SC
R	Networks							Integration; Support

Please note: For purposes of succinctness Edwards *et al.* (2006) and Edwards & Ram (2006) are combined. Abbreviations: HC = Human capital; FC = Financial Capital; SC = Social Capital; PMT = Product/Market/Technology; SCL = Social, Cultural, Legal; OA & CH = Organisational/Administrative/Cultural Heritage.

These dynamics were then translated into a new conceptual framework used to drive this social research inquiry, as depicted in Figure 2.4 in section 2.4.3. As discussed explicitly within section 2.4.3, this conceptual framework is not prescriptive in the relationships or direction of causation that will result, but was used to explore how a firm's approach towards HRM varied and influenced performance.

Appendix 4

IMPACT PLAN

This section will provide a brief overview of impact that has been generated from this doctoral research project, along with proposals for future impact. The translation of findings into academic publications will first be reviewed by thesis chapter. Then consideration will be given to publications developed for wider audiences and other research and enterprise related programmes that have been informed by this research.

Literature review

The HRM-related section of the literature review has been written up and published as a book chapter:

Raby, S. and Gilman M. (2012). *HRM in SMEs*, In: Human Resource Management in a Global Context: a Critical Approach by Jawad Syed. Kramar, R. & Syed, J. (Eds), Basingstoke: Palgrave Macmillam.

The author has also had the fortune to translate the growth-related section of the literature review into a briefing paper for the academic advisory panel of the UK Commission for Employability and Skills and has extended these findings through a strategic review on business support provision:

Raby S. and Truss, K. (2011). *High Growth Firms*, A briefing paper for the Commission for Employability and Skills. Centre for Employment, Competitiveness and Growth, University of Kent. 15pp.

Gilman, M. and Raby S. (2011). *The Future of Regional Business Support: An Overview of the Business Support Literature*. A report for the Business Support Strategic Review, Kent County Council. Centre for Employment, Competitiveness and Growth, University of Kent. 5pp.

Survey findings

The survey findings have formed a collaborative comparative paper comparing the HRM practices of SMEs in the UK and France. This publication was presented at the IIRA World Congress in Australia by S. Raby and has recently been published:

Gilman, M. and Raby S. (2012) National Context as a Predictor of High Performance Work Systems in Small Firms: A British-French Comparative Analysis, *International Journal of Human Resource Management*

Case study findings

To date, the case study findings have informed two collaborative papers, one that explores the nature of employee voice and one that explores the nature of High Performance Work Systems:

Gilman, M., Raby, S. and Pyman, A. (*under review*) The Contours of Employee Voice in SMEs: Implications for Performance and HRM Theory

Gilman, M. and Raby, S. (*under review*) Uncoiling the HRM and performance Helix in SMEs: How context influences HRM in growth-oriented firms

In addition to the above publication the author sees promise in advancing two publications aimed at reviews of the high performance and growth literature (see Appendix 1 and 2) along with a methodological/theoretical publication on the approach used within this thesis to investigate the relationship that HRM holds with performance in SMEs.

Widening the Impact: Research & Enterprise engagement

The author has also been collaboratively recognised with Dr Gilman by the ESRC's Business Engagement Opportunities (BEO) Scheme and University of Kent's innovation fund; bodies that have provided sponsorship to support the replication and extension of the methodology applied within this doctoral research thesis. This research methodology has since morphed into a research programme entitled 'Promoting Sustainable Performance (PSP)'. PSP has engaged a multidisciplinary team of academics and also a steering committee representing regional and national business advisory services and policy makers (e.g. Kent County Council, BIS) and has subsequently generated significant engagement between business, research and policy communities.

Along with a host of other impacts, the longitudinal dataset that the project provides has led to the publication of a report targeted at business, research and policy communities which has been launched in conjunction with a poster at the ISBE 2011 conference and a video cartoon:

Gilman M., Raby S. and Turpin, J. (2012). *The BIG Ten: The Ten Characteristics of Successful SMEs*. Centre for Employment, Competitiveness and Growth, University of Kent. 56pp. ISSN: 1748-7595.

The PSP programme has also provided significant opportunities for academic publications, student projects and placements and has also informed the development of an executive education programme for ambitious owner-managers - The Business Improvement and Growth (BIG) Journey.

The BIG Journey: supporting ambitious owner-manager's across Kent

In partnership with Dr Gilman, the author has led the conception, design and delivery of the BIG Journey. This new executive development programme has been informed by the research that underpins this doctoral thesis and subsequent iterations of PSP, and fills a key gap in regional business support provision. The BIG Journey is being delivered in partnership with a private-sector consultancy – Telos Partners Ltd. 12 participants were secured for the first cohort who will attend the programme between January and November 2012. It is hoped that this programme will run on an annual basis.

The future: BIG ambitions

The PSP programme, supported by commercial research-led executive education programmes such as the BIG Journey, holds significant potential for expansion on a national and international scale. The PSP programme has been recognised by BIS in the potential role it could play in informing policy at a national level. A modest level of funding has just been secured to support a meeting between key institutions in 2012 in the hope of developing a nationally-collaborative programme of research and enterprise engagement for SMEs, possibly supported through the ESRC.

STAGE 1 SURVEY LETTER



Sustainable
Business and
Productivity
Growth for SMEs

Centre for Regional Business Productivity

Kent Business School, University of Kent, Canterbury, Kent CT2 7PE
Tel: +44 (0)1227 823797 or 824740 Fax: +44 (0)1227 761187
www.smegrowth.co.uk

August 2006

To the Business Owner/Manager,

IMPORTANT! What is required to make your business grow successfully?

Have you ever been in the situation where the advice you urgently require is not available or where those services offered don't quite match up to your needs and expectations? This project aims to fill some of these gaps.

"Sustainable Business and Productivity Growth for SMEs" is a unique project which aims to combine world-class research and practical advice for local business. The project has the support of a wide range of institutions including: Local Development Agencies, Business Advisory Services, and your Business Associations.

To make this project a success we need as many businesses as possible to **take part by filling in the SME Survey. 10 minutes** of your time will help put your business at the forefront of influencing key policy makers and business advisors. You could also **win a PDA or a free performance improvement session.**

A representative sample of SMEs (9-250 employees) has been selected randomly to fill in the SME survey for step 1 of the project. These businesses will shortly be receiving a survey in the post and a unique password should they wish to fill it in online. However, **if you have not received such correspondence and you would like to take part in the project please contact the UK research team** by email S.O.Raby@kent.ac.uk who will be able to send out a survey and further details. Step 1 of the project will be running for 8 weeks from Monday August 7th until Friday September 29th.

A specific project web site has been created for you to **view the results, take part in an interactive business forum and practical workshops**: All of this is **free of charge!** Full details of this project can be found at: www.smegrowth.co.uk

Through an examination of the characteristics, processes and constraints of business growth for SMEs this project will provide a greater understanding of the processes and practices required to help advise you – the businesses – on creating and maintaining long term productivity growth. This will result in the provision of future services, targeted in the right places, for the right people.

The project is part funded by the EU and is led by researchers at the Centre for Regional Business Productivity, Kent Business School and has the support of SEEDA; Business Link Kent; MAS; Kent Invicta and the North Kent Chambers of Commerce each of whom will play an important role in the promotion and steering of the project.

We hope that you take part in this important project and look forward to receiving your completed survey.

Yours sincerely

Dr Mark Gilman (Project Leader)

Note: Businesses have been selected randomly for this project and can be assured of complete confidentiality at all times.



THIS PROJECT IS PART FINANCED BY THE EUROPEAN UNION



STAGE 1 POSTAL SURVEY



**Sustainable
Business and
Productivity
Growth for SMEs**

SME Survey

Please fill in the survey using the boxes provided or John Smith

- Name of person filling in questionnaire:
- Position in business:
- Name of business:
1. Year Established:
2. Main Activity:
3. Legal status: Limited Company Partnership Subsidiary Franchise
 Other (please state)
4. Would you describe the business as:
 Wholly family owned Partly family owned Privately owned Other (please state):
5. Was your sales turnover (£) for your last financial year (2005):
 Under 249,000 250,000 - 499,000 500,000 - 999,000
 1,000,000 - 1,999,000 2,000,000 - 3,999,000 4,000,000 - 7,999,000
 8,000,000 - 15,999,000 16,000,000 - 31,999,000 32,000,000+
6. In the last financial year has your sales turnover? Increased remained the same Decreased
7. What proportion of your turnover for your last financial year (2005) was for exporting activities? %
8. What proportion of your turnover for your last financial year (2005) was for labour costs? %
9. How many employees does your business have?
10. How many of these are: Full time: Part time: Casual/Temp

Section 1: Business market

11. How many competitors do you have for your (main) product / service?
 None Few Many
12. How would you describe the nature of the competition that you face?
 Local Regional National International
13. Which of the following best describes the market in which you operate?
 Growing Mature Declining Turbulent
14. To what extent would you say the value of your (main) product or service depends on offering:
• Lower prices than your competitors? Never Sometimes Often
• Better quality than your competitors? Never Sometimes Often
15. Over the last 5 years would you describe your general trend in turnover to be: Stable Irregular
16. Which statement best describes your trend in sales turnover. **Over the last 3 years my:**
 a. Turnover has grown on average by 15%+ per annum
 b. Turnover has grown on average by 0-15% per annum
 c. Turnover has remained the same varying by +/- 5% per annum
 d. Turnover has reduced on average by 0-15% per annum
 e. Turnover has reduced on average by 15%+ per annum

17. If you have answered a. or b. to question 16, which of the following factors do you feel have made a significant contribution to your growth? (If c. d. or e. answered go to question 18)

Product-service/process Innovation Product-service/process Quality Business Strategy
 Market advantage (niche, competitive position, exporting)
 Resource advantage (information, materials, location, human etc)
 Human Resource Management (recruitment, training, reward, appraisal, team work, culture etc)
 Management of the internal organisation (operational planning, systems & procedures etc)
 Management of the external organisation (suppliers, customers, shareholders, partnerships)
 Sources of advice (networks, business support services)
 ICT (computerised production control, E-business etc)
 Transport networks (distribution/logistics etc)
 Finance (Management of, sources of, favourability of exchange rate etc.)
 Statutory Regulation Other (please specify) _____

18. If you have answered c. d. or e to question 16, which are the three key factors that you feel have contributed to this?

1. _____
 2. _____
 3. _____

Section 2: Business Growth

19. For the next 3-5 years which **one** of the following would best describe your aspirations for your business?

I am keen to expand the business rapidly I am keen to expand the business at a steady pace
 I am not very keen to grow the business much beyond its current size
 I see the size of the firm reducing
 Other (please specify) _____

20. For the next 3-5 years are any of the following barriers likely to affect your potential to grow?

Availability of finance Cost of labour PAYE, VAT compliance Employment Regs
 Availability of labour Availability of suitable skill/qualifications Managerial/leadership capability
 Environmental Regs Suitable premises Transport networks Intensity of competition
 Information & Communication Technology (ICT) Ability to introduce organisational change
 Other: (please specify) _____

Section 3: Management of the Organisation

21. Does your business have a formal strategic plan which sets out objectives and how they will be achieved? Yes No (go to 23)

22. If yes, are any of the following issues covered in the plan?:

Forecasts of staffing requirements Employee skills/development
 Employment policies/practices Product/service development/innovation
 Process improvement/innovation Improving quality of product or service
 Market strategy/developing new markets None of these
 Other (please specify) _____

23. In terms of your managers:

- Do you recruit: Externally Internally Both Not applicable
- Do they have formal management qualifications? The Majority Some None Not applicable

Section 4: Product/Service and Process Innovation

24. Is product/service innovation important to your business? Yes No
25. Is process innovation important to your business? Yes No
26. Are there any factors constraining your product/service or process innovation? Yes No

27. Please state the status of any of the following organisational standards within your business:

	Not used	Considering	Implementing	Accredited
ISO9000 (Quality Management System)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ISO 14001 (Environmental Management System)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EMAS (Eco-management and audit scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ISO18001 (Health and Safety Management Systems)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IIP (Investors in people)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Preferred supplier status	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product/service certification (Kitemark, EC mark etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 5: Information Communication Technology (ICT)

28. Do you use any of the following ICT applications?

	PC's	Computerised accounts	Internet (website)	Mobile phones
Computerised operational control (e.g. ERP)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
E-commerce (customers - online sales)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Computerised Client Management Systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify): <input type="text"/>				

29. Are there any factors constraining the use of ICT by your business? Yes No

Section 6: Performance measurement

30. Are any of the following records kept for your business?

	Volume of sales/services provided	Total costs	Profit/return on investment	Unit labour costs
Quality of product/service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Workforce training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employee job satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer/client satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
None of these				

Section 7: Employment practices

31. Does the business have a manager who's sole or part responsibility is human resources/personnel? Yes No

32. Does the business use any of the following employment relations practices?

	Multi skilling	Psychometric testing	Staff induction	Employee appraisal
Internal Promotion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Job security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal recruitment and selection procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Harmonised terms and conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
None of the above				

33. Which of the following best describes the way you pay your employees?

Formal grading/pay system	<input type="checkbox"/>	Pay is informal and largely unplanned	<input type="checkbox"/>	Pay is decided on a personal basis	<input type="checkbox"/>
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Section 8: Involvement and Participation

34. Does management communicate with employees in any of the following ways?

Trade unions	<input type="checkbox"/>	Works councils or consultative committee	<input type="checkbox"/>	Team briefings	<input type="checkbox"/>	Notice boards	<input type="checkbox"/>
Through managers	<input type="checkbox"/>	Attitude surveys	<input type="checkbox"/>	Suggestion schemes	<input type="checkbox"/>	Newsletter	<input type="checkbox"/>
Company intranet	<input type="checkbox"/>	Other (please specify): <input type="text"/>	<input type="checkbox"/>		<input type="checkbox"/>	Email	<input type="checkbox"/>

35. Are you aware of the Information and Consultation of Employees (ICE) regulations? Yes No (go to 37)
36. If yes, do you have an ICE agreement in place or are planning to introduce one in the next 12 months?
- Not applicable to us Agreement in place
- Not intending to introduce in the next 12 months Seeking to introduce in next 12 months

Section 9: Skills, Training & Development

37. Are training/skills development important to your business? Yes No
38. Have you carried out any training in the following areas in the last 12 months?
- Computing skills Teamworking Communication skills Leadership skills Operation of new equipment
- Health and safety Equal opportunities Customer service/liaison Problem-solving methods
- Reliability and working to deadlines Quality control procedures None of these
- Other (please specify) _____

Section 10: Employment Data

39. Which statement best describes your trend in employment. **Over the last 3 years, my:**
- Employment levels have grown on average by 15%+ per annum
- Employment levels have grown on average by 0-15% per annum
- Employment levels have remained at the same varying by +/- 5% per annum
- Employment levels have reduced on average by 0-15% per annum
- Employment levels have has reduced on average by 15%+ per annum
40. Is employee turnover a problem for your business? Yes No Don't know
41. Is absenteeism a problem for your business? Yes No Don't know
42. Approximately, how long is the working week of an average employee?
- Excl. overtime: _____ (in hours) Incl. overtime: _____ (in hours)

Section 11: Sources of information & advice

43. Is your business a member of any of the following organisations?
- Employers Association Industry or Trade Association Chamber of Commerce
- Federation of Small businesses Institute of Directors None of these
44. Have you sought information or advice from any of the following in the last 12 months?
- | | | |
|---|------------------------------|-----------------------------|
| ACAS | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Central Government department (e.g. DTI, SBS) | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Local Government department or agency | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Management consultants | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| External lawyers/solicitors | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| External accountants | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Employers' association | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Citizens Advice Bureau | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Other professional bodies | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Your family | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Other business owners | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
45. Do you belong to any business networks, clubs or forums? Yes No
46. If yes, has membership of the above assisted you in any way? Yes No
47. Do you have any relationships with customers or suppliers that have assisted you in anyway? Yes No

Appendix 7

STAGE 1 SURVEY – ONLINE VERSION

PROJECT WEBSITE - FRONT PAGE

Sustainable Business and Productivity Growth for SMEs

Achieving sustainable and profitable growth amongst the business community is a major driver to increasing the economic prosperity of Kent - Business Link Kent

Home Introduction Getting Involved Results Business Forum News & Events More Info

Research Partners

CRBP
UNIVERSITY OF KENT

ENVIRONNEMENT
SYSTÈME R&D INNOVATION

LABORATOIRE RII
Université de Littoral

Print this page
Bookmark this page
Tell a friend

Welcome

We all think we know what a successful business is: or do we? How we define success can differ from business to business...

"Sustainable Business and Productivity Growth for SMEs" is a unique project which aims to combine world class research and practical advice for local business. It is supported by a range of institutions including; Local Development Agencies, Business Advisory Services, and your Business Associations.

Have you ever been in the situation where the advice you urgently require is not available or where those services offered don't quite match up to your needs and expectations? This project aims to fill some of those gaps.

Fill in the online survey and win a PDA or a performance improvement session

[click here](#)

To make this project a success we need as many businesses as possible to **take part by filling in the SME Survey**. 10 minutes of your time will help put your business at the forefront of influencing key policy makers and business advisors. You could also win a PDA or a free performance improvement session.

Support Partners

SEEDA

Business Link

South east
mas
the 80 manufacturing advisory service

NORTH KENT
CHAMBER OF COMMERCE

PROJECT WEBSITE – WEB SURVEY SAMPLE QUESTION

http://www.smegrowth.co.uk - Questionnaire - Microsoft Internet Explorer

Sustainable Business and Productivity Growth for SMEs

Section 5: Information & Communication Technology (ICT)

Question 2

Are there any factors constraining the use of ICT by your business?

Yes

No

[Proceed](#)

Done Internet

Appendix 8

STAGE 2 PERSONAL INTERVIEW APPOINTMENT SCRIPT**Opening/Greeting**

_____. My name is Simon and I am phoning on behalf of the Centre for Regional Business Productivity at Kent Business School. You recently filled in a business growth questionnaire in the autumn of last year. We are now at the second stage of this research and we would like to invite your company to take a further part.

-The project is a European research programme being run at Kent Business School to develop a greater understanding of the processes and practices required for long term business and productivity growth for Small and Medium Sized Enterprises.
- An executive summary of the first stage results is soon to be published on the project's website and a business forum is going to be launched to allow businesses to interact and discuss these results.

What does this NEXT STAGE involve?

The next stage will involve a face-to-face interview at your company premises with Mr/Mrs _____ [whoever answered the 1st stage] which will last for around an hour.

What is the PURPOSE of this?

The questions in the interview will be building on the initial postal/online questionnaire delving deeper into the issues affecting business growth within your company. The research is critical to affect future policy and provision of business support, business advisory services and regional economic development for Small and Medium Sized Enterprises and will provide direct assistance to the delivery of practical workshops towards the end of the project.

What are the BENEFITS for my company in taking a further part?

- Your company will be given direct access to all the results of the research, the first report of which will be released soon on the projects website reporting on the results of the postal questionnaire.
- Towards the end of the research in September your company will be invited to practical workshops which will involve a debate on the pertinent issues identified through the research and the subsequent services required for SMEs, and advice and mentoring to business leaders concerning the change management processes identified as key to fostering business growth and productivity enhancement. Attendance at these workshops will be free of charge.
- There will be an opportunity to take part in the 3rd stage. This stage will provide a deeper analysis of a company's situation with free feedback. If this were via a consultant this would cost a significant amount of money. These case study companies will also have significant PR/Publicity attached to them.
- You will be taking part in research that will have future implications for policy and in the subsequent provision of business support, business advisory services and regional economic development - *'Giving your company a voice'*

When can you TAKE PART?

We are currently making appointments from Monday 26th March and will be running until the end of April (If not possible until May then probe as to when is suitable). **Let's set a date....**

Appendix 9

STAGE 2 PERSONAL INTERVIEW**APPOINTMENT DETAILS** [Fill in prior to interview]

Appointment date:	Start time:	Finish time:
Link track Code:	Start date:	Size:
Name of person:	Position in firm:	
Name of firm:	Sector:	
Activity:		

RANKING

Turnover Trend:

Employment Trend:

Business Strategy:

Product Innovation:

Process Innovation:

/ 5

PROBE QUESTIONS [follow up from 1st survey]

Question(s)	Relates to:	Answer given	Advisory body	Answer given
Have you grown rapidly or steadily or remained the same	8		ACAS	
Do you have a business plan?	18, 19, 20		Central government Department (e.g. DTI, SBS)	
Innovation a constraint?	29, 30		Local Government department or agency (e.g. Business Link)	
ICT a constraint?	33, 34		Management consultants	
Have an HRM manager?	37		External lawyers/solicitors	
Do they have teamwork?	39		External accountants	
Hours excl. OT	41		Employers' association	
Hours incl. OT	41		Citizens Advice Bureau	
Training Important?	43		Other professional bodies (e.g. CIPD, IoD)	
Network assisted?	50		Your family	
Customers assisted?	51, 52		Other business owners	
			None of these	

BUSINESS ORGANISATION AND CONTEXT

We have from our records that your main activity is:

Please could you tell us a little more about what this involves?

Please could you explain a little about how the firm is operationally structured? (In terms of business units/divisions)

Please could you explain a little about how the firm is owned and managed?

Please could you tell me more about your role and what involves?

BUSINESS MARKET

1. Do you undertake any research into:

Who your competitors are
 Potential market opportunities
 Product/service development

Yes	No

2. Are there any threats to your current market position? Yes No

If yes, what is it/are they?

3. Do you feel your firm has a competitive advantage? Yes No
(e.g. market/product/process/staff advantages etc.)

If yes, what is it/are they?

4. What two factors are most important to the competitive success of your (main) product or service? [Table 4]

Offering Low price/no frills
 Offering Quality and reliability
 Offering complex product or highly skilled service
 Offering a product or service with unique features
 Developing a new product or service
 Customising to meet the demands of particular customers
 Maximising availability or minimising delivery times
 Offering a high level of customer service

Other (PROBE):

5. Would you say that your competitive strategy changed in the last 3-5 years? Yes

No

If yes, in what way?

6. Is the price of your product/service:

Subject to some control by the firm itself,
 Dependent on demands of large customers, or
 Wholly market determined

Other (PROBE):

7. What is the approximate % value of goods/services going to your largest customer:

%

Has the business grown rapidly/steadily/remained the same? [see front sheet] Yes No

[Ask question 8 only of those who selected yes to the above question from the 1st survey]

8. Would you say that your growth/stability in turnover largely come from: [Table 8]

- Established products/services
- Established customers
- Established markets
- New products/services
- New customers
- New markets
- Maximising availability or minimising delivery times
- Offering a high level of customer service


9. What proportion of your turnover over the last 3 years would you say has come from new products/services? %

GROWTH ASPIRATION

10. Which statement best describes the way in which your company has developed historically:

- In a linear/steady growth path
- Exponentially/high growth
- By successive peaks and troughs

11. Which of the following best describes the life cycle stage that your business is currently at:

- Beginning/invention
 - Growth
 - Maturity
 - Decline
- Circle here 

12. If any, what are the key transitions that you have made in the history/evolution of your business and when did they occur?

	Description	When?
1		
2		
3		
4		
5		

13. How would you define 'sustainable growth' for your business?

14. How do you intend to achieve future growth for your business? [Table 14]

- Move/open new premises
- invest in new equipment/machinery
- improve sales & marketing,
- increase R&D spending,
- Invest in IT
- increase exporting,
- seek out new geographical markets
- Seek to reduce costs
- Introduce process changes/improvement etc.,
- Change product/service mix,
- Greater collaboration with suppliers/competitors,
- Shift activities to lower cost overseas location,
- Hand onto family members
- Change the ownership structure/and or control of the firm

Other (PROBE):

15. How is your current or future growth likely to be financed? By: [Table 15]

- Overdraft/loans
- Government grants
- Private equity
- Venture capitalist/business angel

Other (PROBE):

MANAGEMENT OF THE ORGANISATION

16. On a scale of 1 to 5 [with 1 being oppositional and 5 being collaborative] which best describes your relationships with the following actors? [Table 16]

	<i>Oppositional</i>		<i>Neither</i>		<i>Collaborative</i>	<i>Variable</i>
	1	2	3	4	5	
Shareholders						
Employees						
Senior managers						
Public authorities (i.e. regulatory)						
Customers						
Suppliers						
Banks/Financial institution						

17. Please could you give a typical example of the above?

Does the business have a business plan? Yes No (probe)

[See front sheet]

[Ask question 18, 19 & 20 only of those who selected yes to the above question from the 1st survey]

18. Who is involved in developing your business strategy? [probe whether they receive external advice, not just internal]

19. In writing your business plan have you considered any of the following strategic directions? [Table 19]

Withdrawing from the market	<input type="checkbox"/>
Consolidating position in the market	<input type="checkbox"/>
Capture new market share/penetrate markets	<input type="checkbox"/>
Develop new products or services	<input type="checkbox"/>
Diversify your range of products or services	<input type="checkbox"/>
None of the above	<input type="checkbox"/>

20. If yes to any of the above, how do you intend achieving this:

Internal development	<input type="checkbox"/>
Merger/acquisition	<input type="checkbox"/>
Cooperation/networks	<input type="checkbox"/>

21. Do you have vision/values for your company that are:

Formal	<input type="checkbox"/>
Informal	<input type="checkbox"/>
Do not have any	<input type="checkbox"/>

ORGANISATIONAL CHANGE

22. Which of the following statements best describes the way in which you react to environmental change (i.e. external, market, competition, etc.)?

We attempt to anticipate necessary changes	<input type="checkbox"/>
We tend to react to change as it occurs	<input type="checkbox"/>
We remain the same and do little	<input type="checkbox"/>

23. What are the key issues that you need to address for the long term survival of your business?

	Description
1	
2	
3	
4	

24. Does this include any of the following key areas over the next 3-5 years?

[Table 24]

Business strategy/planning	<input type="checkbox"/>
Departmental structure and planning	<input type="checkbox"/>
Operational planning	<input type="checkbox"/>
HRM (recruitment, training etc.)	<input type="checkbox"/>
Management development	<input type="checkbox"/>
Delegation	<input type="checkbox"/>
Accounting (budgeting, cash flow control)	<input type="checkbox"/>
Sales and markets	<input type="checkbox"/>
Product/process innovations	<input type="checkbox"/>
Quality control	<input type="checkbox"/>
Productivity	<input type="checkbox"/>
ICT implementation	<input type="checkbox"/>
Partnering / collaboration	<input type="checkbox"/>

Other (PROBE):

25. In terms of bringing about change within your firm are you constrained by any of the following? [Table 25]

Too long to deliver benefits	<input type="checkbox"/>
Current staff already overloaded	<input type="checkbox"/>
Difficult to sustain commitment	<input type="checkbox"/>
Employee resistance	<input type="checkbox"/>

Other (PROBE):

26. In terms of bringing about change within your firm, are there any key skills you feel require development? [Table 26]

Strategy/planning	<input type="checkbox"/>
Accounting	<input type="checkbox"/>
Sales & marketing	<input type="checkbox"/>
Customer relations	<input type="checkbox"/>
Process improvement	<input type="checkbox"/>
Professional(qualified) managers	<input type="checkbox"/>
Human resource management	<input type="checkbox"/>
Investment analysis	<input type="checkbox"/>
Communication	<input type="checkbox"/>
Export	<input type="checkbox"/>

Other (PROBE):

27. For the introduction of change do you use:

Internal expertise	<input type="checkbox"/>
External expertise	<input type="checkbox"/>
A mixture of both	<input type="checkbox"/>

28. Are employees or their representatives involved in the change process in any of the following areas: [Table 28]

	<i>Never involved</i>	<i>Sometimes involved</i>	<i>Always involved</i>
Business strategy/planning			
Operational planning			
Product/process innovations			
Productivity			
ICT implementation			
Quality control			
Job redesign			
Problem solving			
Flexible employment/work practices			
Team work			
Training			

Other (PROBE):

PRODUCT/SERVICE AND PROCESS INNOVATION

Are there any factors constraining your product/process innovation? Yes No
 [See front sheet]

[Ask question 29 & 30 only of those who selected yes to the above question from the 1st survey]

29. If yes, what are they?

30. Does this include any of the following factors? [Table 30]

- Lack of funding
- Lack of skilled personnel
- Lack of interest from customers
- Lack of interest from suppliers
- Lack of advice/information

Other (PROBE):

31. Has your firm introduced a new product/service in the last 3-5 years?
 Yes No

If yes, have you:

- Moved to higher value added or higher quality products or services?
- Moved to lower value added or lower quality products or services?
- Remained in the same value added or same quality products or services?

32. Has your firm introduced a new process in the last 3-5 years?
 Yes No

If yes, have you:

- Moved to higher value added or higher quality processes?
- Moved to lower value added or lower quality processes?
- Remained in the same value added or same quality processes?

INFORMATION COMMUNICATION TECHNOLOGY (ICT)

Are there any factors constraining the use of ICT by your firm? Yes No
 [See front sheet]

[Ask the question 33 & 34 only of those who selected yes to the above question from the 1st survey]

33. If yes, what are they?

34. Does this include any of the following factors? [Table 34]

- Lack of funds (high costs)
- Will not benefit my business
- Amount of development time required is too great
- Technology failures
- Lack of skilled personnel
- Lack of external advice/information
- Customers do not want to change (prefer traditional ways)
- Suppliers not co-operative or ready for electronic business
- Security failures/problems
- Our existing systems are efficient
- Not interested

Other (PROBE):

35. Which best describes the way investment decisions are taken in regard to ICT:

- As and when required
- As part of an integrated strategy
- A mixture of both

PERFORMANCE MEASUREMENT

36. Compared with establishments in the same industry how would you assess your firms:
 [Table 36]

	<i>Lot worse</i>	<i>Worse</i>	<i>Same</i>	<i>Better</i>	<i>Lot better</i>
Financial performance					
Labour productivity					
Quality					
Total labour costs					
Investment in Equipment					

Investment in R&D
 Investment in training
 Exports

EMPLOYMENT PRACTICES

Does your business have a manager who's sole/part responsibility is human resources/personnel?
 [See front sheet] Yes No

[Ask question 37 only of those who selected yes to the above question from the 1st survey]

37. If yes, what are their responsibilities, and do they have formal qualifications? (Probe as to recording function or strategic role?) [If no, probe]

38. Would you agree that employees within your firm are motivated by any of the following: [Table 38]

The vision and values of the company
 Wages and financial incentives
 Team spirit with colleagues
 Charisma of managers/leaders
 Quality of working conditions
 Work flexibility opportunities

<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neither</i>	<i>Agree</i>	<i>Strongly agree</i>

Does your business use any of the following employment relations practices?
 - Teamwork [See front sheet] Yes No

[Ask question 39 only of those who selected yes to the above question from the 1st survey]

39. Please state whether you agree with the following statements relating to teams. [Table 39]

Teamwork is merely a term used for a group of people working together
 Members of teams cooperate to get work done
 Members of teams cooperate with members of other teams to get work done
 Individual team members would know the goals and objectives of their team
 Teams can influence decisions about long term plans and directions of the

<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neither</i>	<i>Agree</i>	<i>Strongly agree</i>

company
 Teams have some responsibility over their budget
 Teams plan their own work and review their own performance
 Teams analyse and control the quality of what they produce
 Teams are given the time needed to develop new ideas
 Teams can initiate change based on an analysis of problems

40. What factor(s) determine how many hours you work?

Excluding OT: [See front sheet]	<input type="checkbox"/>	above 37.5 hours?
Including OT: [See front sheet]	<input type="checkbox"/>	above 40 hours?
[Ask question 41 only of those who exceed the above selected criteria]		

41. In comparison to the national average you appear to be working long hours - what are the reasons for this? (Probe: do you see the longer hours you work the more productive you are?)

42. Do you have difficulty in recruiting employees? Yes No

SKILLS & TRAINING DEVELOPMENT

Are training / skills development important to your business? [See front sheet]	Yes <input type="checkbox"/>	No <input type="checkbox"/>
[Ask question 43 only of those who selected yes to the above question from the 1 st survey]		

43. If yes [no], why?

44. Do you have a separate budget for training? Yes No

45. Do you see training costs as:

A burden
 An investment
 Neither

46. Are there any of the following a barrier to training/skill development within your organisation? [Table 46]

I see no barriers to training

Costs of courses
 Lost staff time
 Courses offered not relevant to business needs
 Timing of courses
 Lack of funding
 Distance from place of training
 Lack of enthusiasm from staff
 Fear of losing staff once trained

<i>Not a barrier</i>	<i>A barrier</i>	<i>A significant barrier</i>

47. On average, what would you say are the number of training days per annum per employee? [Table 47]

No time
 Less than one day
 1 to less than 2 days
 2 to less than 5 days
 5 to less than 10 days
 10 days or more

48. Is training undertaken in the majority:

in-house
 externally
 a mixture of both

49. What proportion of your employees are fully trained and experienced when you recruit them?

%

SOURCES OF INFO & ADVICE

Do belong to a business network, club or forum?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Has membership to any business network, club or forum assisted you in any way? [See front sheet]	Yes <input type="checkbox"/> No <input type="checkbox"/>
[Ask question 50 only of those who selected yes to the 1 st question above from the 1 st survey]	

54. How satisfied were you with the advice that you were given by any of the following:
 [Table 54]

	<i>Used (tick)</i>	<i>Very Satisfied</i>	<i>Satisfied</i>	<i>neither</i>	<i>Dissatisfied</i>	<i>Very dissatisfied</i>
ACAS						
Central government Department (e.g. DTI, SBS)						
Local Government department or agency (e.g. Business Link)						
Management consultants						
External lawyers/solicitors						
External accountants						
Employers' association						
Citizens Advice Bureau						
Other professional bodies (e.g. CIPD, IoD)						
Your family						
Other business owners						
None of these						

55. Are there any measures that you feel could be taken at Governmental/Business Advisory level to support and assist your company's growth?

THANK YOU FOR YOUR TIME!

Would it be possible while I am here to take a picture of:

You	
The front of your company	
Your product(s)	

Are you happy for these pictures to be displayed on the projects website?
 Yes No

Authorisation (signature):

Company website address:

Immediately following the company visit, please comment on the following:

Employees, environment and overall impression

General management structure, style and responsibility

The leaders management style, relations with others (egocentric, charismatic, technical, listener, self confident, whimsical/short term approach, dominating etc.)

Internal procedures, rules, standards (quality etc.) and methods

Culture, values and champions

Machinery, equipment, and technical processes

Interesting for further investigation through a case study? Yes No

If yes, why?

Appendix 10

STAGE 3 CASE STUDY DATA SHEET**STRICTLY CONFIDENTIAL**

The following data sheet provides key information on growth trends, investment and firm ownership.

These are seen as important data areas for this research project in identifying growth factors.

In terms of research use, the following measures guarantee confidentiality:

- The data will only be accessible to the research team.
- No firm will be identifiable in any way from published material/reports. Data will be reported only in collective terms. For example the average rate of growth in Industry X.

Please fill in the figures for each year to provide a history of growth over the last 5 years.

You will note that there is a link track code at the top of this sheet. This is a unique identifier for your firm and ensures that the data cannot be linked to your company should the form be lost in the post.

Please return this form in the pre-paid envelope provided. Should you misplace this envelope please send to the following address:

Simon Raby

Centre for Regional Business Productivity

Kent Business School

University of Kent at Canterbury

Kent

CT2 7PE

STRICTLY CONFIDENTIAL: DATA SHEET

Unique link track code:

Please state your current financial year end date:

SECTION A: COMPANY GROWTH HISTORY

1. Please enter your performance over the last 5 years in the following areas:

Financial year	02/03	03/04	04/05	05/06	06/07 (actual or forecast)
Total sales / turnover					
Average number FTE (full time equivalent) employees					
Total salary & wage costs					
Pre-tax profit					
Depreciation					
Net assets (Total assets- other current liabilities)					
Net pre-tax profits					
Capital employed (shareholders funds + long term loans + other long term liabilities)					

SECTION B: COMPANY INVESTMENT

2. For your last financial year please state your expenditure (£) on:

Research and Development	
Capital equipment	
ICT (computers, software etc.)	

SECTION C: EMPLOYEMENT DATA3. For your last financial year please state the total number of employees on your p60 end of year tax return [please note some of these may have left the company in the period]

4. Please provide a breakdown of the number of people within the business who are 'family' members, 'close friends' (when employed) and 'others'.

	Family	Close Friends	Others	Total
Owners / directors (part or whole)				
Senior Managers				
Middle Managers				
Supervisors/Team leaders				
Other employees				
Total				

Appendix 11

STAGE 3 CASE STUDY PROTOCOL**WHAT DOES THE CASE STUDY INVOLVE?**

The idea of this stage of the research is to gain a detailed picture of the practices and processes which either aid or hinder companies in the achievement of sustainable growth. This case study stage will build upon stages 1 (postal survey) and 2 (face-to-face interview).

The case study will involve speaking with the owner/manager of the organisation [+ other managers if appropriate] and a cross sectional sample of employees.

OWNER/MANAGER INTERVIEW

Individual: Owner/manager [+ other senior managers if required see below]

Length of interview: Approx 1 hour

Preparatory Information

It would be useful to have the following information available on arrival to allow the researchers' time to develop their understanding of the company's structure and prepare a trend graph for the interview. If this is not possible this data can be collated when the researcher initially arrives.

- Company/organisational structure
 - o Positions and lines of responsibility
- Historical financial performance data
 - o The annual trend in turnover/profit/employment figures since the company was established (This data should exclude the last 5 years, as we have already collected this from you, and should there be any difficulty in providing actual figures from records then a general trend will be fine)

Interview

Further questioning will then take place in the following areas:

- Sales & markets / Market threats / Competitive Advantage
- The growth process
- Management of the organisation / organisational change / strategy & vision / decision making
- HRM
- Skills, training & development
- Work organisation / organisational standards
- ICT
- Performance Measurement
- Information, Advice and networks

Please note: You may have delegated responsibility for some of these areas to other senior managers in your organisation [e.g. Sales and Marketing, HRM]. If this is the case it may be better to speak to these other senior managers directly.

EMPLOYEE INTERVIEW

Individual(s): A cross section (in length of job tenure and position) of 15-20% of the company's employees.

Length of each interview: ½ hour max

Interview

Questioning will take place in the following areas:

- Previous employment background
- Previous educational background
- Current job role, incl. length of tenure, reasons for joining company etc.
- Employment relations practices incl. induction process, appraisal etc.
- Training received to date
- Involvement & participation incl. meeting structures etc.
- Opinions of company/management
- Opinions of organisational change / internal developments

Appendix 12

STAGE 3 CASE STUDY MANAGER INTERVIEW**APPOINTMENT DETAILS**

Appointment date: Start time: Finish time:

Link track Code: Start date: Size:

Name of person: Position in firm:

Name of firm: Sector:

Activity:

SCALES

Where scales are used they relate to a score of 1-5

1: Strongly agree or extremely important

5: Strongly disagree or not at all important

BUSINESS ORGANISATION & CONTEXT

HOW LONG have you been employed with this firm?

Roughly, HOW MANY other firms have you worked for?

What were the REASONS for leaving your last job?

What has been the SIZE of other firms you have worked for?

How do you tend to FIND EMPLOYMENT?

What is your highest educational qualification? PROBE

Did you require any qualifications for your present job? PROBE

BUSINESS MARKET

We noted that you felt the company did/did not have any threats to your market position; please can you expand as to why you believe this to be the case?

We noted that you felt the company did/did not have a competitive advantage; please can you expand as to why you believe this to be the case?

GROWTH ASPIRATIONS

Thank you for completing the data sheet. Would you be able to talk us through the firm's growth process/performance trends? (PROBE: key transitions relating to finance, technology, human resources etc.)

MANAGEMENT OF ORGANISATION

We noted that you did/did not have a strategy/plan; please can you expand on how the plan is designed, reviewed, communicated and implemented?

PRODUCT SERVICE/PROCESS INNOVATION

Would you say that this sector has leading edge or pace setting firms? Yes No

If yes, are they small medium or large firms?

What are their main features?

Would you consider your firm to be leading edge?

If not, how far do you wish to emulate them?

What are the main constraints in you achieving this?

How important is investment in new equipment? (SCALE)

If at all important, what have been your main recent innovations?

What have been the main limitations (PROBE: bank finance, lack of managerial resources, employee skills)

Are there any implications for workers in terms of skills and pay levels?

How important is investment in new working practice to your firm? (SCALE)

If at all important, what have been your main recent innovations?

What have been the main limitations (PROBE: bank finance, lack of managerial resources, employee skills)

Are there any implications for workers in terms of skills and pay levels?

PERFORMANCE MEASUREMENT

In what ways do you measure the success of your company?

EMPLOYMENT PRACTICES

- WORK ORGANISATION

Which of the following do you use to establish standards of work performance?

Personal observation by owner/manager

Direct observation by supervisor

Pre-defined output targets

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

What are the main issues you face in monitoring the performance of staff?

Have you made significant changes to the way work is organised? Yes No

(PROBE for team work, changed responsibilities, reduction of direct supervision, new technology)

Why were these made?

- RECRUITMENT & RETENTION

What are the main methods of recruitment?

Word of mouth	<input type="checkbox"/>
Unsolicited application	<input type="checkbox"/>
Adverts in press	<input type="checkbox"/>
Employment agencies (public/private)	<input type="checkbox"/>

What do you think are the main reasons for staff leaving?

How much of a problem is labour turnover?

Do you have any policies for tackling it? Yes No

(PROBE)

Do you recruit staff from particular age groups (e.g. young workers)? Yes No

(PROBE)

- PAY STRUCTURE

Do you use any of the following means to determine the structure of pay (if no formal structures probe for informal)?

Job evaluation	<input type="checkbox"/>
Formal grading structures	<input type="checkbox"/>
Incremental pay scales	<input type="checkbox"/>

(PROBE)

Do you use:

- Any form of merit pay?
- PBR or piecework?
- Bonuses related to individual performance?
- Bonuses related to the financial results of the company?
- PROBE for any personal or ad hoc bonuses

(PROBE)

Do pay rates reflect any of the following?

- Age
- Experience
- Skill
- Commitment

(PROBE)

- PAY DETERMINATION

Do you have an annual review of basic rates of pay? Yes No

How often would an average employee expect to see their pay increased?

How do you think wages compare with those of your competitors? (PROBE)

What are the main sources of information about what other employers are paying?

- Information from employers' or trade associations (PROBE which?)
- Independent pay surveys
- Specialist press in your sector
- Other specialist press on pay
- Word of mouth, local knowledge/clubs

PROBE/OTHER

Over the past 5 years, have pay increases been in line with inflation or lower or higher?

How do you decide how much to increase your employees pay by?

Do you aim to keep rates of pay in line with a local or an industry standard? Yes No

Do you think that the pay levels you can offer make it hard to recruit staff of the required quality?

When you are thinking about pay levels, do you take into account any compensating changes in work organisation or other matters? Yes No
(Explain if necessary e.g. a firm might pay more if workers take on new tasks or responsibilities, or handle more complex equipment) If YES, seek examples

Is there any variation in the pay of employees doing the same sort of work? Yes No

If yes, what explains this variation? (PROBE for age, experience and use of pay to motivate/provide an ILM)

- HOURS AND OVERTIME

Do part-time workers receive overtime for hours worked above their normal hours?
Yes No

Do you have time off in lieu for hours worked above the standard week? (Instead of, or as well as overtime) Yes No

How extensively do you need to use overtime? Is it:

Only occasionally
To meet seasonal peaks in demand
Quite regular
A very common requirement

If you use overtime extensively have you made any attempts to tackle it?

- NON-PAY BENEFITS

Do you use any of the following benefits for the non-managerial staff?

Full pay when sick

Sick pay at <100%

Pension scheme (employer contributory)

Profit sharing scheme

Health or other insurance scheme

Holidays paid at full pay

Other non-pay benefits

Benefits in kind

IF ANY: have you made any changes recently to these benefits? Yes No

(PROBE)

SKILLS & TRAINING DEVELOPMENT

Is there a standard training period for new employees? Yes No

In general, what proportion of new employees require training?

How long would it take an inexperienced employee to attain an average level of competence?

Is any training provided for staff after any initial training?

Any recent examples of training, e.g. in new computer systems Yes No

(PROBE for formal/informal)

Do you see any current problems with the skills of staff? Yes No

How do you see skill needs in the industry changing, for example do you foresee new information technology as an important development?

How important is employee skill to the overall success of the business?

How much is training/skills influenced by customers/suppliers?

SOURCES OF INFORMATION & ADVICE

We noted that you have benefitted from advice from customers, please can you expand on the relationships you have with your customers?

We noted that you have benefitted from advice from suppliers, please can you expand on the relationships you have with your suppliers?

We noted that you have benefitted from advice from particular networks (e.g. business, personal), please can you expand on these networks?

THANK YOU FOR YOUR TIME

Appendix 13

STAGE 3 CASE STUDY EMPLOYEE INTERVIEW**APPOINTMENT DETAILS**

Appointment date:	Start time:	Finish time:
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Link track Code:	Start date:	Size:
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Name of person:	Position in firm:
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Name of firm:	Sector:
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Activity:

SCALES

Where scales are used they relate to a score of 1-5

1: Very high or completely adequate

5: Very low or entirely inadequate

BUSINESS ORGANISATION & CONTEXT

HOW LONG have you been employed with this firm?

Roughly, HOW MANY other firms have you worked for?

What were the REASONS for leaving your last job?

What has been the SIZE of other firms you have worked for?

How do you tend to FIND EMPLOYMENT?

What is your highest educational qualification? PROBE

Did you require any qualifications for your present job? PROBE

- PRESENT JOB

Please describe your present job

What are the main attractions of working here?

How far does it offer opportunities for career advancement?

Is this your only job?

EMPLOYMENT PRACTICES**- PAY AND HOURS**

What makes up total pay here? (PROBE for breakdown e.g. bonus, overtime)?

Upon how many hours is pay based?

How many hours per week do you actually work?

How do you think pay levels here compare with those of other small firms in the industry around here?

And, in comparison with larger firms?

Do you think that the way you are paid (i.e. the firm's pay system) acts as an incentive to:

Work hard
Stay with the firm

Is there a regular review of your pay? Yes No

If yes, at what intervals?

What triggers it off (e.g. is it birth date)?

How far has your pay kept up with inflation in recent years?

Do you think that pay increases are awarded fairly, or do some people get more/less than they deserve?

Can employees here influence how much they are paid, or do you have to take what the employer offers?

- Employer simply decides
- There is some discussion
- I can have a significant say

How often are hours (a) increased and (b) reduced at short notice

IF AT ALL VARIED: does this cause any discontent (seek respondents and how s/he thinks others feel?)

- MOTIVATION

How would you describe the level of trust between managers and workers here? (SCALE)

How far do you agree with the following statements? (SCALE)

- I share many of the values of the firm (explain VALUES)
- People working here are encouraged to develop their skills
- I feel loyal to this firm

How satisfied are you with the following aspects of your job? (PROBE)

- Level of pay
- Interest in immediate work tasks
- Ability to influence decisions or how I do the work
- Ability to develop skills and knowledge
- Promotion opportunities
- Quality of working relationships with other workers
- Quality of relationships with managers

How has your overall level of job satisfaction changed in the past few years?

If changed: why?

Thinking about the amount of effort you put in on an average day, do you find this:

- Excessively tiring and stressful
- Quite tiring
- Not very tiring
- Not tiring at all

How does this compare with the last job?

How far do you agree with the following statements (agree, disagree or do not know)?

- My job requires me to work very hard
- Everyone here has to work very hard
- I feel that my job here is secure

Within each working day, does the amount of effort vary? Yes No

If yes, are there periods when work is quite slack?

How closely would you say that workers here are monitored in terms of their work performance?

How tightly is discipline enforced?

IF AT ALL TIGHTLY: how do employees feel about this?

How does the way you work (i.e. work intensity or monitoring) influence the quality of your work? (PROBE)

Does the firm use any of the following employment relations practices?

- Multi skilling
- Formal recruitment and selection procedures
- Psychometric testing
- Staff induction
- Employee appraisal
- Internal promotion
- Performance related pay
- Profit related pay
- Employee Share Options (ESOPs)
- Job security
- Teamwork
- Culture change programme
- Quality circles
- Harmonised terms and conditions

TRAINING & SKILLS DEVELOPMENT

During the last year, how much training have you had paid for, or organised, by your employer?

None	<input type="checkbox"/>
<1 day	<input type="checkbox"/>
1 day	<input type="checkbox"/>
<2 days	<input type="checkbox"/>
2-5 days	<input type="checkbox"/>
5-10 days	<input type="checkbox"/>
>10 days	<input type="checkbox"/>

How much of your training is formal and how much informal?

Thinking about the job you are doing at present, do you feel that you have an adequate amount of training? (1-5 SCALE)

And in relation to new opportunities, can you see ways in which your job might develop?

Do you have the training to take up these opportunities? Yes No

What are the main incentives to engage in training?

What are your views generally on the firm's commitment to (a) training its staff and (b) adopting modern methods of working? (seek EXAMPLES)

What happens when your job content changes (PROBE for how up-date skills)?

- INFORMATION AND CONSULTATION

Does management communicate with employees in any of the following ways?

Trade unions	<input type="checkbox"/>
Work councils or consultative committee	<input type="checkbox"/>
Team briefings	<input type="checkbox"/>

- Notice boards
- Through managers
- Attitude surveys
- Suggestion schemes
- Newsletter
- Email
- Company intranet

Other (PROBE)

Are there any means by which employees as a group can represent their views to managers?

- Formal committee
- Formally acknowledge spokesperson
- Informal spokesperson
- Personal discussion only

IF ANY REPRESENTATION: what key issues have arisen recently? Did management respond to suggestions being made?

Do you have meetings involving the whole workforce (either altogether or group by group)? Yes No

How frequent are these meetings?

- Daily
- Less than daily, but at least once a week
- Less than weekly, but at least once a fortnight
- Less than fortnightly, but at least once a month
- Less than monthly, but at least once every 3 months
- Less than every 3 months

Looking at the following list, which issues are discussed at the meetings?

- Production issues (e.g. level of production or sales, quality of product or service)
- Employment issues (e.g. avoiding redundancies, reducing labour turnover)
- Financial issues (e.g. financial performance, budgets or budgetary cuts)
- Future plans (e.g. changes in goods produced services offered, company expansion/contraction)
- Pay issues (e.g. wage or salary reviews, bonuses, job evaluation)
- Leave and flexible working arrangements, including working time
- Welfare services and facilities (e.g. child care, rest rooms, car parking, canteens, recreation)
- Government regulations (e.g. EU Directives, Local Authority regulations)
- Work organisation (e.g. chg to working methods, allocation of work between employees, multi-skilling)
- Health and safety
- Equal opportunities

Other (PROBE)

At these meetings does management normally inform, consult or negotiate with employees (or their reps) about: inform (1), consult (2) or negotiate (3)

Production issues (e.g. level of production or sales, quality of product or service)	<input type="checkbox"/>
Employment issues (e.g. avoiding redundancies, reducing labour turnover)	<input type="checkbox"/>
Financial issues (e.g. financial performance, budgets or budgetary cuts)	<input type="checkbox"/>
Future plans (e.g. changes in goods produced services offered, company expansion/contraction)	<input type="checkbox"/>
Pay issues (e.g. wage or salary reviews, bonuses, job evaluation)	<input type="checkbox"/>
Leave and flexible working arrangements, including working time	<input type="checkbox"/>
Welfare services and facilities (e.g. child care, rest rooms, car parking, canteens, recreation)	<input type="checkbox"/>
Government regulations (e.g. EU Directives, Local Authority regulations)	<input type="checkbox"/>
Work organisation (e.g. chg to working methods, allocation of work between employees, multi-skilling)	<input type="checkbox"/>
Health and safety	<input type="checkbox"/>
Equal opportunities	<input type="checkbox"/>

Do you have any means to make suggestions about new ways of working or improving the service to customers? Yes No

IF YES: SEEK EXAMPLES

THANK YOU FOR YOUR TIME