Scale effects in HRM Research

A discussion of current HRM research from an SME perspective

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Summary

An important aspect of running a successful organization is to find, retain and motivate the right employees. This holds for all organisations, irrespective of their size. Nevertheless, despite the fact that small and medium-sized enterprises or SMEs account for a large share of total employment and production, studies on human resource management or HRM have largely ignored the situation in SMEs. Only recently have researchers started to pay more attention to the management of human resources in SMEs, but this line of research is still in an explorative stage.

This lack of scientific attention for HRM within SMEs can be seen as a scale effect in HRM research. In addition, two more scale effects can be identified: scale effects in the actual management of human resources and scale effects in the impact of HRM practices. This paper discusses these three scale effects, in order to answer the following research questions:

− Does the return on HRM investments depend on firm size?
− Why do small firms pay less attention to HRM than larger firms do?
− Why has HRM research tended to ignore small and medium-sized enterprises?

The first research question is about the question whether firm size moderates the relationship between certain HRM policies or practices and (employee and organisational) performance. Since this has seldom been examined empirically, our answer is based on theoretical arguments only. These arguments suggest that the impact of HRM practices is indeed smaller for SMEs. At least, as long as we consider high performance workplace practices: HRM practices that are associated with improved performance of large organisations.

This scale effect in the impact of HRM practices is explained by various characteristics of SMEs, including lower levels of formalisation, less (opportunities to obtain) knowledge on HRM policies and practices and less opportunities to gain experience in the implementation and application of these policies and practices. Also, smaller firms have a behavioural advantage in that the psychological contract (as perceived by employees) tends to be higher in small firms. This reduces the need for specific measures to increase the motivation of employees and may also reduce the impact of such measures.

The answer to the first research question is also a possible answer to the second research question: small firms pay less attention to HRM than larger firms do, because the impact of HRM is lower. This argument is in line with the best fit approach to HRM: the optimal configuration of HRM practices depends on the number of employees.

Another explanation is more in line with the best practice approach to HRM: high performance workplace practices are equally suitable for small and large firms, but many small firms are not aware of their usefulness or lack the (human and financial) resources to implement them. This explanation is based on the notion that smaller enterprise are more bounded in their rationality: relatively few people are involved in formulating business strategy and HRM strategy and policies, and these people are likely to have less subject knowledge and less relevant experience.
We do not know which of these two answers to the second research question is most relevant. This is mainly because we do not know the answer to the first research question. Which, in turn, is due to the relative lack of HRM research amongst small and medium-sized enterprises. Two explanations have been identified for this lack of attention. First of all, HRM is often defined in a normative way. These definitions suggest that the ways in which smaller firms manage their employees are less likely to count as ‘true HRM’. Secondly, the main public of HRM studies may be working as HRM professionals within large organisations. How things work in small organisations is not relevant for this target group.

We believe that the economical importance of SMEs justifies an increased research effort into this area. The findings of these studies may not be very relevant for HRM officials working in large organisations, but may be very relevant for anyone interested in improving aggregate productivity growth, in stimulating employability and in stimulating employees to work longer (e.g. to reduce the economical effects of the ageing of the workforce).

Relevant questions for future studies include whether firm size is indeed a moderator in the relationship between various HRM practices and firm size, and how small and medium-sized enterprises manage their human resources. These latter studies should not limit themselves to the (lack of) attention for practices and policies that are typically found with larger firms, but should look for other ways in which these firms manage their employees. Existing theories on entrepreneurship and leadership may provide a good starting point for studies along this line.
1 Introduction

Background
An important aspect of running a successful organization is to find, retain and motivate the right employees. Current changes in the economic and demographic structure of Western societies, such as the increased role of knowledge, the ageing of the workforce and a decreasing inflow of entrants into the workforce, further increase the importance of the management of the (internally and externally) available human resources. This holds for all organisations, irrespective of their size.

How large organisations (should) manage their human resources has been studied extensively in the past. In the early 1980’s the concept of Human Resource Management was introduced, and the development of HRM theories can be divided in two distinct stages (Boselie, 2002). The first stage (1984-1995) was a period of conceptualisation. This stage was dominated by questions such as ‘what is HRM?’, ‘where does it come from?’, and ‘what is the difference between HRM and personnel management?’. The second stage (from 1995 onwards) is characterized by research into the (magnitude of the) effect of HRM on organisational performance. The general consensus of these studies is that HRM matters: employing the right HRM policies and practices is likely to increase organizational performance. Much of the current debate focuses on determining what the right HRM policies are and whether they are the same for all organizations or not.

The large majority of these studies have focused on large organizations. This ignores the fact that many employees actually work in small and medium-sized enterprises (SMEs) rather than in large enterprises. In fact, in the European Union about 66% of all employees in private enterprises are working in enterprises with less than 250 employees (European Commission, 2000). Recently, researchers start paying more attention to how these small and medium-sized enterprises manage their human resources. This line of research is still in an explorative stage. By and large, empirical studies are of a descriptive nature. A sound theoretical underpinning or perspective seems to be lacking, and the empirical part is generally limited to a presentation and discussion of the results of a questionnaire or a number of case studies (De Kok, 2003). It is clear that smaller firms generally apply less (and less sophisticated) HRM practices, but a substantial amount of unexplained variation still remains across small firms (De Kok, 2003). In particular, little is known about the impact of HRM practices on the performance of small firms.

Objective and research questions
The results so far indicate that HRM studies display various scale effects. First of all, a scale effect in HRM research exists: most studies focus on large enterprises, ignoring the large share of SMEs in total employment. Secondly, scale effects exist in the actual management of human resources. Finally, scale effects may also exist in the impact of HRM practices: the effect of certain HRM practices and/or policies may be related to firm size. This paper discusses these scale effects, in order to answer the following research questions:

− Does the return on HRM investments depend on firm size?
− Why do small firms pay less attention to HRM than larger firms do?
− Why has HRM research tended to ignore small and medium-sized enterprises?
Based on the answers to these questions, we will present some suggestions for future research in this area.

The next chapter discusses the concept of human resource management, after which dominant theories on HRM will be discussed in chapter three. The various scale effects will be discussed in chapter four. The research questions will be answered in the final chapter.
2 The concept of HRM

2.1 Definitions and content

Definitions
Generally speaking, HRM is about the management of an organisation’s workforce. Most definitions include a normative element, stating that HRM is concerned with activities that are undertaken to achieve specific goals. For example, according to Boselie (2002), “Human resource management involves management decisions related to policies and practices which together shape the employment relationship and are aimed at achieving individual, organisational, and societal goals.” (Boselie, 2002, page 28). Schermerhorn (2001) has defined HRM as the “process of attracting, developing and maintaining a talented and energetic workforce to support organizational mission, objectives, and strategies” (Schermerhorn, 2001, page 2400).

According to the latter definition, HRM is only concerned with organizational goals, while the former definition explicitly includes individual and societal goals as well. These differences reflect different normative views regarding the objective of HRM: should HRM, ultimately, only be concerned with maximising organisational goals, or are the goals of other organisational stakeholders also (or even equally) important? This not only refers to HRM policies and practices, but also to the activities of HRM professionals and departments.

These definitional differences actually refer to discussions on two different levels. The first discussion primarily takes place at the level of individual firms. Here, the stakeholders of each firm determine to which extent the goals of the (HRM) policy include only organisational goals, or explicitly include the interests of other stakeholders as well. The second discussion takes place at a scientific level, where researchers examine the choices that are made by individual organisations and the consequences of those choices.

Content
Managing a workforce first of all requires the presence of a workforce, which calls for activities in the fields of recruitment and selection. Employees have to be paid, which requires appraisal and compensation. To ensure that employees possess required knowledge and skills, training and development activities can be carried out.

Most (if not all) researchers on HRM agree that these activities are at the core of HRM, but that they do not demarcate the scope of HRM: there is more to HRM than just these activities. However, there is less agreement as to which other types of activities should be seen as part of HRM. Activities such as job rotation, quality circles, self-directed teams, involvement in meetings discussing work-related issues, policies on sickness absence, flexible working hours and work-life balance are examples of activities that are included in some (but not all) studies on HRM.

1 A discussion of various definitions of HRM can be found in Legge (1995).
In addition, HRM research suffers from various unresolved measurement issues. These include amongst others:

- the organisational level at which measurements take place: plant, business unit or corporation?
- the level of detail: should the attention for e.g. recruitment be measured by looking at a large variety of individual recruitment practices (if so: which?), or should we measure HRM policies at a more aggregate level (if so: how?);
- the nature (and number) of informants to be used: should information be obtained from (one or several) HRM professionals only, or also from employees?

2.2 HRM and personnel management

Definitions of HRM often include a normative element. According to these definitions, an organisation applies HRM only if the management of its workforce meets certain minimum requirements. These requirements can include, for example, the presence of a formalised HRM policy (as part of the general business plan) or the presence of an HRM professional or department. This suggests that not all firms apply HRM\(^1\). In particular, it suggests that HRM doesn’t exist with small firms, assuming that these firms generally do not have formal business plans or HRM professionals.

According to some authors, these normative elements in the definition of HRM distinguish HRM from personnel management (PM). The meaning and content of the field of HRM have been discussed during the first phase of HRM research. Detailed comparisons of theories on HRM and PM can be found in Storey (1992), Legge (1995) and Guest (1997).

Storey (1992) compares HRM and PM theories on four dimensions: beliefs and assumptions, strategic aspects, line management and key levers. Within these four dimensions, 27 different items are distinguished on which HRM and PM theories are compared. He concludes that, as compared to theories on personnel management, HRM theories are more customer-orientated, more central to the corporate plan and focus on a wider range of employment relationship-related issues such as managing climate and culture.

Legge (1995) presents normative models that reflect the aspirations of what HRM or personnel management ideally should look like. Comparing normative models of HRM with normative models of personnel management, she concludes that HRM and personnel management have much in common, since they both:

- Stress the importance of integrating personnel / HRM practices with organisational goals;
- Identify assigning the right people to the right jobs as an important means of integrating personnel / HRM practice with organisational goals;
- Emphasise the importance of individuals developing their abilities for their own personal satisfaction to make their best contribution to organisational success;
- Vest personnel / HRM firmly in line management.

\(^1\) indeed, Legge (1995) argues that if these normative definitions are applied, only a small minority of the British firms actually applied HRM in the early 1990’s.
Guest (1997) compares HRM and PM, by discussing their different positions on seven different criteria. These criteria are (with the position of HRM versus PM between brackets): time and planning perspective (long versus short), psychological contract (commitment versus compliance), control systems (self-control versus external controls), employee relations perspective (unitaristic versus pluralistic), preferred structures (organic versus bureaucratic/mechanistic), roles (largely integrated into line management versus specialist) and evaluation criteria (through human-asset accounting versus cost minimization).

Interestingly, the differences identified by Guest (1997), Storey (1992) and Legge (1995) appear to be interpreted differently by various authors. For example, according to Boselie (2002), the differences between PM and HRM identified by Guest (1997) and Story (1992) show that it is difficult to reveal a huge difference between the traditional PM and the theories on HRM that emerged after 1980. At the same time, Steijn (2001) concludes that the studies by Guest (1997) and Story (1992) indicate that HRM differs considerably from traditional personnel management: “An integral application of HRM ideas leads to a change in labour relations between employers and employees” (Steijn, 2001, page 47).

Likewise, Legge (1995) states that there is no real difference between the normative theories on HRM and PM. The differences that are often suggested are related to the fact that HRM accentuates what PM should be. According to her, the only main difference is nothing more than the notion of the strategic meaning of the labour factor by the top-management itself. However, whereas Legge (1995) concludes that this difference does not constitute a major difference between HRM and PM, others stress that this is an important difference (Kluymans and Paauwe, 1991). De Nijs (1999) has used Legge (1995) as a starting-point for a comparative study between PM and HRM in the Netherlands, and emphasizes that HRM is a new type of PM.

Thus, one can conclude that there are differences between traditional theories on personnel management and more recent theories on human resource management, but that no consensus exists as to the importance of these differences. Some researchers argue that HRM and PM differ fundamentally, while others claim that HRM is mainly an expansion of PM. This is, however, mainly a theoretical debate, about the comparison of two normative theories on the management of human resources. A more interesting question, which still remains unanswered, is whether the way in which people are managed really changes if organisations (claim to) introduce the HRM approach (Boselie, 2002), and if these changes affect the performance of employees and organisations.
3 Theories on HRM

3.1 Introduction

HRM studies can have descriptive, conceptual and normative aspect, just as all scientific publications. The descriptive aspect is concerned with getting your facts right; the conceptual aspect with how these facts are related to each other. Given the relationships between the factors of interest, the normative aspect is concerned with what we should do to obtain a specified goal. Whereas descriptive studies can be performed without a specific theoretical underpinning, conceptual and normative studies require a sound theoretical underpinning (Guest, 1997; Storey, 1992).

During the first stage of HRM research, two main theoretical approaches to HRM emerged: the Harvard and Michigan approaches. When the attention of HRM focused on the relationship between HRM and performance, existing theories on organisational behaviour and strategic management received more attention in HRM studies, especially the resource-based perspective and the behavioural perspective. These perspectives were used to formulate different theories and hypotheses regarding the impact of HRM practices on organisational performance. Again, two dominant approaches can be distinguished: the universalistic approach (which states that, universally, a certain set of HRM practices will improve performance) and the contingency approach (according to which the impact of HRM practices on performance will be contingent upon the organisational and environmental context). Most of these approaches have in common that they assume that the effect of HRM practices on performance will be mediated by (a string of) other variables. An important mediating variable (that is also related with firm size) may be the psychological contract between employer and employees. This chapter provides a brief introduction into these approaches and perspectives, and ends with a discussion on the role of the psychological contract.

3.2 Michigan versus Harvard

3.2.1 The Michigan approach

The Michigan model was developed within the University of Michigan and presented in Fombrun et al. (1984). It is primarily based on principles that stem from strategic management.

Central in this approach are the basic functions of personnel management: selection, appraisal, rewards and development. Instruments and policies in these fields have an effect on the performance of individual employees, which in turn affects organisational performance. The main HRM objective is to organize and utilize these functions in such a way, that their impact on organisational performance is maximized. This can be obtained by ensuring that the various HRM practices are developed in relationship with the organisation’s strategy (De Nijis, 1999). The success of HRM practices depends on the horizontal and vertical fit of an organisation’s HRM. Horizontal fit refers to the necessary integration of individual HRM practices, while vertical fit implicates the necessary match between human resource policy as a whole and the organisation strategy (Boselie, 2002).
The Michigan approach assumes a shareholder perspective of HRM, according to which HRM should only be concerned with maximising organisational goals. Employees are resources (Storey, 1992) that should be managed in an efficient and effective way. Motivation and well-being of employees may be relevant, but only to the extent that they influence employee and organisational performance.

3.2.2 The Harvard approach

The Harvard model was developed within the American Business School and first presented in Beer et al. (1984). The Harvard approach assumes that the interests of employees and other stakeholders, together with situational factors, have a direct influence on HRM policy choices (Boselie, 2002). According to this approach, employees not only matter as resources for the production process, but also as individuals in themselves. In other words, it stresses the human factor in human resource management.

According to this approach, a central objective of HRM is to align the interests of employees and management. This is primarily a management task, and requires a strategic vision on personnel management and the integration of HRM practices with the organisation’s policy (De Nijis, 1999). De Nijis (1999) singles out four fields of HRM policy: employees’ influence, work systems, human resource flow (which contains the traditional personnel management tasks, such as selection, appraisal, etc) and reward systems. The HRM department makes choices on these policy fields. These choices affect the human resource outcomes of commitment, competence, congruence (employee/employer), and cost-effectiveness. In turn, these human resource outcomes have long-term consequences on organisational effectiveness and individual and societal well-being (Boselie, 2002).

The main distinction between the two approaches has to do with the point of view, being limited to the shareholders (Michigan) or also including other stakeholders (Harvard). Legge even suggests that the distinction between these two approaches is mostly a rhetorical one (Legge, 1995).

Another distinction that can be made is that the Harvard approach stresses the importance of the motivation of employees, while the Michigan approach focuses on the ability of employees. Recent theories on the relationship between HRM and organisational performance seem to combine elements from both approaches. For example, the AMO theory of performance suggests that ability, motivation and opportunity are (equally) important determinants of organisational performance (Boxall and Purcell, 2003). In short, there must be sufficient employees with the necessary ability (skills, knowledge and experience) to do the job; there must be adequate motivation for them to apply their abilities; and there must be the opportunity for them to engage in “discretionary behaviour” – to make choices about how their job is done.

3.3 Resource-based view and behavioural perspective

How do abilities, motivation and opportunities influence organisational performance? And how should HRM policies and practices be designed and organised in order to improve organisational performance through abilities, motivation and opportunities? In
recent HRM studies, the answers to these questions are usually based on the resource-based view and/or the behavioural perspective.

### 3.3.1 Resource-based view

The resource-based view is based on the assumption that differences in physical, organizational and human resources between firms cause a fundamental heterogeneity in their productive potential. Given this heterogeneity, the long-term competitiveness of a company depends upon the resources that not only differentiate it from its competitors, but are also durable and difficult to imitate and substitute (Prahalad and Hamel, 1990; Rangone, 1999).

Human resources are an important source to generate sustained competitive advantage: “human resource systems can contribute to sustained competitive advantage through facilitating the development of competencies that are firm-specific (...), and generate tacit organizational knowledge” (Lado and Wilson, 1994, page 699). Maintaining a competitive advantage based on human resources requires a management of those human resources that ascertains that these resources stay competitive, difficult to imitate and to substitute. This leads to the hypothesis that “certain human resource strategies - namely, the accurate projection of human capital needs, the identification of individuals best suited to meet organizational objectives, and the development of employees - are expected to be positively associated with superior workforce performance” (Koch and McGrath, 1996).

### 3.3.2 Behavioural perspective

The behavioural perspective on HRM focuses on the use of personnel practices as tools for shaping patterns of behaviour that help to achieve organizational goals and objectives (Naylor et al., 1980). Different goals and objectives require different strategies and behaviours, and, therefore, different HRM practices (Snell, 1992). This leads to a focus on an external fit, resulting in contingency theories on HRM (Huselid, 1995; Legge, 1995). Size, technology, ownership, sector and location are examples of contingency variables that have been included in previous studies (Delery and Doty, 1996).

Building on this perspective, Schuler and Jackson (1987) test the notion that each of Porter’s three generic strategies (Porter, 1985) fits a certain constellation of HRM practices. They posit that those businesses that select HRM policy and practices appropriate to particular generic strategies will also experience higher work performance. For example, companies pursuing a quality strategy should have explicit job descriptions and high employee participation. Those with a cost minimization strategy should use tight narrow policies and those pursuing an innovation strategy should reward longer-term goals and broad career paths.

In a review of this research, Barney and Hesterley (1996) note that empirical support of the hypotheses laid out by the behavioural perspective is relatively weak. Nevertheless, the argument of fitting strategy and HRM practices is compelling.
3.4 HRM and performance: best fit or best practice?

3.4.1 Best practice

Based on the resource-based view, Koch and McGrath (1996) expect that certain HRM strategies will have a positive effect on performance. At the level of HRM strategies, they thus have a universalistic view of the relationship between HRM and performance: universally, certain HRM strategies are associated with improved organizational performance.

In addition, the resource-based approach stresses the need of internal fit: a successful HRM strategy should consist of a set of HRM practices that are internally consistent. Obtaining internal fit is often associated with a best-practice approach at the level of HRM practices (Huselid, 1995; Legge, 1995). Various authors have suggested that a limited set of best practices can be identified, the so-called high performance workplace practices. Together, these practices define a high performance work system. The main features of such a system, distilled from the literature in the area (Huselid, 1995; Delery & Doty, 1996; Pfeffer, 1998), include the following:

− Devolution of responsibility to employees within flatter organisations;
− Increased emphasis on line managers as human resource managers;
− Learning as a priority instilled in all organisational systems;
− Decentralisation of decision making to autonomous units and employees;
− Performance measures for employees linked to financial performance indicators at the organisational level;
− Increased emphasis on the customer focused nature of employee work.

These features of high performance work systems lay increased emphasis on teamwork, training and development, flexibility of employees and of job definition, and high trust management methods.

3.4.2 Best fit

The idea that a universal set of best practices can be identified, has often been criticised. First of all, if such a universal set does indeed exist, it will be difficult to identify exactly which practices are the best (Becker and Gerhart, 1996). A more fundamental critique is that the best practice approach ignores the relevance of external and internal fit of HRM practices. The notion of external fit suggests that the effect of HRM practices may be contingent upon various aspects of organisational structure, such as firm size, technology, ownership, sector and location. Internal fit suggests that synergy effects may exist between individual HRM practices: specific combinations of HRM practices, known as HRM bundles or HRM systems, have a stronger effect on performance than the combined effect of the individual HRM practices (MacDuffie, 1995; Armstrong, 2001). This synergetic effect is due to the “overlapping and mutually reinforcing effect of multiple practices” (Armstrong, 2001, page 39).

Many studies on the impact of HRM on organisational performance assume that synergies and contingencies exist. These studies often represent HRM by a limited number of HRM bundles, which are operationalised as scales or indexes that represent different aspects of HRM (Delery, 1998). These scales of indexes are then used in (regression) analysis to determine their impact on organisational performance. The presence of contingencies can be established by examining whether the impact of HRM bundles on performance is contingent on organisational characteristics and / or other
HRM bundles\(^1\) (Huselid, 1995; MacDuffie, 1995; Koch and McGrath, 1996; Delery and Doty, 1996).

Within this bundles approach, an organisation’s HRM is still represented by several indicators. While this approach accounts for synergies between HRM practices that are part of the same HRM bundle, synergies between HRM bundles are not automatically incorporated. Furthermore, for each separate bundle it is assumed that more is better with respect to the impact on performance (Armstrong, 2001).

Some researchers view these characteristics as disadvantages of the bundles approach. Instead of identifying a limited set of HRM bundles that are applied (to some extent) by all enterprises, they identify a limited number of HRM configurations\(^2\). Each organisation can be assigned to a single configuration (Kalleberg and Moody, 1994; MacDuffie, 1995; Delery and Doty, 1996; Ichniowski et al., 1997). These configurational theories are concerned with “how the pattern of multiple independent variables is related to the dependent variable rather than with how individual independent variables are related to the dependent variable” (Delery and Doty, 1996, page 804).\(^3\)

### 3.4.3 Best practice or best fit?

Despite convincing theoretical challenges to a universalistic, best-practice model, there still appears to be as much evidence supporting a universalistic model as there is supporting a more contingent best-fit one (Guest, 1997; Becker and Huselid, 1998). The lack of support for the contingency model may indicates that it doesn’t describe reality well, but it may also indicate that we have not yet figured out how to properly test for the presence of contingency effects (Becker and Gerhart, 1996).

More recently, it is argued that both models may be valid, be it at different levels: while contingencies and synergetic effects are likely to dominate at the level of HRM practices, best practices may exist regarding the general principles of labour management and generic HRM processes (Boxall and Purcell, 2003). For example, it may be a best practice to actively encourage the development of employee competences (Koch and McGrath, 1996), but whether this should be done through formal training programmes, seminars and conferences or training on the job may differ between organisations.

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\(^1\) A different contingency effect is whether the application of HRM bundles is contingent on organisational characteristics (Bae and Lawler, 2000).

\(^2\) These configurations are usually operationalised as clusters or idealtypes of HRM practices (Delery, 1998).

\(^3\) We assume that the main difference between the contingency approach and the configurational approach is related to the representation of an organisation’s HRM: either by its score on a limited set of HRM bundles (contingency approach) or by its resemblance to a specific configuration (configurational approach). Others state that the main difference between these two approaches is the type of fit on which they focus: either external fit, where the impact of HRM on performance is contingent on organisational characteristics such as strategy, culture and context (contingency approach), or internal fit (configurational approach) (Armstrong, 2001).
3.5 Psychological contract as mediating variable

Why - and how - should the management of human resources have a positive effect on organisational performance? The general assumption is that the effect of HRM on performance is mediated by (a string of) other variables. For example, the AMO model suggests that HRM policies and practices influence the abilities, motivation and opportunities of employees. In turn, these mediating variables affect employee performance (e.g. sickness absence, willingness to cooperate with others, workforce turnover and productivity) and organisational performance measures (e.g. firm productivity, value added and profits).

Various empirical studies on HRM and performance have examined the relationship between HRM and indicators of employee behaviour and organisational performance. However, according to Guest (1999) the first part of this causal HRM chain has been ignored in empirical studies. This may often be due to a lack of proper data regarding the abilities, motivation and / or opportunities of individual employees in HRM studies. An exception is provided by Guest (1999), who uses a dataset that contains information about the psychological contract of employees. The psychological contract is closely related to the motivation and (perceived) opportunities of employees.

The psychological contract can be defined as “An individual's belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party” (Rousseau, 1989). The psychological contracts differ from the more general concept of expectations in that contracts are promissory and reciprocal, offering a commitment to some behaviour on the part of the employee in return for some action on the part of the employer. The psychological contract is often measures by a scale that included various items regarding perceived employer and employee obligations. A higher level of the psychological contract implies that employees expect more of their employer (regarding e.g. training, opportunities for promotion, a good working climate and competitive salaries) and - at the same time - feel more obliged to deliver good performance for their employer (for example: provide good service, perform non-obliged tasks voluntarily, work extra hours, and deliver good work in terms of quality and quantity) (Sonnenberg, 2004).

The results by Guest (1999) confirm that the psychological contract mediates in the relationship between HRM and performance. HRM is positively related to the psychological contract, and a higher level of the psychological contract is associated with improved employee performance.

The main hypothesis that Guest (1999) examines is whether the adoption of more different HRM practices increases employee performance. This hypothesis is accepted, because the number of applied HRM practices is positively related to the level of the psychological contract. In addition, he also identifies other determinants of the psychological contract. A positive psychological contract is likely to be associated with the following eight items (listed in descending in order of importance):

1. a high involvement organizational climate;
2. adoption of a great number of HR practices;
3. lower expectations of being made redundant in the next couple of years;
4. working shorter rather than long hours;
5. working in smaller organizations;
6. having a high salary;
7. not being a member of a trade union
8. working in a sector other than traditional industry/making manufacturing.
Taken together, these eight determinants account for 50% in the variance of the psychological contract.
4 Scale effects in HRM

Current literature on the management of human resources in small and medium-sized enterprises suggests the existence of three different scale effects: regarding HRM research, the management of human resources, and the impact of HRM practices. This chapter discusses these three scale effects.

4.1 Scale effects in HRM research

Theories on human resource management are often developed and tested in large organizations. Studies on HRM within SMEs occur less often. The majority of publications on HRM within small and medium-sized enterprises are based on qualitative studies. The analyses that are presented are generally limited to a presentation and discussion of the results of a questionnaire or a number of case studies; the practice of deriving and testing hypothesis has not yet become customary. Not surprisingly, Heneman et al. conclude that “the lack of information about human resources in SMEs is problematic for theory, research and practice” (Heneman et al., 2000, page 11). Recently, however, the attention for this topic seems to be increasing (De Kok and Uhlaner, 2001; De Kok, 2002; Way, 2002).

This scale effect in HRM research may be caused by the notion that HRM is not relevant for SMEs. As Katz et al. (2000) argue, HRM is often considered as a phenomenon that is typical for large organisations, and managers defining HRM are likely to talk about bureaucracy, policies, procedures and paperwork. This notion may be related to the normative aspects of HRM definitions as well as to the target group and objective of HRM studies.

First of all, if HRM is defined in a normative way, it seems reasonable to assume that HRM doesn’t exist with small firms (see also chapter 2.2). This may lead to a focus on larger organisations. However, this argument ignores the fact that all firms have to manage their employees, irrespective of their size (as long as they have employees).

Secondly, an important target group of many HRM publications (apart from HRM researchers) are HRM professionals: individuals who have followed a specific HRM-related education, are working in an HRM department, who want to stay up-to-date with current HRM research and have the opportunity to do so. It is likely that such HRM professionals are predominantly working with large enterprises, and therefore mainly interested in the application and effects of HRM practices and policies in large organisations. With this target group in mind, it is not surprising that the objective for many HRM studies has to do with the relationship between HRM and performance of large organisations. This, in turn, strengthens the impression with the readers of these publications that HRM is typical for large organisations.

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1 In a literature review on HRM, Heneman et al. (2000) identified 129 articles that specifically addressed human resource topics in SMEs. Only 14 of these apply quantitative methods to analyse the available information.

2 Also, the publication by Heneman et al. (2000) appeared in a special issue on HRM within SMEs.
However, there are also other target groups for who it is relevant to know how the management of employees in small and medium-sized enterprises affects employee employability and firm performance. For example, trade organisations may want to learn more about this topic in order to provide better support to their (small and medium-sized) members. Also, many OECD countries want to stimulate the average productivity of their labour force. One of the means to obtain this goal is to stimulate enterprises to improve the way in which they utilize their workforce. A considerable proportion of this labour force is employed in small and medium-sized enterprises. This suggests that policy makers would benefit from an increased insight into the relationship between HRM policies and practices and organisational performance within SMEs.

4.2 Scale effects in the management of human resources

The management of employees is not an isolated management task, but embedded in an organisation’s structure and culture. This is reflected in the model by Hendry and Pettigrew (1992), who state that HRM content is partly determined by the HRM context. In this model, the context of HRM contains its role, definition and organization (e.g. the presence of an HRM department, manager and/or professional). The HRM content includes HRM practices such as the management of labour flows (recruitment, selection, and promotion), reward systems, work systems and employee relations.

The content of HRM is partially determined by the HRM context. Thus, scale effects in the HRM practices that are applied by organisations (HRM content) may partially be caused by differences in the HRM context of small and large organisations.

4.2.1 Scale effects in HRM context

Decisions on organisational strategy and the management of human resources are made by various stakeholders. These include top and/or middle management, but may also include shareholders (owners), HR staff, employee representatives and governmental organizations (Paauwe, 1998). Each of these stakeholders may have its own goals and objectives. Scale effects exist regarding the opportunities of these stakeholders (which stakeholders are involved in the decision-making process), but also regarding the abilities and motivation of the relevant stakeholders.

Which stakeholders are involved?

In large firms, ownership and management are generally separated, and therefore shareholders and general management form two different groups of stakeholders. In small firms, ownership and management are often combined. The owner may combine the roles of (top) management and HR staff. In addition, work councils, if present, have fewer rights than in large firms. Consequently, managers’ internal room for manoeuvre is larger for smaller companies. This is illustrated by Simon (1996), who has examined over 500 successful small and medium-sized enterprises: “I frequently ask managers what percentage of their energy they waste fighting internal resistance. In large corporations, the answer usually lies between 50 and 80%, small to mid-size companies usually cite a range of 20 to 30%” (Simon, 1996, page 197).

The process of (HR) strategy formulation: abilities and motivation

Traditionally, management literature assumes that large firms apply a rational and deliberate strategy formulation process as a means to achieve their organisation’s goal (Chandler, 1962; Legge, 1995). Methods like SWOT-analyses (an analysis of an
enterprise’s Strengths, Weaknesses, Opportunities and Threats) are used to analyse markets and organizations, resulting in formal written strategies.

The assumption of rational strategy formulation implies that employers will establish which information they require, obtain this information, correctly interpret it, and use it to arrive at an optimal strategy given the available information. However, strategy formulation may be more of an emergent process than a deliberate one (Legge, 1995; Whittington, 1993). Employers’ rationality is bounded: their knowledge of alternatives and consequences is prey to cognitive limitations, and they often suffer from a lack of motivation to conduct comprehensive information searches (Legge, 1995).

The concept of strategy formulation as an emergent process may be especially relevant for small and medium-sized enterprises. Small firms have less experience and a more limited capacity for the acquisition of knowledge, which leads Nooteboom (1993) to conclude that small firms are more bounded in their rationality than large firms are. An important source for this lack of experience and limited capacity is a lack in manpower and management time. Most employers are taken up by day-to-day worries, which follow from their participation in the production process (Van den Tillaart and Warmerdam, 1997). Also, small-firm employers often do not have a formal management education, and the possibilities to gain management skills by co-operating with other managing employees are limited. As a result, employers are often not able to use classical management tools properly (Lee, 1995).

If rationality is bounded, it becomes relevant to know where the limited attention of employers is directed at. For small firms, “the perspective (…) is often dominated, and thereby restricted, by the personal perspective of the entrepreneur” (Nooteboom, 1993, page 289). Bounded rationality thus points towards the importance of theories on entrepreneurship and leadership, to explain the heterogeneity in organizational strategies within SMEs.

Finally, as a consequence of having relatively few employees, decisions regarding personnel management are made less often. This causes small firms to have less experience and routine in HRM activities (Nooteboom, 1993; WRR, 1987). It also suggests that standardization and formalisation of HRM practices is less important for these enterprises, since the costs that are associated with developing and implementing these practices may exceed the benefits of increasing the efficiency of HRM policy and / or practices. Support for this suggestion can be found with Klaas et al. (2000), who find that the costs of developing high performance HRM practices are considerable, and the fact that the financial resources of small firms are often limited (Fu et al., 2002).

These findings suggest that larger firms would benefit more from the presence of departments and / or employees that have specific knowledge and expertise on the implementation of HRM practices. Indeed, various studies have confirmed that larger firms are more likely to have an HRM department or HRM manager than smaller firms (Hornsby and Kuratko, 1990; Atkinson and Meager, 1994; De Kok et al., 2002).

4.2.2 Scale effects in HRM content

Firm size is positively related to the adoption of many HR instruments. For example, smaller firms pay lower wages (Black et al., 1999; Barron et al., 1987), make less use of formalized recruitment practices (Aldrich and Langton, 1997), provide less training to their employees (Koch and McGrath, 1996; Westhead and Storey, 1999) and are less likely to use formalized performance appraisals (Jackson et al., 1989). Generally
speaking, smaller firms are less likely to use formal HRM practices than larger firms are (De Kok et al., 2002).

These scale effects are often explained by differences in (HRM) context. Some empirical evidence for the relevance of (HRM) context is provided by De Kok et al. (2002). They examine the application of formal HRM practices in Dutch SMEs, which is measured by 6 different scales that count the usage of different (formal) HRM practices in various fields of HRM (recruitment, selection, compensation, training and development, and appraisal). As expected, they find a positive relationship between the number of employees and the score on each of the available HRM scales. About half of this firm-size effect can be explained by available organisational characteristics, including the HRM context (the presence of an HRM department or manager and the presence of a business plan) and enterprise ownership (family-owned and -managed enterprises apply less formal HRM practices than other firms of similar size).

Of course, firm size doesn’t account for everything. Small firms vary widely in the HRM practices in use (De Kok and Uhlaner, 2001). For example, Deshpande and Golhar (1994) find HRM practices within many small manufacturing firms to be as sophisticated as those in larger companies. Similarly, Hornsby and Kuratko (1990) find that even among small firms, HRM practices are often more sophisticated than they had expected. Using a small set of cases, Hill and Stewart (1999) also demonstrate variation in level of sophistication of HRM practices among smaller organizations.

The studies discussed so far examine whether the application of certain HRM practices increases with firm size. Whether firm size is also related to the choice for specific combinations of HRM practices (HRM systems) has not yet received much attention.

**Firm size and wage differentials**

The general finding that research on HRM within SMEs is still in an explorative stage does not apply to all fields of HRM practices. Especially research into wage differentials between small and large firms has moved well beyond this stage. On average, smaller firms pay lower wages to (observably equal) employees than larger firms do (Audretsch et al., 1999; Barron et al., 1987; Oosterbeek and Van Praag, 1995). Using data from the Netherlands, Oosterbeek and Van Praag (1995) find support for a screening view on hiring decisions to explain this finding. Large firms are assumed to have higher monitoring costs (due to the size of their labour force), which increases the benefits of screening for workers with high abilities. They conclude that “large firms are incapable of observing workers’ ability, but by offering a higher rate of return on schooling they succeed in attracting the most able workers” (Oosterbeek and Van Praag, 1995, page 181).

**4.3 Scale effects in the impact of HRM practices**

The usage of HRM practices, firm performance and firm size can be related to each other in various ways. For example, the presence of scale effects in the management of human resources indicates that firm size is related to the choice for specific HRM practices.
practices, which in turn affects performance. In turn, these practices may acts as a mediating variable between firm size and performance.

Other relationships are also possible. In particular, firm size may moderate the relationship between HRM and (organisational) performance: the effect of certain HRM practices and/or HRM systems on performance may differ between small and large firms. In other words, scale effects may exist regarding the impact of HRM practices. In fact, the presence of such scale effects could explain why small and large firms differ in their choice for specific HRM practices.

This section presents results of the few empirical studies that provide some insight into the presence of scale effects in the impact of HRM practices. In addition, it offers possible explanations for this scale effect.

4.3.1 Empirical findings

We have identified a few studies that examine the impact of HRM practices with small and/or medium-sized enterprises. Only one of these studies (De Kok, 2001) explicitly examines the moderating effect of firm size.

Firm size as a moderating effect

De Kok (2001) examines the impact of training on production, for a panel of Dutch manufacturing firms with 40 – 5,000 employees\(^1\). He estimates a regression equation where gross production and value added are explained by (amongst others) the number of training days. In his model, the impact of training can be moderated by the amount of training support per employee (the time spent in setting up and managing the training programme) and by firm size. The estimation results suggest the presence of a moderating effect of training support per employee, but find no support for a moderating effect of firm size. Instead, there is an indirect effect of firm size: smaller firms tend to provide less training support per employee than larger firms, which reduces the impact of training on gross output and value added. Even though training has a positive effect on performance, for smaller firms this positive effect may not be enough to outweigh the costs of training.

Firm size as criterion for sample selection

Within other empirical studies on the impact of HRM practices within SMEs (Kotey and Meredith, 1997; Heneman and Berkley, 1999; Way, 2002), firm size is mainly used to select enterprises for the sample. These studies also use firm size as a control variable in their analyses, but this doesn’t provide insight into possible moderating or mediating effects of firm size.

Kotey and Meredith (1997) study the relationship between personal values of business owners, business strategy and organisational performance. They examine a sample of 224 Australian small firms\(^2\), which are classified into four different clusters based on their scores on various performance measures. They find that the membership of specific clusters is related to personal values and business strategy. For example, the cluster of high-performing firms includes relatively many enterprises with

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\(^1\) More than 95% of the firms in this sample employs more than 100 employees.

\(^2\) The definition of ‘small firms’ is not reported in their study.
“entrepreneurial” personal values of the business owner and a proactive strategic orientation. Some of the items that they use to measure business strategy are related to HRM. The general findings on the role of business strategy also apply to these specific HRM items: the clusters with the highest and lowest performance ratings are also the clusters with the highest and lowest scores on each of the four HRM items.

Heneman and Berkley (1999) examine how HRM practices in the field of recruitment and selection affect outcomes of the recruitment and selection process, for a sample of firms with 20 – 100 employees. They conclude that some of the selected HRM practices do indeed improve certain outcomes of the recruitment and selection process.

Finally, Way (2002) examines the impact of a high performance work system on various performance measures for a sample of 446 US companies with 20 – 100 employees. The high performance work system (HPWS) is defined as the total score on seven different HRM practices that are generally associated with superior performance. Way finds a positive relationship between the extent to which a firm’s HR practices resemble a high performance work system, and outcome measures such as workforce turnover and perceived productivity. However, he finds no relationship between HPWS and labour productivity. This leads him to conclude that “HPWS do not necessarily produce outcomes that exceed the labour costs associated with the use of these systems” (Way, 2002, page 780).

In addition, we also mention Leijten (1992), whose study covers 58 medium-sized firms (100 – 500 employees) from the Dutch metal industry. He concludes that in this population a positive relationship exists between integrated decisions and activities regarding Human Resource Flow and work systems and growth on the one hand and profit, production, commitment, interpreted organisational support, absence through illness, turnover and the level of education of employers on the other hand.

4.3.2 Scale effects and the psychological contract

The results by Guest (1999) suggest that the psychological contract is an important determinant of employee performance. The level of the psychological contract depends, amongst others, on the number of HR practices that are applied, which indicates that the psychological contract acts as a mediator in the relationship between HRM and performance (see section 3.5).

Firm size has a negative impact on psychological contract

Another determinant identified by Guest (1999) is organizational size. The psychological contract tends to be higher with smaller firms (everything else being equal). Consequently, there is likely to be less room for improvement. This implies the presence of a scale effect in the impact of HRM practices: the effect of measures that aim to

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1 Business strategy is measured by 25 Likert scales on various items, of which 4 are related to HRM: “use clear personnel policies”, “emphasise employee welfare”, “assess employee performance” and “assess employee job satisfaction”.

2 These are: extensiveness of training; group-based performance pay; average pay level; job rotation; self-directed teams; formal training; and involvement in meetings discussing work-related issues.

3 Labour productivity is calculated as a firm’s total sales, receipts or shipments/total labour costs, and is thus a more objective measure than perceived productivity.
improve the psychological contract may be smaller for smaller firms. Smaller firms may have less need for specific HRM practices that aim to increase the psychological contract of their employees, because it already tends to be higher as compared to large firms.

This finding raises the question why the psychological contract would be lower for larger firms (everything else being equal). This may be related to the fact that larger firms tend to have more hierarchical levels and generally are complex. It has been suggested that large organisations, especially if they have a strict hierarchy, run the risk of alienating employees. The bureaucratic way of the organization of tasks in large organizations may have a negative impact on employee motivation. This risk is lower for smaller firms, since “the lack of formal or professional policy towards employee management enables flexibility within the labour process, and an individual approach to the employment relationship.” (Marlow and Patton, 1993, page 63).

A specific example of this individual approach is the matching of jobs and employees. Where large firms are more likely to search employees for given jobs, smaller firms have more opportunities to create jobs around the experience, knowledge, skills and interests of (both incumbent and newly hired) employees (Hill and Stewart, 1999). This is confirmed by Carroll et al. (1999), who conclude (based on 40 case studies in the UK) that employees from SMEs can exert influence on the nature of their job. This example suggest that HRM practices such as job rotation may be less relevant for small organisations: employees do not have to rotate between jobs, because jobs may be adapted to the needs of employees.

The results presented by Guest (1999) do not imply that the level of the psychological contract is generally higher in smaller firms: firm size is only one of the eight determinants of the psychological contract that he identified. Larger firms tend to adopt more (different) HRM practices and pay higher wages than smaller firms do, which has positive effects on the psychological contract of employees in large firms. Nevertheless, the negative relationship between firm size and psychological contract suggests that it is too simple to characterise the way in which SMEs manage their employees as a “bleak house” concept, as some authors have done (Bacon et al., 1996).

Organisational climate in SMEs: the role of leadership styles

According to Guest (1999), the number of adopted HRM practices is an important determinant of the psychological contract. Only one determinant has a stronger relationship with the psychological contract: the presence of a high involvement organizational climate.

In large firms, stimulating a high involvement climate may be an explicit goal of HRM strategies and policies. In smaller firms, with their more emergent process of strategy formulation, the organisational climate (or culture) may depend more strongly on the values and norms of the business owner(s). These values and norms may influence not only the goal of the enterprise, but also the strategy on how to obtain that goal (Kotey and Meredith, 1997). The organizational culture will not only be shaped by the owner’s values, norms and goals, but also by the way in which these are communicated to the employees (Marlow and Patton, 1993). This suggests that theories on entrepreneurship and leadership styles of entrepreneurs may provide a valuable addition to our understanding of how the management of human resources affects (psychological contract and) organisational performance.
5 Discussion and conclusions

Large organisations may benefit from investments in the management of their human resources. This is the overall conclusion of more than a decade of research into human resource management. It is, however, less clear what the optimal HRM looks like for individual large organisations: is it sufficient to apply a universal set of high performance workplace practices, or does each organisation need to fit its HRM to its strategy, culture and environment? Despite the fact that small and medium-sized enterprises account for an important part of total employment and production, even less is known about the impact of HRM practices within these organisations.

After a brief introduction into the concept of HRM and a discussion of relevant theories, this paper discussed three scale effects of HRM: regarding HRM research, regarding the management of human practices and regarding the impact of HRM practices. A review of HRM publications has illustrated the presence of a scale effect on HRM research and various empirical studies confirm the presence of a scale effect in the management of human resources. There are not enough empirical studies to confirm the presence of scale effects in the impact of HRM practices, but there are strong theoretical arguments to assume that such scale effects are present. Given these findings, we now turn to our research questions:

− Does the return on HRM investments depend on firm size?
− Why do small firms pay less attention to HRM than larger firms do?
− Why has HRM research tended to ignore small and medium-sized enterprises?

Does the return on HRM investments depend on firm size?
The return on investments is likely to be lower for smaller firms. On the one hand, the relative costs of HRM investments are likely to be higher for smaller firms. Klaas et al. (2000) report that the fixed development costs of high performance HRM practices are considerable, which implies that larger firms can benefit from economies of scale. This is strengthened by the fact that smaller firms have fewer opportunities to increase their experience through learning by doing. Finally, smaller firms generally have fewer financial resources, and having to extract additional funding to set up a coherent HRM policy further increases the costs.

On the other hand, the benefits of HRM investments may also exhibit economies of scale. This may be due to various characteristics of small firms. For example, smaller firms are likely to have less (opportunities to obtain) knowledge on HRM policies and practices and less opportunities to gain experience in the implementation and application of these policies and practices. This may reduce the benefits. Also, smaller firms tend to be less formalized, which may have a negative impact on the benefits of various HRM practices. For example, smaller firms are less likely to have narrow job definitions that are defined independent of the person performing the job (Carroll et al., 1999). This may reduce the benefits of job rotation. Also, a flexible job definition may mask shortages in the abilities of employees. This makes it more difficult to assess the training needs of individual employees, and thus to maintain a good training programme.

Furthermore, smaller firms tend to have a higher psychological contract between employees and their employer (Guest, 1999). This may reduce the benefits of HRM practices, in particular those practices that are undertaken to stimulate the motivation
of employees. This scale effect is caused by the mediating role of the psychological contract in the relationship between HRM practices and employee performance. Applying more (high performance) HRM practices may increase the level of the psychological contract, which in turn increases various aspects of employee performance. It is likely that the effect of HRM practices on the psychological contract will show decreasing returns to scale: for higher levels of psychological contract, the additional benefits of applying (additional) HRM practices will be lower. Since employees in smaller firms tend to have higher levels of the psychological contract, this implies that the benefits of HRM practices will be lower for smaller firms.

A different argument that supports the presence of a scale effect in the impact of HRM practices to improve the motivation of employees is offered by studies on labour economics. These studies assume that employees want to minimise the effort that they have to make in order to earn a certain income. Consequently, employees tend to exhibit a shirking behaviour if they feel they can get away with it. Firms can either reduce the possibilities to shirk (through monitoring their employees) or increase the costs of shirking (for example, by introducing performance payment, paying higher wages and/or firing shirking employees). Studies on HRM suggest that firms have a third alternative, namely to increase the motivation of employees. Smaller firms have more opportunities to directly monitor the behaviour of individual employees, so shirking is less likely to take place in small firms (Barron et al., 1987). This reduces the need for smaller firms to pay relatively high wages or apply (other) HRM practices to improve employee motivation.

Psychological contract and shirking are both about the motivation of employees; the motivation to perform better, in return for (for example) a better working climate. It is less concerned with the abilities of employees. The relationship between firm size and the level of the psychological contract therefore doesn’t imply a scale effect in the impact of HRM practices that aim to improve the abilities of employees (training and development). This is in line with De Kok (2003), who finds that firm size does not moderate the relationship between training and organisational performance.

The arguments that we have just presented suggest that firm size may act as a moderating variable in the relationship between HRM practices and performance. In particular, we expect such a scale effect for HRM practices that aim to improve the motivation of employees. Unfortunately, we have not been able to identify studies that have examined empirically whether firm size acts as a moderating variable for such HRM practices. Instead, we have identified three studies that examine the effect of various HRM practices on the performance of firms with less than 100 employees identified. Each of these studies indicates positive effects: HRM matters, also for firms with less than 100 employees. However, since none of these studies explicitly includes firm size as a moderating variable, we still know very little about the presence of scale effects in the impact of HRM practices.

It seems as if the answer to our research question is “probably”: the return on HRM investments are likely to be related to firm size, although empirical support for a moderating effect of firm size is very limited and only indirect. Is this true? Well, not entirely. The problem does not lie with the answer, however, but with the question. The

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1 De Kok (2003) focuses on firm-provided training, which is related to the abilities of employees rather than their motivation.
arguments we have provided are based on studies that operationalise HRM as the application of high performance workplace practices: HRM practices that are assumed to have a positive effect on the performance of large organisations. So, in effect we have answered the following research question: “Does the return on investments in traditional high performance workplace practices depend on firm size?” The answer to this question remains the same: “probably”. This doesn’t mean that we assume that smaller firms have to pay less attention to how they manage their human resources; it means that the effectiveness of practices that seem to work with larger organisations may be lower for smaller firms. Smaller firms may need a different approach to the management of their employees, one that is more in line with their HRM context and other organisational characteristics.

Why do small firms pay less attention to HRM than larger firms do?
Previous studies clearly show that small firms are less likely to apply the ‘best practices’ of HRM. The answer to the first research question provides a possible explanation for this scale effect in HRM content: the net benefits of the practices that are included in these empirical studies may be lower for smaller firms. This argument is in line with the best fit approach to HRM: the optimal configuration of HRM practices depends on the number of employees. In particular, the relationship between firm size and psychological contract suggests that the optimal configuration for small enterprises might include relatively few practices and approaches that primarily aim to stimulate the motivation of employees. Instead, it might focus on increasing the abilities of employees.

Another explanation for the relative lack of attention for high performance HRM practices by smaller enterprise is that they are more bounded in their rationality. Relatively few people are involved in formulating business strategy and HRM strategy and policies, and these people are likely to have less subject knowledge, less experience (with the formulation of strategies and policies, as well as with the implementation of high performance workplace practices) and less financial resources available. This argument is more in line with the best practice approach to HRM: what works for large firms also works for small firms, only small firms are not aware of this and / or lack the resources to implement them.

We do not know which of these two answers to the second research question is most relevant. This is mainly because we do not know the answer to the first research question.

Why has HRM research tended to ignore small and medium-sized enterprises?
The management of human resources in SMEs has been studied less often than in larger organisations, and most of these studies are of a qualitative and / or descriptive nature. This seems to be at odds with the large share of SMEs in total employment and production. Possible explanations for this lack of attention include the presence of normative elements in some definitions of HRM (according to which the ways in which smaller firms manage their employees are less likely to count as ‘true HRM’) and that

1 Using normative definitions of HRM, one could argue that we suggest here that SMEs do not need HRM. In our opinion, this leads to a pointless and even misleading discussion. Pointless, because it ignores that SMEs also have employees, which need to be managed. Misleading, since it suggests that SMEs do not need to think about how they manage their employees.
the main public of HRM studies (apart from other HRM researchers) are working as HRM professionals and/or managers within large organisations.1

There are, however, other potential target groups who may be interested in learning more about how the performance of (employees working in) SMEs can be influenced by the management of the available human resources. These target groups include policy makers with policy aims such as improving aggregate productivity growth, stimulating employability and stimulating employees to work longer to reduce the economical effects of the ageing of the workforce.

Suggestions for future research
Our answer to the third research question already indicates that we believe that the topic of HRM within SMEs has as yet received too little attention. The economical importance of SMEs justifies an increased research effort into this area. Since these studies may serve different target groups than those of HRM studies on large firms, the results may also have to be published through different channels (journals, conferences etc).

The focus of these studies should be on the impact of HRM practices and policies on the performance of employees, organisations and society at large. On the one hand, we welcome empirical studies that examine the role of firm size as a moderator in the relationship between various HRM practices and firm size. Does the impact of certain HRM practices and/or policies indeed increase with firm size, as we have argued before? At the same time, we should examine in more detail how small and medium-sized enterprises manage their human resources. These studies should not limit themselves to the (lack of) attention for practices and policies that are typically found with larger firms, but should look for other ways in which these firms manage their employees. Existing theories on entrepreneurship and leadership may provide a good starting point for studies along this line.

1 Or as HRM advisors to large organisations.
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