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The rhetoric & realities of HRM evolution in SME growth

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Abstract:

This study examines factors influencing the evolution of formal Human Resource Management (HRM) practices within Australia's Small to Medium Enterprise (SME) sector. By integrating theoretical perspectives, including Organizational Life Cycle (OLC) literature and Mazzarol's (2003) conceptual model, we found the realities of HRM formalization were largely influenced by owner manager's background, perceptions and priorities. Where theory matched practice was in the finding that owners' education and prior management experience did correlate with greater HRM formalization. However, the realities of external factors such as industry regulation, skill shortage and customer expectations influenced the actual HRM practices implemented. SMEs with later OLC dimensions demonstrated greater presence of HRM formalization and the timing of this formalization occurred much earlier than suggested in OLC literature. Practical implications are identified for owners, managers and HR managers working in SMEs.

Keywords: SMEs, HRM, formal versus informal HRM, organisational life cycle.

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INTRODUCTION

As with other developed countries, Australian SMEs are regarded as a solution to enhancing economic performance by enhancing innovation, competition, flexibility, new industries, employment growth and job generation (Harris, McAdam, McCausland & Reid, 2013; Mahmood, 2008). Based on the ABS definition which, with the exception of manufacturing and agriculture, defines small as employing less than 20 people; while a medium business based on employment size between 20 to 199 people, reveals that (97 per cent) of Australian businesses in June 2014 were small businesses (ABS, 2015). More specifically, in June 2014, 61% of actively trading businesses in Australia had no employees, 27% had 1-4, 10% had 5-19, 2% had 20-199, and less than 1% had 200 or more. The dominance of non-employing and nano businesses in the SME sector has implications for employment growth because very few firms in the very small category will grow to employ more than 20 employees (McKeown & Phillips, 2014). This also raises questions as to what motivates organisations at this nano-end of the spectrum to even consider adopting HRM practices. Given that HRM is a managerial strategy “concerned with aligning the interests of employees with company goals in order to maximise firm performance” (Heneman & Tansky, 2002, p56), HRM tends to be associated with not only organisational size but also sophistication and job specialisation. The literature provides some surprising answers. For example, Kinnie et al., (1999) found that for SMEs pressure for effective HR management came from customer demand. Similarly Bacon and Hoque (2005) using data from the 1998 British Workplace Employee Relations Survey, found that larger customers play an important influence in HRM adoption among SMEs - a result supported in Australia by Way (2005). As Weisner and Innes (2010 p.153) note “*despite a growth in international HRM research in SMEs, only a few Australian studies have explored the nature and extent of HRM in SMEs (Barrett and Mayson 2007; Kotey 1999; Kotey and Sheridan 2001; Mazzarol 2003; Weisner and McDonald 2001)*”.

Empirical studies examining HRM use in SMEs consistently show that in comparison to large firms’ majority of SMEs do not use HRM approaches. For instance, an Australian study by Bartram (2005) found that small enterprises (20 – 99 employees) are less likely than medium and large firms (greater than 100 employees) to utilise formal HRM practices. However, comparative studies by Wiesner and McDonald (2001) and Weisner and Innes (2010) show that this is improving – with 55 percent of SMEs having a designated manager responsible for HRM in 2008 compared to only 31 percent in 1998. Taking a more strategic view, Nankervis, Compton and Savery’s (2005) study of CEO’s in 119 Australian SMEs’ found most had no business strategies and plans input from the HR manager, and the HRM role was largely administrative rather than strategic. The general picture of HRM in SMEs reported from several European States also revealed a relatively low take-up of HRM practices (Edwards & Ram, 2006).

It must be noted that there are real issues in drawing conclusions from HRM in SMEs as HRM frameworks are generally developed in and for large organizations. This creates the assumption that SMEs need to adopt pre-existing HRM frameworks but given the limited knowledge on HRM in SMEs it is too early to assume that this is in fact more beneficial for SMEs (Taylor, 2005). In reviewing HRM theories for SMEs, it has been suggested that the lack of a systematic, rational and formal approach to managing people in SMEs results in undesirable HR consequences, particularly for growing firms (Ciavarella, 2003). Mazzarol (2003) for instance argues that inability to adopt formal HRM policies and practices with firm growth will lead to issues with employee turnover, productivity and

commitment. Overall, there remains limited knowledge of the underlying fundamental aspects of HRM such as retention and ongoing employee issues, integration and interactions of HR practices, and the evolution of HR practices within evolving organizations (Cardon & Stevens, 2004). In order to gain answers to these fundamental questions it is crucial to gain understanding on how HRM formalizes with firm growth.

In the context of HRM practices, HRM formality is also frequently referred to as the presence and enforcement of rules. Kaman, McCarthy, Gulbro and Tucker (2001) operationalize the measurement of HRM formalization using the two variables of "high commitment" and "bureaucratic" HRM. The latter refers to HR practices aimed to encourage and motivate employees (such as practices encouraging open communication, training initiatives, rewards and incentives) and the former refers to HR policies and systems which ensure consistency and compliance (such as use of written job descriptions, formal selection, use of employee handbooks). This paper explores HRM formalization based on its two roles, using the term 'Bureaucratic HRM' (BHRM) as an aspect concerned with administrative efficiency and the term 'Commitment HRM' (CHRM) as an aspect concerned with addressing the role of influence.

Linked to formalization is the notion of organizational life cycle (OLC). This is a well-established literature which suggests that organizations evolve in a consistent and predictable manner, passing through different stages of development commonly referred to as *life-cycle*, *growth* or *development stages* (Beverland & Lockshin, 2001; Lester, Parnell, & Carraher, 2003; Rutherford, Buller, & McMullen, 2003). While there is no consensus as to the number of stages, a common theme of OLC models is that each stage is determined by contextual factors such as growth rate and size and by content factors such as unique challenges, conflicts and problems which need to be addressed, before the next stage is reached (Beverland & Lockshin, 2001; Hanks et al., 1993; Rutherford et al., 2003). The unique problems associated with each OLC stage need to be addressed in order to continue organizational growth. Failure to adequately adapt new systems and processes and failure to address formalization may result in growth crises which can lead to organizational ineffectiveness and decline (Greiner, 1972; Walsh & Dewar, 1987). Therefore, understanding and addressing HR formalization and HRM problems is particularly important in ensuring SMEs growth.

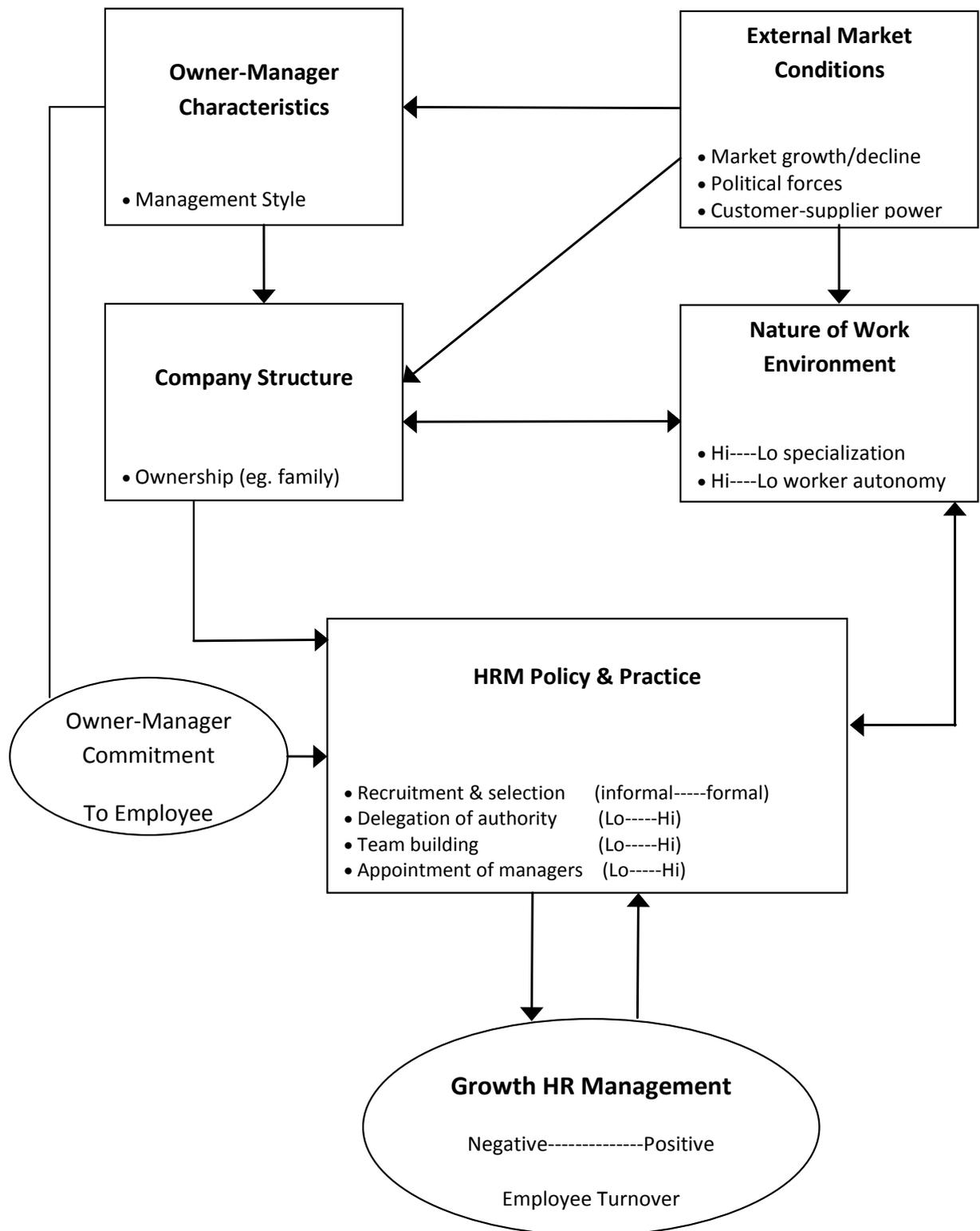
CONCEPTUAL MODEL OF HRM FORMALIZATION IN SMEs

A longitudinal case study of four Australian SMEs by Mazzarol (2003) still provides the most comprehensive and rich explorations of HRM growth in SMEs. It synthesises OLC and SHRM and, as illustrated in Figure 1 below, posits that HRM in growing SMEs is influenced by: (1) *The owner-manager's personal characteristics*; (2) *The external market conditions facing them*; (3) *The nature of the work environment operating within the company and*; (4) *The company structure* (Mazzarol, 2003, p45).

In line with the HRM and OLC literature discussed above, Mazzarol's (2003) conceptual model predicts that owner manager's personal characteristics influence company structure as well as commitment to employees. A study by Matley (2002) also found that owner/manager styles reflected directly on recruitment, training, human resource development, pay negotiations,

FIGURE 1: Theoretical HR Management Process of SMEs Growth

(Source: Mazzarol, 2003, p46)



grievance procedures and interpersonal relationships at the workplace. Thus the owner manager's commitment to "partnering" with his or her employees has a direct effect on HRM policies and practices. Organizational Commitment to Employees (OCE) is defined as "organization's actions toward and treatment of its employees" (Muse, Rutherford, Oswald, & Raymond, 2005). They also found that owners holding either an undergraduate or graduate degree were more likely to have a stronger OCE than companies with owners who did not have a degree. Partial support was also found for a positive relationship between owner experience and OCE.

Combining Mazzarol's (2003) conceptual model with the literature we offer following Research Questions:

RQ1: Bureaucratic and Commitment HRM increases with increasing management experience, level of education, level of people orientated management style and level of commitment towards employees. Therefore:

RQ1a: In firms where the owner has greater management experience, higher levels of education and people orientated management style there will be greater presence of Bureaucratic and Commitment HRM than in firms where the owner has less management experience, lower educational level and a more task oriented management style.

RQ1b: In firms where the owner has greater OCE there will be greater presence of Bureaucratic and Commitment HRM than in firms where the owner manager has lower OCE.

Aligned with findings that HRM adoption in SMEs is influenced by external pressures (Bacon & Hoque, 2005; Kinnie et al., 1999), Mazzarol's (2003) model further predicts that decision making of the business owner is derived from external market conditions and that these will influence both the company structure and nature of work environment, consequently influencing the degree of HRM formality. Research by Cassell et al (2002) demonstrates that HRM adoption will not commence without the presence of an external issue affecting the business. Consequently, owners who perceive vulnerability from external market conditions should commence HRM formalization. Therefore we offer that:

RQ2: Bureaucratic and Commitment HRM should be greater in firms where the owner perceives higher external instability and lower ability to control external market conditions than in firms where owners perceive lower instability and higher ability to control the external market conditions.

The model further suggests that the nature of the work environment and company structure will directly influence organizations HRM policies and practices. This is supported by the OLC paradigm which proposes that different OLC stages are characterised by different work environments, different company structure and therefore, different degrees of HRM formalization. Synthesising Hanks (1993) four stage OLC model with the notion of HRM formalization leads to the following Research Questions:

RQ3: Both Bureaucratic HRM and Commitment HRM aspects of HRM formalization increase as a firm advances through OLC stages. More specifically it is RQed that:

RQ3a: Bureaucratic HRM and Commitment HRM both increase as firms move from the *start up* to *expansion* stage.

RQ3b: Bureaucratic HRM and Commitment HRM both increase as firms move from the *expansion* to *consolidation* stage.

RQ3c: Bureaucratic HRM and Commitment HRM both increase as firms move from the *consolidation* to *diversification* stage.

RESEARCH DESIGN

Given the diverse nature of SMEs a number of researchers have questioned the value of quantitative data alone for analysing SME's (Cassell et al., 2002; Holliday, 1995; Taylor, 2005). We address this by combining both quantitative and qualitative techniques to examine the research questions and explore those results within the context of different OLC stages. To achieve this we undertook a purposive sample of SMEs on the high end of the SMEs continuum as this allows the selection of units which match certain criteria (Babbie, 2004). BRW Fast 100 list of SME's and the BRW's Upstarts list of fast growing start-up companies was selected as the sampling frame as inclusion in this listing signifies that the listed SMEs are the most successful, productive and growing SMEs around Australia, within a wide range of industries. These listings also conform to the ABS definition of SMEs. Furthermore, the rapid growth of these companies and the young age of Upstart companies (not older than four years) should make classification of SMEs according to OLC stages more accurate. The importance of these factors is confirmed in the literature. Hanks et al., (1993) demonstrated that SMEs with no intentions to grow and old SMEs make it particularly difficult to classify SMEs according to traditional OLC stages. Added to this, a study of rapid growth firms by Barringer, Jones and Neubaum (2005) found that fast growth firms utilize more progressive HRM practices than slow growth firms and that HRM practices were one of the main attributes in helping these firms achieve and sustain firm growth. Consequently, examining HRM formalization in high growth SMEs can help to reveal patterns of HRM formalization which can potentially set benchmarking standards for other SMEs.

Our questionnaire was organized into five sections using both open-ended and closed-ended questions. The first section used Hanks et al, (1993) methodology for empirically operationalizing the OLC measure to classify organizations according to their life cycle stages. This was operationalized using a seven point Likert scale of 10 items ranging from strongly agree (7) to strongly disagree (1). Hanks et al. (1993). Section 2 addressed Organizational commitment to employees (OCE) and used Roca et al. (2004) five item scale, focusing on the existence of an employee-management exchange of ideas based on communication with, and active participation by, employees, using the same 7 point Likert scale as the prior section. Section 3 used Sutcliffe and Huber's (1998) perceived instability and controllability questionnaire items were used to measure owners' vulnerability towards external market conditions in terms of competitors, technological changes and customer demands while the controllability measures the degree to which the owner perceived the ability to control the external environment. Responses were again measured on a 7 point scale. Section 4 focussed on HRM formalization and measured Bureaucratic HRM using Nguyen and Bryant's (2004) 8 item scale. The items were coded as formal if each Bureaucratic HRM practice was present. The aspect of HRM formalization termed Commitment HRM was measured using De Kok et al., (2003)

scale of HR formalization, developed from a subset of questionnaire items on recruitment practices, selection methods and procedures, compensation, training and development, and appraisal. De Kok et al., (2003) used a three-point scale (1 = no; 2 = for some vacancies/jobs; 3 = for all vacancies/jobs).

Surveys were forwarded directly to the owners of 170 SMEs identified in the two BRW lists. Due to the low response rate of 21/170, we are restricted to descriptive statistics and non-parametric techniques were chosen to analyse the quantitative data. Of the 21 respondents from stage one 10, indicated that they would like to participate in Stage 2 and of these, 8 proceeded to the interview stage. Interviews were audio recorded, transcribed and word processed into text to retain the richness of the data for analysis using a post-defined approach (Miles & Huberman, 1994) where the units of analysis were sentences. The transcripts were analysed using template analysis (Crabtree & Miller, 1992), representing themes identified in the text to generate a list of codes. The structure of the interview provided a number of themes priori that were then refined and modified by the researcher throughout the various stages of interpretation involved in the analysis of transcripts. Illustrative examples from the transcripts were used as appropriate in the results section that follows.

RESULTS

The total response rate after one follow up letter was 12% with 21 of the 170 questionnaires sent out being returned. The poor response rate of this study confirms the major difficulty identified in the literature review of gathering data from SMEs using surveys (Heneman et al., 2000). Consequently, descriptive techniques and non-parametric techniques were chosen to analyse the data and we have drawn more heavily on the qualitative data gathered from company web sites and semi structured interviews, were used to assess the hypotheses. The average size of responding firms was 21.90 employees (SD=16.97, n=21) with a range of 6 to 71 people employed. The mean age of responding firms was 6 years (SD=3.81, n=21) with a range of 2 to 17 years. 81 per cent of respondents were male. 90 per cent of respondents were between 31-50 years of age. 81 per cent of respondents had bachelor or above education levels. 76 per cent of the owners had prior management experience before establishing their companies. The surveyed firms on average adopted 3.47 out of 8 BHRM practices (the extent to which HR practices are documented, systemized and institutionalized) and 1.90 CHRMs (HR practices aimed to stimulate employee competence and commitment). As Table 1 shows, the 3 most commonly adopted BHRM practices are: using written job descriptions (76% of the firms), using professional sources of recruitment (66% of the firms), and using written criteria for performance appraisals (57% of the firms). The least commonly adopted BHRM practice was having a HR manager with only 3 out of 21 firms employing an in-house HRM manager. BHRM practices that have long term implications such as having a HR plan and spending on employee training were the least likely to be adopted. Only 9 out of 21 companies have a HR plan and only 5 out of 21 firms indicated spending on employee training.

Analysis of the CHRMs aspect of HRM formalization revealed that firms commonly rely on referrals by employees and internet as the main sources of recruitment. Open house (walk ins) and temporary recruitment agencies were the least common to be used but interview panels, job analysis information and written job descriptions were all commonly used selection practices. Psychometric/Skills tests were the least common to be used. Nearly 90% of owners indicated that

regular training was provided to employees with management and development training used in 67% of firms. The most common performance appraisal practice is appraisal conducted by line managers while and the least common practice is the use of rating scales while compensation practices such as profit sharing, group incentive programs and provision of additional financial benefits were the least common to be used.

TABLE 1: Number of Firms Adopting BHRM Practices

BHRM Practice	No. of Firms Adopted	% of 21 firms
Presence of HR Professional/Manager	3	14.29
Written criteria for hiring	5	23.81
Written criteria for firing	9	42.86
Professional source of recruitment	14	66.67
Existence of a HR plan for the company	9	42.86
Spending on training for employees	5	23.81
Written job descriptions	16	76.19
Written criteria for performance appraisal	12	57.14
HRM handbook or manual	9	42.86
Written grievance procedure	7	33.33
Written orientation program	13	61.90
Written OH&S procedures	14	66.67
Policy of sharing bus. Info. W. employees	13	61.90
HRIS	7	33.33

RQ 1 suggested that owners with higher education levels, greater management experience, greater people orientated management style and greater commitment to employees will have greater presence of Bureaucratic and Commitment HRM. The relationship between owners' education level and HRM formalization revealed a strong positive correlation between two variables [$r=.56, n=21, p=0.009$], with higher education levels associated with higher levels of CHRM. There was a small positive correlation between higher education levels and BHRM [$r=.20, n=21, p=.37$] indicating that the higher the education level, the higher the BHRM scores. Qualitative findings added to this, suggesting that all owners with masters' education level espoused the recognition and value of HRM formalization. HRM formalization was seen as an internal tool for managing employee expectations and a way of ensuring greater internal efficiency. However, the difference in the way highly educated owners saw HRM as a priority in the earlier growth stages as well as the education mix of the workforce explained low adoption of HRM formalization among some SMEs. While we found no significant difference in HRM formalization across management experience groups, qualitative findings demonstrated that, for some owners, prior management experience in a highly formalized environment was an important influence in the early adoption of HRM formalization. More specifically, the type of formalized environment influenced whether owners emphasized CHRM or

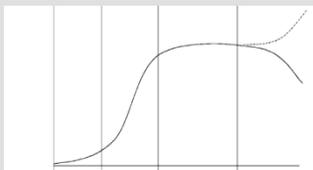
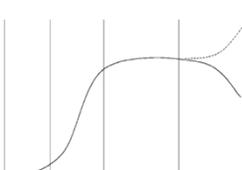
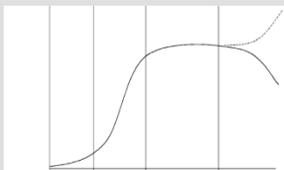
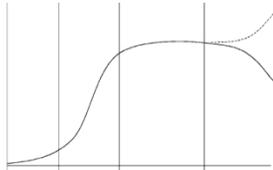
BHRM aspects of HRM formalization. Owner delegation of HRM to managers who have come from large organizations with formalized HR policies and practices also influenced early HRM formalization. As C5 noted “A number of the management team have in prior years worked in a large organization where having formal HRM policies and practices was the norm so we probably formalized early to most companies our size.”

It was not possible to compare owners by people orientated management styles compared to those with more task orientated management styles because 86% of owners surveyed were *middle of the road style* and 14% were *team leader style*. Both styles focus concern on people and performance and try to balance company goals with workers’ needs. Qualitative findings demonstrated that for SMEs owners who adopted more informal management style BHRM formalization was triggered by an internal issue. RQ 1b states that owners with greater OCE will report higher levels of BHRM and CHRM than owners with lower OCE. OCE and HRM formalization produced a strong positive correlation between OCE and CHRM [$r=.53$, $n=21$, $p=0.013$] with high OCE levels associated with higher levels of CHRM. There was also a strong positive correlation between OCE and BHRM [$r=.63$, $n=21$, $p=0.002$] with high OCE levels associated with higher levels of BHRM. Qualitative findings contributed further insight that, in contrast to owners with lower OCE scores owners with high OCE scores engaged in greater number of social activities and team building activities; information sharing with employees and had systems in place to receive employee feedback. For some owners, company websites activity demonstrated this commitment to company culture and social activities.

RQ 2 stated that owners perceiving higher external instability and lower ability to control external market conditions will exhibit greater levels of BHRM and CHRM. While we were not able to detect relationships, the qualitative findings found external factors appear to have a direct influence on HRM formalization. In a number of firms, the owner’s perception of external threats also influenced a degree of proactivity in the way they approached HRM practices. For Interviewee 7 maintained that formal HRM policies and practices was part of the licensing condition and industry regulatory regime and required formal performance appraisals and formalized training programs from the outset. There external assistance was used to implement formalized HRM practices within the first year of operation. Owners who perceived their main external treats as related to losing clients and competing with large companies demonstrated greater proactivity in HRM and emphasized careful recruitment, selection and deployment of employees. In contrast, owners who perceived that their main external treats as related to their product either losing relevance in the market, fearing that a larger company will develop a similar product or fearing product price competition demonstrated less proactive HRM and also reported experiencing significant recruitment problems. These owners dealt with their recruitment issues by changing their recruitment sources, seeking assistance and resorting to poaching of employees from other companies. Two of the 8 owners did not perceive any major external market threats except for interest rates and global recession. One of these companies had only 8 employees and low BHRM and CHRM scores while the other company with 12 employees and higher BHRM and CHRM which appeared to be influenced largely by the owners’ prior management experience in a formalized environment. 62 % of owner indicated they were experiencing a skill shortage and implemented a number of proactive HR practices, particularly relating to greater training initiatives, greater remuneration and more strategic recruitment.

Due to the small sample size, advanced statistical techniques could not be used to cluster SMEs according to their OLC stages. Rather than overwork the results, the qualitative findings provided

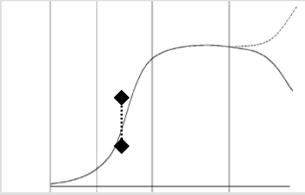
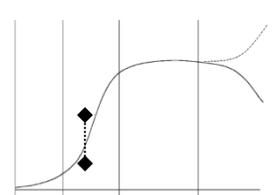
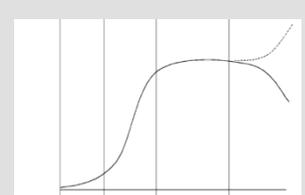
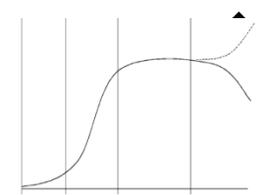
TABLE 2: Summary of Cases Examined

	CASE 3	CASE 6	CASE 4	CASE 7
Owners' Perceptions of company life cycle stage development				
External Concerns	Interest rates, corporate profits "(comp product) it isn't the essential spend and if org were tightening their belts we would be the first to go"	Economy, company spending "our product is a luxury item...our projects are the first to go if things became tight in the economy"	Getting the business to operate to production scale and establishing the supply chain.	Regulatory change and competitive behaviour
Internal Concerns	Lack of processes and systems	Lack of polices and procedures	Keeping the business focused	Internal procedures "we are not tight enough on our controls"
Owner	MBA level education, extensive management experience	TAFE Diploma level of education. No management experience. Second owner background unknown	Masters level education with over three years management experience	Masters Level Education with less then 3 years management experience
Company Age	5	4	4	4
No. of Employees	8	14	35	16
Employee growth	0.50%	0.14%	0%	0.06%

Structure	Simple Structure	By Division	By Functions	Simple Structure
Specialization	1	2	10	0
Formalization	30	38	65	39
Centralization and Strategic Decision Making	Highly centralized in the owner with frequently entrepreneurial strategic decision making	Centralized in two owners, with 50%/50% entrepreneurial/ professional decision making	Centralized in the owner and board of directors	Centralized in the owner with frequently entrepreneurial strategic decision making
CHRM score	1.77	1.77	1.87	2.32
BHRM score	8 (interview confirmed score 1)	3	7	4
HR plans	No HR plans "when your running a business your so busy running it that you don't have the time to really sit back and to invest in that kind of planning"	No written HR plans, no strategies as yet	Plans to increase the number of employees by 10 to 15 per cent in the near future.	Strategically recruiting employees. Plans to overstaff slightly so that employees had the opportunity to develop.
Recruitment and Selection	Recruitment based on word of mouth and networking as the business need arises. Selection based on having the right competencies in the core business fields	Recruitment is a major problem difficulty finding candidates with the right skills and experiences. Recruitment is currently conducted by an agency however plans to stop using recruitment agencies due to the costs.	Most of recruitment is done through networking, word of mouth and employee referrals. Advertising and recruitment agencies are used as the last resort.	Use a number of channels but the most success has been through internal referrals. Look for enthusiasm initiative and drive rather than technical skills "we can train that up"
Training and development	Informal Mentoring No formal training	Recently obtained government grant for employee training. Comp website states "Initial, in-depth training will be provided, as well as	Contracts with local TAFE colleges to train the fundamental aspects of company technology for all	Extensive training and development using internal training, on job training,

		ongoing support and mentoring".	employees. Specific training for specific roles.	industry based training.
Performance Appraisals	Quantitative and Qualitative Assessment tied in to job descriptions	Recently written questionnaire focusing on identifying strengths, areas of improvement and an incentive plan linked to goals and remuneration.	Every employee receives a PA on the anniversary of their commencement, where goals are reviewed and new goals are set.	Conducted twice a year first looking at an overview and the main looking at quantitative and qualitative criteria
Written HR policies	Formal Job descriptions written by the owner when the business was founded	Started to develop 12 months ago	The HR manual was created two years ago by senior management which describes rules and expectations for employees	Developed when the business was started with external help and then fine-tuned and maintained internally
Website: Level of Analysis "about us" and "careers section"	Contains Biographies without pictures of all employees, all employees of very high education and experience levels	Careers section advertises positions, lists the requirement. States that generous base salary plus incentives will be provided	The current website is currently under construction. The old company website contains detailed product information	Client newsletter contains company values and welcoming section to new employees
Perception of HR	"HR policies would definitely give us guidelines and principles which would allow us to have the frameworks set and use them as a reference point forward"	Important to ensure consistency and fairness.	"I think its important from the outset to have a framework tat people can work within I think as the business goes through different stages through maturity its important to keep the policies current with what going on"	"I was always sceptical of it (HR) because the whole concept of HR is normally viewed as part of the organization designed to suppress the employee there was not real tangible benefits associated with it as an owner I think its more about the way its managed"

Other Comments	"In an ideal world you would say you have that (HR policies and practices) in place for growth but the reality of it is that it often you don't know when growth is going to come, its not a very predictive thing ... right now we are dealing with other things and its not going to get the headspace it needs"	"If the processes aren't put in place the trouble can happen 3, 4 years down the track"	"the reality is right from day one you need to have some form of policy ... and anyone who thinks that they don't have to do that and that people will come to work and do their best just because you pay them a salary they have their head up their bum"	"you have to very clearly have in your own mind how you want the business to develop which includes how you want to recruit staff, how you want to train and develop your staff, how you want to reward and recognize your staff... as the business grows you can implement formalized tools to assist that.
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	CASE 5	CASE 8	CASE 2	CASE 1
Owners' Perceptions of company life cycle stage development				
External Concerns	A larger company with greater resources taking an interest in the market	New competitors entering the market and government ruling and compliance	Global recession no major threats	Loosing clients due to merges/takeovers.
Internal Concerns	Recruitment of sales staff particularly in another country	Lack of resources to pay competitive wages and poaching of employees	limited pool to recruit from due to high standard of candidates required	Resources and competing in an industry dominated by large firms

Owner	Masters level education with over three years management experience	High School Diploma with less than 3 years management experience. Second owner coming from a government background	Double degree level education with over three years management experience in Australian government	Double degree/honours level with over three years management experience in a highly formalized American Company
Company Age	10	7	6	7
No. of Employees	22	17	12	25
Employee growth	-0.27%	0.29%	0.16%	0.20%
Structure	By Functions	By Functions	Simple Structure	By Division
Specialization	4	5	2	3
Formalization	58	61	61	44
Centralization and Strategic Decision Making	Strategic decisions making frequently professional	Two owners Strategic decisions making frequently professional	Highly centralized in the owner. Corporate manager in charge of HR	Highly centralized in the owner with frequently entrepreneurial strategic decision making
CHRM Score	1.87	1.87	1.94	1.97
BHRM Score	5	6	3	4
HR plans	No plans besides what is currently done	Formal HR plans	Written down HR plans for all offices	A values/goals system where each individuals goals are aligned with company objectives
Recruitment and Selection	Recruitment is done through the web no longer rely on recruitment agencies	Difficulty with finding staff with qualifications particularly at the senior level. Poaching of employees from other companies	High standards set for candidates, which is a requirement for the business. General advertising is not successful. Advertising through industry publications and	The favourite sources are word of mouth, recruitment agencies are used only as a last resort. Selecting employees based on ability to fit into the culture "we

			through networking	try to bring people up rather than acquire them"
Training and development	Inductions and product training is conducted by a staff member in responsible for client training. No major training "we're not in the position to hire junior people and train them we are usually looking for mid career or beyond"	In-house training	No training for professionals because there is an expectation that they are fully qualified, administrative personnel are provided some training	New employees receive a comprehensive training manual and then work with someone more experienced and learn on the job
Performance Appraisals	A form is sent to people ahead of time to complete and then they have a meeting with their manager	Performance appraisal conducted by line managers	Once a person joins they're performance is reviewed 6 months later then again in 6 months after that PA are done once a year	Quarterly discussion and annual more formal reviews which are linked to pay increases
Written HR policies	The company specializes in documentation so they also have an extensive and elaborate online policy and procedure repository	A consultant hired 3 months ago who has commenced the formalization of HR policies. Another consultant hired a week ago who is also suggesting greater formalization of policies	Corporate Manager is in charge of developing formal polices. Developed about a year ago and with three more currently being written "we probably need to have a bigger raft of HR polices"	A small HR manual created in the first year with concepts of all HR processes being aligned and working together. HR manual modified "when someone buggers up"
Website: Level of Analysis "about us" and "careers section"	Website contains biographies with photos of the management team. The careers section describes the company working environment and invites submission of CVs	Website contain biographies and photos of owners and a newsletter which continuing brief descriptions of staff functions and some welcoming of new employees	Company website contains no information about owners or employees the news decision is under construction	Company website contains biographies with photos of all employees, careers section, a description of HR processes and a newsletter.

Perception of HR	"as you grow it (HRM) becomes more important as the opportunity for dispute and debate grows"	"I hope the staff understand that we now have rules whereas perhaps people were a little confused when they come and say what do we do and we had to think of policies on the spot"	"I think its very sound value of having clearly articulated duties stated performance agreement and formal review systems. people like certainty"	"what we are trying to do is develop a hr process which is run by the people themselves rather than by the HR manager"
Other Comments	"in the early stage there are just too many other pressing things that take precedence and the need for communication requirements are not so great because there are fewer of you and most people are communicating on the same level"	"I hope the staff now understand that we have rules whereas perhaps before people were a little confused when they come and say what do we do and we had to think of policies and procedures on the spot ..."	"the bigger you get the further you should have enshrined those policies and the entire management process before people go and ask what's are the rules policies and practices"	"I have worked with a lot of HR people just blowing wind the whole time and all they want to do is get close to the managing director and tell secrets between staff..."

insight into owners' perceptions of where their companies were in terms of OLC development. A visual representation of these, along with the summary of each case together with quantitative, qualitative and website findings are illustrated in Table 2. The cases (C1-C8) have been presented in the order of how owners perceived their organizational development, beginning with owners who identified themselves as currently in the start-up stage to those identifying themselves in the diversification stage.

DISCUSSION

The results of this study provide a number of practical implications for owners, managers and HR managers working in SMEs. For SMEs owners' results suggested that early HRM formalization need to be recognised as an investment into more effective HRM management which helps to aid firm growth. Adopting HRM formalization in a reactive manner when the need for it arises during later development stages is likely to come from serious HRM issues the organization is experiencing. Providing owners with more information of the challenges in each development stage may help them develop superior perceptual and planning abilities in each development stage. Secondly, owners need to be aware of the importance of blueprints/mental models towards HRM and acknowledge their own HRM blueprints. Owners without a clear HRM blueprint are likely to adopt HRM policies and practices which may contradict one another. These early HRM systems may become firmly institutionalized in firms, generate system lock and resistance to change (Aldrich, 1999). As Johnseok & Yu (2005) suggest it is critical to adopt a proper model of an HRM system at the early stage of OLC. Owners also need be aware of blueprints held by managers, HRM managers or individuals to whom HRM is being delegated to. For managers' in charge of HRM and HRM managers' working in SMEs it is important to remember the tension between owners' blueprints/mental models of HRM and advice regarding HRM formalization. According to Pfeffer (2005) owners' blueprints/ mental models have significant implications for the human resource function and for human resource professionals working in smaller organizations. The main implication is that the HR function must intervene somewhat less with programs and particular practices and instead focus much more on helping both itself and senior organizational leaders see and when necessary change their mental models. One potential solution to the identified tension is to understand how to manage blueprints. The first step towards managing blueprints/mental models is to diagnose them. It requires the ability to expose your own thinking and to make that thinking open to the influence of others (Senge, 1990). Baron and Hannan (2002) suggest asking owners and managers within the organization to identify the mental models being applied to their departments or teams. Once that is done the owners and managers need to identify the main organizational HR model. This simple diagnostic exercise helps unearth mental models, expose assumptions about important HR issues and enables to put them rigorously to scrutiny through discussion. Baron and Hannan (2002) describe that it is not uncommon to discover that there are multiple HR blueprints operating within the organization, while some of these might be complementary others may be completely dysfunctional resulting in the basic misalignment of various HR systems and processes. The second step towards managing blueprints/mental models is to determine whether current blueprints need to change. Pfeffer (2005) does caution that the point of the exercise is not to have people come to believe that one way of thinking is better than another. The objective is to have people recognize that each of us has choice. We can choose to consider

HRM formalization as irrelevant and costly or we can consider another approach which may potentially enhance organizational effectiveness, growth and performance.

CONCLUSION

The aim of this paper was to identify and describe factors influencing HRM formalization in growing Australian SMEs, as well as explore subsequent evolution of HRM formalization. The findings suggested that a number of internal and external influences help explain the extensive variation in HRM formalization among SMEs. Internal factors such as owner manager education level and prior management experience played an important role in explaining greater HRM formalization as did owners' commitment to employees. These owner manager characteristics shaped owners subsequent blueprints/mental models towards HRM formalization. Interview data suggested that owners with highly diverse skill mix prioritize rather than postpone HRM formalization. The findings also suggest that external influences on HRM formalization come from pressures of industry regulation, competing for skilled labour and customer expectations. SMEs with later OLC dimensions demonstrated greater presence of HRM formalization; however qualitative findings demonstrate how owner manager's characteristics and the nature of work environment influence early HRM formalization. Overall this paper provides the following recommendations:

1. The need for SMEs members to understand the challenges which come with firm growth and development and the need to develop superior perceptual and planning abilities.
2. Owners are advised to carefully consider the timing of HRM formalization and implications of HRM formalization on growing SMEs. It is recommended that owners begin to proactively design and define their HRM practices during earlier stages of growth before problems begin to arise.
3. It is also crucial to be aware of blueprints/mental models of senior leaders and their effect on organizational functioning.
4. For academic researchers this paper highlighted the need for more careful definitions as to what is meant by HRM formalization.

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