

Managing Human Capital to ensure Small and Medium-sized Enterprise Competitiveness

Dr Werner Havenga

Department of Human Resources Management
Faculty of Management
University of Johannesburg
South Africa
E-Mail: whavenga@uj.ac.za

Introduction

Schermerhorn (2001:240) defines human resource management (HRM) as the “process of attracting, developing, and maintaining a talented and energetic workforce to support organizational mission, objectives, and strategies”. The social function of the firm is integrated in the organizations technical, financial, commercial and administrative work, taking into consideration the wishes and expectations of the employees with respect to the content of the work and the working condition. Departing from this viewpoint Koning (1992) states that HRM can be considered as a management style with a purpose of:

- incorporating management tasks at the line level or the middle-management level;
- strengthening the mutual relationships between the various areas of personnel management;
- strengthening the coherence of personnel-management in the strategic business plan;
- giving definite consideration to the developmental issues related to organization and personnel.

Until recently human resource management (HRM) has been considered as inappropriate for SME's especially small businesses and consequently research in this direction has been relatively at a mini-

num level. Small businesses in general have been seen as only smaller examples of large firms. However, according to Burns (2001:9) small business cannot be characterized as only scaled down versions of large firms since they show a number of fundamental differences. A number of these differences can be explained by lacking economies of scale and scope which amongst others is also caused by less provision for human resource management (Fitzsimmons & Fitzsimmons, 2003). Principle challenges facing SME's, whether family or non-family businesses, point to human resource aspects (Hoover & Hoover, 1999).

HRM and human resource development (HRD) is equally central for both small and large firms, but manifest itself differently in them. As early as the beginning of the 1990's it was found that the size of a business does affect the formality of human resource practises. It also affects the sophistication of the HRM practises used. Small firms do not have the same kind of resources to implement official human resource practises, but they still need to keep employees satisfied and productive (Saru, 2007).

Even with regard to HRM research the tendency is to focus on larger businesses and to ignore the very significant small and medium-sized segments of the economy. For smaller businesses, resource constraints may mean that HRM may often be less formal and also limited in their scope and sophistication, but this does not imply that effective HRM is any less significant to firm performance and success (Heneman, Tansky & Camp, 2000., Chandler & McEvoy, 2000., Welbourne & Cyr, 1999).

Growth of small businesses is normally accompanied by an increase in their personnel and consequently managers-owners must begin to learn how to develop and implement HRM policies. The faster the growth experienced by the small businesses the greater the chance that HRM problems will be experienced. According to Mazzarol (2003) the owner-manager is usually burdened with the variety of HR functions for which he is generally poorly equipped. Managing such issues as recruitment and selection, staff promotion and retention, wages and salary negotiations, training and development, tax insurance regulations, and other HR aspects can place an extensive burden on the average small business owner.

Already in 1986 Little (1986) stated that as the number of staff employed increases the need for a formal HRM manager or process also becomes pressing. Caudron (1993) views businesses with less than 100 employees as being able to operate without a full-time personnel or HR manager. However, once the employee base exceeds 150 a HR manager or department becomes a necessity.

Earlier in this paper it was noted that small businesses in general have been typified as only being smaller examples of large firms. However, a number of problems arose when assuming that small firms are the same as large firms (Cassell, Nadin, Gray & Clegg, 2002). These problems emerge as a result of resource poverty which results because of various conditions unique to smaller firms. Koning (1992) comes to the conclusion that SME's differ from large businesses in the following ways:

- small degree of division in labour;
- informal, personal relationship between the entrepreneur and personnel as well as between personnel themselves;

- the definite mark of the entrepreneur on the business operations;
- the strong binding and relatively large dependency on the local market and/or limited number of customers;
- a relative large degree of independence in the workplace in determining the content of the work and the working conditions.

Taking these characteristics into consideration it becomes evident that insights and ideas of HRM must be related to the specific characteristics of SME's and to examine the degree of value HRM might have in SME's and how it might be put in use.

Purpose of the study

The purpose of this study is to consider in an exploratory way the applicability of effective human resource management in a small business in order to ensure its competitiveness. HRM policy and practices as affected by owner-manager characteristics, external market considerations, nature of the internal work environment and the business structure was analysed and discussed by means of using a photographic equipment store as a case-study.

The first part of the paper investigates the viewpoints of a number of researchers on human resources management policies and practices, and how it affects small firms' competitiveness, growth and ultimate success.

The discussion is not exhaustive, but serves as a basis for the second part of the paper which by means of a case-study assesses the applicability of HRM practices in small business.

HRM, SME competitiveness and performance

Hipplebaum and Kamal (2000) consider SME's to be more likely to survive and sustain a competitive advantage over larger firms by increasing employee satisfaction, which in turn minimizes personnel turnover, absenteeism and lost productivity costs. Bringing about a HRM programme or department in SME's may thus contribute to or can be considered to be a key element in increasing competitive advantage (Klass, McClendon & Grainey, 2002). Research by Hornsby and Kuratko (2003) has also revealed that a well-motivated, highly skilled workforce can be a determinant of small firms ability to remain competitive in the present business environment.

Karami, Jones and Kakabadse (2008) also comes to the conclusion in their research that the HR capability of the firm is a considerable resource that determines the competitive advantage of the firm. In the light of a resource-based view they assume that HR capabilities, including skilled human resources, innovative human resources, human resource effectiveness, HR commitment, and training competent HR are factors that determine the competitive advantage of the firm. Hayton (2003) also comes to the conclusion that a firm's human capital is an important source of sustained competitive advantage.

For firms functioning in dynamic and complex competitive environments their human capital and the way in which it is managed is an important source of sustained competitive advantage (Barney, 1991). This competitive entrepreneurial performance refers to the ability to innovate, accept risk, and identify and exploit entrepreneurial opportunities (Hayton, 2003).

Pfeffer (1998) suggests that there are seven HRM practices of successful businesses: employment security, selective hiring, decentralized work arrangements, performance-based pay, extensive employee training, reduced status differentials, and information sharing. Also refer de Kok, Uhlaner & Thurik (2006) who identify five primary HRM practice subscales with thirty-two items included in the subscales.

In order to provide a source of competitive advantage the business' human resources should be "leveraged". This perspective, according to Wagner and Rondeau (2006) imply that the application and adoption of certain bundles of HRM work practices have the ability to positively impact business performance by creating powerful connections", or to detract from performance when certain combinations of practices are inadvertently placed in the mix.

It should be taken into consideration that because of their comparatively lesser endowment with material or financial resources, smaller businesses are often dependent on above-average committed, motivated and qualified employees. The availability of human resources constitutes an important prerequisite for sustainable organizational success, which constitute growth and competitive ability (Behrends, 2007). HRM models commonly assert that employees should be regarded as value assets and that there should be an emphasis on commitment, adaptability and consideration of employees as a source of competitive advantage (Reid & Adams, 2001). Extensive recruitment and training procedures, increased employment involvement and incentive compensation can also be associated with higher levels of turnover, higher productivity and better financial performance (Huselid, 1995). These actions consequently result in better competitiveness, growth and business success. Astachan and Kolenko (1994) found positive correlations between HRM practises and gross firm revenues. Their results also supported arguments for competitive advantage gained through effective use of HRM practices.

King- Kauanui, Ngoc and Ashley-Cotleaur (2006), in their study on HRM in SME's in Vietnam, come to the conclusion that support was found for the importance of training, performance appraisal systems and incentive compensation on the overall performance of SME's. These results according to them also supported the results of many studies in Western countries and also indicate that firms performance in these areas can best be explained by HRM best practises.

It should be evident from the numerous studies above that the effective use of the HRM practises undoubtedly contribute to the greater overall performance, growth and success in the small business. However, in order to get more clarity on the worth of HRM a small business a case-study is discussed in the next section of this study.

Methodology

In this exploratory research project a single case study is used. The small business in question is a photographic equipment and printing store.

Yin (1994:13) defines a case study as an “empirical inquiry that investigates a contemporary phenomenon within its real life context; especially when the boundaries between phenomenon and context are not clearly evident.” It employs a “replication logic” rather than a “sampling logic” and as such Yin (1989) states that each case needs to be considered as an independent study with the objective to identify patterns across cases that may reveal new theory or support existing theory. Gravetter & Forzano (2006) view the case study-design as a study of a single individual for the purpose of obtaining a description of the individual and its circumstances. It usually contains a detailed description of observations and experiences, as well as unique characteristics and responses of the individual.

Case research has been popular in small business research for some time (Curran & Blackburn, 2001). Its value as a research instrument, according to Chetty (1996) lies in its ability to measure and record behaviour at close range and in this way enables the researcher and participants to interpret the reality of their experience and develop a better understanding of how that behaviour has taken place. Case study method is considered a more appropriate strategy where the research is seeking to answer questions associated with the “how” and “why”, and where control over events is not possible or essential (Mazzarol, 2003). Based on Watkins-Mathys and Lowe’s (2005) viewpoint it can be stated that research in small business is predominantly based on practice and that it is not yet bounded by concept of absolute truths.

In this case-study it is the aim to describe the case setting on the basis of HRM practises in order to make the situation more clear and informative. For this study the unit of analysis was the owner-manager of the firm’s experiences of dealing with HRM in his business during a period of growth. Data collection took place by means of informal interviews with the owner-manager over a period of few weeks.

Case-study: Photographic Equipment Store

The case firm in this study is a small general and expert photographic equipment business that sells photographic equipment, develop photos, take photos on contract for primary, secondary and tertiary education institutions, individuals and businesses. Lectures are also given in the Department of Graphic Arts at a university. The business is situated in a shopping mall in a town with approximately 170,000 inhabitants. The store was founded 13 years ago by an academic who quitted the university job to start his own business. He has a Ph.D in education with undergraduate qualifications in business. The owner employs a full-time staff component of eleven excluding himself. He himself manages and administers the business whilst three of the employees are experts in handling high-technology photographic development machines and cameras. The other employees are sales personnel.

The industry in which the company operates is rather stable, but exposed to new developments such as digital photography. Growth in the firm has been substantial in the past few years. Staff increased from three to eleven employees. The business is a market leader in the town with three other competitors. The owner-manager has no formal mission statement for the company. He is also considering opening up a store in another town and moving his present store into a new larger shopping mall. The owner also fully realizes that the critical success factors for the business are qualified sales- and technical staff, good customer relations and keeping abreast with changing technology. However, planning for human resource management in the firm appears to be lower priority.

Findings

Recruitment and selection

The rapid expansion of the business with growth in the existing market as well as possible physical movement of the firm to the new premises heavily pressurized the manager-owner. The recruitment and selection strategy used are crude and unimaginative. The application blank and interview are the most frequently used selection techniques. Newspaper advertisements and recruiting through existing staff, family and friends are the only recruitment techniques used.

Turnover of personnel can be considered above normal. As for the selection techniques the owner-manager should consider more frequent use of sample and probation periods. Probationary period, sometimes called “delayed selection” may be the best approach to use when little relevant predictive data and information can be obtained prior to hiring a person (McEvoy, 1984). While this firm do not hire enough employees to permit formal validation, there is no reason why the owner-manager cannot keep recruitment and selection records which can be used in future to ascertain which type of employees of interviewees seem to be the most valid candidates of future job tenure and performance. Lazear (1998) as quoted by Peters (2005) states that entrepreneurs have to assess qualification needs and set clear standards of qualification to maintain and develop a unique market position, Before employees are hired, job design and discretionary space of decision-making in the firm should be determined. Smaller businesses according to Behrends (2007) often abstain from any systematic and professional approach when selecting new employees. They rarely use any long-term planning of human resource requirements, job profiles and other related issues, and usage of formal selection instruments is normally limited to the conducting of interviews.

Communication and motivation

The performance of the firm is strongly determined by the service quality which again is a function of communication and motivation. The owner-manager looked to his employees for assistance in maintaining a competitive advantage based on high quality and excellence in service. In order to achieve this, incentives in the form of bonuses were given on an irregular basis. Attempts were made to develop a dynamic team-based spirit and a positive organizational culture. This, however, did not seem very successful. Negative conduct by one of the employees against the owner affected almost all the members of the staff causing a very negative atmosphere, especially when unwarranted legal action was taken against the owner of the firm. The informal and fluctuating management style, (be-

tween autocratic and participative) of the owner-manager could have contributed to this situation. He is more autocratic than participative in most cases.

The owner-manager although well educated is a creative individual with a business/administrative educational background and limited technical education. Apart from the turbulent internal environment as explained above he is also faced by changes in the external environment. Political interventions in the form of transformation, affirmative action and equal opportunities directly impact on the business.

Systematic HRM policy capable of delivering the best quality employees, motivating and managing them becomes necessary in this turbulent times and as the business operations grow. It became evident that the most obvious weakness in the motivation area is that to little use is being made of goal setting. Communication by means of staff meetings is almost non-existent which consequently also effects the level of motivation of employees. Goal setting, according to McEvoy (1984) facilitates both performance evaluation and performance feed-back, and assists in clarifying job expectations and prevent misunderstandings. It is also necessary that the owner-manager should lay down policy clearly stating motivating strategies where recognition for work well done, pay rises, bonuses, profit sharing and job security are predominant. It should be easily administered and easily understood by employees.

It should be noted that motivation efforts in small businesses can be explained by four variables which appear to strongly satisfy the needs of employees. The four variables, determined in a recent study by Peters (2005) are: opportunities to learn new skills; perceived fairness; entrepreneurial leaders empathy for employee problems; and stable working schedules.

Training and development

The owner-manager is, apart from the firm's economy, in charge of deciding what kind of training is offered to his employees. There is no budget for training/development in the firm. However, if the owner-manager realizes that one of his staff needed training in a specific area then training in the form of on-the-job training would be provided. There is no training strategy and internal skills sharing is used to disseminate training regarding sales, operating relevant photographic equipment and small administrative tasks. Little formal training is offered or encouraged. On-the-job training is provided by the owner's second-in-charge, which happens to be his son, and secondly by the manageress of the sales section. Though his second-in-charge lectures on photographic issues at the local university, the training and development given to the employees can not be considered sufficient. Information that it needs now and in the future must be identified, and brought to the employees. It must be remembered and that learning does not always need to be conscious or intentional. This means that learning can occur without formal training (Saru, 2007). If the firm can figure out how to make the competencies and tacit knowledge visible, it would also gain some competitive advantage over other firms that have not been able to do the same thing. Peters (2005) notes that entrepreneurs (SME owners) should be aware of the fact that especially young employee trainees are motivated by a high sense of fairness and empathy.

Integrating training and development activities into key business decisions and activities should be considered crucial. The benefits of doing so include increased flexibility from being able to transfer people with core skills to different sections of the business, prevention of shortage in operational, technical, administrative or management skills (Kerr & McDougall, 1998; Beaver & Hutchings, 2005).

While on-the-job training is provided in this firm and it offers the benefit of maximising transfer of knowledge, it can also be considered deficient that the trainer (second-in-charge) is an expert his technical field but lacks communication skills. Evaluation of effectiveness of his training outcome is also much more difficult. As a result of financial constraints, the owner-manager's perception of outside training and availability of free time for such training, he rarely supports such training.

It seems evident from the analysis of the case that the owner-manager are not aware or simply ignore training and development as internal constraints, in order to meet the competition coming from the external environment. This surely will result in organizational and individual personnel ineffectiveness in the medium and long-term

Compensation and benefits

As far as could be established the compensation and benefit policies and structures of the firm were informal. The owner-manager indicated that he uses any avoidable formal salary-survey of relevant labour markets to assure that his salary policies are competitive. No formal job evaluation system is used to assure that the salary or benefit structures are internally equitable. Benefits offered most frequently by small businesses (vacations, rest breaks, insurance, pension schemes) seems to be an oversight by this firm. No specific policy exists and he owner-manager deals with requests in this regard on an ad hoc basis.

To the extent that turnover is an expression of job dissatisfaction which in part may be a function of compensation and benefits, the information gathered speculatively lead one to believe that the employee job satisfaction is not as high as was indicated. Considering that compensation and benefits are becoming increasingly critical for SME's, also as a result of labour legislation and political aspects, these issues become more prevalent and needs the attention of the owner-manager to lay down specific policies in this regard.

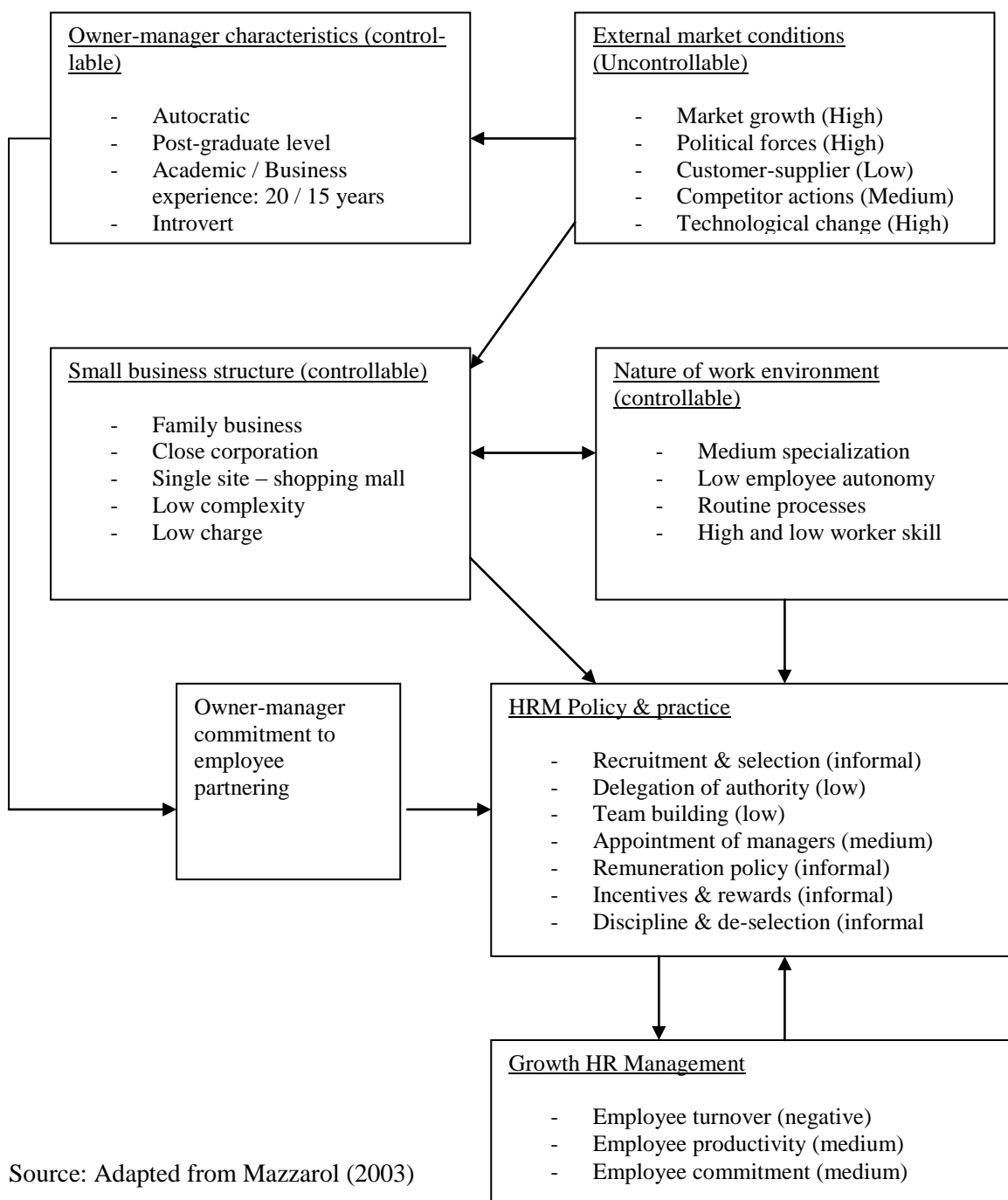
Benefits, allowances, training and development can be a large cost component to the small business if not managed correctly. Such costs can be reduced by utilising semi-retired, self-employed people or leased employees (Phillips, 2004). It has also been found that older workers have a much lower rate of turnover. This makes them, according to Beaver & Hutchings (2005) a very attractive proposition for small firms that can ill afford high levels of attrition and turnover, and wants to minimize costs of recruitment, selection and induction training.

Luthans (1998) says that the relationship between incentive compensation systems and firm performance suggest that incentive compensation contributes increased product quality, greater acceptance of changes and improved firm performance. The impact of retained profits and bonus payments is also so strong that the incentive system explains much of productivity growth (Yao, 1997).

Discussion

While large firms normally have their own HRM department small businesses tend to overlook this very important aspect until much later in the firm's existence and especially when it runs into trouble with personnel related problems. SME managers normally perceive that personnel problems pose a major barrier to the success of their business, yet they also believe that outside aid would not be helpful in resolving these problems. According to Behrends (2007), the lesser degree of institutionalization and formulation of HR-practices in small and medium-sized enterprises usually leads to them being attested a severe HRM-deficit.

Figure 1: HRM process of photographic small business (case-study)



Having discussed the most prominent HRM practices of the photographic equipment store as a case-study, the four key elements that impact on the nature of HRM policy and practice within this small business is illustrated in figure 1. The HRM process of SME growth model of Mazzarol (2003) was adapted to illustrate the relationship between the owner-manager's personal characteristics; external market conditions; nature of work environment; and the business structure. The characteristics of the owner-manager as discussed in the case have a direct influence on the firm's structure as well as the nature of the HRM policy and practice. The decision making of the owner-manager is influenced by the external market conditions which is uncontrollable, and which also influences both the company structure (controllable) and nature of the work environment (controllable) within the firm. This seems to coincide with the outcome of earlier research into small business HRM practice done by Matlay (1999).

The firm's structure has an influence on the nature of the internal work environment, but is itself influenced by the work environment. The internal work environment, firm's structure and the characteristics of the owner-manager directly impact on the shape of the HRM policy and practice of the firm. These policies and practices as could be determined from the case-study shifts from informal to formal and high to low as the firm grows. The HRM policies and practices result in negative and medium outcomes in the area of employee turnover, productivity and commitment to the firm (partnering).

Ghassemieh, Tach and Gilinsky (2005) developed a HRM decision-making matrix for SME's to include the entire range of HR options. As depicted in an adapted model in table 1, the proposed HRM-decision-making matrix model can assist SME's choose a HRM strategy option, and find a configuration that will be most supportive of their situations or stages of growth. In the situation that the photographic equipment store finds itself it would seem that it can be classified under option I (No change). This option or Option II where staff assume HR duties can be considered most appropriate. In both of these options, the owner-manager will continue to make the recruitment and selection decisions, so there is no impact on business strategy. With Option I informal on-the-job training will be provided, but with Option II internal staff will take on some of the training duties, including cross-training of existing staff. This is at present the case in the firm under study. Regarding compensation and benefits there is no impact on existing business strategy, yet in the case of Option II potential advancement for existing personnel who assume HRM responsibilities could be provided. In the case of both options the cost factor would be low.

Options III – IV would not fit the requirements of the small firm and are therefore not dismissed in this study. Since the decision matrix model is presented by Ghassemieh, et al (2005) as a conceptual model and adapted for the case researched, further empirical tests are warranted.

Table 1: HRM Decision-making matrix for photographic business (case-study)

Relative employee size	Option	Considerations			
		Recruitment and selection	Training and development	Compensation and benefits	Estimated cost factor
< 10	I No change	No impact on strategy	None	No impact	Low
11 - 100	II Staff assume HRM	No impact on strategy	Limited, some cross-training of existing personnel	Potential advancement for existing staff	Low
101 - 500	III Hire HRM Manager and build function	Makes HRM part of strategy	Limited cost-effectiveness for firms with < 100 employees	Favourable impact	High
501 - 1000	IV Hire HRM Consultant	Makes HRM part of strategy	Limited cost-effectiveness for firms with < 100 employees	Favourable impact	Moderate to high
501 - 1000		V Outsource HRM	Makes HRM part of strategy	Cost-effective	Favourable impact
> 1000	VI Electronic HRM	No impact on strategy	Limited cost-effectiveness for firms with < 100 employees	Favourable impact	Moderate to high

Source: Adpated from Ghassemich, et al (2005)

Conclusion and Limitations

The nature of the information obtained through an informal interview and one case-study as opposed to verifiable objective data, necessarily limits the value of the information and restricts any conclusions drawn from it to the single small firm. However, given the small business specific problems that was identified the information obtained in this exploratory study paved the way for a quantitative study of a number of SME's and even comparative research.

There also needs to be more research into the links between HRM competitiveness and business success in the SME sector. More attention should also be paid to HRM as a management theory. It seems that managers had little understanding of HRM as a management theory. However, SME owners-managers are familiar with many of its practices (Bacon, Ackers, Storey & Coates, 1996).

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