



Provided by the author(s) and University of Galway in accordance with publisher policies. Please cite the published version when available.

Title	Capturing complexity: developing an integrated approach to analysing HRM in SMEs
Author(s)	Harney, Brian; Dundon, Tony
Publication Date	2006
Publication Information	B. Harney and T. Dundon, 2006, Capturing Complexity: developing an integrated approach to analysing HRM in SMEs, Human Resource Management Journal, Vol 16 (1), pp 48-73
Publisher	Human Resource Management Journal
Item record	http://hdl.handle.net/10379/2105
DOI	http://dx.doi.org/10.1111/j.1748-8583.2006.00004.x

Downloaded 2024-05-15T07:57:55Z

Some rights reserved. For more information, please see the item record link above.



Capturing complexity: developing an integrated approach to analysing HRM in SMEs

Brian Harney and Tony Dundon

National University of Ireland, Galway

This article presents a framework to evaluate HRM in small and medium-sized enterprises (SMEs), using an open systems theoretical perspective. In presenting an open systems perspective the objective is to overcome the limitations of existing theorising in HRM, in particular to facilitate a move away from the 'small is beautiful' versus 'bleak house' stereotypes evident in much of the literature concerned with HRM in SMEs. The evidence is drawn from six SMEs operating in the Republic of Ireland, using a case study method. The findings show that a complex interplay of external structural factors and internal dynamics shaped HRM in each of the companies. HRM was not the coherent set of practices typically identified in the literature but rather was often informal and emergent. It is argued that the open systems theoretical framework enables a move beyond mere recognition of the complexity and heterogeneity of HRM in SMEs, towards an understanding, accommodation and explanation of particularistic factors.

Key words:

human resource management; open systems theory; small-to-medium sized-enterprises; complexity; contingency theory.

B. Harney and T. Dundon (2006), 'Capturing Complexity: developing an integrated approach to analysing HRM in SMEs', *Human Resource Management Journal*, Vol 16 (1): 48-73. [DOI: 10.1111/j.1748-8583.2006.00004.x]

INTRODUCTION

Increasingly it is acknowledged that “the management of people is strategic to success” (Boxall and Purcell, 2003: vii). This recognition has sparked a concerted effort to demonstrate the role of HRM as a means to meet strategic objectives and impact on organisational performance (Den Hartog and Verburg, 2004). The theoretical debate around this nexus has been dominated by two normative models of HRM, namely ‘best practice’ or ‘best fit’ (Boxall and Purcell, 2000). What is problematic here is that much of the literature that espouses the virtues of HRM is almost exclusively derived from *atypical* (i.e. large) firms (Hendry et al., 1995; Dundon et al., 1999; Wilkinson, 1999). The objective of this article is to address this imbalance by examining HRM in Small and Medium Sized Enterprises (SMEs). We start by contextualising the significance of SMEs for the economy, and briefly note the limitations of applying normative models of HRM to the smaller business sector. We then present a conceptual framework with an open systems theoretical underpinning to guide and sensitise HRM in six case studies from the Republic of Ireland. The findings suggest that an open systems perspective provides a deeper understanding of the type and form of HRM adopted in SMEs. Arguably, this approach helps facilitate a move beyond mere recognition of the complexity and heterogeneity of HRM in SMEs, towards an understanding, accommodation and explanation of particular environmental factors. The practical implications arising from the findings are then considered.

SMEs: THE FORGOTTEN BACKBONE OF ECONOMIC LIFE

The numerical importance of SMEs cannot be overstated (Storey, 1994). In Ireland (and the UK) around 99% of all firms have less than 250 employees (Cully et al, 1999; Forfas, 1999; DTI, 2001). However there are dangers in using these figures in a homogenous and deterministic way. About 70% of small firms are not actually companies but rather ‘sole proprietorships or partnerships’ (DTI, 2001). Many small firms are also more prominent in key sectors, such as high-technology, business services and consultancy. Nonetheless, the role of SMEs on the world economic stage stands in stark contrast to our limited understanding of HRM activity within them (Arthur and Hendry, 1992: 246). Efforts to explain this deficiency typically point to

definitional complexities, access difficulties or resource constraints inherent within SMEs (Wilkinson, 1999). Much of this neglect can be traced back to an implicit assumption that findings concerning HRM in large organisations have a universal relevance (Cassell et al., 2002). This trend is best epitomised by the universalistic stance of Huselid: “the use of high-performance work practices should lead to positive outcomes for *all types of firms*” (1995: 644, emphasis added). HRM prescriptions assume a ready-made, large scale, bureaucratic corporation and in so doing suffer from what has been labelled ‘little big business syndrome’ (Welsh and White, 1981). The implications for theorising are of particular relevance with concerns that research about HRM in smaller firms is dislocated from their environmental context (Barrett and Rainnie, 2002).

The literature which might provide insights into HRM in SMEs has tended to conflate the characteristics of SMEs along opposite ends of a continuum of practices and their associated effects towards a ‘small is beautiful’ vs. ‘bleak house’ perspective (Sisson, 1993; Wilkinson, 1999). In reality SMEs are characterised by complexity and unevenness with HR practices mediated through a web of social and economic relationships (Edwards et al, 2003). Informality, for example, cannot be automatically associated with harmonious work relations (Ram et al., 2001: 846); nor should the formalisation of management techniques indicate a measure of the substance of HRM (Gunnigle and Brady, 1984). Research on recruitment in SMEs shows a propensity for smaller firms to use ‘tried and trusted methods’ such as word of mouth and hiring known quantities (Carroll et al, 1999). Brand and Bax (2002) report similar findings in relation to training in SMEs. Evidently, even among notionally ‘good employers’ the reality of employment practices can be very different to what prescriptive models would imply. Control, for example, can be achieved through the simultaneous use of both paternalistic and authoritarian managerial styles (Dundon et al., 1999). HRM in SMEs is therefore neither beautiful nor bleak but rather is best understood as ‘*complex*’. Given these considerations, the following section briefly highlights

the limitations of current theorising about HRM related to an SME context, before presenting an alternative in the form of an open system approach.

LIMITATIONS OF NORMATIVE FRAMEWORKS

Critiques of dominant models of HRM are well rehearsed (see Boxall and Purcell, 2003; Purcell, 1999). Essentially the best practice argument provides an over simplified account of the employment relationship as its universalistic prescriptions are heavily undermined by the impact of organisational contexts, market conditions and institutional forces (Guest and Peccei, 1994; Marchington and Grugulis 2000: 922). These criticisms carry particular weight in an SME context given their proximity to environmental forces. Research suggests that in many SMEs performance can be achieved with modest recruitment practices, training schemes or wage adjustments (Hendry et al., 1995; Carroll et al., 1999; Brand and Bax, 2002). Furthermore, economies of scale presents unique challenges for SMEs as HRM decisions tend to be heavily influenced by labour and product market contingencies (McMahon, 1996; Reid and Adams, 2001; Klass et al, 2002). While recourse to a contingency based argument under the guise of 'best fit' does acknowledge contextual variables it does so in a static and narrow way (Stace and Dunphy, 1991; Boxall and Purcell, 2003). Broader social norms and legislative requirements tend to be glossed over (Wood, 1999:394). Research by McMahon (1995; 1996) has shown how legislation in the form of the minimum wage, EU directives, and taxation can impinge on HRM decisions. Contingency theory is also imbued with a clear sense of rationality, assuming that HRM is realised as intended (Schuler et al., 2001; Truss, 2002). Yet HRM maybe crafted rather than designed (Mintzberg and Waters, 1985) and this is particularly the case in terms of managing human resources in SMEs (Wilkinson, 1999).

Overall, dominant theoretical models do not adequately capture the complexity of HRM in SMEs. Extant approaches tend to adopt a closed, rational systems perspective whereby organisations are depicted as closed hermetically sealed entities exhibiting formalised policies with clear objectives (Scott, 2003). Rational closed models of how organisations operate, however, capture

only part of how HRM systems work (Ferris et al., 1998). In practice there are variances in HRM across organizations, and in most cases there is also substantial variance across individuals, and groups (Wright and Boswell, 2002). The inadequacies of current approaches to analyzing HRM in SMEs expose HRM as a field “rich in prescriptions, but limited in sound descriptive data, and sparse in analytical research” (Heneman et al., 2000:20). For SMEs, proximity to the environment and resultant insecurity makes them more responsive and vulnerable to external changes (d’Abroise and Muldowney, 1988; Bacon et al., 1996). Given these factors HRM in SMEs will necessarily be heavily shaped by contextual contingencies. In an effort to animate the criticism directed at these normative models and capture the complex nature of HRM in SMEs, the next section presents an open systems approach which may better accommodate the contextual determinants of HRM.

TOWARDS AN OPEN SYSTEMS THEORY OF HRM

Recently some have issued a clarion call for research that moves beyond naively simplistic, acontextual approaches to analyzing organisations (Pauwe, 2004: 18). An open systems approach, a branch of systems design and contingency theory, is one such attempt. Open systems theory emphasises two important features of organisations: their system characteristics, and their openness to environmental influences (Wright and Snell, 1991: 208). From an open systems perspective, organisations are viewed as a set of interdependent parts so that that movement in any part of the organisation inevitably leads to movement in the other parts (Perrow, 1973: Wright and Snell; 1991). The momentum for such movements, however, is not exclusively drawn from internal tensions. Of particular significance is the interdependence between existing internal structures of an organisation and the conditions of the environment in which it operates and competes (Jaffee, 2001: 209; Scott, 2003: 91). It is in terms of the appreciation of environmental influences that open systems theory becomes paramount (Way and Johnson, 2005:8).

Open Systems Theory, SMEs and HRM

In a rationale supportive of the application of an open systems approach to HRM Williamson and Cable (2003: 349) have recently argued that “social environmental factors should be incorporated into human resource management theory”. Utilising an open system perspective recognises that firms are embedded in social and economic networks (Edwards et al, 2003). Given that small firms have less control over their environment than larger organisations, research which considers SMEs in isolation is ultimately misleading (Barrett and Rainnie, 2002; Cassell et al., 2002). An open systems perspective suggests that organisations are collectivities that depend on and are influenced by flows of personnel, resources and information from the outside (Jaffee, 2001: 4; Scott, 2003: 27). Likewise, others argue the importance of locating analysis in relation to wider macro factors that may shape managerial action in a micro-context, thereby acknowledging the tensions between external pressures and internal HRM structures, policies and practices (Kinnie et al., 1999; Dundon et al., 2001).

Appreciation of environmental interdependency allows for consideration of the numerous factors simultaneously at play in organisations. An open systems approach may have particular utility for analysing HRM in SMEs as research has indicated that a complex interaction of both internal and external factors shape HRM in this context (McMahon 1995; Dundon et al, 1999). Consideration of HRM in SMEs from an open systems perspective therefore provides the potential for a more descriptive and analytical research contribution. Indeed, it has been argued that human resource issues are part of open systems, and consideration is theoretically bankrupt unless placed in the broader context of organisations (Zedeck and Cascio, 1984:463). Previous literature has cited the ‘exciting prospects’ that a perspective grounded in organisational theory offers to further advance our understanding of HRM (Wright and Snell, 1991; Katz et al., 2000; Williamson and Cable, 2003). Drawing on an open systems approach in the form of both institutional and resource dependency theories helps to facilitate the linkage

between external influences and their associated HRM effects (DiMaggio and Powell, 1983; Paauwe and Boselie, 2003).

Institutional Theory and Resource Dependency

Institutional theory depicts normative and isomorphic pressures that arise from social and economic inter-relations among firms and in so doing provides a thorough base for inclusion of the context of HRM (Paauwe, 2004: 5). From this perspective HRM activities may be adopted as legitimacy enhancing responses to broader structural relationships (Jackson and Schuler, 1995; Kamen et al., 2001: 35). Thus HRM may be introduced in an effort to seek approval from a subordinate entity or alternatively HRM practices maybe imposed coercively as mandated by legislation, or as a consequence of pressures exerted by other organisations. Issues in this respect often revolve around perceived legitimacy as smaller firms become pressurised to adapt to large firm expectations and demands. Kinnie et al.,(1999: 218), for example, concluded that “employment relations in SMEs are shaped strongly by specific customer requirements exercised through the supply chain rather than being driven by broader market forces”. This provides explanation for practices that are not the result of pre-determined strategies but rather derive from institutional and political influences (Wright and McMahon, 1992; Jaffee, 2001:227; Godard, 2004).

Complimentary to institutional theory, resource dependency focuses on the nature of resource exchanges. In other words HRM activities and processes tend to reflect the distribution of power among organisational stakeholders (Jackson and Schuler, 1995). HRM in SMEs may therefore partially reflect the dynamics of the system within which the organisation operates (Fuller and Moran, 2001). Research in SMEs has invariably hinted at the power that can be exerted by various stakeholders: suppliers, large customers, employees and owner-managers themselves (see for example typologies offered by Rainnie, 1989 and Goss, 1991). In extreme cases the adoption of new practices can be imposed from outside the immediate work environment

(Cassell et al., 2002). Appreciation of such issues negates the criticism directed at HRM frameworks whose failings often derive from exaggerated conceptions of strategic choice (Purcell, 1993). To date, however, inter-firm relationship effects and blurred organisational boundaries have been largely excluded from explorations of HRM issues (Rubery et al., 2002). Clearly the world in which organisations actually exist is highly unstable and not everything that happens is necessarily intended (Wright and McMahon, 1992:314). Open systems theory does not presuppose or assume alignment but rather acknowledges that the “relationships between organisation and environment are variable” (Child, 1972:10). Evidently “we need theoretical models and accompanying research design that take into account the institutional setting and allow reality to emerge and enable us to analyse the underlying processes” (Paauwe, 2004:69). As such a complimentary perspective which has the potential to deal with emergent issues such as legitimacy, institutional conformity and resource dependency is explored next.

AN OPEN SYSTEMS CONCEPTUAL FRAMEWORK

Research on HRM in SMEs has identified a plethora of mediating variables which determine the nature and outcomes of HRM (McMahon, 1995; 1996). Duberly and Walley (1995) emphasise the need for a more holistic approach that is capable of capturing the complex interplay of many different influences which impinge on HRM in SMEs. Yet despite this, the discourse of holism is not particularly evident when it comes to studying smaller firms (Fuller and Moran, 2001). In this respect the inadequacy of existing literature is that each adopts a narrow focus while very few address the whole domain of HRM in a particular context (Jackson and Schuler, 1995; Scase, 1996: 580)¹. In terms of HRM in SMEs some have looked at individual practices: new management techniques (Bacon et al, 1996); recruitment (Carroll et al., 1999); employee relations (Matlay, 1999); non union SME firms (Dundon et al, 1999); relations with larger firms (Kinnie et al., 1999); training (Brand and Bax, 2002); owner-manager characteristics (Entrialago, 2002); and social and informal networks (Ram, 1999; Edwards et al, 2003). Some have argued that “in order to formulate meaningful theories... common conceptual frameworks must be

established and researchers must examine total organisations as opposed to parts” (d’Abroise and Muldowney 1988: 237).

The conceptual framework presented in Figure 1 is one such attempt at developing a more holistic approach for looking at HRM in SMEs. The framework graphically represents the main contributions in each domain identified in the literature and serves as a ‘sensitising framework’ to guide empirical investigation. Specifically, the conceptual framework indicates how firm size interacts with other factors such as labour and product market influences, ownership, managerial style, dependency and relations with customers and suppliers to shape HRM. It is important to acknowledge that while the internal and external factors identified are identical to those affecting large firms, given SMEs proximity to the external environment, it is “the way in which these factors impact on small firms that makes the situation for small firms different from that of large firms” (McMahon, 1995:199, original emphasis). It is these complex factor interactions that have been cited as theoretically weak in much of the extant literature on SMEs (Barrett and Rainnie, 2002: 416).

While the framework emphasises that external structural factors shape the parameters of HRM it suggests the actual form HRM takes is likely to be contingent on idiosyncratic firm responses. This is an important qualification against the criticisms of environmental determinism sometimes directed at open systems theory, as it draws attention towards Child’s (1972) notion of strategic choice and more recently Paauwe’s (2004) concept of ‘leeway’². Overall, the purpose is not to debate the *existence* of choice but rather the *conditions* that enlarge or restrict its breadth (Mintzberg et al., 1998:298). In this way the analysis should aid in capturing complexities while developing a more integrated approach to understanding why HRM in SMEs has been noted for its ‘marked heterogeneity, complexity and high unevenness’ (Duberley and Walley, 1995; McMahon, 1996; Cassell et al., 2002). In order to explore this further, the sensitising framework depicted in Figure 1 was utilised to guide research in six case study companies, as documented

in the next section. Given that causality cannot be attributed in a linear fashion within such a complex system, the focus on operationalising the framework was not prediction but rather understanding what is contextually unique and why it is so (Brewster, 1999; Truss, 2002).

INSERT FIGURE 1 ABOUT HERE

RESEARCH METHODOLOGY

This research used a case study approach as the most appropriate method to yield information about what is happening in SMEs in terms of HRM. The objective of the case study method is to elicit a more holistic and contextual view of how managerial action is mediated, amplified or modified by labour and product markets, external pressures as well as internal management styles. Our emphasis was not to identify patterned regularities of behaviour, but rather an understanding of behaviour and action from the participants' own frame of reference. Robson (1997) claims that this approach can aid understanding of subjective and social phenomena. Guided by the conceptual framework in Figure 1, the research instruments focused on the extent to which internal dynamics and external factors characterise how and why SMEs have adopted aspects of HRM. The framework was operationalised by considering four key areas:

- the type of HRM practices used and their degree of sophistication. This was done by means of a twenty point profile of HRM in SMEs building on previous work by Bacon et al., 1996;
- the relationship between strategic, planned and emergent HR decision-making in each of the case studies;
- the determinants of HRM in terms of environmental factors; and,
- the determinants of HRM in terms of internal dynamics.

The data was collected from six case studies in the Republic of Ireland between August 2002 and September 2003. Detailed interviews were conducted with a total of 19 people across the six case studies, and the time spent at each company varied. In four of the case studies (Manu Co, Hotel Co, Packaging Co and Airline) repeat visits were conducted and owners/managers and employees were interviewed on more than one occasion. At the two remaining case studies (Clinic Co and Law Inc) only one visit was permitted. Twelve employees were interviewed in five of the six firms. At Law Inc only two senior partners were interviewed, owing to company pressures at the time of the visit. At Packaging Co and Hotel Co, three employees were interviewed on separate days, in addition to the owner-manger and HR manager respectively. At the each of the other companies two workers were interviewed. The selection of employees interviewed also varied. At Packaging Co and Hotel Co we were allowed to speak to any workers who happened to be free or on their break. At the other case studies employees were chosen by management, based on who was available at the time. At Manu Co, however, the General Manager (GM) specifically excluded access to the union representative. In addition to interviews, documentary material, such as mission statements and personnel handbooks (where in existence) were examined.

The case studies were selected to reflect different sectors of economic activity, size, and occupational classification. Particular attention was also paid to obtaining a mix of SMEs that had and did not have a designated HR department or HR manager. Defining organisations as an SME was taken from the current European definition (DTI, 2001): *micro* (less than 10 employees), *small* (10-49 employees) and *medium-sized* enterprises (50-249 employees). It must be acknowledged that the majority of the cases fall into the medium sized firm category. Thus while our approach is one that moves beyond size determinism, there are inherent limitations in using the term SME as an aggregate label. Background information on each case study organisation is provided in Table I.

INSERT TABLE I ABOUT HERE

FINDINGS

HRM Practices in Use (20 Point Profile)

Initial analysis of the range of practices reported by managerial respondents suggests diversity in terms of the type and form of HRM practices in use. Manu Co and Packaging Co had 8 of the 20 practices on the twenty-point profile with a number implemented informally. At Clinic Co which had only 6 of the practices, there was also a significant emphasis on informality³. Hotel Co, Airline, and Law Inc on the other hand exhibited a larger range and sophistication of practices (e.g. devolved management, performance appraisal, teamworking) which seemed to reflect the imperative of service interactions and quality control for customer (client) satisfaction. Taking account of more qualitative dimensions however, reveals that simplistic claims purporting to lend support or to refute Bacon et al's (1996) 'beyond bleak house' scenario need further qualification.

In terms of recruitment Packaging Co, Manu Co and Clinic Co relied entirely on informal word-of-mouth recruitment which was deemed cost effective and dependable: "*this is reliable and costs me nothing*" (Owner: Packaging Co). Hotel Co on the other hand seemed to have adopted a relatively sophisticated approach to recruitment shaped by external expectations for high quality customer care. In practice however, sophisticated practices applied largely to the managerial level. These were complimented by a more informal approach for lower level staff as the HR Manager noted '*employees also bring their friends with them*'. HRM therefore is not necessarily homogenously applied *within* firms (Wright and Boswell, 2002). At Airline and Law Inc the more formalised and systematic approach to recruitment was conditioned by tight labour markets and the regulatory requirements for pilots and commercial lawyers, respectively.

INSERT TABLE II ABOUT HERE

While all but one (Clinic Co) of the companies indicated that they had training schemes for all staff, the extent and range of training varied significantly. At Law Inc considerable resource and effort was devoted to Continuous Professional Development (CPD) schemes for lawyers along with on-going technical training for clerical and support staff. Similarly, at Airline and Hotel Co significant resources had been devoted to new areas of quality and customer service training. At the other end of the spectrum, at Manu Co and Packaging Co, training was less structured and often determined by 'on the job' needs as skills were generally '*easy to pick up yourself*' (GM: Manu Co). At Clinic Co there was no training whatsoever as the owner-manager relied on other external bodies, such as the Irish Nursing Organisation (INO), to ensure that nurses were fully qualified and trained.

At both Hotel Co and Airline performance appraisals were conducted annually, with employees eligible for rewards and bonuses based on their performance (e.g. employee of the month). Reflecting a more informal approach towards HRM at Packaging Co and Manu Co, appraisals took the form of 'mid course corrections' or 'continuous improvement conversations'. In the extreme case at Clinic Co, the owner-manager was actually enthusiastic in explaining that he had 'no need' for an appraisal system, regarding such people management activities as a daily routine that is part of a supervisor's tacit skill set. Yet although formal appraisals were largely absent that is not to say that employees who worked particularly hard or were in need of motivation were not rewarded. Informal reward mechanisms included a Christmas bonus (Packaging Co), a company social event (Manu Co) or being taken out for dinner in small teams (Law Inc). This undercurrent of informality was best explained by the GM at Manu Co:

"if you formalise something you are dead, informality makes things feasible and gives you options".

The extent of formalisation therefore should not necessarily indicate a measure of the substance of HRM (Gunnigle and Brady, 1984; Marchington and Grugulis 2000:917). Even in some of the more formalised cases (Hotel Co, Airline and Law Inc), the 'way' policies were implemented was at times found wanting. At Hotel Co, for example, psychometric testing had been utilised on only one occasion for a new duty manager. At Law Inc and Airline teams did not have autonomy in relation to appointing a team leader or in deciding how to do a given job. Moreover, there was evidence of work intensification at Airline with extended work rotas for cabin crew while at Hotel Co management were concerned that employee dissatisfaction had resulted in higher staff turnover relative to the previous year (turnover had risen from 8% to 13%). In contrast, at Packaging Co and Clinic Co, the owner-managers reported that staff turnover was minimal, with only one or two voluntary staff departures in the past number of years. This serves to undermine any notion of simplistic level categorisations of HRM in SMEs using owner-manager checklists of so-called evident practices. Such variance and complexity of HRM in use is further evidenced when consideration was given to the nature and extent of HRM planning.

Planned and Emergent HRM

None of the case study companies had an explicit or formalised HR strategy. This finding was not surprising given the limited formal strategic planning that took place. At Clinic Co there was no forward planning at all, while at Manu Co HR planning consisted of a brief (and infrequent) chat between the GM and the financial controller. Similarly at Packaging Co the owner-manager commented that no formal planning took place as immediate business and commercial concerns had to be dealt with as they arose:

"I'm too busy just trying to keep our heads above water"

This hints at the validity of an open system approach to HRM as it does not presuppose or assume alignment (Wright and McMahon, 1992). There were exceptions to this pragmatic approach however. At Law Inc the HR Manager did have a seat on the company's Management Committee, although it was explained that this was in a 'co-opted' capacity with no decision or voting rights as afforded to Partners of the firm. At Hotel Co the HR Manager noted that while there was no explicit HR strategy for the organisation, procedures (e.g. dealing with customer complaints, health and safety) were documented in the staff manual and desired employee role behaviours were disseminated to employees at their initial induction and subsequently through performance appraisals. The results of such efforts are probably best reflected in Hotel Co's three star status and quality employer award.

A common feature was the terminology deployed by managers which suggested a focus on survivability and adaptability in terms of HRM decisions. The owner-manager of Clinic Co noted that HR decisions were largely reactive, particularly in response to legislative requirements (e.g. work permits). At Packaging Co the owner-manager dealt with HRM issues as they emerged or warranted attention. Similarly at Manu Co the GM used the analogy of dealing with HRM issues by "*plodding along*", noting "*we might start off pro-active but always end up reactive*". Such connotations of adaptation seem to replicate findings in other areas (Hill and Wright, 2001). Moreover, SMEs seem to spend more time adjusting to turbulence than predicting it, as might be expected by the contingency school of thought. For example at Hotel Co, HR planning was found to be contradictory. At times planning was forward-looking and strategic in nature (e.g. performance appraisal), although on some occasions planning remained reactive as issues emerge or gaps were exposed (e.g. aspects of recruitment and manpower planning). This is supportive of an open systems proposition which acknowledges that HRM is an ongoing process subject to revision as realities emerge (Wright and McMahon, 1992; Paauwe, 2004). In an effort to further advance our understanding of such dynamics and contradictions, analysis of how

external influences (as per Figure 1) have shaped the parameters of HRM decisions in the case study companies warrants consideration.

EXTERNAL FACTORS

Product/Market Structure and Industrial Sector

At Manu Co competing in an area with a stretched product life cycle, intense competition had sparked investment in technology and the introduction of strict job descriptions. In a similar vein Packaging Co had experienced extreme cost pressures in its main 'bread and butter low margin' market and had been forced to initiate layoffs for the first time. These companies were both operating at the more mature stage of their product life cycle and had a dedicated emphasis on controlling costs and increasing productivity. Airline and Law Inc, on the other hand, were exemplar of companies which had experienced dramatic growth mirroring the success of the Irish economy. As a consequence, both companies had attempted to consolidate and formalise HR policies: "*growth and expansion demanded full time HR positions*" (HR Manager: Airline). Growth trajectories were not necessarily smooth however as Airline suffered from global economic pressures in air travel, particularly the proliferation of budget airlines and on-line booking technologies. Clinic Co on the other hand was somewhat protected from the direct impact of competitive forces as a result of its local, niche based focus on aspects of dental care.

Hotel Co, Law Inc and to a lesser extent Airline are illustrative of companies operating in markets in which direct customer contact are important determinants of HRM. These cases attempted to link high value services with innovations in HR practices. This often amounted to a more pro-active approach to meet market pressures by emphasising the 'people side' to customer quality. Some of the explanations for discrepancies in terms of the HRM practices developed by each of the companies are therefore attributable to industrial sectors and varying placements along industrial trajectories. Closely interrelated to industrial sector in shaping the

broad parameters of HRM decisions was the nature of each of the company's respective labour markets.

HR Supply

Manu Co and Packaging Co relied primarily on local labour markets where there was a supply of labour readily available. Such loose and static labour markets served to limit the constraints on managerial autonomy in terms of HRM related decisions and may aid in understanding the limited investment in HRM practices, particularly recruitment at these companies. At Manu Co these conditions were explicitly leveraged by the GM who emphasised the availability of replacement labour as a consequence of the deskilled nature of jobs which were generally '*easy to pick up*'. Despite the fact that Airline and Hotel Co also seemed to have a readily available supply of national and non national labour, they did exhibit more investment in sophisticated HRM. This was attributable to the fact that cabin crew employees required more training in terms of customer service skills and quality, with similar initiatives evident at Hotel Co.

At Clinic Co, limited growth and extremely low staff turnover reduced the impact of labour market factors. The owner-manager did note however, that companies in the same sector were turning their focus towards foreign labour markets (through recruitment agencies) to supply adequately qualified nurses. Likewise, at Law Inc, labour market constraints had resulted in difficulties attracting skilled labour amidst buoyant markets given the small pool from which to choose from, and so external agencies were increasingly used for recruitment purposes. This was particularly the case for specialist tax expertise to represent client companies competing in UK and US markets. Clearly therefore the labour markets faced by each of the companies were not undifferentiated. All of the case study companies had experienced difficulties in recruiting and retaining skilled staff, especially professional and higher salaried occupations such as lawyers (Law Inc), pilots (Airline), I.T. specialists (Manu Co) and nurses (Clinic Co). Hotel Co had other

difficulties particular to the sector, with trainee managers being poached by rival hotels. The HR Manager at Hotel Co summed-up the general situation: "*we do suffer, they go to other hotels, mainly for money*".

Value Chain and Technology

Value chain considerations have received much attention within the literature on SMEs. At Packaging Co the knock-on effects of the poor performance of its one major customer became manifest in efforts to dramatically reduce costs, which in turn had resulted in the company initiating layoffs for the first time. Similarly, at Manu Co, the GM noted of their dependency on a particular customer:

"[large company customer] came and viewed the plant, checking our quality procedures, we had to have everything documented"

Related to this Manu Co had introduced new technology in an effort to boost productivity. Such dependency relationships serve to question the notion of over-exaggerated strategic choice. Yet it also transpired that the pressures to implement HRM in these SMEs came not *only* from particular (larger) customers, as suggested by Kinnie et al.,(1999: 218), but *also* from broader societal influences in efforts to gain legitimacy and consolidate control. Airline and Hotel Co are exemplar of companies which were proactive in efforts to gain external legitimacy. This is illustrated in the comment by the HR manager at Hotel Co about its HRM audit in order to obtain the Irish Hotel Federation (IHF) Quality Employer Award. The HR manger explained to staff that this award was essential "*to have in an industry driven by image even though it is not actually required*". In efforts to achieve this award, particular attention had been paid to developing a more sophisticated induction process and performance appraisal practices. Similarly at Airline, training schemes were devised for employees to receive industry awards and good customer service ratings. These were deemed essential by the HR Manager to facilitate continued growth

of the company and in particular to facilitate its expansion on European routes. Improvements in customer satisfaction and client control were complimented by the introduction of online booking and reservation systems, which in turn mandated more extensive staff training and development

At Manu Co and Packaging Co, however, ISO accreditation was implemented in an *ad hoc* fashion as a tactical rather than strategic mechanism to meet rising expectations, as dictated by their industrial sector. Both Manu Co and Packaging Co had implemented formal policies and rules in terms of hygiene, induction and training *specifically* to meet ISO accreditation. The owner-manger of Packaging Co noted of the ISO accreditation procedure:

“it involved a lot of work on quality management, policy and procedures to comply, especially managing records and bullying and harassment”.

Clinic Co was again somewhat atypical in that the owner-manager noted that he was nearly totally reliant on external bodies rather than in house policies to confer legitimacy, epitomised in his reliance on the Irish Nursing Organisation (INO) to ensure that nurses were fully qualified and trained. At Law Inc particular attention was paid to Continuous Professional Development (CPD) schemes, so that the company was seen to be up to date on implications of legislative developments. In this sense, the elements of HRM at each of the case studies were introduced to reflect the dynamics of the system within which each organisation operated.

Legislation

For all the case study companies, employment legislation was seen as a burden in terms of time and administration. These sentiments are best reflected by the owner-manager of Packaging Co:

“I don't have time to scratch my ass, never mind all those procedures and paperwork”

In times of increased demand regulation was simply by-passed. For example, Packaging Co and Manu Co turned to freelance workers who were paid 'cash in hand' as this was seen to be 'easier'. At Hotel Co and Clinic Co, work permits for non-EU national workers was regarded as a 'legislative nightmare'. Even more concerning is the hints at non compliance. At Airline employees were "encouraged" to opt out of the working time regulations owing to pressures for extended work rotas and overnight stops on UK flights. At Manu Co the GM remarked:

"legislation is there to be abused..... People who strictly follow the legislation would not be able to pay their workforce ... it's only 'a forte measure".

In many ways, this evidence reinforces the undercurrent of a complex web of social and economic relationships in managing and surviving in SMEs (Edwards et al, 2003). External structural and institutional factors are evidently important in terms of shaping the parameters of HRM. This highlights the limitations of dislocating SMEs from their totality and lends support to the importance of broader 'environment fit' (Wood, 1999), or what has been termed 'regulation by meta standards' (Sparrow, 1999). Significantly, this view resonates with an open systems theory approach. However, the analysis remains partial without a consideration of internal responses to external factors.

INTERNAL DYNAMICS

Ownership and Managerial Style

Law Inc and Packaging Co exhibited a paternalistic management style, albeit in different ways. Law Inc was described by senior partners as being 'paternalistic, conservative and traditional' in its approach to people management. Employees were rewarded through seniority and pay according to job tenure, service to clients and loyalty to the firm. At Packaging Co there was a similar emphasis on the loyalty of staff but loyalty was often equated with hard work, longer

hours and helping out at times of high demand. Managers reciprocated such loyalty with a reluctance to initiate lay offs during slack periods. This was complimented by a relaxed informal social atmosphere at Packaging Co, for example: *“we roar at each other, slag each other. .. After working together for so long it’s probably natural”*. This surface level ‘harmony’, however, was at times juxtaposed by an authoritarian streak evident from an analysis of the discourse of employees; in particular the nickname ascribed to the owner-manager of Packaging Co as *‘The General’*. Significantly, informality did not disguise or smooth away the power relations that shape the management process (Ram et al., 2001). The owner-manager was clearly the locus of control and decision making, evident in his assertion that *‘the buck stops with me’*. At Manu Co there was an explicit intention to reassert managerial prerogative exhibited by the suspension and sacking of a worker who wanted a pay rise and refused to work until he got one. The GM noted this was just *‘the hard culture in action’*. This also involved the introduction of mechanisms to control employees such as tight job descriptions to *“stop people hiding behind jobs that weren’t there”*. New automated Computer Numerically Controlled (CNC) machines were also introduced in an effort to exert control over employees and increase productivity.

The various ownership structures and management styles clearly influenced responses to intensified competition. At Packaging Co and Clinic Co the owner-managers engendered loyalty from employees by maintaining a high degree of informality. Employees, in turn, were offered flexible working times in the form of banked hours (Packaging Co) and part-time attendance (Clinic Co). The system of banked hours at Packaging Co served the owner-manager’s interests, as staff often opted for banked hours rather than overtime pay when working late, and at Clinic Co part-time employees provided cover during evening shifts. In contrast, at Manu Co, Airline and Hotel Co the implication of intense competition was more severe. The introduction of technology and tight job descriptions at Manu Co and increased shift working at Airline led to a greater degree of formal regulation. Reaction to competitive pressures was therefore not homogenous across firms. While structural conditions shape the broad parameters for action,

the actual type and form of HRM adopted was shaped by internal dynamics within firms. This draws attention to the importance of acknowledging the role strategic choice or leeway (Paauwe, 2004) in deciding how competitive pressures become manifest.

Ownership was more directly related to HR decisions at Clinic Co, Packaging Co and Law Inc, with the owner-manager of Clinic Co and Packaging Co and the Partners at Law Inc making all decisions. In contrast, at the other case studies the direct influence of owners was less prominent. At Hotel Co, for instance, almost all decision-making powers rested with the HR manager rather than directly with the owners. While the HR manager promoted the devolved nature of decision-making, how this operated in practice remained questionable. Consultation tended to be *ad hoc* with only those managers present at the time the HR Manager felt decisions were required. In terms of decision-making one employee noted that a lot was laid out 'in manuals and policies', while employee representative structures were viewed as a 'token gesture' by some workers. At Manu Co the General Manager exercised autonomy on all decision-making matters:

"it has to be one person in charge otherwise control is an illusion".

Unionisation

In all the case study companies the manifestation of ownership type and managerial style was apparent in managerial attitudes towards trade unionism. At Manu Co anti-union sentiments were articulated in an effort to reassert managerial power through diminishing the power of the unions. The GM was explicit in his opposition to trade unions, even blaming unions for the company's current financial predicament:

"they hold up the place with their rights, what about management rights and responsibilities"

At Airline most pilots were members of IMPACT (Irish Municipal, Public and Civil Trade Union) even though there was an 'official' non-union policy. The HR Manager explained that union recognition for pilots was begrudgingly conceded by the founding owner when the company was at a 'start-up phase' and regarded it as an "*unfortunate feature of the industry*". These approaches to unionisation resonate with Gall's (2004) revision of Roy's (1980) typologies, such as a combination of 'sweet and awkward stuff'. At Manu Co management actively opposed potential unionisation but did so by softening the edges with a friendly work atmosphere, use of teamworking, a staff suggestion scheme which resulted in a TV and coffee machine in the canteen, and an informal reward system. At Clinic Co the owner-manager openly expressed his disapproval for collective employee representation even though he relied on the nurses union, the Irish Nursing Organisation (INO), to supply qualified nurses in times of labour shortage. Clinic Co and Law Inc are thus more reminiscent of Guest and Hoque's (1994) 'lucky' non-union employer, in that direct representation and recognition had never emerged as an issue among employees. In contrast, at Packaging Co the evidence points more towards crude 'fear and evil stuff'. Management were openly anti-union as any collective representation was regarded as an affront to the owner's prerogative. Justification for this stance was made through both ideological and economic arguments:

"if we were unionised we couldn't be competitive in the market place ... in terms of decision-making it would be like trying to bang your head off a brick wall, like someone trying to wreck the business".

At Hotel Co the HR manager also indicated a disdain for union activity, and openly promoted HR practices as a substitution to rather than the suppression of collective organisation among workers. Examples included an employee of the month bonus scheme, training and socialisation in promoting a familial company atmosphere as well as alternative voice mechanisms (such as

non-union employee representatives). The HR manager was explicit in that such HR practices have the added objective of alleviating the 'risk of union activity':

"there are no unions here, we try to be proactive, if one started we would fight it, but employees don't have any issues. They are involved in decisions and there is open communication".

Clearly Manu Co and Packaging Co were limited in that they could not afford the sophisticated substitution strategies utilised at Hotel Co. In the language of the managerial respondents, '*in order to deal with unions*', each of these companies utilized a combination of practices that made sense only within the specific organisational and sector context. Many practices were underpinned by various levels of ideological opposition to trade unions who were often viewed as a constraint on managerial legitimacy (Manu Co, Packaging Co and Airline), or deemed unnecessary as a result of a unitarist conception of the organisation (Law Inc, Clinic Co and Hotel Co).

DISCUSSION

Extant literature on HRM in SMEs tends to be characterised by size determinism. Arguably the simplistic labeling of HRM in SMEs has been perpetuated by the absence of a theoretical framework to understand and prioritize particular contextual influences. Evidence from across the case study companies suggests that while size constraints and resource limitations clearly had a role in delineating feasible parameters in terms of HRM decisions, size *per se* did not determine HRM. Rather, size mediated differing priorities such as labour and product markets, supply chain relationships, management attitudes and the political context in which each of these small firms operated. Thus at Hotel Co and Airline, HRM was formal and relatively sophisticated, reflecting the nature of the service, managerial structure and power relations. Management efforts to remain union-free can only be appreciated in that context and how they

differed from the approaches of owner-managers at the other case studies. Similarly the nature of informality evident at Packaging Co and Clinic Co was not indicative of the substance of HRM but rather informality was dynamic, reflecting unique responses to the structural forces that shaped the parameters of HRM options.

Previous research and literature on HRM in SMEs has been skewed to the periphery in terms of firm size. In presenting an open systems perspective this research has attempted to address this imbalance while seeking to facilitate a move away from the crude stereotypes of 'small is beautiful' vs. 'bleak house'. The conceptual framework with an open systems theoretical underpinning provided an analytical purchase on the influences on HRM in an SME context. This facilitated a move beyond mere recognition of the complexity and heterogeneity of HRM in SMEs, and more towards an understanding, accommodation and explanation of situational factors. Moreover, the evidence further animates the criticisms directed at current theorising about HRM, in particular the dominant normative models that seek to explain people management policies and practices within SMEs.

The dialectical relationship between agency and broader structural factors evident at the case study companies therefore exposes the limitation of considering SMEs in isolation from their totality (Barrett and Rainnie, 2002). Research findings presented in this paper indicate that a complex interplay of external structural factors and internal dynamics including resource constraints, managerial influence and proximity to environmental forces shaped HRM in each of the case study companies. Akin to suggestions by Child (1972) the findings highlight that such influences are variable and uneven across each environmental setting. At Manu Co this interplay revolved around increased competitive pressure, which in turn provided a rationale for attempts by the GM to reduce informality and reassert managerial control through tight job descriptions and the introduction of new technology. Similarly, at Airline the response to competitive pressures involved intensification of work and efforts to create a more formally regulated

workplace through HRM initiatives. In contrast, at Packaging Co and Clinic Co, despite economic conditions the informal nature of relations remained intact. The system of 'banked hours' at Packaging Co and part-time and flexible attendance at Clinic Co helped leverage loyalty and motivation from employees, while at the same time served managerial prerogative by meeting fluctuating customer demands. These companies could get by with relatively little investment in HRM given the specific experiences of their respective labour markets. To some extent Law Inc is atypical of the case studies in that HRM was relatively sophisticated. It was claimed that employees (lawyers) were afforded a degree of professional freedom in their jobs coupled with devolved HR responsibilities owing to the knowledge requirements to satisfy important clients. The full nature and extent of this devolved responsibility was questionable, however. Senior Partners retained control of all strategic decision-making, despite the inclusion of the HR Manager on the firm's Management Committee and to a large degree practice was conditioned by the normative regulation of the profession. In that sense devolved HRM and the involvement of other managers as promoted by the senior partners may have been more an illusion than a reality. At Hotel Co there was also HR sophistication, reflecting the requirement for customer service quality in the niche market in which it competed. However, these practices did not necessarily transfer into good working conditions as there was concern that dissatisfaction among employees was becoming manifest in the relative increase in staff turnover. This mutual inclusiveness in terms of determining factors lends weight to the open systems theoretical perspective, in much the same way that Barrett and Rainne (2002: 424) argue that the "parts and the whole mutually condition each other and are therefore not reducible to each other".

Reflecting the multiplicity of intervening variables and their vulnerability to environmental forces, the approach to HRM among the case studies was generally piecemeal. This is best summed up in the terminology utilized by management in dealing with HRM issues 'as they emerged', 'plodding along' or, as the GM of Manu Co noted, "*we might start off pro-active but always end*

up reactive". HRM could therefore not be documented as strategic in the traditional sense of the word, but rather reactive to external pressures. This suggests that more attention should be given to issues of survivability rather than simply being consumed by the rhetoric of sustainable competitive advantage and simplistic conceptions of alignment. Linked to this is a requirement to move away from exaggerated conceptions of strategic choice and acknowledge the 'non strategic determinants' of HRM such as ISO accreditation (at Manu Co and Packaging Co), quality employer awards (as at Hotel Co) and other variations. This recognises the importance of institutional and resource dependency approaches in understanding the type and form of HRM adopted. Much of the normative theorizing surrounding HRM, however, takes a naively static and simplistic closed system approach to organizations.

PRACTICAL IMPLICATIONS

Although this was an exploratory macro level study, our open systems proposition provides a mechanism to understand contextual determinants of HRM which has direct implications for practitioners. In particular, the research findings point to the importance of considering broader societal and environmental influences that can guide HRM decisions. This suggests that practitioners may benefit from actively monitoring and evaluating the impact of changes in their external environment on people management processes. An appreciation of such issues may facilitate realistic expectations as to the form and type of HRM policies and practices most applicable to a firm. Indeed, unravelling the factors that shape HRM are vital for practitioners who wish to develop a unique people management approach which fits their organisation in its unique context (Paauwe, 2004:47). Moreover such understanding may facilitate practitioners with the strategic management of structural factors. For example, in an effort to create more autonomy or 'leeway' in terms of strategic and HRM decisions, efforts can be made to reduce dependency relationships (e.g. broadening supplier or customer base).

Practitioners should also be aware that the extent of formalisation of HRM should not be seen to be indicative of the substance of HRM. As evidenced in this article, informal approaches can satisfy HRM needs and often make sense in a particular and appropriate context. Employees are also crucial in the equation, and their attitudes and behaviours can be influenced by managerial responses to external pressures. Practitioners might do well to inform and consult employees when faced with certain pressures, especially the needs and demands of external customers. This may provide employees with a realistic appreciation of the competitive environment being faced by their organisation.

CONCLUSION

Ultimately there is a requirement to appreciate that SMEs operate in a contextually plural world and to develop approaches which accommodate this heterogeneity. HRM in SMEs is not a seamless garment but rather a quilt composed of a distinct mix of policies and practices, in some cases uneven and contradictory, imbued with varying levels of formality and informality, each reflecting the unique context from which they emerged. Perhaps it is time to acknowledge that “the homogeneity so desperately sought, whether it be in terms of systems of control, numbers employed, turnover, or relationships with major companies, does not exist” (Rainnie 1989: 52) and turn to understanding *why* this is the case. This research, guided by an open systems theoretical framework, was an exploratory step along this path.

References

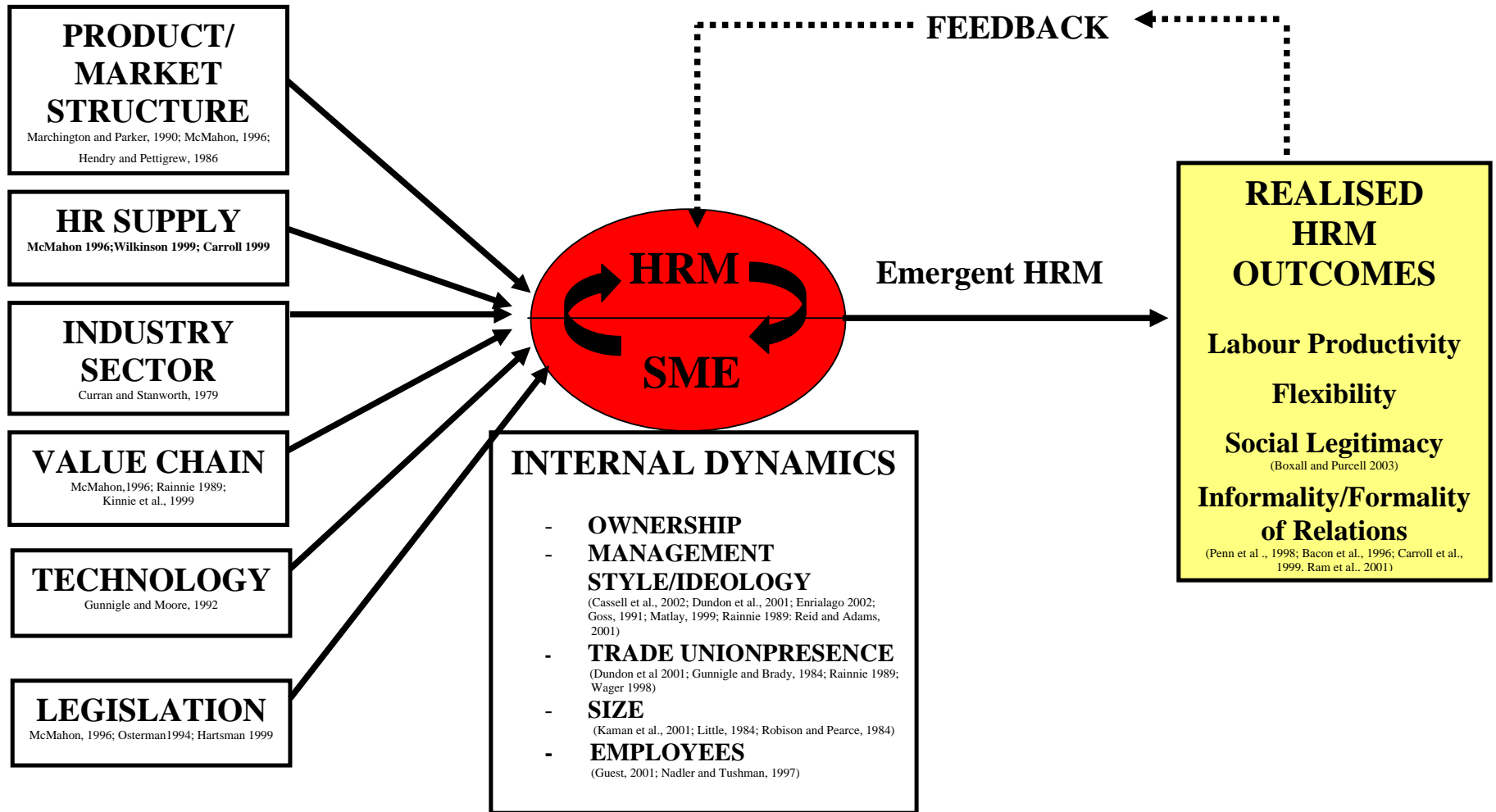
- Arthur, M., and Hendry, C. (1992) 'HRM and the emergent strategy of small to medium sized business units', *International Journal of Human Resource Management*, **3** (3), 233-250.
- Bacon, N., Ackers, P., Storey, J. and Coates, D. (1996) 'It's a small world: managing human resources in small business', *International Journal of Human Resource Management*, **7** (1), 82-101.
- Barrett, R. and Rainnie, A. (2002) 'What's so special about small firms? Developing an integrated approach to analysing small firm industrial relations', *Work, Employment and Society*, **16** (3), 415-32.
- Boxall, P. and Purcell, J. (2000) 'Strategic Human Resource Management: Where have we come to and where should we be going?', *International Journal of Management Reviews*, **2** (2), 183-203.
- Boxall, P. and Purcell, J. (2003) *Strategy and Human Resource Management*, London: Palgrave.
- Brand, M., Bax, E. (2002) 'Strategic HRM for SMEs: Implications for firms and policy', *Education and Training*, **44** (8/9), 451-463.
- Brewster, C. (1999) 'Strategic Human Resource Management: The value of different paradigms', in Schuler, R. and Jackson S. (1999) *Strategic Human Resource Management*, Oxford: Blackwell.
- Carroll, M., Marchington, M., Earnshaw, J. and Taylor, S. (1999) 'Recruitment in small firms: Process, methods and problems', *Employee Relations*, **23** (9), 236-250.
- Cassell, C., Nadin, S., Gray, M and Clegg, C. (2002) 'Exploring Human resource Management practices in small and medium sized enterprises', *Personnel Review*, **31** (5/6), 671-692.
- Child, J. (1972) 'Organisational Structure, Environment and Performance: The Role of Strategic Choice', *Sociology*, **6** (1) 1-22.
- Cully, S., Woodland, S. O'Reilly, A. and Dix, G. (1999) *Britain at Work as Depicted in the 1998 Workplace Employee Relations Survey*, London: Routledge.
- Curran, J. and Stanworth, J. (1979) 'Worker involvement and social relations in the small firm', *Sociological Review*, **27**(2), 317-42.
- D'Abroise, G. and Muldowney, M. (1988) 'Management Theory for Small Business: Attempts and Requirements', *Academy of Management Review*, **13** (2), 226-240.
- Den Hartog, D. N., and Verbarg, R. (2004) 'High Performance Work Systems, Organisational culture and firm effectiveness', *Human Resource Management Journal*, **14** (1), 59-79.
- Di Maggio, P. and Powell, W. (1983) 'The iron cage revisited: institutional isomorphism and collective rationality in organizational fields', *American Sociological Review*, **48** (2), 147-60.
- Duberley, J. and Walley, P. (1995) 'Assessing the adoption of HRM by small and medium-sized manufacturing organisations', *International Journal of Human Resource Management*, **6** (4), 891-909.
- Dundon, T., Grugulis, I. and Wilkinson, A. (1999) 'Looking out of the black hole-Non Union relations in an SME', *Employee Relations*, **21** (3), 251-66.
- Dundon, T., Grugulis, I. and Wilkinson, A. (2001) 'New Management Techniques in small and medium enterprises', in Redman, T. & Wilkinson, A. (2001) (eds), *Contemporary Human Resource Management: Text and Cases*, London: Prentice Hall.
- DTI (2001) *Small to Medium Sized Enterprise (SME) – Definitions*, London: Department of Trade and Industry, Small Business Service (www.sbs.gov.uk/statistics/smedefs.asp).
- Edwards, P., Gilman, M., Ram, M. & Arrowsmith, J. (2003) 'Public policy, the performance of firms and the 'missing middle': the case of employment regulation and role for local business networks', *Policy Studies*, **23** (1), 5-20.
- Entrialago, M. (2002) 'Impact of the alignment of strategy and managerial characteristics on Spanish SME's', *Journal of Small Business Management*, **40** (3), 260-270.
- Ferris, G., Arthur, M., Berkson, H., Kaplan, D., Cook-Harrell, G. and Frink, D. (1998) 'Towards a social context theory of Human Resource Management- organizational effectiveness relationship', *Human Resource Management Review*, **8** (3), 235-264.
- Forfas (1999) <http://www.forfas.ie/ncc/reports/ncc99/smes.htm>, Dublin: Forfas.
- Fuller, T. and Moran, P. (2001) 'Small enterprises as complex adaptive systems: A methodological question?', *Entrepreneurship and Regional Development*, **13** (1), 47-63.
- Gall, G. (2004), 'British employer resistance to trade union recognition', *Human Resource Management Journal*, **14** (2), 36-53.
- Godard, J. (2004) 'A Critical Assessment of the High-Performance Paradigm', *British Journal of Industrial Relations*, **42**, (2), 349-378.
- Goss, D. (1991) *Small Business and Society*, Routledge, London.
- Guest, D. (2001) 'Human Resource Management: when research confronts theory', *International Journal of Human Resource Management*, **12** (7), 1092-1106.
- Guest, D. & Hoque, K. (1994) 'The Good, The Bad and the Ugly: Employment Relations in

- New Non-union Workplaces', *Human Resource Management Journal*, **5** (1), 1-14.
- Guest, D. and Peccei, R. (1994) 'The nature and causes of effective human resource management', *British Journal of Industrial Relations*, **32** (2), 219-242.
- Gunnigle, P. and Brady, T. (1984) 'Industrial Relations in Small Firms', *Employee Relations*, **6** (5), 21-25.
- Gunnigle, P. and Moore, S. (1992) 'Linking Business Strategy and Human Resource Management: Issues and Implications', *Personnel Review*, **23** (1) 63-84.
- Hartsman, B. (1999) 'Decentralised and de-regulated Australian Industrial Relations', *Employee Relations*, Vol 21(3).
- Hendry, C., Arthur, M. and Jones, A. (1995) *Strategy through people: Adoption and Learning in SMEs*, London: Routledge.
- Hendry, C. and Pettigrew, A. (1986) 'The Practice of Strategic Human Resource Management', *Personnel Review*, **15** (5), 3-8.
- Heneman, R., Tansky, J. and Camp, M. (2000) 'Human Resource Management Practices in small and medium sized enterprises: unanswered questions and future research perspectives', *Entrepreneurship: Theory and Practice*, **25** (1), 11-26.
- Hill, J. and Wright, L. (2001) 'A qualitative research agenda for small to medium-sized enterprises', *Marketing Intelligence & Planning*, **19** (6), 433-443.
- Huselid, M. (1995) 'The impact of human resource management practices on turnover, productivity, and corporate financial performance', *Academy of Management Journal*, **38** (3), 635-72.
- Jackson, S. and Schuler, R. (1995). 'Understanding human resource management in the context of organizations and their environment', *Annual Review of Psychology*, **46**, 237-264.
- Jaffe, D. (2001) *Organization Theory, Tension and Change*. Boston: McGraw Hill.
- Kamen, Vicki, McCarthy, A., Gulbro, R., and Tucker, M.(2001) 'Bureaucratic and High Commitment Human Resources Practices in Small Service Firms', *Human Resource Planning*, **24** (1), 33-55.
- Katz, J., Aldrich, H., Welbourne, T., Williams, P. (2000) 'Towards a new Synthesis: Editors Comments', *Entrepreneurship: Theory and Practice*, **25** (1), 1-5.
- Kinnie, N. and Purcell, J., Hutchinson, S., Terry, M., Collinson, M. and Scarborough, H. (1999) 'Employment relations in SME's: Market driven or customer shaped', *Employee Relations*, **21** (3), 218-235.
- Klass, B. McClendon, J. and Gainey, T.(2002) 'Trust and the role of professional employer organisations: Managing HR in small and medium enterprises', *Journal of Managerial Issues*, **14** (1), 31-49.
- Little, B. (1986) 'Performance of personnel duties in small Louisiana firms: A research note', *Journal of Small Business Management*, October.
- Marchington, M. and Parker, P.(1990) *Changing Patterns of Employee Relations*, Harvester-Wheatsheaf, Brighton.
- Marchington, M. and Grugulis, I. (2000) 'Best Practice HRM: perfect opportunity or dangerous illusion?', *International Journal of Human Resource Management*, **11** (4), 905-25.
- Matlay, H. (1999) 'Employee relations in the small firm', *Employee Relations*, **21** (3), 285-95.
- McMahon, J. (1995) 'Employee relations in small manufacturing firms' Chapter 7 in Turner, T. and Morley, M. (1995) *Industrial Relations and the New Order: Case studies in conflict and co-operation*, Oak Tree Press, Dublin.
- McMahon, J. (1996) 'Employee relations in small firms in Ireland. An exploratory study of small manufacturing firms', *Employee Relations*, **18** (5), 66-80.
- Mintzberg ,H and Waters, J. A. (1985) 'Of Strategies Deliberate and Emergent', *Strategic Management Journal*, **6**, 257-72.
- Mintzberg, H., Ahlstrand, B. and Lampel, J. (1998) *Strategy Safari: A Guided Tour Through The Wilds of Strategic Management*, Free Press London.
- Nadler, D., and Tushman, M. (1997) 'A Congruence Model for Organization Problem Solving', in Tushman, M. and Anderson, P (eds) *Managing Strategic Innovation and Change*, Oxford University Press, New York: NY.
- Osterman, P. (1994) 'How common is workplace transformation and who adopts it?' *Industrial and Labour Relations Review*, **47** (2) pp173-188.
- Paauwe, J. and Boselie, P. (2003) 'Challenging 'strategic HRM' and the relevance of the institutional setting', *Human Resource Management Journal*, **13** (3), 56-70.
- Paauwe, J. (2004) *HRM and Performance: Achieving Long-term Viability*, Oxford University Press.
- Penn, D., Any'wa, W., Forster, R., Heydon, G. and Richardson, S. (1998) 'Learning in smaller Organisations', *The Learning Organisation*, **5** (3), 128-137.
- Perrow, C. (1973) 'The Short and Glorious History of Organization Theory', *Organization*

- Dynamics*, **2** (Summer), 1-15.
- Purcell, J. (1993) 'Developing Research in comparative HRM', *International Journal of Human Resource Management*, **4** (3), 507-10.
- Purcell, J. (1999) 'Best Practice or Best Fit: Chimera or cul-de-sac?', *Human Resource Management Journal*, **9** (3), 26-41.
- Rainnie, A. (1989) *Industrial Relations in Small Firms*, London: Routledge.
- Ram, A. (1999) 'Control and autonomy in small firms: The case of the west midlands clothing industry', *Work, Employment and Society*, **5** (4), 601-619.
- Ram, M., Edwards, P., Gilman, M. and Arrowsmith, J. (2001) 'The dynamics of informality: Employment Relations in small firms and the effects of regulatory change', *Work, Employment and Society*, **15** (4), 845-861.
- Reid, R. and Adams, J. (2001) 'Human resource management- a survey of practices within family and non-family firms', *Journal of European Industrial Training*, **25** (6), 310-321
- Robson, C. (1997) *Real World Research: A Resource for Scientists and Practitioner Researchers*, Oxford: Blackwell.
- Roy, D. (1980) 'Repression and Incorporation Fear Stuff, Sweet Stuff and Evil Stuff, Management's defensiveness against unionism in the south', in Nicholas, T (ed) *Capital and Labour: A Marxist Primer*, Glasgow: Fontana.
- Rubery, J., Earnshaw, J., Marchington, M., Cooke, F., Vincent, S. (2002), 'Changing Organizational Forms and the Employment Relationship', *Journal of Management Studies*, **39** (5), 645-672.
- Scase, R. (1996) 'Employment relations in small firms', *Industrial Relations, Theory and Practice in Britain*. Blackwell: Oxford.
- Schuler, R., Jackson, S. and Storey, J. (2001) 'HRM and its links with strategic management', in Storey, J. *HRM: A Critical Text*, London: Thompson Learning.
- Scott, W.R. (2003) *Organisations: Rational, Natural, and Open Systems*, 5th Edition, Englewood Cliffs: Prentice Hall.
- Sisson, K. (1993), 'In search of human resource management', *British Journal of Industrial Relations*, **31** (2), 201-10.
- Sparrow, C. (1999) 'Is HRM in Crisis', in Schuler, R. and Jackson S. (1999) *Strategic Human Resource Management*, Oxford: Blackwell.
- Stace, D. and Dunphy D. (1991) 'Beyond traditional Paternalistic and Developmental approaches to organisational change and human resource strategies', *The International Journal of Human Resource Management*, **2** (3), 263-84.
- Storey, D.J. (1994) *Understanding the Small Business Sector*, London: Routledge.
- Truss, C. (2002) 'Shifting the paradigm in Human Resource Management: From the Resource Based View to Complex Adaptive Systems', *Research Papers in Human Resource Management*, Kingston Business School. (<http://business.kingston.ac.uk/research/hrm/hrmpaps.html>).
- Wagar, T. (1998) 'Determinants of HRM in small firms: some evidence from Atlantic Canada', *Journal of Small Business Management*, **36**, 61-67.
- Way, S. A. and Johnson, D.E. (2005) 'Theorizing about the impact of Strategic Human Resource Management', *Human Resource Management Review*, **15**, 1-19.
- Welsh, J. and White, J. (1981) 'A small business is not a little big business', *Harvard Business Review*, July/August, 18-32.
- Wilkinson, A. (1999) 'Employment Relations in SMES', *Employee Relations*, **21** (3), 206-217.
- Williamson, I. and Cable, D. (2003) 'Organisation hiring patterns, inter-firm network ties, and inter-organizational imitation', *Academy of Management Journal*, June, **46** (3), 349-59.
- Wood, S. (1999) 'Human Resource Management and Performance', *International Journal of Management Reviews*, **1** (4), 367-414.
- Wright, P. and Boswell, W. (2002) 'Desegregating HRM: A review and synthesis of micro and macro HRM research', *Journal of Management Studies*, **28** (3) pp 247-276
- Wright, P. and McMahon, G. (1992) 'Theoretical perspectives for strategic human resource management', *Journal of Management*, **18**, 295-320.
- Wright, P.M. and Snell, S.A. (1991) 'Toward an Integrative View of Strategic Human Resource Management', *Human Resource Management Review*, **1**, 203-225.
- Zedeck, S. and Cascio, W. (1984) 'Psychological Issues in Personnel Decisions', *Annual Review of Psychology*, **35**, 461-518.

FIGURE 1- OPEN SYSTEMS CONCEPTUAL FRAMEWORK OF FACTORS INFLUENCING HRM IN SMES

**EXTERNAL INFLUENCES
(DEPENDENCE)**



Source: The skeletal frame is based on Arthur and Hendry's(1992) model, supplemented with adaptations from similar propositions from McMahon (1996) and more recently Cassell (et al.,2002).

Table I Background Information on the case study companies

<i><u>Organisation</u></i>	<i><u>N Employees</u></i>	<i><u>Sector</u></i>	<i><u>Locus of HR Decisions</u></i>	<i><u>Background/market Context</u></i>
MANU CO	72	Engineering manufacturing	General Manager	Manu Co has evolved from a simple scrap yard to a fully-fledged manufacturing plant producing engineering products such as gas cutting torches. In 1999, due to intensifying competition and poor performance, Manu Co initiated a turnaround strategy. The founding owner-manager stepped down and a new general manager was hired from outside. A central part of this change initiative was attempts by the GM to reduce union power. Staff numbers were also reduced from 110 to 72, and new automatic machinery was introduced. Despite these changes, Manu Co still suffers problems with productivity and high absenteeism. Staff turnover is approximately 10%.
PACKAGING CO	65	Print supplies and manufacturing	Owner-Manager	Packaging Co was founded by its present owner in 1975. Since then he has overseen the growth of the company to its current position as one of the leading manufacturers and printers of flexible packaging in Ireland. Recent times have seen intense competition in Packaging Co's main market resulting in layoffs and attempts at diversification. The company has declined from 80 to 65 employees over the last three years. The owner-manager has retained familial control over all issues, and this has engendered a certain amount of loyalty exhibited by the relatively low turnover as only two employees have left voluntarily in the past few years. A paternalistic management style is further evidenced by the non-union status of the company
HOTEL CO	185	Hotel/retail services	HR Manager	Hotel Co is a luxurious three star hotel best known for its location and surroundings. The hotel in its most recent renaissance was re-opened in the mid 1990's as a luxury hotel by two owners. It currently has over one hundred rooms as well as having extensive conference and banqueting facilities which can hold over 500 delegates. The hotel has 185 employees both full and part-time. Although low for the industry concern was expressed at the relative increase in turnover from 8 to 13%. Devolution of management activity from the owners has led to a number of new posts, these include a HR Manager responsible for all HR issues, departmental heads and team managers. The company is non-unionised and utilises relatively sophisticated HRM practices.
AIRLINE	135	Passenger and freight air travel	HR Manager and General Manager	Airline was founded in the early 1970s serving an internal and limited market. Initially the company owned one plane, which carried passengers by day while at night the seats were removed so it could carry cargo. Under the guidance of the owner the airline has expanded rapidly, with UK and other European routes added in the late 1990s. Airline has 135 employees, composed of flight operations (pilots and aircrew), handlers and office staff, with agency pilots used during peak periods. Turnover is relatively stable at 5%. The company established a HR department in 2001 as a result of its growth and objective to formalise HR activities.

<i>CLINIC CO</i>	27	Medical and professional services	Owner-manager	<p>Previously, HR issues were dealt with by a part time administrative assistant and the owner-manager on an ad hoc basis. The establishment of a HR department witnessed a shift from informal to formalised HR practices in the area of recruitment, discipline, training, pay arrangements and sick absence management. There is union recognition for pilots but not for other staff, and the company would actively discourage workers from joining a union.</p> <p>Clinic Co is run by one owner-manger who established the company in 1992. There are 27 employees: 19 are nurses and 8 are support/clerical staff. The organisation focuses on specific niche market at a local level. Staff turnover is minimal, with only one departure in the last four years. There are no HR polices and no HR department, with people management activities dealt with by the owner-manager. One clerical employee looks after HR administrative matters, such as pay and personnel record-keeping. Recruitment is mostly informal and by word-of mouth, or occasionally via the Irish Nursing Organisation (INO). While nurses are members of INO, there is no formal trade union recognition agreement and the owner-manager has never had to meet or deal with a trade union. Pay issues are dealt with according to the national partnership agreements in Ireland.</p>
<i>LAW INC</i>	210	Professional services	HR Manager	<p>Law Inc is a partnership of lawyers established in the early 1980's by two owners. The firm has grown steadily and now employs 210 people. There is a very low turnover at 4% although it has been difficult to recruit experts in very specialist areas, such as taxation for Irish clients competing in the UK and in the US. Employees consist of partners, solicitors, associates, and support staff such as marketing, finance, IT, HR and secretarial and library staff. The company is non-unionised and there did not appear to be any non-union policy. The company has a HR department that deals with all people management activities, such as recruitment, training, appraisal and general administration. Payroll is outsourced. A number of day-to-day HR issues, such as communications and team briefings are devolved to separate business units. The HR manager is a member of the firm's Management Committee, which is comprised of all partners and makes commercial and strategic decisions. Activities such as recruitment involve a combination of informal (word of mouth) and formal approaches.</p>

Table II: Twenty Point Profile of HRM in the Case Study Companies

Practice	Manu Co	Hotel Co	Packaging Co	Airline	Clinic Co	Law Inc
1) Cultural Change Programme	INFORMAL	YES	NO	YES	NO	NO
2) Devolved Management	NO	YES	NO	YES	NO	YES
3) Teamworking	YES	YES	NO	YES	NO	YES
4) Performance appraisal	INFORMAL	YES	INFORMAL	YES	INFORMAL	YES
5) Mission statement	NO	YES	YES	YES	YES	YES
6) Team briefing	NO	NO	NO	YES	NO	YES
7) Quality circles	NO	YES	NO	NO	NO	NO
8) Harmonized terms and conditions	NO	NO	NO	NO	NO	NO
9) Psychometric tests	NO	YES	NO	YES	NO	NO
10) De-layering	NO	NO	NO	NO	NO	YES
11) Increased flexibility between jobs	NO	YES	YES	YES	INFORMAL	NO
12) Customer quality schemes	YES	YES	YES	YES	NO	YES
13) Training programmes for all employees	YES	YES	YES	YES	NO	YES
14) Staff suggestion schemes	INFORMAL	YES	INFORMAL	NO	INFORMAL	INFORMAL
15) Company wide meetings	NO	NO	NO	NO	INFORMAL	NO
16) Staff attitude surveys	NO	YES	NO	YES	NO	NO
17) Employee welfare and counselling	NO	YES	NO	NO	NO	NO
18) Family friendly working	NO	YES	INFORMAL	YES	NO	YES
19) Social Events	INFORMAL	YES	YES	INFORMAL	INFORMAL	YES
20) Outsourced Practices	YES	YES	NO	YES	NO	YES

Based on Bacon et al, 1996

¹ Notable exceptions include Arthur and Hendry (1992) and McMahon (1995; 1996)

² Paauwe's (2004) concept of leeway allows for the inclusion of an actor's perspective as it emphasises managerial room for manoeuvre in terms of the ability to shape HRM policies and practices. Akin to Child's (1972) conception of strategic choice this avoids the pitfalls of environmental determinism. In contrast to Paauwe who considers leeway as 'a corrective to a system approach', we consider the inclusion of this perspective as an inherent part of our open systems approach.

³ It is important to note that informality is not unique to small firms but is also prevalent in larger corporations, co-existing with more formal practices.