

DECLARATION

CONTEXTUAL INFLUENCES ON HRM
HOMOGENEITY AND HETEROGENEITY IN
SMEs: A CASE STUDY OF HIGH VALUE-ADDED
AND LOW VALUE-ADDED SECTORS

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FOLLOWING ITEMS TO BE REDACTED

FIG 1.1 P7

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TABLE 1.1 P15

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TABLE 3.1 P109

DECLARATION

I declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning. Further, all the work in this thesis is entirely my own, unless referenced in the text as a specific source and included in the bibliography.

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This thesis is dedicated to my late father Kien, all the other members of the Kinigoma family, and especially my dear daughter Amina Daniella Kinigoma.

Abstract: This research draws attention to the problematic premises underpinning the UK government's policy goal of a competitive national economy predicated on the notion of a high skills, high value-added economic trajectory. In particular, the research highlights the limitations of the policy assumptions (inherent in the Investors in People standard) that formalised HRM practices in SMEs in high value-added sectors make them more competitive than those in low value-added sectors, which are frequently associated with informal HRM practices.

The research compared the selection and recruitment, training and development, and appraisal and rewards practices of SMEs. The methodological approach adopted was constructivist, with the assumption that SME owner-managers are involved in constructing their own individual reality based on how they perceive the world around them. A case study strategy was adopted to examine the HRM practices of a purposive sample of six SMEs in high value-added (3) and low value-added (3) sectors. Data collection combined semi-structured in-depth interviews with document searches.

It was found that HRM in the sample of SMEs in both sectors combined formality and informality; characterised by institutional contextual (i.e. homogeneous) and situational contextual (i.e. heterogeneous) practices. It is suggested that a situational contextual perspective is simplistic in that although it acknowledges the interplay between HRM formality and informality, it fails to take account of the homogenising influence of the institutional contexts of SMEs. Consequently, just as normative models of HRM seek to isolate SMEs from their operating contexts, the situational contextual perspective dislocates SMEs from their institutional contexts.

Therefore, the research contributes by proposing an open systems model, which reflects the complexity of HRM in SMEs by integrating the institutional and situational contextual perspectives of HRM. In view of the complexity of the HRM practices of SMEs, the research suggests a shift away from a market-led approach to skills based on the HRM practices of individual SMEs, towards direct intervention through government regulation as the most likely path to an economy in a high skill, high value-added equilibrium in the UK.

GLOSSARY OF TERMS

- ***High Value-added Sectors*** – These are SME sectors that are commonly associated with a high proportion of goods and services with a higher net worth to the customer. These sectors are normally associated with high-level skills.
- ***High Value-added Strategies*** – Competitive strategies that add value to goods and services and result in a higher net worth to the customer. These strategies are associated with high quality and differentiation.
- ***HRM Heterogeneity*** – The human resource management (HRM) requirements of SMEs are diverse and reflect diversity in their operating contexts.
- ***HRM Homogeneity*** – The human resource management (HRM) requirements of SMEs are identical, irrespective of operating context.
- ***Institutional Influences*** – Influences on SMEs to conform in order to gain legitimacy and acceptance. These influences are common to sectors, groups or clusters of SMEs.
- ***Isomorphism*** – The process by which organisations adopt common practices.
- ***Low Value-added Strategies*** – Competitive strategies by SMEs that do not add value to goods and services, and do not result in a higher net worth to customers. These sectors are normally associated with low-level skills.
- ***Situational Influences*** – Influences that are particularistic or specific to the operating context of an SME.
- ***Zones of Convergence*** – A term coined to describe a zone in a matrix in which institutional influences converge with situational influences on the HRM practices of SMEs in case-SMEs.

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CHAPTER ONE

1.0 Introduction

1.1 Purpose of Research

This research aims to make a contribution to HRM theory development by conducting an empirical analysis of the HRM practices of a purposive sample of SMEs. UK government policy on HRM in SMEs is market-led, and draws on normative models that assume a linear association between formalised HRM practices, high value-added strategies and SME competitiveness, even though evidence of such a link is yet to be conclusively demonstrated (Goddard, 2004). These normative models suggest a universal set of formalised HRM ‘best practices’ linked to performance (Gill and Meyer, 2011; Batram, 2011; Pauuwe and Boselie, 2007). In this sense, informal HRM practices prevalent in much of the SME sector have been associated with low value-added strategies and lack of competitiveness. Consequently, the UK economy is often described as being trapped in a low skill, low value-added equilibrium (Finegold and Soskice, 1988; Mason, 2004). In contrast, businesses in high value-added sectors, such as high-end engineering, bio-technology, consultancy, pharmaceuticals, etc., are frequently cited as HRM ‘best practice’ exemplars that those in low value-added sectors, such as cleaning and janitorial, manned security, hotels and hospitality, retail and leisure services could emulate (Lloyd, 2002). In this respect, policymakers have assumed that businesses in so-called low value-added sectors need to emulate the formalised HRM practices of those in high value-added sectors in order to set the UK economy on a high skill, high value-added trajectory (Finegold and Soskice, 1988). Policymakers have likened the HRM practices of SMEs in so-called high value-added sectors with formalised HRM practices associated with large firms. Thus, in the same way that organisational size is assumed to separate formalised HRM practices in large firms from informal HRM practices in SMEs, formalised HRM

practices in high value-added sectors are contrasted with informal HRM practices in the rest of the SME sector. A recurring theme in HRM literature is that the formalised HRM practices typically associated with large firms lead to increased employee commitment, job satisfaction and firm competitiveness (Schuler and Jackson, 1999). As such, these conditions are most suited to investment in employees' skills, thereby suggesting a link between formalised HRM practices and high skills (Jackson and Schuler, 1999). As such, the operating sector is assumed to be a defining factor in approach to HRM in SMEs. From such a perspective, informal HRM practices prevalent in the SME sector are viewed as a 'bleak house' (Wilkinson, 1999), and characterised as autocratic, with poor working conditions, arbitrary treatment of employees, limited employee involvement and low pay (Hoque and Bacon, 2006; Barrett et al, 2009; Rainnie, 1989). It is assumed that such 'exploitative work conditions' (Holliday, 1995; Ram et al., 2001) result in low morale and low levels of job satisfaction, and are not conducive to investment in employees' skills. This view of formalised HRM practices in SMEs has been contested by others who have portrayed informal practices in SMEs as 'happy ships' (Ingham, 1970) or harmonious and cooperative employment relationships (Bolton Committee Report, 1971; Forth et al., 2006; Kersley et al, 2006). It is the association between the conditions in which employees are managed, and the likelihood of such conditions creating the right environment for investment in skills that has placed HRM at the centre of the UK's skills policy in SMEs. The fact that vast sections of the small business sector are yet to adopt such formalised HRM practices has been attributed to imperfections in the labour market (Becker, 1964). Therefore, the purpose of this research is to demonstrate that this view of HRM in SMEs is too simplistic, and does not reflect the complex reality of HRM practices in the SME sector.

As a consequence of a simplistic market-led approach to HRM in SMEs, there is presently a gulf between UK skills policy and the HRM practices of vast sections of the SME business

population. This raises a number of questions about the viability of policy interventions based on a market-led approach to HRM in SMEs as a potential solution to the UK's supposed low skills, low value-added equilibrium. In other words, does a market-led approach to skills, based on the HRM practices of individual SMEs, offer a viable path to a high skills, high value-added trajectory? In which case:

- To what extent is the failure to adopt formalised HRM practices in SMEs due to the imperfections of the labour market?
- Is reliance on a market-led approach to HRM likely to lead to the correction of market imperfections?
- To what degree are SME owner-managers in low value-added sectors inclined to change their attitudes to formalised HRM practices?
- Is it truly the case that those businesses in high value-added sectors have managed to escape the low skill, low value-added trap, and if so, how?
- In what ways do those businesses in high value-added sectors differ in their approach to HRM from those in low value-added sectors?
- If those in high value-added sectors do not differ in their approach to HRM from those in low value-added sectors, then what are the implications for HRM in SMEs and for UK skills policy?
- To what extent are policy interventions at the level of individual firms appropriate?

By conducting an empirical analysis of a purposive sample of SMEs in high value-added and low value-added sectors, the research is designed to highlight the complex reality of the

HRM practices of the SME sector. The research advances a new theoretical model of the HRM practices of the SME sector. In the process, the research contributes to attempts to bridge the gulf between skills policy and the HRM practices of SMEs from the SME owner-managers' frame of reference.

The study is based on the views and perceptions of owner-managers because of the centrality of the owner-manager in SME decision making. In SMEs the owner-manager has the benefit of having direct knowledge of workers' skills (Edwards, 2010), and decision making is often influenced by owner-managers' idiosyncrasies. In SMEs the owner-manager is central to the day-to-day running of the business, often in a personalised way, and an owner-manager's response to problems is an important feature of how the SME adapts and develops. The ways in which problems are identified and addressed, and how opportunities are exploited are primarily determined by the way they are perceived by the owner-manager (Tocher and Rutherford, 2009).

Based on SME owner-managers' perspective, this research is designed to shift theoretical and policy focus away from simplistic approaches based on normative models of HRM. It seeks to direct theoretical focus towards approaches that acknowledge the complexity of HRM practices in SMEs and, in the process, it highlights the complex interplay of formality and informality of HRM practices within and between SMEs in high value-added and low value-added sectors. It is a study designed to highlight the way in which the HRM practices of SMEs in high value-added and low value-added sectors are conditioned by a complex web of contextual influences. Semi-structured in-depth interview data, in combination with data from documentary searches, is analysed, leading to recommendations based on the following terms of reference:

- a. Review the HRM literature on SMEs and highlight the limitations of the existing theoretical models of HRM practices of SMEs.
- b. Build on the existing literature to advance an alternative theoretical model of the HRM practices of SMEs.
- c. Empirically examine the proposed theoretical model of the HRM practices of SMEs by undertaking qualitative research on a purposive sample of SMEs in high value-added and low value-added sectors.
- d. Discuss the research findings in light of the existing literature on the HRM practices of SMEs in high value-added and low value-added sectors.
- e. Assess the policy implications of the research findings on the HRM practices of SMEs and make recommendations accordingly.

In order to address the terms of reference, section 1.2 of this introductory chapter of the thesis sets out the background to the research by examining some of the key literature, leading to a statement of the problem in section 1.3, and an outline of the research proposition, aims and objectives in section 1.4. Section 1.5 summarises the contribution of the research and, finally, section 1.6 outlines the structure of the thesis.

1.2 Research Background

HRM policy initiatives in the SME sector in the UK have to be viewed in the broader context of a skills agenda for national economic competitiveness, based on high skills and high value-added strategies, in a future knowledge economy (UK Commission for Employment and Skills, 2010). Rubery and Grimshaw (2003:107) have stated that *'the issue of skills may be said to lie at the heart of contradictory relationships that underpin capitalist economies'*. Rubery and Grimshaw (2003) distinguish between two conceptual models of national skills development that provide a useful backdrop to this study. These are the Occupational Labour

Market (OLM) and the Internal Labour Market models (ILM). The OLM model is based on nationally recognised occupational qualifications, including apprenticeships, college-based training and on-the-job training. In this model of skills development, certification of skills is on the basis of broad occupational criteria, with the government, employers and trade unions playing a role.

On the other hand, in the Internal Labour Market (ILM) model, skills policy is designed and organised in accordance with the needs of individual businesses, with employers taking responsibility for their training and skills needs. Consequently, under an ILM model, skills are not necessarily certified. They tend to be narrowly defined to meet the requirements of individual businesses. The key difference between the two models is that under the OLM model, employees are usually more adaptable because their training is based on a broader skill set. Therefore, trained workers have increased mobility and are able to work in a variety of businesses. In contrast, under the ILM model, employees have narrow skills sets, because their training is usually based on a specific job requirement. This tends to limit the mobility of employees. Rubery and Grimshaw (2003) have used these models to categorise the various national approaches to skills formation in the US, UK, France, Germany and Japan, based on various forms of regulation in these countries between market-led, state-led and mixed consensus-led frameworks, as shown in figure 1.1

Figure 1.1 – Categories of National Systems of Vocational Training

According to the framework in figure 1.1, France is the only country that can clearly be categorised as ILM and state-led. The German system, on the other hand, is associated with OLM, and is distinguishable by its high-quality training, which ensures wide coverage across the sectors of the economy. It is neither a state-led nor a market-led system. It is regulated through a consensus among employers, trade unions and the government. The system in Japan is also consensus-led, but based on an ILM model. The system has also gained a reputation for high quality training, which is not isolated in the strategic plans of individual businesses, but is embedded within a wider social and institutional context. In contrast, the US system of training is very much market-led. There is no formalised system of national training with skills acquired in the workplace through informal on-the-job training.

The system in the UK is a market-led system, which Rubery and Grimshaw (2003) have described as an unclear hybrid approach and classified as a weak ILM, weak OLM model. Rubery and Grimshaw (2003) make a distinction between the dual approach of the 1960s in which the industrial workforce combined on-the-job with formal off-the-job training. During

this period, large businesses also underwent a period of bureaucratisation, which led to the development of internal labour markets. Simultaneously, colleges of further education also started providing pre-employment training. Unlike in Germany, apprenticeships declined in Britain until the end of the 1980s. Consequently, in Britain, most training is market-led and provided within businesses. Thus, unlike Germany, in the UK there is an economic rationale for exhorting ‘SMEs’ (defined in section 1.2) to adopt ‘formalised HRM practices’ (defined in section 1.4) as part of an economic competitiveness agenda to optimise employers’ demand and usage of skills (Department of Trade and Industry (DTI), 1999), and position the economy in a high skills, high value-added trajectory (Finegold and Soskice, 1988) in the context of a new knowledge-based economy.

1.2.1 The Knowledge Economy and High Skills Equilibrium

In fact, some practitioners have gone as far as to question the very existence of a knowledge economy phenomenon (Roberts, 2009). Others, like Smith (2002:6), have suggested that it is ‘*a widely-used metaphor rather than a clear cut concept*’. Notwithstanding this lack of consensus, the notion of a knowledge economy, whether real or not, has been variously defined as follows:

... economies which are directly based on the production, distribution and use of knowledge and information. This is reflected in the trend in OECD economies towards the growth in high technology investments, high-technology industries, more highly-skilled labour and associated productivity gains (Organisation for Economic Co-operation and Development, 1996:3).

... production and services based on knowledge-intensive activities that contribute to an accelerated pace of technological and scientific advance as well as equally rapid obsolescence. The key components of a knowledge economy include a greater reliance on intellectual capabilities than on physical inputs or natural resources, combined with efforts to integrate improvements in every stage of the production process, from research and development (R&D) lab to the factory floor to the interface with customers (Powell and Snellman, 2004:201).

The economic structure emerging in the global information society in which economic success increasingly depends on the effective utilisation of intangible assets such as knowledge, skills and innovative potential (Economic and Social Research Council, 2007:50).

The Application and productive use of information (Alder and Kwon, 2002:17-40).

These excerpts suggest that a globalised knowledge-based economy requires the effective management of human resources (Vargas and Rangel, 2007). For this reason, it is frequently argued ‘*that the development of internal resources and capabilities*’ will increasingly represent a source of differentiation and competitive advantage for SMEs (Vargas and Rangel, 2007: 909). The distinction between SMEs in high value-added and low value-added sectors is particularly relevant in the context of a ‘globalised knowledge economy’ (Roberts, 2009) in that, consistent with notions of a new knowledge economy, economic competitiveness is frequently linked or associated with businesses in so-called high value-added sectors, even though such a linkage is yet to be empirically demonstrated. Thus, in the last few decades, there has emerged a new orthodoxy in the advanced economies premised on economic competitiveness and growth through ‘high skills’ and the production of ‘high value-added’ goods and services (Sloman, 2011). Various government policies have reflected this view, as illustrated in the following excerpts, in three different continents:

To build employer ambition and capacity to be World Class, capable of competing globally in the high skills, knowledge driven economy, and epitomising the talent and skills of their people (UK Commission for Employment and Skills, 2009, cited in Sloman (2011), ‘A missing Link: national economic aspirations and training and learning in firms’, Industrial and Commercial Training, 43(6): 343-348)

Our people will have the skills, expertise and flair to take on higher quality and higher level jobs, across the whole range of occupations. It will put us in a virtual cycle of better skills, better jobs and higher wages (Report of the Singapore Government Economic Strategies Committee, 2011, cited in Sloman (2011), ‘A missing Link: national economic aspirations and training and learning in firms’, Industrial and Commercial Training, 43(6): 343-348).

Changes in technology, international markets, products and consumer demand will continue to drive the need for higher and different skills, including literacy and numeracy, technical skills, and managerial and leadership skills (New Zealand Industry Training Federation, 2008, cited in Sloman (2011), 'A missing Link: national economic aspirations and training and learning in firms', Industrial and Commercial Training, 43(6): 343-348).

In the UK the government views HRM as central to its skills strategy in that it is deemed to be critical for successfully competing in a future knowledge economy, as illustrated in the following excerpt from the UK government economic strategy document, 'Building the knowledge-driven economy (1998)':

'Knowledge is our most powerful engine of production' wrote Alfred Marshall in his Principles of Economics. So the concept of a 'knowledge driven economy' is not an unfamiliar one to economists. But today we can see a number of processes at work, some entirely new, others that have developed over many years, which together are transforming the way in which businesses, individuals and policy-makers operate. This calls for a renewed focus on knowledge as the means of improving economic performance' (DTI 1998:21).

Against this backdrop, the distinction between high value-added and low value-added sectors has been given an added impetus in the belief that formalised HRM best practices are needed in order to compete effectively in a new knowledge economy on the basis of high skills and high value-added. Policy makers have enthusiastically embraced the view that in a knowledge economy, employers require better management of employees' relationships, and in this sense, the knowledge economy is a term that encompasses the management of people in high technology, high skills parts of the economy, such as Aerospace and Pharmaceuticals (DTI, 1999). These sectors are also commonly associated with high wages and good working conditions, in contrast with working conditions in so-called low value-added sectors.

It follows therefore, that ways in which employee skills are developed and managed has been an integral part of the UK government's skills policy agenda for a competitive economy

(Leitch Report, 2006). Despite some significant improvements in the UK's skills profile relative to major industrial competitors in recent years, the UK is perceived as facing stiff challenges to improve its skill profile by 2020 (UK Commission for Employment and Skills, 2010). Traditionally, the main focus of policy had been on initial skills acquisition. There is now much more emphasis on the utilisation and ongoing development and upgrading of skills in the workplace as part of an overall business improvement process within individual businesses. For example, in the Skills Strategy (Skills for Sustainable Growth, 2010), the UK coalition government emphasises the need for people and skills management, leadership, innovation and business growth, with a particular focus on SMEs.

Between the early 1990s and 2008, the UK economy was said to be relatively successful in generating new jobs. Therefore, this was a period characterised by relatively high employment. However, in spite of positive headline economic indicators throughout this time, there were concerns about the quality of some of the jobs and their sustainability, which led to an increased focus on the problem of low skills in the economy (Green and Martinez-Solano, 2011). In recent years, there appears to have been a deliberate shift in emphasis towards a more effective management and utilisation of skills in ways that seek to balance the demand for skills with the supply of skills in what Finegold and Soskice (1988) have characterised as a 'High Skills Equilibrium' (HSEq), as depicted in figure 1.2.

Figure 1.2 – High Skills and Low Skills Equilibrium and Alternative Scenarios in the Context of the Balance between Skills Demand and Supply

The terms LSEq and HSEq were coined by Finegold and Soskice (1988) in describing the UK as being trapped in a LSEq. Finegold and Soskice (1988) characterised a LSEq as a situation in which businesses relied on informal HRM practices and low skills due to poor management, with employees producing low quality goods and services. Wilson et al. (2003) have described such an economy as one trapped in a vicious circle of low value-added, low skills and low wages. The assumption is that in a situation of LSEq, there is little incentive for employers and their employees to raise skill levels due to a lack of demand for skills. LSEq is therefore conceived as an outcome of rational behaviour in response to a self-reinforcing network of institutional and incentive structures. In contrast, a HSEq is one characterised by a strong demand for high skills in which employers and employees are motivated to participate in training, thereby creating a virtual cycle of high value-added, high skills and high wages. The terms LSEq and HSEq have been used both as a macro scale

phenomenon across national and regional economies and industrial sectors, as well as individual businesses on a micro scale.

By focusing on how skills are managed, developed and utilised in the workplace, the UK coalition government has made HRM a core feature of its skills policy agenda. In this sense, in order to maximise performance in individual firms, current policies are designed to match the supply of skills with – and perhaps even more crucially from – an HRM perspective, with the demand for an effective utilisation of skills in the workplace (UK Commission for Employment and Skills, 2010). Matching the supply of skills with the demand for skills is regarded as crucial in view of the need to avoid both ‘skills surplus imbalances’ and ‘skills shortage imbalances’, neither of which is considered optimal for individual businesses or the national economy, as represented in figure 1.2.

In the UK, this issue has been framed as one of moving from a low skills trajectory (i.e., LSEq) towards a high skills trajectory (i.e., HSEq), based on strong management and leadership, and with a better focus on the use of skills (Green and Martinez-Solano, 2011). Therefore, the need for an effective and efficient utilisation of skills in the workplace equally suggests effective and efficient human resource management practices in businesses. In some organisations in the UK, this has taken the form of high performance work practices (HPWP), based on employee involvement. The holistic nature in which the UK Coalition government has approached its skills agenda (i.e., job design, team working, employment relations, management and leadership), as well as a focus on the strategic management of businesses, makes formalisation of HRM practices a key feature of the coalition government’s skills agenda (UK Commission for Employment and Skills, 2010).

If, as the existing policy framework has suggested, human resources are the key to success in a future knowledge economy, then it is argued that the development and maintenance of

human resources must be deemed critical to the competitiveness of SMEs (Storey, 2007). It is this notion of a direct link between HRM practices, high value-added strategies and competitive success in the context of a knowledge-based economy, and the continuing reluctance of SMEs to embrace such formalised practices that makes it necessary to develop a better understanding of HRM practices in SMEs. This need is greatest in the SME sector, as much of the existing literature on HRM is still based on formalised practices commonly associated with large firms (Storey, 1994). This raises the question of what SMEs are and why their role is crucial to the UK government's skills agenda in a knowledge-based economy.

1.2.2 SMEs and the UK Skills Agenda

Although the EU definition of SMEs is generally regarded as a useful starting point, in reality this group of businesses is highly diverse. Therefore, it would be too simplistic to regard SMEs as a homogeneous grouping. For this reason, one of the main problems associated with researching SMEs is that researchers have used a variety of definitions of SMEs, depending on their research focus, and so there has been a variety of approaches for defining SMEs over the years. In an attempt to develop a unified approach, the Bolton Report (1971) attempted to formulate an 'economic' and a 'statistical' definition of 'small firms'. The Bolton Report's (1971) economic criteria defined 'small firms' as having a relatively small share of the market, managed by owners in a personalised way, without a formalised management structure, and not part of a larger enterprise. In contrast, Bolton's 'statistical' definition was designed to classify 'small firms' by such measures as contribution to gross domestic product, employment, exports and innovation in order that comparisons in economic performance could be made over time. Table 1.1 is an illustration of the Bolton Committee (1971) Classification of Small Firms, and shows the different definitions used for different sectors.

Table 1.1 – The Bolton Committee’s (1971) Definitions of Small Firms

However, Bolton’s economic and statistical definitions have drawn criticisms from numerous quarters (Storey, 1994). For example, its economic criterion that small firms are managed by their owners in a personalised way is inconsistent with its statistical definition of manufacturing small firms having up to 200 employees (Storey, 1994). For this reason, an obvious problem with the Bolton Committee (1971) definition is that whilst it acknowledges the existence of layers of management, it still assumes that small firm owner-managers take all the main decisions and undertake all the management functions. Therefore, the Bolton Committee (1971) definition does not take account of the effect of size on decision making in that it simply ignores an obvious reality that, at some point, businesses begin to make managerial appointments as they start to grow and employ between ten and twenty employees (Atkinson and Meager, 1994).

This point was observed by Storey (1994), who notes that the Bolton Committee's (1971) economic and statistical definitions are incompatible on the grounds that it is inconceivable that a business employing more than 100 employees could still be managed in a personalised manner. In particular, within this size bracket owner-managers are no longer the exclusive source of managerial decisions (Storey 1994). The Bolton Committee's (1971) economic definition, which assumes that 'small firms' are unable to influence the market is based on the economist's concept of perfect competition (Storey, 1994). However, this view ignores a reality in which, often, small firms occupy market niches in which they provide highly specialised products and services, and remain seemingly immune from direct competitive pressures.

As such, the Bolton Committee definition of small firms has a number of inherent drawbacks, including lack of a single criterion, differences in upper and lower limits of employment, the levels of turnover between industrial sectors, and the statistical definitions of monetary units, which make comparisons over time difficult. An alternative 'economic' perspective by Wynarczyk et al. (1993) was built on suggestions by Penrose (1959) that small and large firms are as fundamentally different from each other as a caterpillar is from a butterfly. From such a perspective, Wynarczyk et al. (1993) shifted the focus away from size towards the dimensions of uncertainty, innovation and evolution. Wynarczyk et al. (1993) identified three dimensions of uncertainty associated with being a price-taker; the limited customer and product base (Lyons and Bailey, 1995); and the diversity of objectives that characterise 'small firms'. Wynarczyk et al. (1993) argue that these three dimensions should be explored as a bottom up way of theorising about small firms, as opposed to implicitly assuming that a 'small firm' is a scaled down version of a larger firm.

The term SME was adopted by the European Community (EC) in 1996 to address the problems associated with defining what constitutes a ‘small firm’. The current EC definition consists of the three categories of micro, small and medium SMEs, shown in Table 1.2

Table 1.2 – Definition of SMEs by the EC

In some ways, the EC definition adopted by the European Union (EU) recognises growth stages in SME development as suggested by theorists like Atkinson and Meager (1994), who contend that the appointment of non-owner-managers typically occurs as the SME employs between ten and twenty employees. Unlike the Bolton Committee criteria, the EC definition has the advantage of using a single criterion of employment for all industrial sectors, whilst also recognising that SMEs are not a homogeneous group, based on distinctions between micro, small and medium-sized enterprises (Storey, 2004). However, as Storey (1994:14) notes, the EC definition can still be considered to be too ‘*all embracing*’. Consequently, in reality, it is unlikely that there would ever be a single globally-agreed, legally binding definition of SMEs.

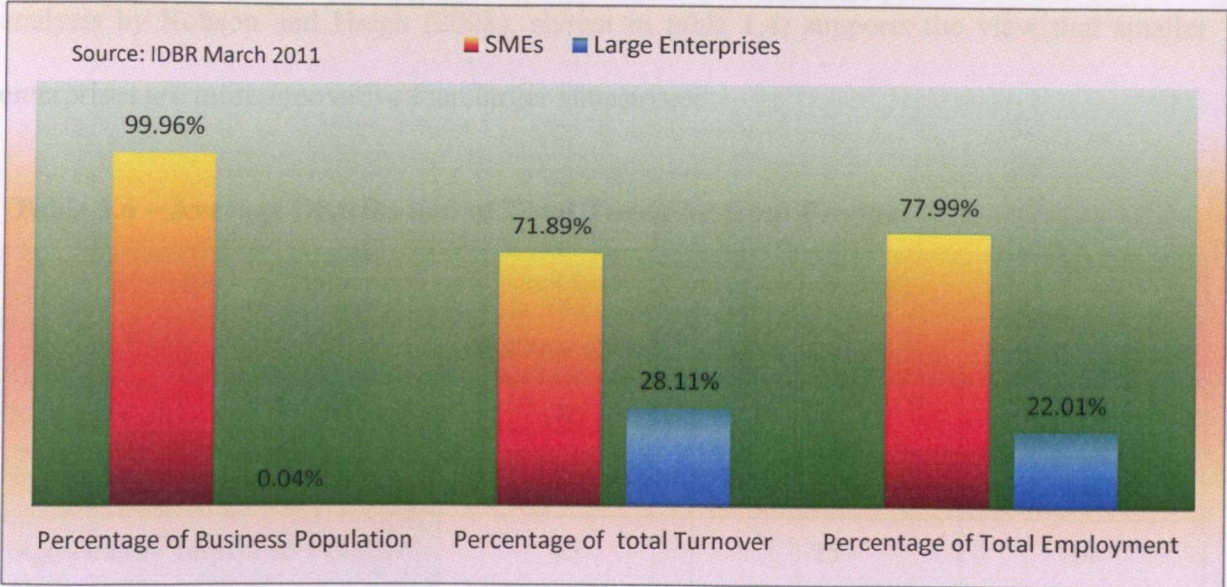
A variety of criteria, such as different sectors, number of employees, level of turnover, value of total assets, and issues such as energy usage (ILO, 2003), have all been used. For example,

in South Korea, an SME is defined as having fewer than 1000 employees (Zhou and Cheng, 2003). In addition, within countries, the definition of SMEs often varies according to the various stages of development in different sectors. In the US, the number of employees used to classify SMEs in manufacturing was 250 in 1953 and 1000 by 2003; and in the case of China, the criteria for defining an SME changed four times between 1949 and 2010 (Cunningham and Rowley, 2010).

Most definitions of SMEs, especially those concerned with HRM practices, are based on the numbers employed, even though there is, as yet, no consensus on how big small is, since this can range from any number, depending on the context. Indeed, the American Small Business Administration (SBA) once defined a manufacturing business as small if it employed fewer than 1500 (Storey, 1994). The European Union definition once included businesses employing up to 499, whilst in the UK the Small Business Service (SBS) criteria was micro: 0-9; small: 10-49; medium: 50-249; and large: 250+ employees. The definition of SME used in this study is based on the European Commission Recommendations (96/280/EC) of 3rd April 1996, in which SMEs are defined as enterprises with less than 250 employees, under which a criterion of independence is used to exclude enterprises that are part of a large enterprise group. Table 1.3 and figure 1.3 represent the demographic profiles of the UK business population, shown in percentages by region and compiled from the Inter Departmental Business Register (IDBR). The IDBR register contains information on all businesses in the UK that are VAT registered and/or operating a pay as you earn (PAYE) system. Based on the IDBR data, the demographic profiles give an indication of the significance of the SME sector to the UK economy. The profile indicates that in March 2011, the SME business population accounted for over ninety-nine percent of all enterprises, seventy per cent of private sector turnover, and nearly seventy-eight per cent of employment by all UK enterprises.

Table 1.3 – The Demographics of UK Enterprises

Figure 1.3 – All Regions



The marked growth in the SME population in the last few decades cannot be separated from the dramatic changes taking place in contemporary society. These changes are linked to rapid advances in information and communications technology (ICT), trends towards increased sub-contracting, and re-structuring within the public sector, including the growth of the service sector. In view of their numbers, SMEs remain vital to the UK economy and contribute significantly to gross domestic product (GDP). As such, they are considered to be vital to raising the UK's productivity.

SMEs also make for a more competitive economy by challenging incumbents, and are a source of innovation, because a small business is often seen as being closer to its customers and therefore able to develop innovations in response to the needs of the market. In view of their flatter structures, SMEs tend to be less bureaucratic, which increases the speed of decision making. Therefore, as Storey and Green (2010) have acknowledged, overall, whilst the small business has stylised innovation advantages, the large business has a resource advantage. This was why Acs and Audretsch (1988) suggested that small businesses were

more likely to be innovative in newer and more uncertain sectors of the economy. Indeed, analysis by Robson and Haigh (2008), shown in table 1.4, supports the view that smaller enterprises are more innovative than larger enterprises.

Table 1.4 – Average Distribution of Total Turnover from Product

In view of their significance, UK government policy on SMEs under successive governments has been far reaching and has to be viewed in the broader economic, social and political context of responding to high unemployment, creating and maintaining social cohesion within local communities, and sustaining diversity of opportunity in the wider society – including measures for disadvantaged groups, women and ethnic minorities. The UK government’s policies on SMEs culminated in the creation of the Small Business Service (SBS) and the establishment of Business Links (BLs) in the early nineties by Michael Heseltine, who had ministerial responsibility for the inner cities.

The focus on SMEs by policy makers is therefore being justified on the grounds of a combination of political, social and economic factors. Over the years, there has been a variety of changes to delivery mechanisms for skills development in SMEs. The centralised structure

of the Small Firms Service (SFS) was replaced by the more localised Training and Enterprise Councils (TECs) in England and Wales in 1991. Following the abolition of the TECs ten years later, the Business Link network became the main source of publicly funded information, advice and support to SMEs on skills and training, including the promotion of the Investors in People standard (IiP).

1.2.3 The Investors in People Standard

The IiP standard is being vigorously promoted within the SME sector. Following the closure of Business Links at the end of 2011, the Coalition government has continued to support leadership and management skills development in SMEs on the grounds that such support is essential in matching skill supply and demand within SMEs (Department for Business, Innovation and Skills, 2010a).

The IiP Standard was introduced in 1991 in order to create a benchmark for training and development practice following criticisms during the 1980s of the UK's comparatively poor industrial performance, which was blamed on its skills deficiencies (Finegold and Soskice, 1988). The standard is now being promoted within SMEs as a contributor to the development of a high skills knowledge-based economy. The standard requires businesses to monitor skills gaps and develop appropriate levels of skills to enhance their performance and competitiveness (Hoque et al., 2005). Organisations meeting the assessment criteria are rewarded with recognition by the lead body IiP UK, which entitles them to use the IiP logo.

1.2.4 The Leitch Review of Skills

The Leitch Review of Skills (2006) is generally regarded as having influenced skills policy in recent years. Commissioned in 2004, it set out a vision for the UK as a leader in skills by 2020, with targets for skills attainment at various levels. Its recommendations included giving

skilled workers additional opportunities to develop their skills in the workplace through a combination of apprenticeships, management and leadership qualifications; giving employers more strategic influence over the skills strategy and system, along with incentives to invest in skills; demand-led skills to ensure that the skills system meets the needs of employers; shared responsibility for delivery, with employers and individuals contributing more, and with the government focusing on basic skills and tackling market failures. The Coalition government has since abolished the Leitch targets in its Skills Strategy (Skills for Sustainable Growth, 2010), moving away from a centralised approach whilst emphasising a voluntarist, market-led approach in which employers and individuals share the cost of training on the grounds that they are the beneficiaries.

In many ways, the LiP standard typifies the voluntarist market-led approach to skills policy (Stanfield et al, 2009) adopted by successive UK governments, which places the responsibility for skills development on employers. The present coalition government appears to have reinforced this voluntarist, market-led approach in contrast with the more co-ordinated corporatist approaches in economies such as Germany, France and Japan (Hall and Soskice, 2001).

1.3 Statement of the Problem

The previous sections have highlighted why the effective management of human resources is viewed as a potential source of competitive advantage for SMEs (Barney, 1995; Tocher and Rutherford, 2009). This section will define the research problem and justify the proposed research.

The market-led approach in the UK has led policy-makers to contrast formalised HRM practices in larger businesses with informal HRM practices in many SMEs, and suggested

that SMEs suffer from an HR deficit due to market failure connected to their size (Timing, 2010; Behrends, 2007; De Kok et al., 2006; Leitch, 2006). To address this ‘problem’, successive UK governments have continued to rely on market-led solutions (Milkovich and Newman, 2002), as depicted in figure 1.1. The problem is that the market-led approach to skill development in the UK is too simplistic and does not yet reflect the complexity of HRM practices in the SME sector. Therefore, in order to bridge the gulf between HRM policy and HRM practice in SMEs, there is a need to develop new theoretical ideas that take account of the complexity of HRM in SMEs. In particular, the ‘universalistic’ notion of HRM implied by normative frameworks of HRM do not take account of the operating contexts of SMEs. Indeed, it is suggested that the ready-made, bureaucratic practices associated with large organisations tend not to reflect the real practical needs of SMEs (Harney and Dundon, 2006). This is why it is increasingly being argued that the notion of best practices, as represented by normative HRM models, does not capture the full complexity of HRM practices of SMEs because it is an approach based on a closed systems perspective whereby SMEs are dislocated from their operating contexts (Scott, 2003).

Based on a closed systems perspective, normative models which assume an alignment of HRM with business strategy are considered too simplistic for a number of reasons (Gallie, 2007). Theorists often assume that HRM practices are oriented to a single unified goal, which leads them to advocate consistency of HRM practices that either have a synergistic or complimentary value. Boxall and Purcell (2003) refute such a claim by arguing that HR systems are not necessarily oriented towards a single goal in that they do not stem solely from economic rationale. They argue that the idea of a single goal is not grounded in reality because there are also socio-political and institutional factors involved. Equally, the alternative view of informal HRM practices, in which informality in SMEs is viewed as culturally situated in reflecting a pattern of industrial relations practice valued in SMEs (Ram

et al., 2001), as reflected in the Bolton Committee Report on Small Firms (1971), may also be too simplistic. Indeed, all researchers who subsequently investigated the statement of the committee concluded that the complacent tone of the Bolton Committee reflected the absence of any research by the committee itself on the attitudes of employees in small firms (Goss, 1991; Rainnie, 1989).

Thus, in spite of a concerted effort under successive UK governments to encourage SMEs to adopt formalised HRM best practices as suggested by normative HRM models, there remains considerable reluctance by large sections of the SME population to do so. Evidence of this is illustrated by research on the IiP standard by Hoque et al. (2005: 142), who suggested that a significant proportion of workplaces were failing to engage in '*good basic training practice*'. Similarly, Bell et al. (2002) have pointed out that organisations have sought IiP recognition as a marketing device or under pressure from larger customers (Ram, 2000). The Investors in People (IiP) initiative has been promoted within SMEs to encourage the sector's increased participation in adopting formalised HRM best practices following its introduction in 1994. The standard has long been an important vocational education and training policy initiative under successive UK governments, and has been promoted within SMEs as a contributor to the development of a 'high skills' economy (Lloyd and Payne, 2002). Yet, according to Bell et al. (2001), owner-managers often sought recognition as a positive endorsement of existing training activity rather than as a means to changing existing practices. Also, it has been suggested that some SMEs adopted IiP to mimic the practices of more established, larger, high profile companies (Bell et al, 2002). Bell et al. (2002) found that some organisations often became engaged in a circle of badge collection to differentiate themselves from their competitors rather than as a genuine effort to make changes to existing practices. Finally, according to Hoque et al. (2003), the involvement of the Learning and Skills Council (LSC)

and Business Links (BLs) may have also encouraged SMEs to commit to the initiative for reasons of social desirability.

For these reasons it has been argued that the notion of 'best practices', as suggested by normative models of HRM, is based on a simplistic view of HRM in SMEs in that the SME population is often treated as a single generic grouping (Kotey and Sheridan, 2004). In such an approach there is a failure to acknowledge the complexity of HRM practices in SMEs (Timming, 2011). Support for this view can also be found in a study of the training practices of SMEs in 'high value-added' and 'low value-added' sectors conducted by Edwards (2010), who cautions that existing measures of training do not take full account of the contribution of informal practices in SMEs. Edwards (2010) goes on to argue that it is possible that, as a consequence, the contribution of the SME sector to skills and overall competitiveness may be more significant than an uncritical review of their informal practices might suggest. Yet, this view of the complexity of the HRM practices in SMEs is not acknowledged in normative theoretical frameworks linking HRM, business strategy and performance.

At the same time, within the situational contextual literature, the ways in which SMEs combine formalised and informal HRM practices in reflecting their situational contexts has concentrated mainly on how their operating contexts result in divergent or heterogeneous HRM practices and how such divergent practices result from SME owner-managers' responses to 'situational' or 'business-specific' contextual influences. The problem with this view of HRM is that SMEs do not operate in isolation since they exist within an institutional context. This means that their HRM practices are not just conditioned by their situational contexts. SMEs can also be expected to display convergent or homogeneous HRM practices in response to institutional influences, which gives rise to the research proposal set out in section 1.4.

1.4 Research Proposition, Aims and Objectives

Normative models of HRM advocate formalised HRM best practices linked to performance, which are universally applicable, irrespective of situational contexts. However, normative models of HRM fail to satisfactorily explain why informal HRM practices persist in much of the SME sector. Given that HRM policy on SMEs is based on normative models, the gulf between SME policy and SME practice will persist. In view of this, the development of a contextualised view of HRM represents a positive move towards bridging the gulf between SME policy and SME practice; a contextualised view of HRM acknowledging the reality of formality and informality of HRM practices in SMEs.

However, the existing situational contextual view of HRM practices in SMEs is equally simplistic. This is because in this literature the emphasis is on the divergence or heterogeneity of HRM practices in SMEs due to situational influences. It does not take account of convergent or homogeneous HRM practices due to institutional influences within sectors, groups or clusters of SMEs (i.e. an institutional contextual perspective). Therefore, it is proposed to build on the existing situational contextual literature on HRM in SMEs by undertaking an investigation into the extent to which formal and informal HRM practices in high value-added and low value-added sectors are conditioned by institutional (i.e., convergent) and situational (i.e., divergent) contextual influences; hence, the following research objectives:

- a.** Explore and analyse the influence of institutional and situational contextual factors on employee selection and recruitment practices of SMEs in high value-added and low value-added sectors.

- b. Assess the influence of institutional and situational contextual factors on employee training and development practices of SMEs in high value-added and low value-added sectors.
- c. Determine the influence of institutional and situational contextual factors on employee appraisal and reward practices of SMEs in high value-added and low value-added sectors.
- d. Examine and deduce how informal HRM practices complement formalised HRM practices of SMEs in high value-added and low value-added sectors.
- e. Ascertain the extent to which the HRM practices of SMEs in high value-added sectors differ from the HRM practices of SMEs in low value-added sectors.

This research proposal recognises that there remains considerable ambiguity, both in conceptualisation and application, in the field of HRM in SMEs (Tocher and Rutherford, 2009). Therefore, in outlining the research proposal, it is important to have a working definition of HRM as well as HRM formality and informality in view of the lack of consistency in definitions in the literature.

Firstly, HRM has been defined as ‘the process of attracting, developing and maintaining a talented and energetic workforce to support organisational mission, objectives and strategies’ (Schermerhorn, 2001:240); ‘*all activities related to the management of employment relationships in the firm*’ (Lin et al., 2008: 752-772); and ‘*the process of managing people and work in organisations*’ (Watson, 2005: 17-38). The following definition is used in this study: ‘*a set of distinct but inter-related activities, functions and processes that are directed at attracting, developing and maintaining a firm’s human resources*’ (Lado and Wilson, 1994:273). This is because in this study, HRM is used in an inclusive way (Richbell et. al, 2010) in that it is used both generically, as a way of describing the practice of the

management of human resources, and as a way of describing an overall organisational perspective on HRM, which includes the introduction of formalised high performance HRM practices (Sels et. al, 2006). Both ways of viewing HRM are incorporated in this study because although the informal approaches to HRM commonly associated with SMEs suggest lack of a strategic approach (Barrett and Mayson, 2007:307-320; Cunningham and Rowley, 2010:320), a strategic approach cannot be excluded from a contextual perspective.

Secondly, although the debate on HRM practices is often couched in terms of their existence or absence in SMEs, this view may be too simplistic in that businesses of all sizes do, in fact, have some form of HRM practice. There is empirical support for the existence of HRM practices in SMEs, although they do not generally have HRM departments (Tocher and Rutherford, 2009). SMEs typically rely on a mix of HRM practices in a variety of areas, such as selection and recruitment, training and development, and appraisal and rewards practices (Tocher and Rutherford, 2009). Therefore, in reality, the debate is about the degree of formalisation, which is the extent to which HRM is formal or informal (Marlow, 2010; Edwards, 2007, Curran, 1997). However, despite its extensive use in the literature, 'there appears to be no uniform or universally accepted definition of formalisation' (de Kok and Uhlaner, 2001:4-5). HRM formalisation has been variously referred to as the extent to which a rule or procedure is written down; the degree to which an employer has assured that an activity should take place, and the degree to which a procedure is regularly applied within the organisation. Informality, on the other hand, may include the use of informal supervisory structures to ensure that employees are provided with ongoing guidance through their job roles; given the opportunity to learn by observing employees, as well as allowing employees to perform tasks outside their formal job roles (Shury et al., 2008). For example, informality has been defined as *'learning with little or no reliance on pre-determined guidelines for its organisation or assessment and undertaken with the intention of developing job-related skills*

and knowledge' (Adult Education Training Survey, 2003:5). Similarly, informal and incidental learning can be defined by showing how it differs from formal learning:

Formal learning is typically institutionally sponsored, class-room based, and highly structured. Informal learning, a category that includes incidental learning, may occur in institutions, but it is not typically classroom-based or highly structured, and control of learning rests primarily in the hands of the learner. Incidental learning is defined as a by-product of some other activity, such as task accomplishment, interpersonal interaction, sensing the organisational culture, trial and error experimentation, or even formal learning. Informal learning can be deliberately encouraged by an organisation or it can take place despite an environment not highly conducive to learning. Incidental learning, on the other hand, almost always takes place although people are not always conscious of it (Marsick and Watkins, 1999:12).

For the purpose of this study, 'formalisation' is not treated as a homogeneous concept and is not therefore regarded as a single variable but rather as a complex cluster of variables. Formalisation is regarded as reflecting a variety of meanings, including '*being written, regularly applied, or developed by the employer*' (De Kok and Uhlaner, 2001:4-5). In distinguishing between formality and informality of practices, the three domains of HRM practices used in the study are employee selection and recruitment, employee training and development, and employee rewards and performance appraisal practices. The choice of these dimensions is consistent with the traditional view of HRM, and is justified on the grounds of the findings in a study by Boselie and Paauwe (2005), who found, in their overview of 104 empirical studies of HRM, that these practices were the ones most commonly included. Thus, choosing these practices in the study enables comparison with most other studies. In addition, this choice of HRM practices represents an approach that is consistent with the view that selection and recruitment, training and development, and appraisal and rewards practices can be considered to be the core HRM practices under which other practices can be grouped (Paauwe, 2009).

1.5 Contribution

The existing UK policy framework is based on normative frameworks that assume a direct link between HRM and SME competitiveness. As such, it is based on a closed systems perspective of organisations in which SMEs are dislocated from their situational contexts. Although the situational contextual perspective of HRM takes into account the operating contexts in which SMEs exist, this perspective does not take account of the homogenising influence of the institutional contexts of SMEs. By incorporating the situational and institutional contextual perspectives, the research contributes to theory development and attempts to bridge the gulf between SME policy and SME practice.

The study builds on the view that the HRM practices of SMEs are highly contextual and complex. As such, it is argued that the HRM practices in SMEs are characterised by a complex web of social, economic, political, wider institutional and situational contextual factors (Edwards et al., 2003; Brand and Bax, 2002). It acknowledges that HRM, even in the largest organisations, operates through the interaction of both formalised and informal practices (Edwards, 1986). *‘Managers must therefore navigate a path between rationality and intuition, formality and informality, professional norms and personal preferences or idiosyncrasy’* (Marlow et al., 2010). Consistent with the arguments presented in this introductory chapter, this research aims to shift the focus away from an acontextual perspective, based on simplistic stereotypical characterisations of ‘formality’ on the one hand, and ‘informality’, on the other, towards an approach that takes account of the variety of ‘institutional’ and ‘situational’ contexts within which SMEs are located. The research explores the complexity of HRM practices of SMEs in high value-added and low value-added sectors in a way that challenges contemporary normative models of HRM. The research is novel and unique in seeking to integrate two theoretical perspectives; one based on a

divergent or heterogeneous perspective of HRM (i.e. situational context) and another based on a convergent or homogeneous perspective of HRM from an institutional contextual perspective. The existing literature is yet to integrate these two perspectives of the HRM practices of SMEs.

1.6 The Structure of the Thesis

Chapter Two – Literature Review

The HRM literature on SMEs is critically reviewed by examining the acontextual HRM literature. The critical review of the HRM literature on SMEs highlights the limitations of current theorising on the HRM practices of SMEs. A research proposition informed by the contextual HRM literature is presented, along with a set of research questions posited for empirical investigation.

Chapter Three – Methodology

The abductive reasoning that resulted in the theoretical framework on which this research is based is explained. The chapter positions the research within a constructivist epistemology and multiple reality ontology. It outlines the research design and the justification for a deductive-based qualitative approach and a case study strategy. The chapter provides an account of the research methods as well as the semi-structured interview and documentary search methods used to collect data. It also explains the pre-analytical and interpretivist approach adopted in analysing the data.

Chapter Four – Analysis of Findings

This chapter presents an analysis of the data with excerpts from the semi-structured in-depth interviews and contemporaneous notes and quotations from the document searches. The

analysis is based on a conceptualisation of the formal and informal HRM practices of the case-SMEs in their institutional and situational contexts. The results of the analysis of HRM practices of case-SMEs are summarised in tables.

Chapter Five – Discussion of Findings

The main research questions are addressed and presented along with other significant findings relevant to the HRM literature in general. Contextual influences leading to formal and informal HRM practices of SMEs in high value-added and low value-added sectors are presented in tables based on the HRM domains of selection and recruitment, training and development, and appraisal and rewards practices used in the study. A theoretical framework on HRM in SMEs, based on convergent and divergent HRM practices, is presented.

Chapter Six – Conclusion

The thesis is concluded by reviewing the original aims and objectives. Key literature is discussed; the research methods used and the outcome of the study are reviewed; the answers to the research questions are reviewed; the policy implications of the research along with recommendations are discussed; and the limitations of the research are highlighted along with suggestions for future research.

CHAPTER TWO

2.0 Literature Review

2.1 Introduction

Chapter one has set the scene for this study by suggesting that there is a gulf between the UK government skills strategy and the HRM practices of SMEs. The chapter highlighted the impact of normative models of HRM on the UK government's skills policy in the SME sector. Normative models of HRM constitute the universalistic or 'best practice' approach to HRM, which has continued to be promoted within the SME sector with programmes like the liP Standard. The chapter also acknowledged the shift in academic focus towards a situational contextual theoretical perspective of HRM in SMEs (Harney and Dundon, 2006). This chapter will review the HRM literature on SMEs in order to highlight the limitations of the notion of best practices and the existing situational contextual HRM literature on SMEs. A new model of HRM that integrates a heterogeneous perspective of HRM (i.e. situational context) with a homogeneous perspective from an institutional theoretical perspective (i.e. institutional context) is proposed. The review argues that the universalistic or 'best practice' perspective of HRM is inappropriate for the SME sector.

Three parts of the HRM literature on SMEs are directly relevant to this research. Firstly, there is the acontextual homogeneity literature, which contrasts a 'best practice' perspective of formalised HRM practices (i.e., a 'bleak house' view of informal HRM practices) with a 'one happy family' perspective of informal HRM practices prevalent in much of the SME sector. Secondly, there is the situational contextual literature, which rejects the stereotypical characterisation of informal HRM practices in SMEs as a 'bleak house' or a 'one happy family'. In this literature, there is an acceptance that HRM in SMEs is contextual and that SMEs typically combine informal and formalised HRM practices given the variety of contextual conditions under which they exist and operate. Thirdly, there is the institutional

contextual literature, which takes into account the institutional contexts in which sectors, groups or clusters of SMEs exist and operate. This means that from an institutional contextual perspective, HRM practices of SMEs will reflect institutional influences within the sectors, groups or clusters in which they exist and operate. Based on these sections of the HRM literature, this chapter aims to critically review the HRM literature on SMEs. In the process, literature on HRM in SMEs and its policy implications can be viewed from two extreme positions; on the one hand, from an acontextual homogeneous perspective, whereby the SME population is regarded as a single generic grouping irrespective of context (Huselid, 1995), and, on the other hand, from a situational contextual perspective (Harney and Dundon, 2006), in which SMEs are regarded as an entirely diverse grouping.

From an acontextual homogeneous perspective, HRM best practices in so-called high value-added sectors such as Information technology, Bio-technology, Pharmaceuticals, etc. are frequently cited as HRM best practice exemplars for those in low value-added sectors (Lloyd, 2002). However, from such a perspective, there is a failure to take account of situational contextual influences, including idiosyncratic factors related to what owner-managers view as important to their authority (Gilman and Edwards, 2008). Equally, from a situational contextual perspective of HRM, there is a failure to acknowledge homogeneity due to institutional influences (Tsai, 2010; Schuler and Jackson, 2005) within sectors, groups or SME clusters. Failure to integrate the institutional contextual perspective with the situational contextual perspective has meant that HRM theory development on SMEs has not been sufficiently systematic. The reality of HRM practices in SMEs may be somewhere between the two extremes of an institutional contextual perspective (i.e., due to institutional contextual commonalities) on one hand, and a situational contextual perspective (i.e., due to situational contextual differences) on the other.

Therefore, in reviewing the HRM literature on SMEs, first, in section 2.2, the acontextual homogeneity literature is examined to highlight its limitations; in section 2.3 the situational contextual literature is reviewed to highlight its limitations; in section 2.4 the institutional contextual literature is examined; in section 2.5 the situational contextual and institutional contextual perspectives of HRM are integrated to develop an open systems conceptual model of HRM in SMEs, leading to a research proposition on the HRM practices of SMEs in high value-added and low value-added sectors; in section 2.6 the contribution of the research to existing knowledge is summarised, followed, in section 2.7, by an overview of the HRM dimensions used in the study; and finally, in section 2.8, the specific research questions posited for empirical investigation are outlined, followed by the conclusion of the chapter in section 2.9.

The review of the HRM literature on SMEs resulted in the development of a theoretical framework leading to an analysis of ‘institutional’ and ‘situational’ contextual influences on HRM practices in SMEs, hence the research proposition (RP) that:

‘The formal and informal HRM practices of SMEs in high value-added and low value-added sectors are conditioned by institutional and situational contextual influences.’

2.2 The Acontextual Homogeneity HRM Literature on SMEs

There are two parts to the acontextual homogeneity HRM literature on SMEs. The first part of this literature is the HRM ‘best practice’ literature, in which informal HRM practices prevalent in much of the sector is viewed in the context of a ‘bleak house’ scenario (Woodham and Lupton, 2006; Barrett and Rainnie, 2002; 1989). In contrast, the second part of this literature is one in which HRM informality is viewed in the context of a ‘one happy family’ (Wilkinson, 1999) or ‘small is beautiful’ (Tsai et al., 2007) scenario. These parts of the HRM literature on SMEs are discussed in sections 2.2.1 to 2.2.7.

2.2.1 The HRM ‘Best Practice’ Literature on SMEs

In the HRM ‘best practice’ literature, formalised HRM practices are linked directly to performance. HRM is characterised by a workforce with reasonable levels of pay and a formalised approach to management (Richbell et al., 2010). Therefore, SMEs adopting formalised HRM practices are regarded as HRM ‘best practice’ exemplars. In contrast with informal HRM practices, formalised HRM practices are directly linked to sustainable competitive success (Guest, 1997; Boxall and Purcell, (2003). It is in this context that Storey, (1995:95-96) defines HRM best practices as:

‘a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personal techniques.’

In this definition, Storey (1995) highlights the dichotomy in the HRM literature on SMEs between a formalised approach to HRM, which treats the worker as the focus of attention, and an informal approach, which treats workers as just another resource to be maximised by the organisation. According to such a dichotomy, informal HRM is, in reality, a ‘bleak house’ (Barrett and Rainnie, 2002; Sisson, 1993). Practitioners often contrast the high trust relations of formalised HRM practices with informal HRM practices in SMEs, which are associated with a lack of trust between management and employees, with many SMEs paying below the minimum wage (Cully et al., 1998). According to this view, the flexibility of informal HRM practices prevalent in much of the SME sector is more akin to instability, in that there are few procedures or systems within which to work. In such a scenario the family style is a form of authoritarianism as few challenge the owner-managers’ authority. In contrast, according to a best practice perspective formalised HRM practice is a source of competitive advantage. Therefore, the best practice literature assumes that there is a set of universally applicable, formalised HRM practices linked directly to organisational performance, irrespective of

operating context (Delery and Doty, 1996). Given that policy makers point to normative frameworks of HRM as theoretical justification for a market-led approach to skills, it is necessary to briefly examine these normative models of HRM

The theoretical rationale for linking formalised HRM practices with competitive success comes from the HRM 'best practice' (Guest, 2007) literature, which includes a variety of normative frameworks. According to these normative models of HRM, strategy mediates between HRM and SME performance. Therefore, a particular feature of HRM normative frameworks is one of 'fit' between HRM and competitive strategy (Lengwick Hall and Lengwick Hall, 1988). It is this idea of 'fit' between HRM and strategy that has given rise to the notion of strategic human resource management (SHRM) in the HRM literature (Boxall and Purcell, 2003). In prescribing normative models of HRM, a number of theorists have argued that there is a set of universal 'best practices' that enable organisations to compete (Beer et al, 1984). According to this perspective, it is possible to deploy a set of universally applicable HRM best practices irrespective of operating context (Best, 1990).

Within this HRM best practice paradigm, there is an underlying premise of the contingency theoretical perspective that is closely associated with a 'pull effect' in which HRM practice or practices are assumed to be aligned to business strategy (Jackson and Schuler, 1995; Nishii and Wright, 2008). Thus, according to the contingency theoretical perspective, all organisational systems must start with business strategy in that it is the strategy that a business adopts that specifies what the company wants to accomplish, how it wants to behave, and the kinds of performance and performance levels it must demonstrate to be effective (Carlson et al. 2006). Such a perspective assumes that the business strategy directs the way individuals and the organisation behaves, and this means that strategy is the cornerstone of HRM policies and practices. In their attempt to link HRM to business strategy,

a number of theorists have also made the distinction between low-cost competitive strategies and competitive strategies based on quality or product differentiation (Porter, 1985; Miles and Snow, 1984; Schuler and Jackson, 1987). For example, Porter (1985) describes the competitive strategic choices of businesses based on 'cost leadership' and 'differentiation'. According to Porter's (1985) typology, which is illustrated in figure 2.1, a cost-leadership strategy is based on enhancing competitiveness by lowering the cost of products and services to customers.

Figure 2.1 – A Normative Framework of Training and Competitive Strategy

Therefore, a low cost competitive strategy involves the configuration of the activities of a business in order to maximise cost reduction and efficiency, which enables the business to offer products and services to customers at a lower price than competitors. According to Porter (1985), a cost leadership strategy is less reliant on developing human resources to achieve a competitive advantage. A differentiation strategy, on the other hand, involves the arrangement of activities of a business to achieve a competitive advantage by offering products and services of a more superior quality than those of competitors. Porter (1985) argues that a differentiation strategy is characterised by higher levels of investment in human resources relative to those businesses competing on the basis of low cost or cost-leadership.

Similarly, Miles and Snow (1984) differentiate between three basic competitive strategies for businesses, namely 'defenders', 'prospectors' and 'analysers', which they link to different sets of HRM practices, illustrated in figure 2.2. In their typology of competitive strategies, Miles and Snow (1984) characterise 'defenders' as businesses that preserve their market share from competitors. In contrast, 'prospector' businesses aggressively seek to expand their market share. 'Analysers', on the other hand, are businesses that are viewed as 'followers' and likely to wait for markets to open up. For this reason 'analysers' are viewed as 'followers' of 'prospectors'. According to the typology of strategies by Miles and Snow (1984), 'prospector' businesses represent the equivalent of Porter's (1985) competitive strategy of quality or differentiation.

Figure 2.2 – Typology of Competitive Strategies

In the same vein, based on Porter's (1985) model, Schuler and Jackson (1987) also related HRM practices to competitive strategies. In their model, Schuler and Jackson (1987) contend that organisations need to work out appropriate employee behaviours for particular competitive strategies. They contend that the link between HRM, the needs of the business

and organisational effectiveness, constitutes the core of strategic HRM (Schuler and Jackson, 1999). As illustrated in figure 2.3, Schuler and Jackson (1999) highlight two fits; a vertical fit, or vertical integration linking HR system with HR strategy and business strategy, and a horizontal fit, linking the HR system with HRM practices.

Figure 2.3 – HR Strategic Fit

These normative HRM models have provided the theoretical justification for market-led approaches to HRM in the UK. What these models have in common is a tendency to link high skills and competitiveness with formalised practices. Thus, the need for high skills and competitiveness in a new knowledge economy is inexorably linked to formalised human resource management practices.

This begs the question that has been posed by practitioners like Keep and Mayhew (1996) which is why, if such formalised HRM practices are universally linked to competitive success, do many SMEs remain reluctant to adopt them? After all, empirical support for a

tendency towards informal HRM practices in SMEs comes from numerous research findings which suggest that large businesses are more likely than SMEs to formalise their HRM practices (e.g. Westhead and Storey, 1997; Forth et al., 2006; Chandler and McEvoy, 2000; Mayson and Barrett, 2006; Cardon and Stevens, 2004; Heneman et al, 2000; Harney and Dundon, 2006). Existing studies have included a variety of HRM practices, such as performance appraisals (Cassell et al., 2002), compensation practices (Amba-Rao and Pendse, 1985; Arrowsmith et al., 2003), selection and recruitment (Timming, 2011), and training and development (Sutherland, 2009).

All of these studies have suggested that SMEs suffer from an HR deficit (Timming, 2011). For example, Marlow's (2000) investigation of 64 SMEs employing less than 210 employees showed that HRM practices were informal and flexible in order to cope with environmental uncertainty. This is similar to a study by Hill and Stewart (2000) in SMEs with less than 250 employees, which found that their HRM practices mirrored the characteristics of SMEs themselves, such as being reactive, informal and short-term in outlook (Cuningham and Rowley, 2010).

Table 2.1 summarises some of the most recent UK studies that demonstrate the prevalence of informal HRM practices in SMEs.

Table 2.1 – Empirical research on HRM in SMEs in the UK

Author(s) Year	Sample Size	HRM Characteristics
Timmings (2011)	8 SMEs (Less than 20 employees)	Recruitment and selection practices are informal and instinctive
Harney and Dundon (2006)	6 SMEs with less than 250 employees	HRM is informal and emergent
Bacon and Hoque (2005)	338 private sector workplaces employing less than 250 employees	HRM informality is widespread
Storey (2004)	OECD Countries – 6 SMEs employing less than 500 employees	Most effective learning was through experiential learning and not through formal training
Cassell et al (2002)	122 senior managers of SMEs employing less than 250 employees	HRM practices were piecemeal and reactive rather than proactive, holistic or systematic
Marlow (2002)	64 SMEs employing less than 210 employees	HRM practices were informal and ‘hands on’
Hill and Stewart (2000)	SMEs employing less than 250 employees	HRD is reactive, informal and short-term in outlook
Dundon et al (1999)	Service sector SMEs with up to 65 employees	HRM practices are dynamic, contradictory and contingent

In order to explain the continuing prevalence of informal HRM practices in SMEs theorists have adopted two competing views, one based on market failure (Becker, 1964), which is linked to size (Edwards, 2010, Behrends, 2007) and inadequate resources (Pfeffer, 1998a, Huselid, 1995), and another based on systems failure, which assumes that the lack of formalised HRM practices in SMEs is due to the low value-added competitive strategies of SMEs (Kaufman, 2010, Finegold and Soskice, 1988, Keep, 2005). For those theorists who argue that lack of resources in SMEs lead to market failure, the solution lies in supply-side measures designed to address market imperfections that are presumed to disadvantage SMEs financially. This view is generally associated with those who argue that adoption of HRM

best practices inevitably results in the implementation of high value-added competitive strategies.

In contrast, those who have based their arguments on demand-side solutions have suggested that there is a need to make more effective and efficient use of existing skills within the workforce (Sutherland, 2009) by implementing 'high value-added' competitive strategies (Finegold and Soskice, 1988). These theorists base their arguments on systems failure due to institutional constraints, which are said to inhibit the adoption of high value-added competitive strategies (Finegold and Soskice, 1988). This view is generally associated with a 'best fit' or contingency HRM theoretical perspective, in which the adoption of a high value-added competitive strategy is assumed to lead to the adoption of HRM best practices, and vice versa. The review next examines these two competing perspectives of market failure (section 2.2.2) and systems failure (section 2.2.3).

2.2.2 Market Failure in the Adoption of HRM Best Practices by SMEs

The failure of SMEs to formalise their HRM practices is frequently linked to a lack of resources due to their size. This is a view that is directly linked to human capital theory (Becker, 1964). The implication is that SMEs resort to informal HRM practices, not out of choice, but as a result of limited resources, which constrain them from adopting formalised HRM practices.

2.2.3 Selection and Recruitment Practices

Recruitment has been described as the search for, and acquisition of, potential employees in sufficient numbers and quality (Dowling and Schuler, 1990). In the HRM literature, the formal recruitment process is assumed to comprise a four-phased systematic process involving an assessment of whether a vacancy exists, a job analysis, the production of a job

description and, lastly, a person specification (Tanova and Nadiiri, 2005). Examples of formal recruitment methods include advertising vacancies through Job Centres and the use of recruitment agencies. Informal recruitment, on the other hand, includes ‘word of mouth’ and recommendations by existing employees. Some of the criticisms of informal recruitment practices include risk of a smaller pool of applicants that does not include the most ‘*suitably qualified candidates*’ (Greenidge, et al., 2012:164-182; Deshpande and Golher, 1994). However, focusing on the assumed merits of formalised recruitment practices ignores the fact that for many SMEs, informal recruitment practices are often viewed as more effective than more formal methods (Leung, 2003; Zottoli and Wanous, 2000). Often, use of acquaintances or known contacts can prove most effective in identifying potential employees (Granovetter’s, 1974; Kristoff, 1996; Brass, 1995). Based on this approach, Brass (1995) suggested use of networks for selection and recruitment as a more effective way of recruiting staff with better fit to the organisation. In this respect, SMEs may be acting perfectly rationally in their best economic interests in not formalising their selection and recruitment practices (Timing 2011; Klasset et al, 2000; Carrol et al., 1999).

2.2.4 Training and Development Practices

Focusing on the degree of formalised training, many early quantitative studies on HRM carried out in the US have proved particularly influential in shaping HRM policies on both sides of the Atlantic. These studies argued that the failure of SMEs to adopt formalised training practices was due to the fact that they lacked the resources to do so. For example, using the 1995 Survey of Employer Provided Training in the US, Harley et al. (2000) used training incidence, hours of training and cost of training as independent variables and found that the probability of providing formal training increased with the size of the organisation. Researchers such as Lillard and Tan (1986) and Lynch (1992) used household data sets to

examine employer provided training and found a positive relationship between size and likelihood of receiving formalised training.

However, empirical studies based on such household surveys have mainly been quantitative studies, which lack information on the characteristics of the organisations studied. Similarly, employer based surveys, such as that conducted by Osterman (1995), concentrated on core employees only and may not have been representative of the views of all employees in the organisations studied. Bishop (1991) conducted his analysis of formal training from data on 2594 employers who were asked to report on the level of formal training provided for new employees taken on prior to August 1981, irrespective of whether the employees were still employed in the companies.

Other researchers, such as Frazis et al. (1995), based their study on the 1994 Bureau of Labour Statistics Survey of employer provided training in the US. Their study found a positive relationship between formal training and organisation size. One explanation for their finding was the existence of internal labour markets in large organisations, which is a feature assumed to be largely absent in SMEs. In another study, Idson (1996) similarly attributed the firm size association with training with the greater opportunity for internal job mobility associated with larger businesses. In one of the most extensive studies on this subject, Lynch and Black (1998) conducted a study designed to address a number of limitations associated with the use of household data sets. Their study covered employers' practices and attitudes to recruitment, work organisation and levels of financial investment in training. In their subsequent analysis of the data, they suggested that general types of training, including computing and basic education, were most likely to be available in larger organisations.

It is significant to note that, although more representative than most other studies, Lynch and Black's (1998) study, along with many other early studies, were overwhelmingly quantitative

studies that concentrated on measuring formal training to the exclusion of informal training practices. Hence, it is possible that these studies have contributed to sustaining the view that SMEs do not train and, as such, have a 'training problem' when compared with larger businesses. It is also plausible to argue that as a result of the influence of these early studies, an absence of formal training became increasingly synonymous with the absence of any training (Edwards, 2010; Forth et al., 2006). In reality, it may not be the case that SMEs do not train. They may, in fact, be more likely to adopt informal training practices in a way that addresses their needs (Westhead and Storey, 1997). Nonetheless, it is the view that SMEs do not train, which underpins supply-side policy initiatives that assume that lack of resources in SMEs lead to 'market failure' (Becker, 1993; Booth and Snower, 1996).

The theoretical basis for market failure in training is long-standing and can be traced to human capital theory (Becker, 1964; 1993). Drawing on a human capital theoretical perspective, market failure represents the more traditional view of an assumed 'training problem' in SMEs. Those who advocate this view go on to argue that market failure in skill formation is endemic and inevitable in the context of an unregulated labour market in the UK (Streeck, 1989; Ashton et al., 2005). Such views were echoed in the White Paper on Skills (DfES, 2005), which stated that what is required is a focus on a number of ways in which the market has failed to act as suggested by economic theory, resulting in market failure. Also prominent in this view is the emphasis on the failure of individuals to invest adequately in their own training and development, due to such factors as lack of access to resources and imperfect information. From this perspective, many theorists have drawn attention to a set of resource and organisational structural factors that contribute to market failure. Factors identified as contributing to market failure in formalised training practices include 'ignorance' (Storey and Westhead, 1997; Handy, 1987) due to imperfect information (Keep, 2006); poor management education and training (Handy, 1987); lack of resources linked to

limited economies of scale (Wynarczyk et al., 1993); time preference, short-termism and risk aversion (Keep, 2006); credit constraints faced by SMEs (Taylor, 2001) due to capital market imperfections (Keep, 2006); and externalities, in that *‘skill formation may have wider benefits that those financing it cannot fully capture for themselves’* (Keep, 2006:7).

Arguments predicated on market failure have long provided justification for continued government intervention, with financial inducements for SMEs. Such measures also cover the wider economy, including an expansion of the education system – throughout the 1990s in particular. Supply-side measures, particularly under the last Labour government in the UK, were based on the assumption that a better-educated workforce would be more demanding of job content and career goals, which would lead employers to respond positively to improving job content and job design. It is argued that, in turn, this would result in the adoption of formalised training practices. Secondly, the simple fact that a more capable workforce was available would then give employers increased flexibility and latitude in pursuing ‘high value-added’ competitive strategies (Finegold and Soskice, 1988).

In this sense, successive UK government initiatives designed to tackle market failure have been consistent with what is regarded as a traditional supply-side approach to the UK’s skills policies. The first of these includes the failure of the education system to provide an adequately skilled workforce for businesses. The second of these, which is directly relevant to the HRM literature on SMEs, is that businesses themselves need to take greater responsibility for their own training needs if they are to remain competitive. In response, policy-makers in the UK have deployed a variety of measures in their attempt to correct for market failure. These measures generally assume that addressing market failure in the SME sector would, ultimately, lead SMEs to adopt training best practices, which would, in turn, lead them to adopt ‘high value-added’ competitive strategies, thereby enhancing the

competitiveness of the sector. However, as noted by Purcell (1999), the notion of HRM ‘best practice’ remains quite vague. In particular, the link between formalised training practices and competitive strategy remains problematic. An underlying assumption seems to be that by adopting formalised training practices, SMEs can both attract and retain skilled employees, which would, in turn, enable them to adopt and sustain high value-added competitive strategies. The implication of this is that the adoption of training best practices would create the appropriate conditions for adopting high value-added competitive strategies.

As ongoing interventions designed to address market failure have included initiatives aimed at countering ‘information failures’ and ignorance, credit constraints and internal labour market constraints, it is necessary to examine the record of such government interventions to date. An obvious starting point in carrying out such an examination is the basic question concerned with assessing the effectiveness of those measures, based on the evidence from the existing literature. In other words, what is the nature of these so-called barriers to formalised training practices in SMEs, and how valid are the arguments presented to justify continued government intervention aimed at correcting for such market failures in SME training? The review next examines, under information and ignorance constraints, credit constraints and internal labour market constraints, the notion of ‘market failure’ in SME training.

- Information and Ignorance Constraints

Stevens (1996) pointed out that SMEs in particular may under-invest in training as a result of their limited knowledge of its economic returns. Such views have prompted a number of researchers to ask how SMEs could continue to be regarded as ignorant given the vast sums that have been spent over the years by successive UK governments to promote formalised training practices in the SME sector (Keep and Mayhew, 1996). These researchers have stressed that, despite the level of information regularly provided for the SME sector through a

multitude of agencies, policy continues to assume a lack of information and ignorance on the part of the SME community regarding the value of formalised training practices. For example, Keep (2000) questions why, despite all the information provided over the years regarding the benefits of formalised training, still more is needed. He points out that SMEs have to be either incompetent or irrational or both not to understand the information about the assumed benefits of adopting a formalised approach to training. According to Keep (2000), if this were the case it is hard to see how providing more information on its own would have any greater effect on formal training practices in SMEs. Keep (2000) goes on to suggest that a more likely explanation is that employers are acting more or less rationally in the face of existing institutional barriers and incentive structures that confront them. Others have suggested that levels of formalised training at an aggregate level meet the real underlying demand for skills (Finegold and Soskice, 1988). They conclude that providing more information will plainly not change the situation except at the margins. This view has been supported by the findings of a study by Fraser et al. (2002), which examined the credit constraints faced by SMEs and concluded that such constraints may not be as significant as assumed in accounting for a lack of training in SMEs.

- Financial Constraints

Financial constraints range from factors related to economies of scale to a lack of access to credit in credit markets. For example, Barron et al. (1989) suggested that the cost of providing for formal training is disproportionately higher in SMEs than in large businesses because setting up formal training programmes would generally involve a considerable investment in both time and funding. In this regard, large businesses are viewed as having a cost advantage in that they are more likely to be able to spread the cost of formal training over more employees (Lynch and Black, 1998). However, this may be somewhat simplistic in

that researchers have found that larger businesses also provided more informal training than SMEs, thereby questioning the assumption of a trade-off between formal and informal training. For example, Barron et al. (1989) suggest that there is a higher probability of existing employees providing informal coaching for new employees in large businesses given that they are far more likely to have a higher ratio of existing staff in similar roles. Since large businesses are likely to have several workers performing the same job, they may also be more likely to substitute for far more expensive managerial time. They argue that on the contrary, the new employee in an SME may be the only employee assigned to a particular role. Therefore, the opportunity to provide informal training appears greater for large businesses given that they are likely to have a higher proportion of skilled workers relative to SMEs. This is a view shared by Dunne and Schmitz (1995), who have suggested that larger businesses are likely to have a higher number of skilled workers compared with SMEs. As a result, they remain better able to provide more informal training with their existing employees. These researchers direct more attention to a highly significant point on the training practices of SMEs because if, as they suggest, larger businesses also provide more informal training, then it directly challenges the simplistic notion that implies a trade-off between formal and informal training practices vis-à-vis size.

It has also been suggested that SMEs face credit constraints because of their lack of access to capital markets (Taylor, 2001). It is presumed that lack of access to capital markets makes it far more difficult for SMEs to undertake investments that are likely to lead to returns only in the long run. The assumption that SMEs face credit constraints is predicated on a view that financial institutions and commercial banks are often unable to verify whether an SME had a high or low risk of loan default, in which case an increase in the cost of borrowing may attract more risky borrowers and reduce bank profits. Lenders, therefore, choose not to use interest rates to allocate scarce loan funds. This, it is argued, leads to market failure as

interest rates no longer adjust to clear credit markets. Collateral then acts as a signal to the bank of the borrower type. SMEs with little or nothing to offer as collateral, it is assumed, may therefore find they are unable to obtain funds.

Such views, which were also expressed in the White Paper on Skills (DfES, 2005), have continued to generate policy initiatives based on providing financial incentives and government subsidised bank loans. To address the problem of credit constraints facing SMEs, a variety of training grants and subsidies, administered both at national and local levels, have been made under successive UK governments to promote the adoption of formalised training practices in SMEs (Bishop, 2008). Historically, some of these have been aimed at increasing individual participation in training, such as the Individual Training Accounts (ITAs) scheme. However, many more of these initiatives have been targeted directly at SMEs and their owner-managers. As such, the performance of these initiatives can provide a good indication of their success or otherwise. From this record it is possible to assess the merits of arguments predicated on 'market failure' due to a lack of access to capital. The question is: what does this record indicate so far?

There has been a major effort by successive UK governments to alleviate credit constraints, which, it is suggested, prevent SMEs from accessing capital to invest in training. One such example is the Enterprise Finance Guarantee (EFG) scheme, which was launched in 2009 as a way to boost lending to SMEs (Department of Business, Innovation and Skills, ((BIS)) 2010). In the 1980s, the UK government introduced the Business Growth Training Programme (BGT) Option 3 initiative, under which a consultant was paid from public funds to train and develop management skills in SMEs. A further example is the Small Businesses Training Loan Scheme (SFTLS), under which the UK government subsidised the interest payments on bank loans made to SMEs for investment in training. The SFTLS was

introduced in 1994 and under this scheme SMEs obtained deferred loan repayments on loans from £500 to £125,000 to meet the cost of training or training advice from external consultants.

As far as such financial inducements to SMEs are concerned, there is, as yet, no convincing evidence that they made any significant difference to formal training practices in SMEs, and this view has been supported by research findings. For example, Maton (1999) conducted a government-sponsored assessment of the SFTLS and found that between 1994 and 1998 only 346 Training Loans were awarded, and that the average amount loaned was £6,127. Maton (1999) indicated that nearly thirty per cent of loans were primarily for training in computer skills, and that despite the additional incentives that were provided the take-up was quite low. If, indeed, SMEs were lacking access to capital, then they could have been expected to have acted rationally in taking advantage of the scheme. The fact that this did not happen and that take-up on an important national initiative was low may suggest that the lack of access to financial resources explanation for market failure on training might, indeed, be too simplistic.

- Internal Labour Market Constraints

Theorists such as Wynarczyk et al. (1993) have drawn attention to the widespread absence of an internal labour market capable of sustaining internal career progression, and point out that absence of internal labour markets discourages the adoption of formalised training practices in SMEs. Creedy and Whitefield (1988) stressed that because internal labour markets are designed to ensure that skilled employees like managers do not leave an organisation, any training provided for them would need to be organisation-specific in a way that made them less attractive to other businesses. Creedy and Whitefield (1988) suggest that this was a contributory factor to informal training practices in SMEs. In support of this view, Idson

(1996) argues that the greater opportunity for internal mobility associated with larger businesses also has an effect on the expected duration of employment, which makes larger businesses more willing to formalise their training practices.

For this reason, it is argued that in contrast, for SMEs it is riskier to invest in formal training beyond immediate needs. Other researchers, like Grimshaw et al. (2001), have suggested that where SMEs increased investment in formal training in order to pursue a high value-added competitive strategy, the result may have been a higher rate of poaching of skilled staff. These findings are consistent with those of Rolfe et al. (1994), who suggested that SMEs were concerned that having gained additional qualifications, employees with intermediate skills may leave their employment because of limited opportunities for career progression. The result, according to this view, is that formal training, particularly for lower occupational groups, would tend to be job-specific (Tremlett and Park, 1995). Those who advocate this view often point to highly competitive, low-wage sectors, such as the clothing industry, because poaching in the clothing industry is a major disincentive to non-job-specific training (Lloyd and Payne, 2002).

However, arguments predicated on the principles of an internal labour market are problematic given that in the last few decades there has been a marked shift in employment practices. This includes the dismantling of traditional internal labour market structures in a variety of sectors due, in part, to advances in new technology (Cheng et al., 2011). These changes include a reduction in the role of organisations providing sheltered employment conditions (Cappelli et al., 1997; Crouch, 1997). This trend has been evident, both in low value-added sectors and high value-added sectors such as banking, health, education and the computer software industries (Rubery, 1999). Changes in employment structures running counter to internal labour markets include downsizing practices, which have reduced expectations of a job for

life; the rationale for flatter organisational structures, which have proved more attractive than the carefully designed bureaucratic job hierarchies; individualised reward systems and fragmented pay structures replacing seniority pay scales; and growth in the use of temporary employment contracts in some jobs with the advantage of increased flexibility. Such trends are not confined to employment relations in the UK. Much of the US literature also highlights the role of changing forms of work organisation leading to new forms of employment policies and practices. In essence, technology has had a transformative impact on organisational structures, the collective impact of which has resulted in structuring employment practices. Osterman (1994) and Cheng et al. (2011) have highlighted the collective impact of these organisational changes in structuring employment practices.

For these reasons, arguments made in favour of the notion of market failure in SME training may not be as simple as suggested in existing theory or current policies designed to correct for market failures. Part of the reason for this may be due to the fact that the notion of market failure focuses on formal training as the sole source of skill formation. This view has been questioned by Ashton et al. (2005). As Kitching (2008) points out ‘a focus on what employers do in terms of planned activities, rather than on what employees learn, underestimates the real impact of informal training practices in SMEs.’ Kitching (2008) states that confining analysis to formal training, to the exclusion of on-the-job learning, which occurs informally through a variety of workplace practices (Billet, 2002; Lave and Wenger, 1991; Eraut et al., 2000; Fuller et al. 2003) – often designated as informal learning – , understates the contribution of informal training. This is because much learning in the workplace is tacit (Coffield, 2000) and takes place through routine job performance without the awareness of employees themselves. For SMEs in particular, workplace learning is crucial, given the much ‘*lower incidence of external learning opportunities*’ (Kitching, 2008:101). Learning by doing, which takes place on-the-job, is unstructured and informal, and involves employees

learning in the work place (Thassanabanjong et al., 2009). This sort of learning is colloquially known as sitting-by-nellie (Clifford and Thorpe, 2007). It comes as no surprise that in many family-owned SMEs, learning by doing is much valued (Chirico, 2008). Learning by doing is closely connected with notions of tacit knowledge in SMEs. Tacit knowledge has its origins in the writings of Polanyi (Oguz and Sengun, 2011). However, in management literature, there is as yet no consensus on what constitutes tacit knowledge following its popularisation by Nonaka and Takeuchi (1985), who argued that ‘knowledge creation is the result of an interactive spiral between tacit and explicit knowledge’ (Oguz and Sengun, 2011). Nonaka and Takeuchi (1985) suggest that there are four ways of knowledge conversion between tacit and explicit knowledge, which they categorise as socialisation (tacit to tacit), externalisation (tacit to explicit), combination (explicit to explicit) and internalisation (explicit to tacit). This approach to tacit knowledge has been criticised, notably by Tsoukas (2003), who contends that it would be wrong to see tacit knowledge and explicit knowledge as substitutes. Instead, Tsoukas (2003) sees both forms of knowledge as complementary, and argues that tacit knowledge is simply the opposite side of explicit knowledge. The view that tacit knowledge and explicit knowledge are complementary is supported by Ray (2007), and is consistent with treating formality and informality as a duality rather than a dichotomy (Marlow et al., 2010). Hedesstrom and Whitley (2000) also suggest that tacit and explicit knowledge are complementary rather than substitutive. Kogut and Zander (1992) have attempted to relate tacit knowledge to organisational capabilities by arguing that what firms do better than markets is the efficient creation, sharing and transfer of knowledge within an organisational context. They have argued that *‘what organisations know is greater than what their contracts, operating rules, manufacturing technologies and customer data banks can demonstrate’* (Oguz and Sengun, 2011). It is a view that sees organisations as social

communities in which individual and social expertise is transformed into products and services through the application of higher-order principles (Ogun and Senguin, 2011).

2.2.5 Appraisal and Rewards Practices

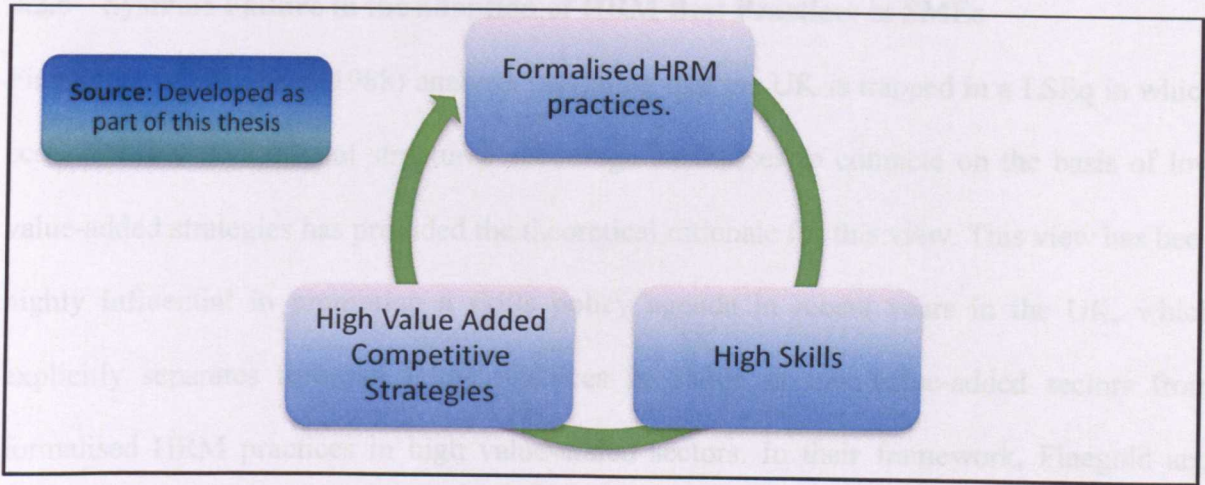
HRM theorists associate formalised appraisal and rewards practices with high commitment management HRM, with theorists such as Pfeffer (1998a; 1998b) and Huselid (1995) having applied 'best practice' principles in examining rewards practices. Some theorists suggest that an organisation's reward system should contribute to expanding employees' awareness of how the organisation is performing (Schuster and Zingheim, 1993). Theorists such as Huselid (1995) have used performance appraisals as examples of employees' motivation practices by linking them with incentive compensation systems. These practices assume that employees can be motivated to perform if they are given a clear link between effort and reward through a formalised process of individual and group targets (Latham et al, 2005). Yet, *'strong asymmetry information problems outside the control of individuals can constrain performance'* (Azzone and Palermo, 2011: 90). In addition, the practicality of formalised appraisal processes linked to merit pay in SMEs is highly problematic, given that in many SMEs job roles are often blurred. In SMEs there is often a sense of shared responsibility in a family atmosphere where rewards are not necessarily linked to performance or individual and group contribution. Moreover, Wood (1996), for example, acknowledges that attempts to link performance related pay (PRP) to rewards as part of a high commitment model (HCM) of HRM can undermine feelings of competence and self-determination, thereby casting doubt on its capacity to contribute to performance. Also, the standard principal-agent (P-A) literature suggests that pay-for-performance should be avoided in situations like SMEs where there is usually a high degree of uncertainty. In such situations, it is often difficult to assess the efforts of individual employees (Laursen, 2002). For these reasons, Pfeffer (1998a) has criticised merit pay on the grounds of subjectivity, its potential for undermining team work,

encouraging short-term focus, lack of concern for organisational performance, and its tendency to produce fear in the work place.

So far in this review of the HRM literature on SMEs, the evidence points to key industrial trends in the UK and elsewhere that undermine arguments predicated on market failure. Given the poor track record of specific interventions designed to correct for such failures, the reality of HRM practices in SMEs may indeed be more complex than arguments based on market failure suggest. After all, there was evidence in the 1990s in the UK of a high proportion of newly recruited graduates in clerical grade roles and on similar wages as school leavers (Mason and Finegold, 1997). According to Mason and Finegold (1997), this suggests under-utilisation of existing skills rather than a shortage of skills. This view is supported by the National Skills Task Force Survey (NSTF, 2000b), which suggested that despite expansion of the higher education system during much of the 1980s and 1990s, 60 per cent of responding employers remained content with competing on low value-added competitive strategies. This suggests a weak link between competitive strategy, competitive success and the availability of skills. If such a link is weak or non-existent, then it is not surprising that SMEs are yet to react positively to continued exhortations by successive UK governments. The NSTF survey was one of the largest of its kind in which UK businesses were asked to indicate the extent to which they were implementing, or about to implement, plans to move into higher quality product or service areas with higher profit margins. If the findings of this research truly reflected the views of employers, then it undermines a key assumption on which the proponents of market failure base their arguments. This is that the adoption of HRM best practices would lead to an adequate supply of high skills, which would in turn result in SMEs adopting high value-added competitive strategies, thus creating the conditions for a self-re-enforcing cycle. This cycle, it is argued, links 'high value-added' strategies,

formalised HRM practices, and high skills, and implies a ‘push’ effect, as depicted in Figure 2.4

Figure 2.4 – A self-re-enforcing cycle of formalised HRM practices, high skills and high value-added competitive strategies.



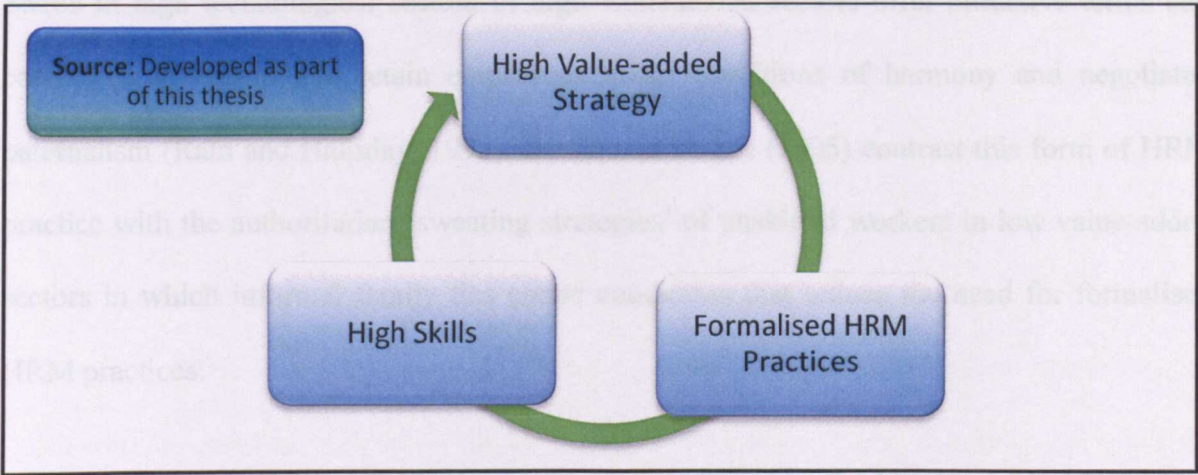
Keep (2006) questions the importance policy makers have continued to place on the notion of market failure, given the absence of any solid evidence to back it up. He states that the problem of poaching, for example, applied to less than one per cent of employers in the UK and evidence for capital market imperfections and short-termism was contradictory. Keep (2006) has gone on to argue that the notion of market failure has remained a prominent feature of policy because it is a convenient way for policy makers across the developed world to make broad aggregate level comparisons of stocks of skills between countries. Keep (2006) asserts that the rationale for this is the belief that all other things being equal, the country with the most skilled workforce will be the most competitive in international trade, and support the highest standard of living for its population. Keep (2006) notes that in reality, there are complex multiplicities of factors, including research and development, which combine with skill to determine economic performance. Keep (2006) also warns of the dangers of policies based on treating employers as a homogeneous grouping in that the more the state intervenes, the more it risks distorting complex realities and ignoring differences

between businesses and sectors. If, as it appears, arguments premised on market failure are indeed simplistic and problematic, what about the competing argument predicated on systems failure? The review next examines this part of the acontextual HRM literature on SMEs.

2.2.6 Systems Failure in the adoption of HRM Best Practices in SMEs

Finegold and Soskice's (1988) analysis indicating that the UK is trapped in a LSEq in which economic and institutional structures encourage businesses to compete on the basis of low value-added strategies has provided the theoretical rationale for this view. This view has been highly influential in promoting a skills policy agenda in recent years in the UK, which explicitly separates informal HRM practices in SMEs in low value-added sectors from formalised HRM practices in high value-added sectors. In their framework, Finegold and Soskice (1988) associated high value-added competitive strategies to formalised HRM practices in so-called high value-added sectors, in contrast with informal HRM practices and low cost competitive strategies in so-called low value-added sectors. According to this view, strategy precedes the adoption of HRM best practices. According to Finegold and Soskice (1988), there is an over-supply of jobs requiring no skills in the UK. Therefore policy needs to be redirected towards increasing demand for high skills whereby businesses fundamentally change their business strategies by adopting high value-added competitive strategies. Finegold and Soskice (1988) therefore proposed that the adoption of high value-added competitive strategies would inevitably result in changes in job design and work organisation (Keep, 2005; Mason et al., 1996). This view, therefore, supports a 'pull' effect, in which competitive strategy precedes HRM best practices, as depicted in figure 2.5.

Figure 2.5 – A self-re-enforcing cycle of high value-added strategies, formalised HRM practices and High Skills



This contingency or ‘best fit’ view of HRM in SMEs shifts the focus away from ‘market failure’ and a lack of supply of skills towards a lack of demand for high level skills. It is a view supported by theorists like Keep (2000) who insist that the workforce may, indeed, be adequately trained for the type of jobs being undertaken, and that levels of skills at an aggregate level sufficiently meet the real underlying demand for skills in the UK. Proponents of this view argue that lack of formalised HRM practices in SMEs is the result of lack of demand for high level skills due to the UK’s wider social, economic and political institutional structures, which discourage investment in formalised HRM practices. It is a view that assumes that the LSEq in which the UK economy is trapped is the result of the self-re-enforcing nature of short-term city interests, the lack of collective institutions for employers, and a weak state that encourages businesses to pursue low value-added competitive strategies (Lloyd and Payne, 2002). According to this view, it is the institutional constraints in the UK that prevent SMEs from adopting high value-added competitive strategies. For this reason, this view assumes that SMEs can be considered to be acting perfectly rationally in not formalising their HRM practices in the face of institutional and structural constraints peculiar to the UK. Thus, a systems failure perspective of informal HRM practices of SMEs makes the distinction between a cost-based and an asset-based mindset for developing employees

(Bacon and Hoque, 2005). For example, Bacon and Hoque (2005) argue that innovative SMEs in high technological sectors in high value-added sectors offer attractive terms and conditions to recruit and retain employees under conditions of harmony and negotiated paternalism (Ram and Halliday, 1993). Bacon and Hoque (2005) contrast this form of HRM practice with the authoritarian 'sweating strategies' of unskilled workers in low value-added sectors in which informal family ties create conditions that reduce the need for formalised HRM practices.

From a systems failure perspective, institutional structures in the UK have been contrasted with those in competitor nations, such as Germany, in which the regulation of capital markets and a relationship between capital and labour impose high labour costs, leaving employers with no other option but to adopt high value-added competitive strategies (Streeck, 1997). The implication of such a perspective is that in contrast with the proponents of market failure, raising awareness, providing more information, raising educational standards and providing incentives for SMEs may not change attitudes to HRM practices in SMEs (Keep and Mayhew, 1996). On the contrary, it is argued that the option of cost-based competitive strategies needs to be closed-off, leaving businesses with no option but to pursue high value-added competitive strategies (Ashton and Green, 1996).

Based on normative models of HRM, the link between skills and strategy is central to the UK government's skills strategy and its competitiveness agenda. Policy makers have pointed to a number of studies that support a link between HRM and competitive strategy. These include studies such as that undertaken by Batt (2000) on High Performance Work Organisation (HPWO) in US call centres. In her study, Batt (2000) identified a link between skills and workplaces servicing high value-added markets, thus seemingly corroborating the view that formalised HRM practices had a link with high value-added competitive strategies. Similarly,

Green et al. (2002) identified two potential strategies for profitable enterprise, which they refer to as offensive flexibility and defensive flexibility. Under an offensive flexibility strategy, production gains are said to be made through the involvement of workers in the production process, multi-skilling and long-term developments, which result in high profits and a high growth path. On the other hand, under a defensive strategy, employers utilise flexible employment patterns based on low wages, low skills and tight managerial control. However, in their study, Green et al. (2002) demonstrated that competitive success is not necessarily limited to a high value-added competitive strategic option. Similarly, although not originally designed to investigate such a link, Regini's (1995) comparative international study of banking found a relationship between customisation of products and workforce skills. Regini's (1995) study pointed to a universal trend for banks to have standard products sold by poorly trained employees, alongside the development of close personal relationships and integrated services offered by highly skilled consultants as a way to attract high-end corporate customers.

Similarly, McDuffie and Kochan (1995) found a link between formalised HRM practices and production strategy in their study of the automotive sector. They found that businesses with flexible production strategies provided higher levels of formal practices. Their analysis highlighted the importance of the content of HRM in suggesting that flexible production plants required some mix of generic skills for problem solving and business-specific skills related to production and technology systems. According to McDuffie (1995), HRM best practices provide several ways for workers to acquire skills. McDuffie (1995) makes a distinction between innovative work systems, problem solving groups, employee suggestion schemes, job rotation and decentralisation of quality related tasks, and HRM practices, such as recruitment and hiring, contingent compensation, status differentiation, training of new recruits and experienced employees. McDuffie (1995) insists that these work systems

produce skills for problem solving through the use of a variety of multi-tasking practices, including extensive on-the-job training, allowing job rotation within and across teams, and offline group problem solving activities via employee involvement groups.

However, although these studies point to a direct link between formalised practices and strategy, it is significant that they have mainly been case studies of large businesses. Inevitably, attention needs to be directed towards the question of how representative such studies are. The vast bulk of this evidence is based on studies of samples of large firms in the US manufacturing sector. Therefore, it is not at all clear how directly and uniformly applicable these findings are to the SME sector in the UK. After all, a number of researchers, including Cassell et al. (2002), have challenged the dilution of large company techniques, such as formal planning for application in SMEs operating in time horizons that are informal and irregular. Due to very different resource configurations, the effects of high performance work systems (HPWS) may not be directly applicable to SMEs in that SMEs are often less automated and more highly labour intensive than larger firms (Patel and Conklin, 2012)

Moreover, the case studies referred to were carried out under different circumstances (e.g. times, places and sectors) and by different personnel. Hence, there was no uniformity in the ways in which HRM practices were conceptualised. Consequently, it is not known whether the skills they identify were as a result of different types of practices, peculiar to each of the organisations studied, or whether they were a function of more general changes being introduced across a range of industrial sectors. As a result, not only do these studies lack sufficient empirical support, but they do not demonstrate any conclusive evidence of a link with competitive strategy. The business experience of small businesses is quantitatively and qualitatively different from that of large businesses. Thus, it seems that much of the mainstream HRM literature has taken little or no account of the situation of SMEs (Woodham

and Upton, 2006; Richbell et al., 2010). ‘SMEs often comprise a small number of employees engaged in a common endeavour which creates complex and subtle interactions’ (Curran and Blackburn, 2001). This distinction between the needs and operating conditions of SMEs and large businesses is crucial because, despite the growing importance of the SME sector, research on HRM is still overwhelmingly based on the practices of large organisations. Yet, conclusions reached in the context of large businesses may be inappropriate for SMEs (Hill and Stewart, 2000). SME owner managers often perceive greater uncertainty in the business environment, and the pressure for innovation can create the potential for conflict. In such situations, SMEs may choose to exploit short-term benefits at the expense of long-term investments. As such, any consideration of formalised HRM practices in the face of long-term development plans may not be conducive to SMEs (Curran et al., 1997)

Moreover, the ‘equilibrium’ conceptualisation of HRM and strategy on which the proponents of ‘systems failure’ base their arguments is particularly problematic. Firstly, it seems too simplistic in that, in such a conceptualisation, there is failure to acknowledge that product and labour markets are often segmented between primary and secondary markets. Failure to recognise such a reality may have contributed to simplistic approaches by policy makers. This simplistic approach is reflected in an assumption that formalised HRM practices in high value-added sectors can be separated from the informal HRM practices and low value-added competitive strategies in so-called low value-added sectors. Yet, the hotel sector, for example, consists of both high value-added and low value-added segments. In addition, in many labour markets it is often not possible to separate jobs into high skill and low skill employment linked to competitive strategies as many secondary jobs entail dexterity and aesthetic qualities, and their classification as low skill may, in reality, be reflective of relatively weak employee bargaining power. Secondly, secondary sector workers in so-called low value-added sectors, such as the textiles sector, often undertake a wider range of tasks,

apply a more extensive range of knowledge and experience, and need more concentration and dexterity to work hand-fed machines. It is not inconceivable to assume that secondary sector employment is the result of low product market valuation of goods and services, and the low market status of the workers, rather than resulting from an objective valuation of the skill content. Hence, it is a perfectly plausible argument to suggest that skill, as we know it, is a social construction. For all these reasons, it is highly unrealistic for existing policies to assume a direct link between high skills, HRM formalisation and high value-added strategies in high value-added sectors; in contrast with low skills, HRM informality and low value-added strategies in so-called low value-added sectors.

The equilibrium concept that has provided so much impetus to the UK government's skills strategy, and the normative assumptions that underpin such a strategy are particularly problematic. Wilson and Hogarth (2003) have criticised the idea of equilibrium as too static and suggested that it may be preferable to think in terms of trajectories, chosen by businesses, that demonstrate the complex interplay between market position, skill base and work organisation. Dench et al. (2000) go further to argue that the skills needs of high-growth businesses in low value-added sectors are not necessarily different from low-growth businesses in the same sectors. Therefore a direct link between HRM practices, skills and competitive strategies may not always apply and cannot be assumed. This is why it has been suggested that skills need to be examined at the level of the firm rather than at the level of sectors or national economies, as implied by the skills equilibrium concept (Lloyd and Payne, 2003).

It follows that the assumption that businesses need to move up-market and that they would automatically require a higher-skilled workforce that would then lead to adoption of formalised HRM practices may, in fact, be too simplistic. Indeed, a 'high quality',

‘differentiation’ or ‘high value-added’ product may require the adoption of such formalised HRM practices, but there may be no guarantees. This is why some studies have shown that in manufacturing relatively similar products, there is a wide variation in methods of work organisation, both across countries and companies (Mason, 2004). Indeed, what the literature indicates is the availability of alternative routes to competitive success, which may or may not depend on formalised HRM practices or the strategies adopted. Therefore, depending on product development strategies, businesses may still choose to adopt either a high value-added or a low value-added model of competition (Regini, 1995). If success can be achieved through a low value-added competitive strategy, it cannot be assumed that businesses would necessarily opt to formalise their HRM practices in order to pursue a high value-added strategy. Therefore, whilst Nickson et al. (2002) conclude that standardised services are predominantly provided by competing on low cost and low specification in association with a less skilled workforce, they do not make a similar generalisation about whether competing on high value-added equates to utilising a high skill workforce.

Boxall and Purcell (2003) point out that cost based strategies in manufacturing can be pursued both with high skill and low skill workers, depending on the technology used, leading them to suggest that the match between competitive strategy and formalised HRM practices is greater in services than in manufacturing. Also, despite their long-standing calls for businesses to move up-market to raise the demand for skills, Keep and Mayhew (1999) have speculated on the possibility of producing high quality goods with low skill methods through the application of technology. They argue that thinking about high quality is now clearer in that it has two dimensions, namely, specification and delivery to specification. They go on to make the point that specification of a product or service relates to the number of characteristics it possesses. In their view, a low specification product will have relatively few characteristics and these will change infrequently, and is highly unlikely to be genuinely

customised. Consequently, these features could permit the use of 'Fordist' production methods, 'Taylorised' forms of work organisation and job design, and the deployment of relatively unskilled labour (Keep and Mayhew, 1999). These are all features associated with a 'bleak house' scenario of informal HRM. Yet, companies whose product strategy is low spec may deliver adequately to that specification, hence, Keep and Mayhew (1999) point to a tendency to conflate these two dimensions of quality, which may account for a great deal of the confusion in this debate. Indeed, Thompson et al. (1995) argue more forcefully that there is not necessarily congruence between markets, technology and particular forms of work design. They suggest a more nuanced relationship between skills and markets, mediated by institutional frameworks, corporate strategic choices and attempts by managers and other actors in the employment relationship to socially construct and attach meanings to processes involved. It follows, therefore, that attributing the lack of formalised HRM practices in SMEs to 'systems failure' may indeed be too simplistic as long as the low skill and low wage route remains a viable route to competitive success for many UK businesses in a variety of sectors. After all, there has been evidence suggesting alternatives to a high value-added route, including overseas investment, take-overs and the acquisition of monopoly power, which were found to be commonplace in the economy (Keep and Mayhew, 1999). Many sectors, including retail, banking, insurance, hospitality and catering, continue to grow by competing primarily on the basis of non-skill and 'low skill' competitive strategies (Lloyd and Payne, 2002). Indeed, according to Nolan (2000), fast-growing sectors of the economy were not confined to high value-added sectors employing professional and managerial jobs, software analysts and business consultants, but included low value-added sectors employing waitresses, security, care assistants and cleaners, which are sectors dominated by SMEs.

A 'market failure' perspective asserts that resource constraints are the reason for the failure of SMEs to adopt a formalised approach to HRM. This view has provided justification for

continued institutional support for the implementation of formalised HRM practices in SMEs. For example, the UK policy view has been that businesses could still be made to adopt ‘high value-added’ competitive strategies with an adequate supply of skills, as the following extract illustrates:

‘If, for example, the government, employers and individuals invested in training and this had a significant impact on the skills base, then businesses could begin to adopt more skills intensive and more productive strategies. Individuals would have greater incentives to invest time and resource in training and therefore there could be once and for all change in the training market’ (HM Treasury, 2002:15).

On the other hand, from a ‘systems failure’ perspective it is the low-cost competitive strategies adopted by SMEs that is hindering the adoption of formalised HRM practices. The suggested solution is the adoption of high value-added strategies, which would, in turn, require the adoption of formalised HRM practices. In advocating this view, proponents argue that there need to be changes in work organisation and job design (Ashton and Sung, 2002; Lloyd and Payne, 2002; Keep and Mayhew, 1996; Ashton and Green, 1996). The limitations of the ‘market failure’ and ‘systems failure’ perspectives highlighted in the literature did, in turn, generate new thinking, which included a pluralistic approach, advocated by the Performance and Innovation Unit (Workforce Development Analysis Cabinet Office PIU, 2001). Whilst recognising the need to address ‘supply-side’ barriers associated with market failure, the PIU initiative also acknowledged a broader systems failure, which inhibits the adoption of high value-added competitive strategies. The PIU paper suggested that workforce development needed to be tackled within the broader competitive framework of innovation, technology and market positioning, integrating both market and systems failure perspectives. In many ways, integration of supply-side and demand-side measures mimic the account contained in the Bolton Committee Report (1971), which highlighted the need for an adequate ‘supply of skills’ on one hand, and the ‘demand for skills’ on the other. Similar to

the Bolton Committee Report and the PIU analysis, Edwards (2010:3-18) explains the integration of these two perspectives as follows:

'A potential solution lies in working on both supply and demand sides at the same time. On the former, the popular resource-based view of the firm states that firms compete on the basis of bundles of assets, and the more these assets are valuable, non-substitutable, and hard to copy, the more are the assets sources of competitive advantage. The supply of skills would then be an asset that might encourage firms to address new ways of deploying them, that is, to alter the demand pattern for skills. For example, policy advice to a firm might draw attention to the actual and potential skills of workers and suggest that these might be used to shift towards a different product market niche.' (Edwards, 2010, UKCES Briefing Paper Series, p.16).

Review of the HRM best practice literature has indicated that arguments premised on market failure on one hand and systems failure on the other, and linked to strategy, are simplistic and fail to reflect the complexity of the HRM practices of SMEs. The reality of HRM in SMEs is far too complex and cannot be reduced to simplistic market-based measures premised on supply and demand for skills. For some, this is simply confirmation that informal HRM practices are characteristic of SMEs (Timming, 2011; Curran et al., 1997). For those who take this view, informal HRM practices, prevalent in much of the SME population, is viewed in terms of a 'one happy family' or a 'small is beautiful' scenario. The review next examines this section of the HRM literature on SMEs.

2.2.7 The 'One Happy Family' or 'Small is Beautiful' View of Informal HRM Practices in SMEs

In contrast with a 'bleak house' view of informal HRM practices in the 'best practice' literature, informal HRM practices, prevalent in much of the SME sector, has been characterised as a 'one happy family' scenario (Tsai et al., 2007; Sisson, 1993; Wilkinson, 1999). It is the opposite view of a 'bleak house' scenario of HRM in which HRM in SMEs is characterised by low pay and poor working conditions, with employees often working long hours. In contrast, the 'one happy family' scenario views HRM in SMEs as characterised by a

workforce with reasonable levels of pay and a flexible, informal approach to management, with close interpersonal relationships between employees and owners (Richbell et al., 2010).

This view of informal HRM in SMEs is typified by the Bolton Committee Report (1971). The Bolton Committee's work reflected this view in stating:

'In many aspects a small firm provides a better environment for the employee than is possible in many large businesses. Although physical working conditions can sometimes be inferior in small businesses, most people prefer to work in a small group where communication presents fewer problems; the employee in a small business can more easily see the relation between what he is doing and the objectives and performance of the firm as a whole. Where management is more direct and flexible, working rules can be varied to suit the individual. Each employee is also likely to have a more varied role with a chance to participate in several kinds of work. No doubt, mainly as a result, turnover of staff in small businesses is very low and strikes and other kinds of industrial dispute are relatively infrequent. The fact that small businesses offer lower earnings than larger businesses suggests that the convenience of location and generally the non-material satisfaction of working in them more than outweigh any financial sacrifice involved' (cited in Storey, 1994, p. 186),

According to the Bolton Committee Report (1971), small firms provide a better working environment and better internal communications than large businesses. In this view, informality is consistent with the need for flexibility with the family atmosphere, contributing to low levels of conflict and a generally positive picture. This view of informal HRM has also been supported by studies that show that formality in the employment relationship results in significant decrease in job satisfaction, especially in single-site SMEs (Storey et al., 2010)

Similarly, Curran et al. (1997) contend that informality is a valued characteristic of SMEs, and reject the view that informal practices prevalent in SMEs make them less competitive, arguing that the assumption that SMEs do not train is over-simplified and lacks justification. They argue that, on the contrary, informality makes it possible to undertake tasks flexibly in accordance with the day-to-day demands of the business by focusing on the specific needs of

employees. Curran et al. (1997) go on to state that the amount of informal training is probably under-emphasised because informal practices are hard to quantify. They stress the centrality of informal training to the effective operation of SMEs and conclude that the importance of informal training is difficult to overstate, and that for many SMEs it is their only form of training. In a similar vein, Johnson and Gubbins (1992) have suggested that learning by doing may be an effective way of introducing new employees to the business. According to Nolan (2000), informality may be beneficial to the SME if it is more easily integrated into everyday activities of the business with minimum disruption. In this view, workplace learning plays an important role in skill formation in organisations of all sizes, and workplaces are sites for employees' interactions in which people learn their roles (Kitching, 2008). Eraut (2000: 12) provides examples of workplace learning, including:

'learning by doing made possible by a variety of workplace routine working practices; planned and unplanned on-the-job guided learning which is enabled by a range of actors in the workplace as well as planned and unplanned learning from the use of material artefacts.'

Johnson (1999) points out that SMEs are reliant on workplace learning to meet their skills needs unless there are strong reasons to act otherwise. As Kitching (2008) observes, in some cases, informality is not necessarily regarded by owner-managers as second best to formalised practices in that SMEs believe that workplace learning enables them to influence what employees learn in business-specific skills. Given that standards of work performance vary between businesses, it is not unreasonable to assume that, for a number of reasons, certain business-specific skills are best addressed in the work environments in which they apply. Firstly, knowledge and skills learned in the context of the workplace are easier to assimilate and apply than those acquired from participation in external training because their relevance is more obvious to employers and employees (Kitching, 2008). Secondly, utilising

external knowledge might be more difficult because it is dissimilar to employees' prior knowledge.

This view of informal HRM in SMEs has led some to question whether formalised HRM practices are always undesirable in SMEs (Saridakis et al., 2012) in that a 'one happy family' or 'small is beautiful' view of informal HRM practice implies a homogeneous SME population. Therefore, whilst SMEs remain more likely to engage in informal HRM practices than they are to adopt formalised HRM practices, treating all SMEs alike can lead to mistakes in policy prescriptions (Goss, 1991). For example, other researchers who subsequently investigated Bolton's account of informality in SMEs, such as Goss (1991), have commented on the complacent tone of the Bolton Committee which, they argue, reflects the absence of any research by the committee on the views of employees in SMEs. Goss (1991) has stressed that assumptions of homogeneity often lead to serious misunderstandings about SMEs, such as the tendency to examine SMEs without regard to inter-industrial differences and the wider economic and social context; the special qualities attributed to all SMEs, like innovation, entrepreneurship; the idea that all SMEs are characterised by common interests and harmony between and amongst workers; and the attribution of uniform organisational structures to all SMEs.

Therefore, as Barrett (2001) asserts, a stereotypical view of HRM attempts to dislocate SMEs from the wider industrial structural contexts in which they operate. Moreover, while the family metaphor is used to explain why there is an appearance of industrial harmony in SMEs, Barrett (2001) argues that forcing a false homogeneity on SMEs diminishes its usefulness and impedes any real understanding of differences between SME business units and SME business sectors. For example, Scott et al. (1990) pointed to important differences between four sectors studied in high and low technology manufacturing businesses. They

concluded that the cluster of differences that serves to define industry and sector often exercise greater determinacy over relationships than size. Also, Ram et al. (2001), who, in an earlier work, had concluded that informality is the defining characteristic of industrial relations in small professional service businesses, were more critical of the notion of informality. They argue that informality is a dynamic rather than a fixed characteristic and is highly context-specific, and go on to suggest that informality in SMEs is more a matter of degree than kind.

Paradoxically, whilst there may be a reasonable assumption that employees in SMEs are more flexible because of their limited numbers and shared common interests, this is not always the case as anecdotal evidence suggests entrenchment of job responsibilities can be found in SMEs where employees are often left to establish their own work practices. Hence, by failing to take account of the contexts in which SMEs exist and operate, a 'one happy family' scenario of informal HRM in SMEs assumes the very 'homogeneity' for which those adopting a 'bleak house' view of informal HRM practices in SMEs have been criticised. According to Ram et al. (2001), a 'homogeneous' perspective of informality in SMEs fails to take account of the reality of people's working lives within the business. A better approach is one that entails consideration of how the reality of work is formed and constrained by the interplay of the labour market and employees' expectations of work, even where senior management work in the same physical environment (Ram et al., 2001).

As Ram (2001: 861) points out:

'Small businesses are frequently characterised by small and pervasive social forces. It is often, therefore, not unrealistic to assume that employees and managers often work closely together and probably interact more frequently than in a large business, with people developing emotional and professional ties. These interactions, at all levels, are likely to impact on patterns of behaviour which both determine what people do in their jobs and how tasks are accomplished.'

It is not, therefore, surprising that the polarised views of informal HRM in SMEs, based on ‘small is beautiful’ on one hand, and a ‘bleak house’ perspective on the other, have been questioned by numerous commentators. Curran et al. (1991) notes that SMEs do offer varied work roles as well as greater opportunities for close relationships in a less bureaucratic, flexible social setting than larger businesses, but these conditions also give rise to greater opportunities for conflict. They then go on to suggest that the family discourse can be seen both as a resource and as a constraint, in which management benefits from the flexibility afforded by family ties, but the family environment also induces conditions that impose certain obligations that defy economic rationality. For these reasons HRM practices in SMEs may be complex, informal and contradictory rather than either harmonious or autocratic (Ram et al. 1991). Simplistic representations as depicted in the ‘small is beautiful’ and ‘bleak house’ scenarios may, in fact, be reflective of extremes and, therefore, over-simplistic in describing the SME population as a whole. *‘Employees are not passive recipients of employer actions and employers are not omnipotent’* (Saridakis et al., 2012: 1467-8551). Attempts to simplify a highly complex picture of HRM in SMEs have been noted by researchers like Lloyd (2002) in relation to high value-added and low value-added sectors, as the following excerpt indicates:

‘... whether companies in these high value-added sectors offer an alternative approach to training and development also enables an assessment of Finegold’s (1999) view that a sectoral approach to industrial policy might be appropriate for the UK... an emphasis on expanding existing high skill sectors through a set of policy levers, which would require major institutional change, could enable those industries to play a vital role in wealth and job creation. This approach relies on certain sectors being able to isolate themselves in some way from the regulatory and institutional framework of the national economy. This can be contrasted with the view of Streeck (1989) that even these exceptional firms are still likely to be providing sub-optimal levels of training because they are operating in a deregulated environment, thus questioning their long-term sustainability’ (Lloyd, 2002, Human Resource Management Journal, 12(2)64-81).

In her study, Lloyd (2002) compared the training practices of two companies in 'high skill' SMEs in the aerospace and pharmaceuticals sectors and found that despite differences in products and skill levels, very similar issues were raised for manual workers in both case studies. On-the-job training was generally ad hoc and unstructured. Training was often restricted by line managers who had often-conflicting roles of responsibility for skill development and ensuring that work was completed on time. Career progression largely took place through perseverance, rather than with the help of the company, and any structured development was focused on key employees (Regini, 1995). In both companies there were few developmental opportunities for non-professional employees with ambitions to gain more skills, and there were examples of managers preferring to recruit externally rather than allow internal mobility. Lloyd's (2002) findings are supported by the findings in a study of high value-added and low value-added sector SMEs by this researcher, who found that formalised training practices did not separate SMEs in high value-added sectors from those in low value-added sectors (Kinigoma, 2006). This indicates that formal and informal HRM practices may, in reality, co-exist in SMEs and are not necessarily mutually exclusive (Marlow et al., 2010), as the following excerpts from this researcher's previous study suggest:

- i) Formal training and development practice in an SME in a high value-added sector (IT Sector)

'.....and also what we do is to make sure that we train them properly because the people that come to us realise that they have got to have some training before they do the job... we also have to vet them, with the Police and insurance companies to make sure they haven't got a background... we have an in-house training programme and that is number 1...' (Kinigoma, 2006)

- ii) Informal, on-the-job training, physical attributes and interpersonal qualities in an SME in a low value-added sector (Mechanical Engineering)

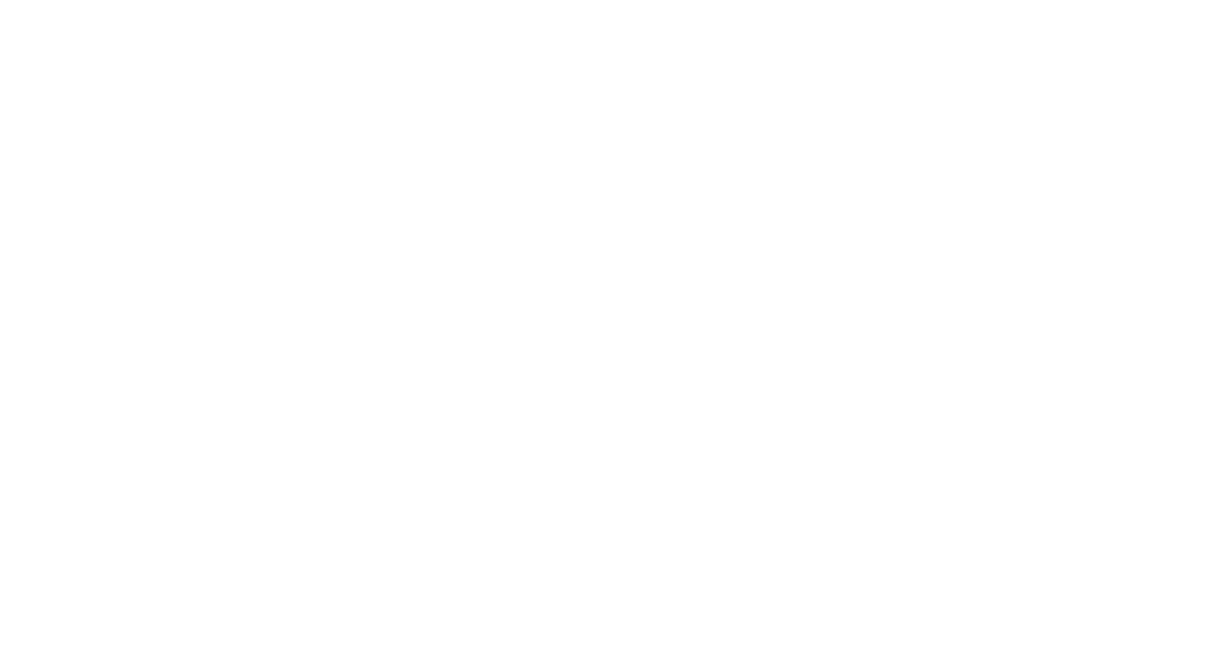
'... It is physical ability because it is a really hard job. Outside we do a lot of lifting, crawling and pooling, so you have to be physically tough. To have a personality about you to talk to a stupid ignorant driver who's done the most ridiculous thing you could imagine and not make him feel an utter fool. Then go to the head of transport and tell him that his £80K trailer is not going anywhere. ...to have the mechanical and hydraulic knowledge, to physically do the job and want to learn more skills because it is specialised.' (Kinigoma, 2006)

Based on the review of the HRM literature, the 'bleak house' and 'one happy family' or 'small is beautiful' characterisation of HRM practices in SMEs is deemed to lack empirical validity (Saridakis et al., 2012). It seems that in reality, HRM in SMEs may be diverse in reflecting both internal social processes and the external industrial contexts in which SMEs exist and operate. In reality, labour markets are more complex than the relatively undifferentiated approach assumed by policy makers. This means that methods of recruitment, forms of payment structures, training, and appraisal and rewards practices can be expected to differ, subject to context (Schuler and Jackson, 1987b). HRM practices can be expected to *'differ across occupational groups, reflecting occupational sub-cultures self-identification and career expectations'* (Jackson and Schuler, 1995:251). Therefore, even when businesses have a single HRM philosophy and a single set of policies, HRM practices will manifest themselves in different practices across organisational functions or sub-groups of employees. In other words, the same HRM intervention is likely to be interpreted differently across sub-groups in an organisation (Jackson and Schuler, 1995:251). Thus, a link between HRM and strategy cannot be presupposed, particularly if they are emergent rather than planned. This complex reality of HRM practices in SMEs directly undermines normative frameworks, which present a simplistic picture linking HRM and business strategy. Hence, by linking HRM practices directly with strategy and performance, in a

monolithic fashion, the UK's skills strategy is based on a highly simplistic closed systems view of HRM in SMEs. In this view, SMEs are dislocated from their environments and assumed to be rational systems in sealed entities with clear objectives (Scott, 2003).

The view that formality and informality co-exist in organisations is not new. For example, in her analysis of managerial practices in six organisations, Marlow et al. (2010) used Misztal's conceptualisation of formality and informality in a dualistic span, as depicted in figure 2.6

Figure 2.6 – The Informality/Formality Span and Intermediate Interactional Practices



According to Misztal (2000), organisation and management combines impersonal and procedural rules with more particularistic and local standards. Misztal (2000) conceptualises formal and informal organisational practices in a dualistic fashion, thereby shifting the emphasis towards a dualistic approach and away from a dichotomous approach to formality and informality. Misztal states that formality and informality need to be viewed as a resource to be mobilised, and that they are not necessarily fixed or predictable.

Consequently, there is a need to shift the focus of HRM in SMEs away from simplistic stereotypical characterisations of a 'one happy family' or 'bleak house' scenario towards one of differentiation and complexity, in which HRM in SMEs is viewed as the result of the complex interaction of political, social and economic relationships (Harney and Dundon, 2006; Edwards et al., 2003; Brand and Bax, 2002). This contextualised view of HRM practices in SMEs is supported by researchers like Kitching and Blackburn (2002), who have remarked that formalised practices were not strongly dependent on factors such as the level of competition, and that connections between formalised practices and business performance were weak. They point out that universalistic or best practice prescriptions are substantially undermined by the influence of operating context (Marchington and Grugulis, 2000).

Furthermore, lack of formalised practices in SMEs is often equated with employees' dissatisfaction with skills and skills development in general. However, an important result from the Workplace Employment Relations Survey (2004) is that job satisfaction was, in fact, relatively high in SMEs (Forth et al., 2006), although as Edwards (2010) notes, it is not known the extent to which this is a reflection of employees' low expectations. Consistent with this view, some researchers, including Ashton et al. (2005), go beyond stereotypical characterisations of HRM practices in SMEs and have, instead, based their analysis on how skills are formed in SMEs. Given that HRM practices in SMEs show great variation in reflecting differences in operating contexts, a more systematic approach to the HRM practices of SMEs, that takes into account the operating context of SMEs, is deemed to be more appropriate.

Therefore, in contrast with the acontextual literature, the contextual literature on HRM in SMEs does not link HRM directly to strategy and financial performance. In this literature, the relationship between HRM and performance is mediated by a complex web of contextual

factors. Consequently, HRM is not the coherent set of practices as suggested by the best practice literature and can be informal as well as emergent (Harney and Dundon, 2006). This is not to suggest that normative models of HRM completely fail to recognise the role of context. After all, in the guise of 'best fit', contingency models of HRM acknowledge the role of context, but this is done in a fairly static fashion. Harney and Dundon (2006) draw attention to the fact that contingency models of HRM frequently gloss over the impact of social norms and legislation on HRM practices. In addition, contingency models tend to be rationalistic and assume that HRM is realised as intended. Yet HRM in SMEs may be crafted rather than designed (Wilkinson, 1999). For this reason, in the contextual literature, the focus is on HRM outcomes, and not exclusively on competitiveness and financial performance (Harney and Dundon, 2006). The literature review will next examine the two parts of the contextual literature comprising the situational contextual literature (section 2.3) and the contextual homogeneity literature (section 2.4).

2.3 The Situational Contextual HRM Literature on SMEs

The development of the situational contextual literature has been necessitated by the inherent limitations of the acontextual homogeneity literature. Existing normative models of HRM characteristically provide simplistic explanations for the complex dynamics of the formal and informal HRM practices of SMEs. As a result, there is as yet no realistic conceptualisation of HRM in SMEs. For example, HRM 'best practices' are commonly assumed to contribute to the development of employee skills and knowledge, thereby enhancing business performance (Patton et al., 2000). However, according to Storey (2004), the result of the impact of formalised HRM practices on the performance of SMEs is not conclusive, and has historically been the subject of much debate (Panagiotakopoulos, 2011). In their study of training in SMEs, Wynarczyk et al. (1993) did not find a relationship between training and

performance and in their study of the relationship between training investment and the survival and performance of 1640 SMEs, Cosh et al. (1998) found the relationship statistically insignificant. Similar claims were made by Westhead and Storey (1996) and Storey (2004). On the other hand, Birley and Westhead (1990); Johnson and Gubbins (1992); Kerr and MacDougall (1999) and Aragon-Sanchez et al. (2000) found a positive relationship between training and SME performance. One explanation for these mixed results may be due to the weakness of the underlying conceptual foundations of HRM in SMEs. These foundations remain relatively weak and yet to be fully developed in ways that reflect the operating reality of SMEs.

Given the growing recognition of the inadequacy of normative models of HRM, there has been something of a shift of emphasis in the HRM literature towards a contextualised view of HRM (Jackson and Schuler, 1995; Harney and Dundon, 2006). Taking account of the internal and external operating contexts, this view of HRM acknowledges that, in reality, there is a combination of formalised and informal HRM practices in SMEs as a result of internal and external situational contextual influences typified by the contextual model by Schuler and Jackson (1995), presented in figure 2.7. The situational contextual model highlights internal and external influences of the formal and informal HRM practices.

Figure 2.7 – Integrative Framework for understanding HRM in Context.

According to a situational contextual view of HRM, there are no ‘best practices’ or ‘fits’. This suggests that in contrast with the formalised HRM best practices suggested by normative models, HRM in SMEs cannot be reduced to an ‘either/or’ categorisation between formality and informality, in that degrees of ‘informality’ and ‘formality’ do co-exist within all organisations. As such, Marlow et al. (2010) have stressed the need to focus on understanding the interplay between formality and informality instead. Marlow et al (2010) contest the way in which HRM practices have been treated as a simple trade-off between formality and informality. They go on to stress that SMEs in high value-added and low value-added sectors can, in reality, be expected to deploy formal and informal HRM practices simultaneously in ways that reflect situational contextual influences on them.

The development of the situational contextual literature in the SME sector in particular is connected to a view that conclusions reached in the context of large businesses may not be appropriate for SMEs because the business experience of SMEs differs from those of large businesses (Hill and Stewart, 2000). Moreover, owner-managers in SMEs have a strong commitment to autonomy and independence, which make them reluctant to accept external advice relating to the way their businesses ought to be organised (Westhead and Storey, 1996). For these reasons many studies have found that HRM in SMEs is often informal and conducted in ways consistent with short-term needs, leading some to conclude that long-term planning may not be appropriate for SMEs (Curran et al., 1997). In this context, it has been argued that SMEs do not operate in isolation as their activities are shaped by a broad spectrum of external structures and social networks (Harney and Dundon, 2006; Dalley and Hamilton, 2000). This also suggests that learning in small organisations is highly context-specific and that this may have implications for formalised training and how skills are formed in the SME.

At the same time, SMEs are not a homogeneous grouping as they are just as different from each other as they are from large businesses (Edwards, 2010). Indeed, Edwards (2010) observed that research over the years has found that, in many cases, employees in SMEs in a given industrial sector can have more in common with large businesses in the same industry than they did with employees in other SMEs. Edwards (2010) makes the point that some scholars have seized on this to argue that size does not play a role. Edwards (2010) has stressed the need to avoid taking such extreme positions. He goes on to argue that it is probably right to suggest that SMEs tend to adopt a less formalised approach to HRM, however, the ways in which they do this is shaped by situational contextual factors. Therefore, to understand HRM practices of SMEs requires attention to their specific operating contexts. Numerous studies have demonstrated the influence of situational

contextual factors on HRM in SMEs. These situational contextual factors include the impact of the wider society (Stanworth and Curran, 1981); the perceptions held by senior managers (Duberley and Walley, 1995); HR Supply, industrial sector, product-market structure, location, competition in product market, ownership and organisational character of the business (Wong et al., 1997); changing operational environment in relation to the management of employee relations (Kinnie et al., 1999); sector characteristics (Tsai et al., 2010; Ram, 2000); external environment (Hill and Stewart, 2000); dynamic use of resources and changing economic and regulatory conditions (Edwards and Ram, 2006). These situational contextual influences create conditions as a result of which the HRM practices of SMEs are shown to display a great deal of variation (Harney and Dundon, 2006). Indeed, as a result of these situational contextual factors, links between formal HRM practices and employees' skills are said to be much weaker in SMEs than they are in large businesses (Edwards, 2010).

This is not to suggest that size or competitive strategy do not play a role. Rather, it is contended that both have an influence, but the way they influence HRM practices have to be located within the social, political and economic contexts in which SMEs exist. After all, a number of studies have focused on highlighting contrasts in HRM practices due to differences in size and sectors (Tsai et al., 2007; Sengupta et al., 2009). Tsai et al. (2007) examined the influence of operating context on SMEs in food manufacturing, information and communications technology (ICT), and the creative and media sector (C&M). The study was subsequently reported as part of an UKCES Briefing Paper by Edwards (2010). On the food sector, the study made a distinction between manual and non-manual workers. In many ways, this study by Tsai et al. (2010) is uniquely informative because it asked people what they did rather than asking them about their formalised practices in the abstract. Respondents' views on formalised practices were collected prior to seeking their views on whether four

specific duties formed part of their job roles. Employees' views were then sought as to whether they had been trained in these areas. It was only after this that employees' views on training in general were requested. Respondents reported high levels of training and overall satisfaction with training and development. This finding is consistent with the view that SMEs often develop skills informally. In an earlier conceptualisation of the situational contextual factors, Jackson and Schuler (1995) separate internal contextual factors from external contextual factors. Jackson and Schuler's (1995) categorisation of internal contextual influences on HRM include the following:

- Technology

'Technology refers to a system's processes for transforming inputs into usable outputs' (Jackson and Schuler, 1995:244). Technological processes are highly varied, ranging from processes involving the degree of continuity in the production system to the degree to which tasks are predictable. The impact of technology on the internal dynamics of organisations has long been recognised (Gunnigle and Moore, 2011; Greve and Taylor, 2000). For example, it has been argued that advanced manufacturing technology (AMT), total quality management (TQM), and just-in-time inventory control (JIT) can directly impact HRM (Snell and Dean, 1992). Using data from manufacturing firms, Snell and Dean (1992) found that businesses using traditional technologies were less likely to engage in formalised HRM practices. Similarly, Jackson et al. (1989) found that businesses using technologies for flexible specialisation were more likely to use formalised performance appraisal and rewards practices than businesses engaged in mass production.

- Organisational Structure

Child (1977) defined organisational structure as *'the allocation of tasks and responsibilities among individuals and departments; it designates the nature and means of formal reporting relationships as well as the groupings of the individuals within the organisation'* (Jackson and Schuler, 1995:244). Jackson et al. (1989) argued that organisational structures have implications for HRM. They suggested that organisations with divisional structures were more likely to stress results over processes than organisations with a functional structure, and reflect greater integration across organisational units. Jackson et al. (1989) found that businesses with a divisional structure were more reliant on bonus payments for performance as part of their HRM practices. Consequently, organisational restructuring can be expected to have major implications for HRM.

- Organisational Size

In view of the costs associated with many aspects of HRM, an acceptable level of economy of scale must be reached that justifies organisations investing in formalised HRM practices. As a result, a variety of studies has linked organisational size with the adoption of formalised HRM practices. Larger organisations are more likely to adopt due process procedures (Dobbin et al., 1988); have less reliance on temporary staff (Davis-Blake and Uzzi, 1993); are more likely to adopt employee involvement practices (Lawler et al., 1992); use more sophisticated staffing (Terpstra and Rozzell, 1993) and training and development (Saari et al., 1988) procedures; have highly developed internal labour markets (Barron et al., 1986a); pay their employees more (Mellow, 1982); and use bonuses and long-term incentives (Gerhart and Milkovich, 1990).

- Life-Cycle Stages

Theorists have suggested that HRM practices reflect different developmental stages, such as start up, growth, maturity and decline (Baird and Meshoulam, 1988). However, research on the relationship between HRM and organisational life-cycle stages has adopted a deterministic view and their validity has yet to be empirically assessed.

- Business Strategy

The introductory chapter of this thesis cited some of the most commonly used typologies for characterising the business strategies of organisations. These strategies distinguish between strategies based on low cost on one hand, and strategies based on quality or differentiation on the other (Porter, 1985; Miles and Snow, 1978). It is argued that these strategies have implications for human resource management. For example, in a study of the airlines industry, Johnson et al. (1989) showed that in a deregulated environment, wage rates were significantly related to each of Porter's (1985) strategies. Similarly, Miles and Snow's (1978) prospectors, analysers and defenders strategies are assumed to have implications for HRM. For example, defenders are assumed to be less concerned with recruiting from the external labour market than they are with developing their employees internally. Consequently, performance appraisal in such businesses is used for developmental purposes rather than for evaluation. In contrast, for prospectors more concerned with growth, the emphasis is on recruitment and using performance appraisal for evaluation rather than for longer-term development.

In addition to internal contextual influences, Jackson and Schuler (1985) also describe a variety of external contextual influences as follows:

- Legal, Social and Political Environments

The legal and regulatory environment has a direct impact on many aspects of HRM practices. For example, in the UK there are numerous employment regulations including equal opportunity, employment legislation, health and safety, environmental legislation, equal pay legislation, etc. In addition, social norms in the UK impose certain social obligations on organisations, which have a direct impact on HRM practices in a variety of sectors. In addition, the co-existence of civil laws alongside different religions within the ethnic minority population defines the context of HRM in the UK (Florkowski and Nath, 1993).

- Unionisation

According to Lawler and Mohrman (1987), unionisation is credited with improving the working conditions of members. Trades unions play a role in wage negotiations, job security, arbitration, employees' safety, and retirement benefits. This means that unionisation has a significant impact on HRM. According to Foulkes (1980), unions have also motivated non-union employers to provide many of the same benefits.

- Labour Market Conditions

Schuler and Jackson (1995) have characterised labour market conditions under several dimensions. These include the levels of unemployment, labour market structures and labour diversity. The level of unemployment in the economy is often an indication of the degree of demand and supply of labour. For this reason, it has been suggested that a decrease in unemployment leads to an increase in wages and a decline in profits and investment. These conditions, in turn, lead to a reduced demand for labour (Levine and Tyson, 1990). Conversely, as unemployment increases, absenteeism and employee turnover rates are said to drop (Markham, 1985). It has been argued that unemployment levels have an effect on

recruitment practices in that in conditions of high employment, businesses will resort to more expensive and intensive recruitment methods (Hanssens and Levien, 1983). The response by businesses under conditions of high employment may also include improving wages, benefits and working conditions in order to attract and retain employees (Lakhani, 1988).

- Industry Characteristics

Different industries exhibit different characteristics and this has a bearing on HRM practices within sectors, groups or clusters of SMEs. For example, service sectors are characterised by intangible services in which the customers and employees collaborate in the production and delivery process. Often, unlike the manufacturing sector, the process of production and consumption in the service sector is simultaneous. Consistent with this notion, Schuler (1992) found that service sector employers were more likely to include customers as sources of input for performance appraisal. Consequently, differences in the characteristics of sectors can be expected to have a significant bearing on the selection and recruitment, training and development, and appraisal and rewards practices of different sectors, groups or clusters of SMEs. This includes differences in their approaches to maintaining appropriate organisational climates and cultures (Davis-Blake and Uzzi, 1993).

- National Cultures

HRM practices often reflect different national cultures and this is reflected in the framework developed by Holstede (1980). In Holstede's (1980) four dimensions of culture: individualism, masculinity, uncertainty avoidance and power distance, he argued that these dimensions of culture have implications for HRM. However, Holstede (1991) has suggested that organisational and industry characteristics may have a more significant impact on HRM than national cultures. This argument is consistent with research findings showing that certain

types of HRM practices can be applied across countries with different national cultures (MacDuffie and Krafcik, 1992).

Applying the notion of external influences and internal dynamics, Harney and Dundon (2006) have developed an open systems conceptual framework of factors influencing HRM in SMEs, depicted in figure 2.8. The external influences identified on HRM in SMEs were: Product market structure, HR Supply, Industry Sector, Value Chain, Technology and Legislation. The internal dynamics were: Ownership, Management, Style/Ideology, Trade Union Presence, Size and Employees.

Harney and Dundon (2006) used the framework to guide their empirical investigation of HRM in SMEs. The framework gives an indication of the interaction of internal organisational factors. They observed that whilst the internal and external factors identified are identical to those in large firms, it is the effect of these factors on small firms that makes the situation in small firms different from large firms. They also noted that although external structural factors shape the parameters of HRM, the form HRM takes is likely to be contingent on SME idiosyncrasy.

Figure 2.8 – Open Systems Conceptual Framework of Factors Influencing HRM in SMEs

In view of the influence of internal and external operating contexts, HRM practices in the SMEs can be said to be complex and highly variable. The HRM practices of SMEs cannot be reduced to a simplistic dichotomy based on formality or informality HRM practices. SMEs utilise a variety of approaches and the simultaneous use of formal and informal HRM practices cannot be excluded. In fact, businesses of all sizes combine formal and informal HRM practices (Marlow et al., 2010). Marlow et al. (2010) have observed that as businesses grow and become more organisationally complex, formality emerges as terms and conditions of employment become increasingly inscribed within written policies. Also, Marlow (2002) points out that both labour and management have recourse to a set of rules, should they feel it appropriate to use them. Marlow et al. (2010) has subsequently stressed the need to avoid

falling into the trap of constructing a simplistic dichotomy of formality versus informality. In a similar vein, Ram et al. (2001) have argued that informality and formality are dynamic constructs that co-exist in different forms in time and space. The view that formality and informality do indeed co-exist is explained by Marlow et al. (2010:955-956) in the following excerpt:

'The distinction with larger, more formalised organisations lies in the manner in which formal policy and procedure surrounds and orders the employment relationship. Dating back at least to the Hawthorne studies, we know that employment relations in the largest organisations operate through formalised policies and informal interaction or negotiation. Managers must navigate a path between rationality and intuition, formality and informality, professional norms and personal preference or idiosyncrasy. The toleration of informality and custom and practice that persists in the process of a contested labour process contributes to the structured antagonism that shapes the employment relationship.'

Marlow et al. (2005) have also contrasted the role of informal training in large businesses and SMEs. They point out that informality in large businesses is an enduring feature of the employment relationship but is more subversive in nature. They argue that, in contrast, for SMEs the absence of professionalised knowledge creates an environment in which informality dominates, but this does not suggest an absence of formality. They go on to suggest the importance of understanding the tension between formality and informality.

In reflecting the contexts in which SMEs operate, the situational contextual literature represents a marked departure from the best practices of the acontextual homogeneity HRM literature. In so doing, the situational contextual literature recognises the reality of heterogeneous HRM practices in SMEs, conditioned by situational contexts. However, it is equally true that SMEs do not exist in isolation. SMEs exist within an institutional framework and are subject to the institutional contexts in which they exist. Such institutional contexts exist within sectors, groups or clusters of SME populations. This is a key aspect of the

existing HRM literature in the context of this study. This is because whilst situational contextual influences have a heterogenising effect on the HRM practices of SMEs, equally, the institutional contexts in which SMEs exist can also be expected to have a homogenising effect on HRM practices within sectors, groups or clusters of SMEs. For this reason, it is necessary to review the institutional contextual literature on HRM in SMEs.

2.4 The Institutional Contextual HRM Literature

Institutional theorists have long suggested that organisations in the same field often adopt common practices as a result of regulatory and political factors (Edwards and Ram, 2003), copy the practices of their competitors in response to environmental uncertainty (DiMaggio and Powell, 1983), and have similar values that are often shaped by professional norms (Paauwe and Boselie, 2003). As DiMaggio and Powell (1991:8) have stated:

The new institutionalism in organisational theory and sociology comprises a rejection of the rational-actor models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra individual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives.

Institutional isomorphism can take three different forms that have been described as regulative, normative and cognitive. Regulative influences cover laws and rules designed to ensure stability, normative influences refer to social values and cultural norms, and cognitive influences cover the establishment of cognitive structures in society that are taken for granted (Scott, 1995; Yiu and Makino, 2002). According to Suchman (1995), organisations can either conform to the institutional norms in the environments in which they exist or decouple from institutional norms. Such institutional norms may be related to matters of internal or external organisation in specifying the relationship between the organisation and its institutional environment (Gestel and Nyberg, 2009; Gooderham et al., 2006).

Tsai (2010) has categorised such institutional influences under coercive, mimetic and normative isomorphism. Under coercive isomorphism, institutional theory suggests that organisational structures can be shaped by the prevailing legal and regulatory framework in which an organisation exists. Coercive isomorphism includes a number of influences, such as labour and trade union legislation, as organisations often make changes to their HRM practices in response to collective bargaining agreements, equal opportunity legislation, health and safety, and minimum wage legislation (Arrowsmith et al., 2003). For this reason, organisations operating in the same sectors, groups or clusters may become increasingly homogeneous in their HRM practices.

Mimetic isomorphism is concerned with organisational responses to uncertainty. It suggests that faced with uncertainty, organisations often emulate the practices of competitors, particularly if such practices are considered to be more successful (DiMaggio and Powell, 1983). As an example, businesses may adopt high performance work practices (HPWP) that cover recruitment and selection, training, and appraisal and rewards systems as a way of emulating successful practices of competitors. Lastly, normative isomorphism describes the interaction within professional groups, which serves as a mechanism for promulgating homogeneous organisational practices. Occupations are characterised by shared norms and values, which are shaped by education, training and professional networking. A good example is the accountancy profession, which has been institutionalised through various forms of certification and legislation (Paauwe and Boselie, 2003). According to Paauwe and Boselie (2003), such professional associations play a role in promoting similar organisational behaviour. Consequently, HRM practices can become similar across organisations in an industry through specialised education and training.

For these reasons, it is likely that organisations may be influenced more by institutional than economic requirements (Nunez, 2002). As a result, institutional influences may have a homogeneous impact on HRM practices within groups, sectors or clusters of SMEs that will be reflected in the selection and recruitment, training and development, and appraisal and rewards practices of SMEs.

2.4.1 Selection and Recruitment Practices

Formalisation of recruitment practices must take into consideration such things as regulation, employment legislation and trade unionism, which can exert a coercive influence on the formalisation of recruitment practices. In particular, trade unions can facilitate the implementation of recruitment practices as part of collective bargaining agreements. Empirical evidence that unionisation, through collective bargaining, may be associated with formalised recruitment practices has been demonstrated by Ng and Maki (1994) and Wagar (1998). Similarly, equality and diversity legislation can also create conditions in which recruitment practices are formalised within different sectors, groups or SME clusters.

2.4.2 Training and Development Practices

There is empirical support for the view that corporate social responsibility initiatives play a role in businesses adopting formalised training practices (Bertels and Pelozo, 2008; Ferns et al., 2008). From an institutional perspective, organisations may adopt formalised practices for reasons of social responsibility and legitimacy (Othman et al., 2011). Hoque's (2003) study of the IiP standard, which is being promoted within SMEs, is a very good example of the far-reaching impact of coercive isomorphism on training practices in SMEs. Hoque (2003) found that more than a third of staff in IiP accredited companies had received no training in the twelve months prior to the survey and stated that one in five organisations did not have a formal induction programme, despite this being a condition for attaining the standard. This

suggests that even in organisations where formalised training practices are implemented, the reason for this may be institutional and not necessarily economic.

2.4.3 Appraisal and Rewards Practices

Institutional sociology research has emphasised the role of the external environment as a determinant of internal structures and systems of organisations. Consequently, appraisal and rewards practices are often the result of institutional influences. All organisations will examine the external environment and attempt to model internal structures for reasons of legitimacy. At the same time, formalised appraisal practices may also be adopted to achieve strategic and operational objectives (James, 2009). For this reason, rational choice models, as represented by normative models of HRM, can only provide a partial and incomplete explanation. For example, organisations may adopt various management accounting systems on which appraisal and rewards practices are based for reasons of legitimacy. It is for this reason that some authors have argued that it is worth bridging the gap between rationality and legitimacy, based on the view that legitimacy can also be consistent with economic efficiency in the context of necessary adjustments needed in coping with competitive pressures (James, 2009).

In reviewing the HRM literature on SMEs, it has been demonstrated that the HRM practices of SMEs are far more complex than the acontextual homogeneity and situational contextual y literatures suggest. From an acontextual homogeneity perspective, market-based solutions linking HRM with strategy are simplistic and assume a closed systems perspective. In this regard, the situational contextual literature represents a considerable advance on the acontextual homogeneity perspective of HRM in SMEs. However, the situationsl contextual literature glosses over the homogenising influence of the institutional contexts in which SMEs exist and operate. For this reason, in adopting a systematic approach, it is necessary to

integrate the situational contextual perspective with the institutional contextual perspective of HRM in SMEs.

2.4.4 Towards an Integrated Situational and Institutional Contextual Theoretical Perspective of HRM in SMEs

Following the literature review, it is suggested that at one level, the sector, group or cluster-related institutional influences pull in the direction of HRM homogeneity, whilst on another level, business-specific situational influences pull in the direction of HRM heterogeneity. This means that a systematic approach to development of HRM theory on SMEs has to integrate both the heterogenising influence of situational contextual factors and the homogenising influence of institutional contextual factors..

The incorporation of institutional theory in this study represents a shift away from the acontextual approaches of the universalistic literature towards an open systems approach and acknowledgement of environmental influences. Although there have been studies of HRM in SMEs that have adopted an open systems approach (e.g. Harney and Dundon, 2006), such studies have only focused on HRM heterogeneity conditioned by internal and external situational contextual influences. Yet, internal and external influences can have a homogenising or a heterogenising effect on HRM in SMEs from an open systems theoretical perspective (Wright and Snell, 1991). Therefore, by adopting an open systems perspective, the proposed study is designed to explore the tensions between a situational pull towards HRM heterogeneity and an institutional pull towards HRM homogeneity.

The application of open systems in HRM research on SMEs recognises that SMEs are embedded in social and economic networks within sectors, groups or clusters (Williamson and Cable, 2003). An open systems approach is particularly suitable in HRM research on SMEs because SMEs tend to have less control over their environments than large firms.

Therefore, to consider SMEs in isolation can be misleading (Barret and Rainnie, 2002; Cassell et al. 2002). For example, Scott (2003) has suggested that organisations depend on, and are influenced by, flows of personnel, resources and information. Consequently, as Harney and Dundon (2006) have stressed, analysis has to be located in relation to external influences that often shape managerial action.

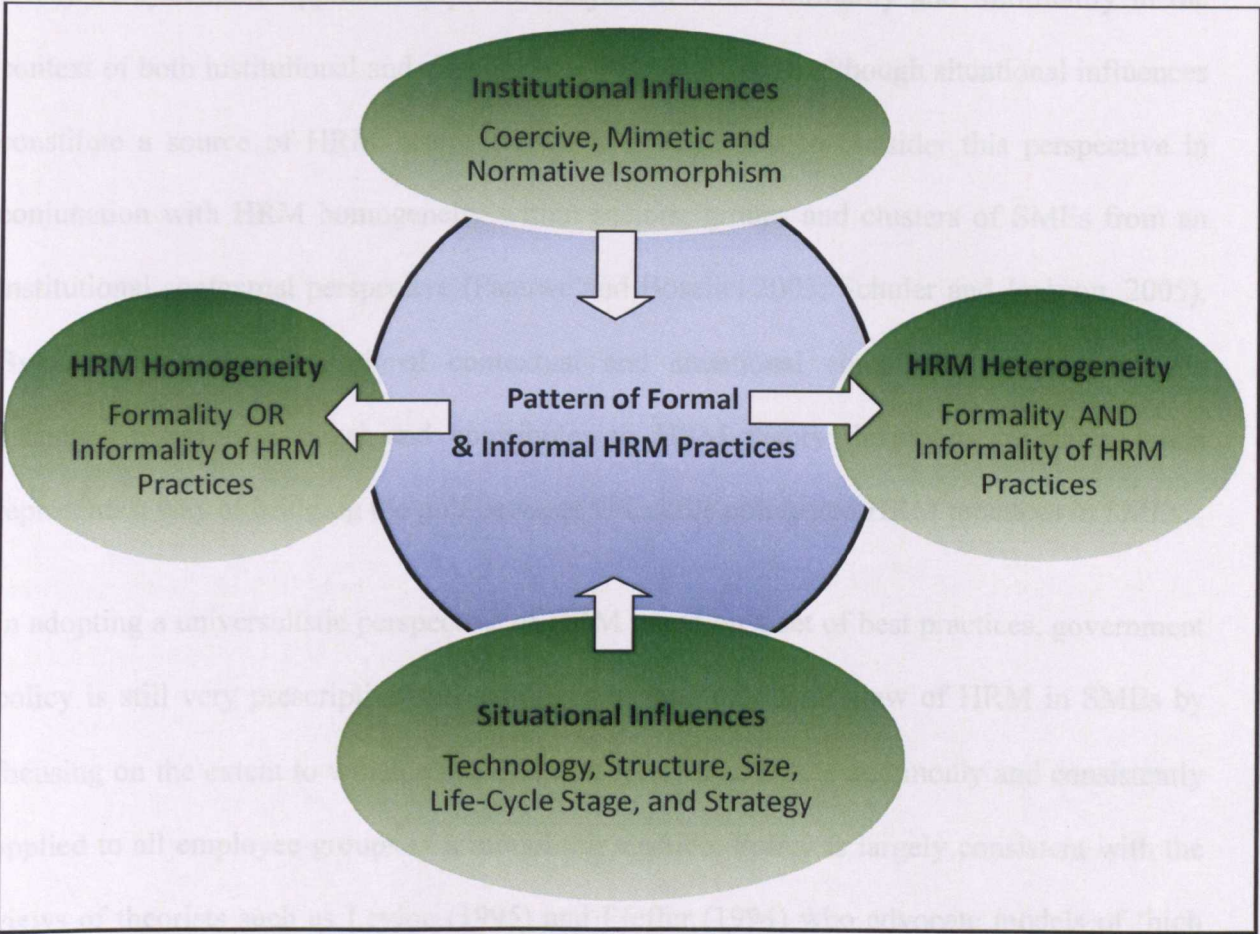
In addition, if, as Edwards (2010) argues, there is a need to investigate informality in SMEs to demonstrate if and how it is functionally equivalent to formalised HRM practices in large businesses, then it is essential to examine formality and informality from both an institutional and situational perspective in order to obtain a comprehensive picture. A situational contextual perspective alone would be partial and insufficient. Considering how informal HRM practices might complement formal HRM practices is crucial in that, according to the 2004 Workplace Employment Relations Survey (WERS), 24 per cent of SMEs employing between 5 to 49 employees provided half the amount of off-the-job training for their employees when compared with larger businesses (Forth et al., 2006). However, as Kitching and Blackburn (2002) have noted, this gap was not apparent once informal practices were taken into account. In other words, the pattern of HRM practices in the SME sector and analysis of how informal practices might be functionally equivalent, complement, or act as an effective substitute for, formalised practices has to be examined from both an institutional and situational contextual perspective.

This possibility gives rise to different combinations of formal and informal HRM practices across functions, individuals and different work groups in high value-added and low value-added sectors (Wright and Boswell, 2002). In proposing to analyse the influence of sector-related institutional and business-specific situational contextual factors on the pattern of HRM practices in high value-added and low value-added sectors, the research builds on

previous research on HRM heterogeneity from the situational contextual literature (i.e., Harney and Dundon, 2006). It is designed to fill a gap in the HRM literature on SMEs by expanding the contextual literature through the examination of its situational and institutional elements. As such, it makes a contribution to HRM theory development in SMEs by exploring the tensions between HRM formality and informality on one hand and the tensions between HRM homogeneity and heterogeneity on the other.

The conceptual framework in figure 2.3, advanced following this review of the HRM literature, suggests institutional contextual influences that pull SMEs in the direction of HRM homogeneity, and business-specific situational contextual influences that pull in the opposite direction of HRM heterogeneity. It is a framework that recognises the need to avoid the simplistic rational choice models of HRM in SMEs in that SMEs are located within a broader political, social and subjective context (Bishop, 2008). HRM in SMEs is the product of a complex combination of institutional and situational contextual influences, which means that in reality, apart from extreme cases, it is neither exclusively homogeneous nor exclusively heterogeneous in nature; neither is it exclusively formal nor exclusively informal. Figure 2.9 will, therefore, be used as a conceptual framework to examine the interface between formality and informality in the context of situational and institutional influences.

Figure 2.9 – Contextual Influences on Patterns of HRM Practices in SMEs



Source: Developed as part of this thesis

2.5 Contribution

The shift in emphasis towards a contextual perspective of HRM in SMEs represents a significant departure from simplistic ‘bleak house’ versus ‘one happy family’ stereotypical characterisation. However, in shifting the focus away from acontextual homogeneity and notions of best practice towards a situational contextual perspective, there is a notable absence of any effort to integrate the homogenising influence of institutional influences within sectors, groups, and clusters of SMEs. In the situational contextual HRM literature, the main focus has been on heterogeneous HRM practices resulting from internal and external contextual influences. There has not been an equal effort devoted to homogeneous HRM

practices in sectors, groups, or clusters of SMEs as a result of institutional influences (Tsai, 2010). A systematic approach requires analysis of HRM formality and informality in the context of both institutional and situational influences. Hence, although situational influences constitute a source of HRM heterogeneity, it is important to consider this perspective in conjunction with HRM homogeneity within sectors, groups and clusters of SMEs from an institutional contextual perspective (Paauwe and Boselie, 2003; Schuler and Jackson, 2005). By combining the institutional contextual and situational contextual perspectives, the proposed research is novel and contributes to HRM theory development, and as such represents a way of bridging the gulf between UK skills policy and HRM practices in SMEs.

In adopting a universalistic perspective of HRM based on a set of best practices, government policy is still very prescriptive and continues to take a holistic view of HRM in SMEs by focusing on the extent to which a practice or a set of practices is commonly and consistently applied to all employee groups in a monolithic fashion. Policy is largely consistent with the views of theorists such as Levine (1995) and Pfeffer (1994) who advocate models of 'high commitment' as a source of competitive advantage in a manner that does not discriminate between employee groups. This is an approach that assumes consistency of HRM practices within SMEs. Such a monolithic approach seems too simplistic in that there is an assumption of a single approach to HRM for all employees in an organisation when, in fact, this is not the case (Wright and Boswell, 2002). From a situational contextual perspective, groups of workers can be expected to be managed in different ways (Gallie, 2007; Harley, 2001). Therefore, it seems that, in reality, HRM practices in organisations can and do vary between different groups of employees (Wright and Boswell, 2002; Harney and Dundon, 2006; Lepak et al., 2006). Undertaking an analysis of how formal and informal HRM practices might be complementary implies an approach that recognises HRM heterogeneity across, as well as within, SMEs. For example, Edwards (2010) has stated that there are, as yet, no studies

showing how informality in SMEs can complement formalised training practices. It is also important in that a key finding of the 2004 Workplace Employment Relations Survey (WERS) was that even though larger employers provided a higher level of off-the-job training for their employees, the deficit among SMEs was not apparent once informal training practices were included in the analysis (Kitching and Blackburn, 2002). For this reason the focus of HRM research in SMEs ought to be on formality as well as informality of HRM practices. For far too long, policy has concentrated on the lack of formality of HRM in SMEs. There has not been equal attention to what employees do and learn informally. According to Fuller et al. (2003), restricting the focus in this way runs the risk of omitting much employee learning and skill formation in SMEs. This research aims to contribute to redressing this imbalance.

Overall, the proposed study shifts the focus from the simplicity of market-based solutions towards the complex reality of social, economic and political factors. In the 'best practice' and contingency theoretical approaches, which continue to influence skills policy in the UK SMEs are often regarded as a single generic grouping (Tsai, 2010). Often, there is a generalisation based on research findings in different industrial sectors (e.g. Kinnie et al., 1999; De Kok and Uhlaner, 2001; Cassell et al., 2002; Harney and Dundon, 2006). This research moves the focus by combining the specific with the generic from a contextual HRM perspective.

2.6 Dimensions of HRM Practices

A significant problem associated with researching HRM practices is that there is a lack of consensus on which practices to include in any study. Many studies have focused on investigating a single dimension of HRM practice, such as selection (Gatewood and Field, 1987); recruitment (Carrol et al., 1999); training and development (Brand and Bax, 2002;

Kotey and Folker, 2007); and pay and rewards (Fowler and Murlis, 1989). Studies based on single dimensions are not sufficiently systematic in that they fail to reflect the entire dynamics of HRM practices. In such approaches, there is a failure to recognise that HRM practices exist as a 'bundle' (MacDuffie, 1995). The importance of studying bundles of HRM practices as opposed to an individual practice in isolation is increasingly recognised by researchers (Toh et al., 2008). This is because, from an economically rational perspective, the impact of a particular practice can be significantly enhanced or reduced, depending on the other practices simultaneously adopted (Dyer and Reeves, 1995). For example, Milgrom and Roberts (1995) have observed that individual piece-rate systems could potentially impede teamwork and cooperation amongst employees if not combined with an organisation bonus system. Similarly, employee training and development activities are likely to be more effective if combined with a knowledge-based rewards system (Toh et al., 2008). Also, in order to increase skill levels, Delery et al. (1997) point to a combination of selective staffing and training, with skill-based incentives playing a key role.

Studies of HRM practices remain overwhelmingly quantitative, so that even when the same HRM practices are deployed, the measures used have not been consistent (Becker and Gerhart, 1996). Therefore, the choice of HRM domains in empirical research remains problematic. Three dimensions of HRM practices, namely, selection and recruitment, employee training and development, rewards and performance appraisal, have been chosen for this study. The choice of these dimensions of HRM practices has been influenced by Boselie and Paauwe (2005), who found in their overview of 104 empirical studies on HRM that these practices were most commonly included by researchers. As Batt (2002) states, these practices can be seen as the main focus of HRM: to identify and recruit employees, to provide employees with abilities and confidence, to monitor their progress and reward them accordingly. Hence, in the HRM literature, scholars have usually grouped and analysed HRM

practices by distinguishing the areas of recruitment and selection, training and development, compensation and reward systems, and appraisal (Fombrum et al., 1984; Castrogiovanni et al., 2011). Thus, choice of these dimensions of HRM practices in the proposed study significantly enables comparison with other studies. Additionally, the use of these HRM practices is consistent with the view that recruitment and selection, employee training, and rewards and performance appraisals can be considered core HRM practices under which other HRM practices can be grouped (Paauwe, 2009). Therefore, in order to address the research proposition of how sector-related ‘institutional’ and ‘situation-specific’ contextual influences shape the pattern of formal and informal HRM practices of SMEs in high value-added and low value-added sectors, the following research questions are posited for empirical investigation and analysis.

2.7 Research Questions

1. How do institutional and situational contextual factors influence the pattern of formal and informal selection and recruitment practices of SMEs in high value-added and low value-added sectors?
2. How do institutional and situational contextual factors influence the pattern of employee training and development practices of SMEs in high value-added and low value-added sectors?
3. How do institutional and situational contextual factors influence the pattern of appraisal and rewards practices of SMEs in high value-added and low value-added sectors?
4. How do owner-managers perceive the ways in which formal HRM practices ‘complement’ informal HRM practices of SMEs in high value-added and low value-added sectors?

5. What similarities and differences exist in the ways in which owner-managers attempt to balance the need for formal and informal HRM practices between SMEs in high value-added and low value-added sectors?

2.8 CONCLUSION

It has been argued that HRM literature on SMEs illustrates significant variation in the HRM practices of SMEs. Consequently, it has been suggested that the HRM practices of SMEs in high and low value-added sectors may be characterised by a complex combination of formal and informal practices. Therefore, the acontextual homogeneity literature on which the UK skills policy is based is deemed too simplistic. However, review of the situational contextual literature also highlights critical limitations in that the homogenising influence of institutional factors has been largely ignored and not incorporated in theory development. By integrating the situational contextual perspective with the institutional contextual perspective of HRM, a new conceptual framework on the HRM practices of SMEs is proposed, from which a set of questions have been posited for empirical investigation. The theoretical perspective advanced is empirically examined by collecting and analysing data on a sample of high value-added and low value-added SMEs. The next chapter sets out the research methodology and research methods to address the RP.

CHAPTER THREE

3.0 Research Methodology and Methods

3.1 Introduction

This chapter aims to provide an overview of the steps taken in using the theoretical framework developed from the literature to explore and explain the complexity of HRM practices in a purposive sample of SMEs in high value-added and low value-added sectors. Bryman and Bell (2011) state that the nature of the issue or problem should properly dictate the approach adopted in an investigation. Hence, this chapter sets out the qualitative methodology adopted in a way that is consistent with a study of an exploratory nature. As Cresswell (2007) asserts, outlining the research approach represents an effective way of validating social research. In this chapter, the qualitative methodology adopted is described in section 3.2. Saunders et al.'s (2007) model of the research process, which illustrates six different stages, described as the research onion (shown in figure 3.1), is used to structure this methodology and methods chapter and the choices made, as indicated in table 3.1

Based on Saunders et al.'s (2007) model of research stages, the constructivist epistemology and multiple reality ontology philosophy guiding this research is described in section 3.3; the deductive-based qualitative approach adopted is outlined in section 3.4; the rationale for a case study strategy and the multiple case design adopted are explained in sections 3.5 and 3.6 respectively; the non-probability sampling technique, the multi-method qualitative character of this research and the research methods, including the pilot study in section (3.9.1), are described in sections 3.7, 3.8 and 3.9 respectively. This is followed by a description of the cross-sectional design (section 3.10); data analysis (section 3.11); theorizing and theoretical saturation (section 3.12); research limitations (section 3.13); research ethics (section 3.14); research validation (section 3.15); and conclusion (section 3.16).

3.2 Qualitative Methodology

Numerous authors have outlined the differences between qualitative and quantitative research (for example, Bryman, 1988; Easterby-Smith et al., 2002). However, a clear separation of qualitative research from quantitative research is quite problematic (Saunders et al., 2007). One of the ways in which the two approaches can be separated is in the nature of the data, in that qualitative research is typically associated with soft, rich and deep data that produces ‘thick’ abstraction in contrast with the hard, objective, standardised data and the ‘thin’ abstraction associated with quantitative research (Dey, 1993). Therefore the more elastic and ambiguous the research concepts are, the less they are amenable to quantification in any meaningful way. Consequently, data from such concepts are typically rich thereby offering the researcher the opportunity to explore the subject of the research with depth in a qualitative research in contrast with the relative superficiality of quantitative research. Dey (1993) makes the distinction between qualitative and quantitative research by characterising quantitative research as the type of research in which data collected is based on meanings derived from numbers; results are usually in numerical and standardised data; and analysis is normally conducted through the use of diagrams and statistics. In contrast, Dey (1993) describes qualitative research as one in which data is based on meanings that are expressed through words; data collection results in non-standardised data requiring classification into categories; and analysis is conducted through the use of conceptualisation. Both qualitative and quantitative forms are based on sets of underlying assumptions as to what constitutes valid research.

In line with the aims of this research it was necessary to collect and explore rich and deep data in a variety of SME contexts. Fundamentally, this research was about developing an understanding of the situational and institutional contexts in which SME owner-managers

exist and operate. For this reason a qualitative rather than a quantitative research was considered more appropriate. However, it is still necessary to explain the underlying philosophical assumptions of this research because, depending on the underlying philosophical stance, qualitative research can be ‘positivist’ or ‘interpretive’. As such, the choice of a qualitative research is independent of the underlying philosophical stance adopted. According to Saunders et al. (2007), research philosophy is concerned with creating an understanding of the progress of knowledge and represents the initial layer of the research process, as shown in figure 3.1.

Figure 3.1 – Research Stages (The Research ‘Onion’)

Based on Saunders et al.’s (2007) research stages, figure 3.2 is an illustration of the methodological and methods choices made in this research. However, given that Saunders et al.’s (2007) research stages did not distinguish between ‘epistemology’ and ‘research

perspectives’ (i.e. ‘positivism’ and ‘interpretivism’) it was necessary to separate the research philosophy and the theoretical perspective of this research as reflected in Table 3.1.

Table 3.1 – Methodological and Methods Choices

3.3 Research Philosophy and Theoretical Perspective.

A constructivist epistemological philosophical perspective was adopted in this research because such a perspective is consistent with the subjectivist nature of this research, its aims and objectives. The research is about developing a deeper understanding of the meanings SME owner-managers’ attribute to their HRM practices. It is not just simply about describing SME owner managers’ HRM practices as would be the case in more superficial approaches. The research builds on a critical review of the literature and the development of a conceptual model with which to explore and verify owner-managers’ views and perceptions of their formal and informal HRM practices The constructivist epistemology of this research differs from positivism, which is an epistemology based on the application of natural science methods in the study of social reality (Bryman, 2011). This research is not one that aspires to be neutral with an emphasis on measuring, counting, statistical manipulation of

quantities and numbers. On the contrary, the purpose of this research is to make sense of how owner-managers of SMEs make sense of their HRM practices with the emphasis very much on interpreting the meanings attributed by SME owner-managers to their practices. Therefore, unlike positivism, the interpretivist theoretical perspective of this research is based on an assumption that owner-managers view their worlds differently and that the only reality is that constructed with SME owner-managers in the course of the research process. Therefore, this study is characterised by multiple reality ontology (Cresswell, 1994) in that it makes a distinction between people and the objects of the natural sciences. For this reason, there is a requirement to explore the subjective meaning of social action (Bryman and Bell, 2011:17). Its interpretivist theoretical perspective is based on the assumption that SME owner-managers seek meaning from their experiences and from the experiences of others. Therefore, by embracing the notion of multiple realities, this researcher acknowledges that SME owner-managers are involved in constructing their own individual reality based on how they perceive the world around them. From such a perspective, the results of this research are seen as representing the researcher's reconstruction of the HRM practices of SME owner-managers as perceived by owner-managers.

As such, in conducting this research it is accepted that there is no knowledge beyond individuals' subjective and inter-subjective interpretations of reality. Thus, the ontological stance of this research represents a rejection of the notion of true objective facts in human behaviour. For this reason, this research is conducted with the understanding that meaning is interpreted through language and this leads to a reality that is socially constructed rather than a reality that exists outside the meanings attributed to it by those involved. The aim is to seek deep understanding of experience as a matter of agreement within a socially and historically bounded context (Charmaz, 2000; Smith, 1983). The relationship with SME owner-managers is viewed as an interaction in which values and facts reside within those involved and, as such, cannot be separated. In the course of the research, it was, therefore, necessary to get close to participants by minimising the distance between the researcher and the SME owner-managers who agreed to participate.

In contrast to the interpretivist paradigm of this research, positivism, with its emphasis on reducing the study of the human world to something that can be counted or measured, precludes researchers from focusing on the complexity and ambiguity of the world of human beings and has the potential for generating findings that lose the vital meaning of the experience of being human in the real world. The neutral, scientific language associated with positivist ontology is often deemed necessary in order to discover exact facts. Neutrality in this context means that research findings are often expressed in numerical terms that are universally applicable and remain unchanged in all situations. Belief in neutral scientific language by positivists is seen as an effective way of providing facts and communicating truth from statistical data. This is done in a way that directly attempts to neutralise or eliminate value judgements with research findings separated from the researcher's view point or subjective interpretation. As such, the researcher maintains a distance and remains an outsider to the research (Bryman and Bell, 2011; Carr and Kemmis, 1986). Therefore positivism is a theoretical perspective rooted in a 'subject-object' relationship and in such a paradigm, there is an assumption that it is possible to isolate human reality from the researcher's subjectivity. For this reason positivism is linked to statistical generalisation of results, which is not what this research is about because the aim of this research is to look at the whole within the context.

From an interpretivist theoretical perspective, objective findings are of limited value in understanding other humans since their existence can never be complete without the perspective of the subjective experience (Dahlberg et al. 2001). In this research, the issue under investigation is concerned with how owner-managers view the influence of operating context on their formal and informal HRM practices in high value-added and low value-added sectors. Given that SMEs operate in highly contextual, unstable and subjective situations, a positivist theoretical perspective was rejected. Based on an interpretivist

theoretical perspective, the research acknowledges that the actions of other businesses, in particular, larger businesses, impact SME owner-managers' choices of action. A positivist perspective would be incapable of providing insights into such critical subjective contextual influences, which are considered critical to this investigation.

SME research involves the study of owner-managers' behaviour and their subjective interpretation of reality in the social world. Their behaviour is different to behaviour in the natural world because human subjects of the social world can think and comprehend their behaviour. They have a diverse range of evolving opinions of events in the social world of which they are part (Bryman, 1988). This is why a detached neutral standpoint based on a positivist research perspective was considered inappropriate. By getting close to participants, it was possible to interpret owner-managers' subjective understanding of reality. In this respect, it is deemed too simplistic to reduce the social world in which SME owner-managers operate into the compartmentalised isolated variables favoured by positivists. Having described the positioning of the research within a constructivist epistemology and multiple reality ontology, section 3.4 outlines the deductive-based qualitative approach adopted for this research.

3.4 Deductive-Based Qualitative Approach

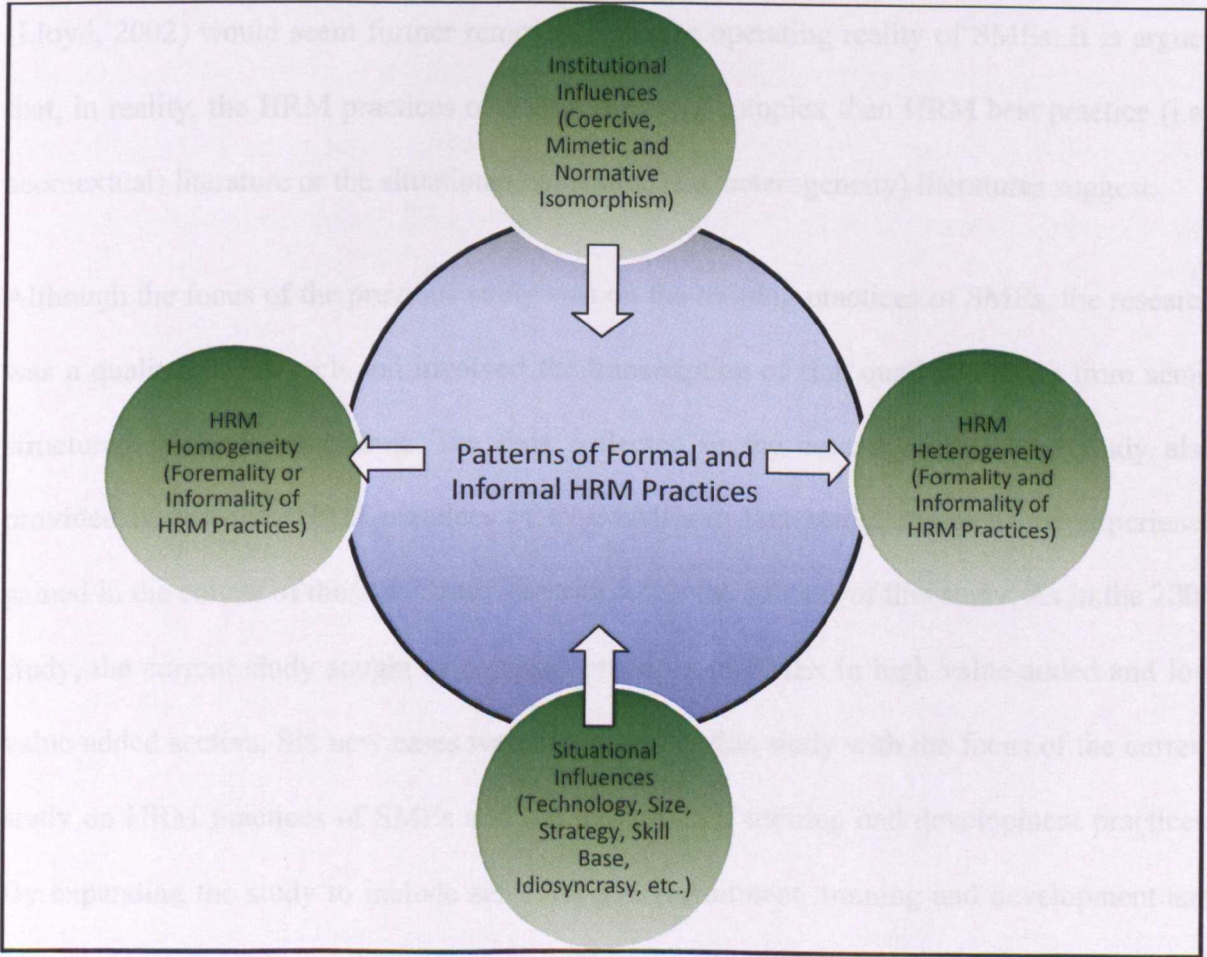
Previous research conducted by this researcher (Kinigoma, 2006) deployed a normative model of HRM (Schuler and Jackson, 1995) as a conceptual base to undertake an empirical analysis of the training practices of a purposive sample of SMEs in high value-added and low value-added sectors, shown in figure 3.2. The study compared the training and development practices of Type1 SMEs and Type 3 SMEs.

Figure 3.2 – A Framework for Training and Competitive Strategy

The research found that formalised training practices did not separate SMEs in high value-added sectors from those in low value-added sectors and concluded that the training practices of the sample of SMEs in both sectors were characterised by a mixture of formalised and informal training practices (Harney and Dundon, 2006). It also concluded that training practices in the sample of SMEs varied across work groups, functions, as well as individuals in both sectors (Wright and Boswell, 2002). Therefore, the findings of the 2006 study, which are shown in Appendix 3A, are consistent with the heterogeneity literature on the HRM practices of SMEs. As such, they represent a rejection of the acontextual homogeneity perspective. Building on these findings, and as the RP for this research suggests, the HRM practices of SMEs are not only heterogeneous, they are also subject to the homogenising effect of institutionalised influences on HRM practices within sectors, groups or clusters of SMEs from an institutional theoretical perspective. Therefore, by incorporating the situational and institutional contextual perspectives, this research represents a novel way of viewing and explaining the complexity of HRM practices of SMEs beyond the situational contextual perspective of HRM in SMEs.

Hence, as outlined in the introductory chapter of this thesis, this research is designed to shift the focus of theory beyond HRM heterogeneity towards an integrated approach that recognises two opposing contextual influences. The research recognises a ‘heterogeneous’ pull based on the co-existence of formality *and* informality in SMEs on one hand, and a ‘homogeneous’ pull within sectors, groups or SME clusters based on the formality *or* informality of HRM practices of SMEs, as depicted in figure 3.3. Hence, the research proposition that ‘the HRM practices of SMEs in high value-added and low value-added sectors are conditioned by institutional and situational contextual influences’.

Figure 3.3 - A Framework of Institutional and Situational Contextual Influences on HRM Practices in SMEs



Source: Developed as part of this thesis

As depicted in figure 3.3, this research is designed to highlight two opposing forces of contextual influences on HRM practices in situational (i.e., heterogeneous) and institutional (i.e., homogeneous) influences. From such a perspective, it is possible to explain the complexity of HRM practices of SMEs by combining the institutional contextual (i.e. homogeneous) and situational contextual (i.e. heterogeneous) theoretical perspectives. Hence, the complex reality of HRM practices in SMEs seems further removed from the simplistic assumptions of normative models of HRM. Thus the complexity of HRM practices in SMEs is not confined to a situational contextual or heterogeneity perspective of HRM in SMEs. For this reason, normative models which suggest that businesses in high value-added sectors can serve as formalised HRM 'best practice' exemplars for those in low value-added sectors (Lloyd, 2002) would seem further removed from the operating reality of SMEs. It is argued that, in reality, the HRM practices of SMEs are more complex than HRM best practice (i.e., acontextual) literature or the situational contextual (i.e. heterogeneity) literatures suggest.

Although the focus of the previous study was on the training practices of SMEs, the research was a qualitative research and involved the transcription of rich qualitative data from semi-structured in-depth interviews. The data collected in the course of the 2006 study also provided insight into HRM practices of case-SMEs in that study. As such, the experience gained in the course of the 2006 study contributed to the success of this study. As in the 2006 study, the current study sought to compare practices of SMEs in high value-added and low value-added sectors. Six new cases were examined in this study with the focus of the current study on HRM practices of SMEs and not just on their training and development practices. By expanding the study to include selection and recruitment, training and development and appraisal and rewards practices, it was possible to obtain and analyse rich contextualised data in a way that would not have been possible by confining the study to individual practices. In addition, the main purpose of this study is to make a contribution to theory development by

exploring the data, and integrating the situational contextual (i.e. heterogeneous) with the institutional contextual (i.e. homogeneous) perspective. In contrast, the 2006 study simply recognised heterogeneity in the training and development practices of SMEs in high value-added and low value-added sectors.

The current study takes as its starting point the existing literature that indicates that the HRM practices of SMEs in high value-added and low value-added sectors are heterogeneous. In this sense, the process of speculation and initial theorising commenced in advance of this researcher's enrolment on the Liverpool John Moores University (LJMU) Business School PhD programme in December of 2010, at a time when the researcher was still serving as an SME adviser in the employment of Business Link Northwest Ltd. The period between the completion of the previous research at the University of Liverpool Management School in June of 2006 and subsequent enrolment for the PhD programme in December 2010, provided ample time for reflection and theorising. This is because, in spite of research findings in the previous study and the existing situational contextual HRM literature, it increasingly seemed that such a perspective was still too simplistic and did not fully reflect the complexity of HRM practices of SMEs, based on the researcher's experience of SME owner-managers' accounts of their HRM practices. It was as a result of the researcher's curiosity regarding the failure of the situational contextual HRM perspective in fully reflecting the researcher's experience of SME owner-managers' complex accounts of their HRM practices that eventually prompted the researcher to consider alternative explanations from a contextual perspective of HRM in SMEs.

The researcher was interested in answers that could provide a plausible explanation for the highly complex picture of HRM practices in SMEs beyond that offered by the situational contextual perspective of HRM. In particular, a situational contextual perspective of HRM

did not seem to explain why some sectors, groups or clusters of SMEs adopted similar or convergent HRM practices. Many of these experiences became evident in the course of conducting business reviews, performance benchmarks and other activities as a Business Adviser in SME growth sectors on Merseyside between June 2006 and December 2010. The researcher is a Small Firms Enterprise Development Initiative (SFEDI) accredited SME business counsellor and adviser (SFE 090807114801) and has conducted numerous business reviews for a variety of SMEs throughout the northwest region of England for the past twenty-five years. These reviews included HRM aspects of SMEs. During this period, the researcher conducted over a hundred business reviews and fifty benchmarks of owner-managed SMEs in variety of high value-added and low value-added sectors throughout the Merseyside sub-region. The period following enrolment for this PhD programme and subsequent literature review was, therefore, a period of deep thinking and intense speculative theorising and reflection on direct personal experience of accounts of SME owner-managers' HRM practices. This iterative process of personal reflection resulted in fresh thinking, leading this researcher to develop new insight into HRM practices of SMEs, as represented in the theoretical framework shown in figure 3.3. This theoretical framework builds on the existing situational contextual HRM literature and suggests a possible explanation for a more complex reality of the formal and informal HRM practices of SMEs than that suggested by the situational contextual literature alone. Therefore, the RP and research questions posited for empirical investigation in this research can be described as the product of a process of 'abductive reasoning' (Peirce 1955).

In this respect, although qualitative, this research differs from a 'grounded' approach to theory development in that the research proposition was not derived from grounded data (Glaser and Strauss, 1992) and, as such, did not emerge in the course of fieldwork. It preceded fieldwork and data collection. Typically, in a grounded approach, the theoretical

framework is completely emergent and entirely grounded in empirical data (Glaser and Strauss, 1992). Clearly, this was not the case in this research and neither is this research at the opposite end of a deductive approach. The logical position of deductive research is based on an assertion that empirical research is just about testing theories. However, a strict adherence to a position based on hypothesis testing would arguably stifle innovative ideas and, ultimately, the development of new theoretical insights. As the arguments for and against the inductive and deductive research approaches have been extensively discussed in the research methods literature, it serves no purpose to re-engage in such a debate as *'such a polarisation seems futile because the choice between deductive and inductive approaches depends on the nature of the research problem and research object'* (Alverson and Skoldberg, 2009:4). Moreover, it is increasingly recognised that, just as deduction entails an element of induction, the inductive process is likely to entail a modicum of deduction (Bryman and Bell, 2011: 13).

In this research there was a specific area of skills policy in the UK concerned with the HRM practices of SMEs in high value-added and low value-added sectors and how SME owner-managers in these sectors perceived their own HRM practices. As such, it was the gulf between SME skills policy and SME HRM practice that stimulated the researcher's interest and subsequent speculative theorising on the subject. Hence, the theoretical framework put forward in figure 3.3 is unlike a hypothesis in that it is an informal proposition that is not stated in a testable form, nor is a causal relationship known or necessarily implied (Buckley et al. 2010). Figure 3.3 is a depiction of such a theoretical framework and illustrates the institutional influences (i.e., influences that produce a 'homogeneity' pull towards formal or informal HRM practices) and situational influences (i.e., influences that produce a 'heterogeneity' pull towards formality **and** informality of HRM practices).

The way in which the theoretical framework was arrived at can be characterised as a process of abductive reasoning (Pierce, 1955). Therefore, it is necessary to briefly explain the nature of abduction and how it differs from deduction and induction. Advocates of abductive reasoning favour a bridging scholarship between ‘*rigour and relevance*’ (Aram and Salipante, 2003: 210) as a way of arriving at solutions to problems. Hence, in this research, abductive reasoning can be said to have proved to be a source of ideas to resolve practical problems, as Peirce (1955:150-151) explains in the following excerpt:

‘The first starting of a hypothesis and the entertaining of it, whether as a simple interrogation or with any degree is an inferential step which I propose to call abduction. This will include a preference for any one hypothesis over others which would equally explain the facts, so long as this preference is not based upon previous knowledge bearing upon the truth of the hypothesis nor on any testing of any of the hypotheses after having admitted them on probation.’

As suggested by Peirce (1955), abductive reasoning in this research involved constantly posing interesting questions, reflecting on experiences and the literature as a prelude to theory building.

Figure 3.4 – Deductive, Inductive and Abductive Research Processes

As a concept, abductive reasoning was introduced by Peirce (1903) who investigated the adequacy of the traditional inductive and deductive approaches to reasoning and inference (Gold et al., 2011). Peirce (1903) concluded that neither of the two traditional approaches to reasoning adequately explained how people reasoned. He therefore distinguished between abduction, induction and abduction in stating that '*deduction proves that something must be; induction shows that something actually is operative; abduction suggests that something may be*' (Peirce, 1903). Figure 3.4 is an illustration of the deductive, inductive and abductive research processes.

Consistent with the ideas of Peirce (1903), the abductive reasoning process in this research is treated as a first step in scientific reasoning. Therefore, the abductive process can also be considered retrospective and similar to Blaikies's (2009) abductive research strategy in that, unlike a deductive approach, the focus is on reflecting on the meanings and interpretations, motives and intentions that owner-managers used to direct their behaviour in their everyday lives. It follows Blaikie's (2007:90) concept of 'abductive layers', which permit iteration between existing HRM theory and the practices of owner managers, as he states:

'Everyday concepts and meanings provide the basis for social action/interaction about which social actors can give accounts from which social scientific description can be made from which social theories can be generated or which can be understood in terms of existing social theories and perspectives.'

The abductive reasoning process of theory development for this research was intuitive and gradually unfolded in the course of discussions with academic colleagues, the Director of Studies and other research supervisors at LJMU, as well as in ongoing informal interaction with SMEs. As this research is guided by a theoretical framework that builds on the existing contextual heterogeneity literature, this research could be characterised as one that combines abduction and deductive-based qualitative research.

The task is to deploy the theoretical framework to explore and explain how SME owner-managers view their HRM practices and in the process highlight the complexity of the HRM practices of SMEs in a way that more accurately reflects the reality of HRM practices in SMEs. For this reason, the theoretical framework serves as a device to examine the organisation as a whole rather than its different parts (d'Abroise and Muldowney, 1988) in guiding empirical research. It is an approach that has the advantage of an initial analytical framework that links into the existing body of knowledge on HRM (Saunders et al., 2007).

In many ways, the exploratory (Punch, 2006) and explanatory (Saunders et al., 2007) character of this research is implicit in the research proposition (RP), which is to use the theoretical framework in figure 3.3 to explore and explain how 'HRM practices of SMEs in high value-added and low value-added sectors reflect "institutional" and "situational" contextual influences'. The purpose is to contribute to theory development by way of exploration and explanation rather than with one based on drawing up a hypothesis from theory for testing. As such, a quantitative research was considered too superficial and so unsuitable for this study.

On the contrary, there is a requirement for an approach that is sufficiently flexible in that a quantitative investigation would be too superficial and would not be capable of providing the level of contextualised data required to fulfil the stated aim of the study, which is to explore rich contextualised data in order to explain and make a contribution to theory development on HRM in SMEs. Qualitative research, which is based on an iterative process of investigation, is considered to offer a far less rigid, more flexible and alternative approach to tackling the research proposition and is, therefore, considered more appropriate for this research. In particular, SMEs are known to operate within a broader network and, as Aldrich et al. (1989) have suggested, if an understanding of the processes and dynamics in such networks is to be

understood then a research approach that guides the use of qualitative methods of data collection and analysis must be adopted. Moreover, the activities of SMEs are often conditioned or influenced by their relationships with large businesses and the extent to which they are dependent on large firms (Rainnie, 1999). This means that it is necessary to include the wider operating context of SMEs, which makes it necessary to adopt a qualitative approach that takes full account of the individual and the specific rather than the generic and the aggregate, as in quantitative research. In addition, the context specific socio-political factors that influence the ways in which SME owner-managers operate their businesses often result in behaviours that can be considered economically irrational. In such situations in which socio-political factors are involved, qualitative research is considerably preferable to quantitative research (Saunders et al., 2007).

Also, from a practical standpoint, SME research requires access, which is often difficult, and this means that the rules of quantitative research are not always feasible or practical. Often, the information available is of a qualitative nature and the application of quantitative approaches may not be effective ways of collecting this sort of information (Miles and Huberman, 1984). In SMEs there is often a lack of information on HRM practices and, typically, there is reluctance by owner-managers to participate in academic research studies (Heneman et al., 2000). This means that standardised approaches may not be feasible ways of researching SMEs. As Wright and Hoa (2001) have suggested, asking questions in any form can be viewed with suspicion in the SME. For these reasons, a preference for a qualitative research is justified on both theoretical and practical grounds in that qualitative research offers a more flexible and practical way of researching SMEs. Having justified choice of a qualitative approach to this research, it is necessary to consider an appropriate research strategy.

3.5 Case Study Research Strategy

A research strategy represents a general plan designed to obtain answers to a research question or questions (Denscombe, 1998). Hence, in selecting a research strategy for this study the arguments presented above were carefully considered. Different potential strategies were considered for this research. An experimental approach is considered inappropriate in that such an approach is primarily concerned with causal links between known variables, which is not the case in this research. Similarly, a survey strategy based on standardised data from questionnaires would not provide the rich and profuse contextualised data required to fulfil the aims of this research, which is to explore and derive plausible explanations from data. Although an ethnographic or action research strategy could potentially provide the rich contextualised data needed, these strategies would be impractical in a situation in which uninterrupted and continued researcher access cannot be guaranteed over an extended period. Besides, this research is also being undertaken under time and resource constraints. For these reasons, a case study strategy was considered appropriate for this research in that it is a far more flexible way of approaching SME research.

The case study strategy was adopted to examine a limited number of cases in order to contribute to theory development in a way that seeks to bridge the gulf between SME policy and SME HRM practice. By studying a few cases it was possible to examine the formal and informal HRM practices in greater detail than would otherwise have been the case in more superficial approaches, such as experiments and surveys. The focus of the research was on the holistic rather than on isolated factors or variables in that it was considered just as important to examine relationships, and political and social processes. HRM practices in SMEs were examined in their natural settings as naturally occurring phenomenon (Yin, 1994). The case study strategy was particularly advantageous in that it allowed for the use of

a variety of sources of data and research methods, and was considered particularly suited to SME research in view of the researcher's limited control over events (Yin, 1993).

Despite its advantages, a number of critics have cast doubt on the validity of the case study as a form of inquiry. Drawing on a positivist paradigm, their criticisms include lack of rigour and limited scope for empirical generalisation. In response to such criticisms, Strauss (1987) and Yin (1993) have suggested that with the right guidelines, case studies provide the researcher with a tool of inquiry ideal in situations where a 'how' or 'why' question is being asked about events over which the researcher has little or no control (Yin, 1993). It is likely that most criticisms of case study emanate primarily from the ways case studies have been used historically rather than the ways in which the strategy could potentially be most effectively deployed in the social world (Piekkari et al., 2009). For example, Piekkari et al. (2009) have noted the narrowness of the application of case studies and their domination by positivist approaches as developed by Yin (1984) in contrast with interpretivist approaches. Yet, positivist approaches based on the extraction and manipulation of variables differ from the interpretivist approach in this research in that here the emphasis is on producing holistic contextualised explanations through the use of multiple methods of data collection to uncover meanings and interpretations (Bryman and Bell, 2011). Therefore, the interpretivist way in which the case study strategy was deployed is suited to researching events within the real-life contexts (Robson, 1993; Bryman, 2001) of HRM practices in SMEs. As an example, in a study of training practices in small manufacturing businesses, Duberley and Walley (1995) suggested that using a case study strategy addressed a problem identified by Guest (1990), which is that managers' accounts of their training practices often excluded practices that they were less willing to convey. In such situations, superficial approaches are inappropriate if the goal is to explore and uncover meanings that owner-managers attribute to their practices (Siu, 2000).

The conditions applying to this study are considered suited to a case study strategy given the contemporary nature of the subject of the research. With a case study strategy, it was possible to build a rich description of HRM practices that fitted and worked with SME owner-managers' views, opinions and perceptions. The case study strategy also made it possible to adopt a flexible approach to data collection, including follow-up visits to review interview transcripts with owner-managers, and uncover and explore issues related to the HRM practices of SMEs as the research progressed. Hence, in spite of the criticisms of the case study strategy, it is an approach that is considered appropriate in fulfilling the aims of the research and was, therefore, the preferred strategy. This leads to the issue of whether to adopt a single or multiple case design.

3.6 Rationale for a Multiple Case Design

Having made the decision to adopt a case study strategy, consideration was given as to whether a single or a multiple case study would be appropriate for addressing the RP and the research questions posited for empirical investigation. It was decided that this research would benefit from a multiple case design, not in a sense of demonstrating internal validity, as would be the case in a quantitative research in which multiple cases are felt to be more valid than single cases (Yin, 1994). Neither was a multiple case design adopted in the sense of replication logic, as in quantitative research. On the contrary, a multiple case design was deployed as a way to enhance theory development because, as the research proposition indicates, the degree of formality of HRM practices in SMEs is a function of the institutional and situational operating contexts of SMEs. Therefore, in order to enhance understanding of the interplay between formality and informality in different institutional and situational contexts, it was necessary to examine a small number of SMEs under a variety of institutional and situational contexts in high value-added and low value-added sectors. Thus, the research

was designed to compare the HRM practices of SMEs in high value-added and low value-added sectors in different contexts. This suggested a minimum of four SMEs, comprising two in low-value added and two in high value-added sectors.

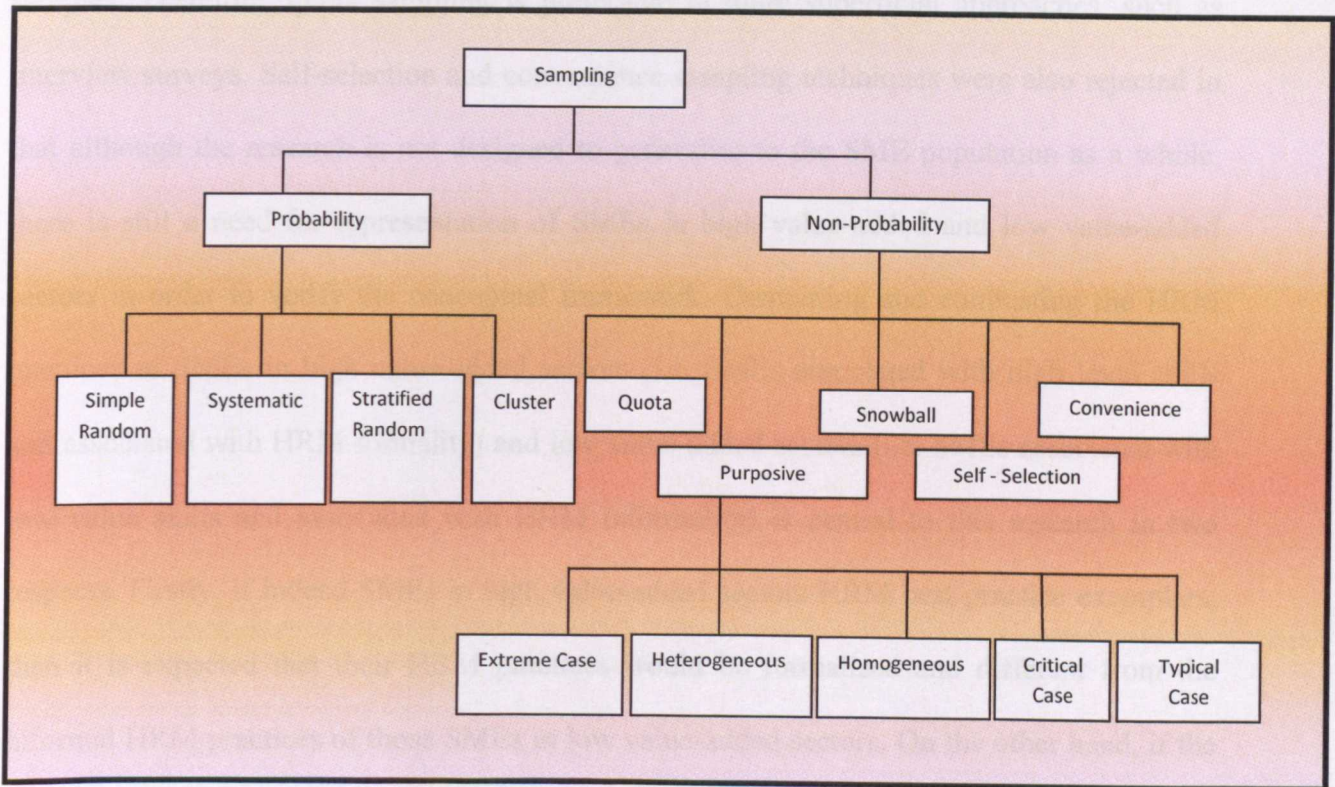
In view of a minimum requirement of a sample of four SMEs, having six SMEs enhanced the validity of the research. It enabled the researcher to examine a variety of situational and institutional contexts. In addition, by including two additional cases in high value-added and low value-added sectors, the research allowed for the eventuality of one or two participating SMEs opting to discontinue with the study. The multiple case-study design enabled a comparison of the formal and informal HRM practices of SMEs in the study sample. As such, it is in keeping with the generalisation of cases to the theoretical proposition of the study rather than to the SME population (Bryman and Bell, 2011). The case study strategy in this study was not one based on measurement, internal validity, reliability or replication, as advocated by Yin, (1984). Rather, the approach adopted is one that is consistent with the qualitative research tradition of interpreting rich contextualised data (Stake, 1994), which is suggestive of non-probability sampling.

3.6.1 Non- Probability Sampling

Sampling has been described as ‘observing a part in order to glean information about the whole’ (Cobetta: 2003:210). There are two main sampling techniques in social research, namely, probability or representative sampling and non-probability or judgemental sampling. In probability or representative sampling, the chances or probability of selecting each case from a given population of cases are equal and this makes it possible to statistically estimate the characteristic of a given population from the sample. Therefore, probability sampling is synonymous with quantitative research. On the other hand, with non-probability or judgemental sampling, the probability of selecting a case from a given population is

unknown. Non-probability sampling does not require statistical inferences associated with quantitative research and is usually *'frequently used when adopting a case study strategy'* (Saunders et al, 2007: 207). Saunders et al. (2007) illustrate the most frequently used probability and non-probability sampling techniques, as shown in figure 3.5

Figure 3.5 – Probability and Non-Probability Sampling Techniques



Source: Saunders et al. (2007)

Non-probability sampling was used because the purpose of this research is not generalisation from statistical inferences about the SME population as a whole, which would require probability sampling. On the contrary, the basis of generalisation in this research is to a theoretical proposition rather than to a population. The focus of the study is on theoretical inferences from qualitative data and not validation from sample size.

There are two extremes of non-probability sampling in qualitative research. At one extreme are sampling techniques, like quota sampling, which attempt to mimic probabilistic sampling

techniques of representation in the total population. At the other extreme are techniques such as self-selection and convenience sampling, which are designed to obtain a sample quickly with no attempt to obtain a representative sample. Both extremes were rejected because non-random, quota sampling mimics the probabilistic sampling techniques of representing the total population. Thus, in quota sampling, there is a tendency to select relatively large samples. Therefore, quota sampling is preferable in more superficial approaches, such as interview surveys. Self-selection and convenience sampling techniques were also rejected in that although the research is not designed to generalise to the SME population as a whole, there is still a need for representation of SMEs in high value-added and low value-added sectors in order to verify the conceptual framework. Comparing and contrasting the HRM practices of SMEs in high value-added sectors (i.e. SMEs associated with high level skills and associated with HRM formality) and low value-added sectors (i.e. SMEs associated with low value skills and associated with HRM informality) is central to this research in two respects. Firstly, if indeed SMEs in high value-added sectors HRM best practice exemplars, then it is expected that their HRM practices would be formalised and different from the informal HRM practices of those SMEs in low value-added sectors. On the other hand, if the analysis shows no differences, then it undermines the universalistic perspective of HRM in SMEs. Secondly, by examining the formal and informal HRM practices in high value-added and low value-added sectors, the research aims to highlight how the complexity of HRM practices in both sectors are subject to homogeneous (i.e., institutional contextual) and heterogeneous (i.e., situational contextual) contextual influences, as suggested by the theoretical framework in figure 3.3.

Given that the purpose of the research is to compare and contrast HRM practices in high value-added and low value-added sectors, it was necessary to include similar and contrasting cases by sector in order to compare HRM practices of SMEs in different institutional and

situational contexts. Therefore, identical and contrasting cases of SMEs in high value-added and low value-added sectors were chosen within a cross-sectional design. This meant that sample selection for the study was also on the basis of normative models of HRM (Schuler and Jackson, 1995) in which the formalised HRM practices of SMEs in high value-added sectors (i.e., Type 3 SMEs) are contrasted with informal HRM practices of SMEs in low value-added sectors (i.e., Type 1 SMEs), as shown in figure 3.6

Figure 3.6 – Identical and Contrasting SMEs in High Value-Added and Low Value-Added Sectors.

Competitive Strategy \ HRM Practices	Low Value-Added	High Value-Added
Formal HRM Practices		TYPE 3 3 ‘High Skill’ Small SMEs
Informal HRM Practices	TYPE 1 3 ‘Low Skill’ Small SMEs	

Source: Adapted from Schuler and Jackson, 1995

Having rejected probability sampling and the extremes of non-probability sampling, the choice in this research was between purposive sampling and snowball sampling. Purposive sampling was chosen for the interviews because snowball sampling is more appropriate in a grounded approach in which the theoretical framework is developed in the course of the data collection and analytical process. In such an approach, the development of a conceptual framework from data directs the type of sample on which data is subsequently collected and analysed, leading ultimately to the generation of theory. However, given the prevalence of

informality in the SME sector, purposive sampling for interviews was complemented by convenience sampling for documentary searches.

This research differs from a grounded theory approach in that data collection was based on a theoretical framework. Data collection in this research was guided by the theoretical framework that builds on the existing situational contextual literature on the HRM practices of SMEs. The aim was to use the theoretical framework to explore and verify, and not to generate theory as in a grounded approach. Sampling in this research was concerned with the selection of a purposive sample of SMEs that satisfied two criteria of qualification as an SME under the EC definition and classification as an SME in high value-added or low value-added sectors.

In view of the difficulties associated with defining what constitutes an SME, a grounded definition (Curran et al., 1991) with a lower limit of 10 employees and an upper limit of 50 employees was adopted for this research. Based on the EC definition, the sample of SMEs in the study can, therefore, be categorised as 'small SMEs' (European Commission, 2010). This approach to defining SMEs is appropriate because a number of researchers have advocated the adoption of a 'grounded' approach in which the criteria for defining an SME has to be multi-dimensional (Curran et al., 1991; Storey, 1994). It is an approach that entails consultations with owner-managers, industry representatives and trade associations that leads to a consensus as to what constitutes an SME within different sectors.

In advocating a multi-dimensional approach, Curran et al. (1991) argue that use of a single criterion leads to a homogeneous approach when, in fact, the SME population comprises a heterogeneous grouping of owner-managers who have little in common with one another. Curran et al. (1991) suggest four criteria to identify the characteristics of SMEs, i.e., the number of outlets, an upper limit, a lower employment limit and special conditions.

Following Curran et al. (1991), the sample of SMEs in this study consisted of owner-managed single outlets that are not part of a larger organisation. In accordance with the grounded approach to sample selection, the six participating owner-managers confirmed their businesses were required to confirm they were small SMEs operating in either high value-added or low value-added sectors. Sample selection was based on three main criteria; firstly, that case-SMEs satisfied the grounded criteria of an SME in ‘high value-added or low value-added sectors; second, that case-SMEs were operated from a single location within daily travelling distance of the researcher’s residence; third, that SMEs were owner-managed and were not part of a larger organisation; fourth, that case-SMEs had been trading successfully for a minimum of five years so that case-SME owner-managers had developed an appropriate level of understanding and had well-formed opinions about their HRM practices.

Table 3.2 illustrates the composition of the sample of SMEs in the study, which included four SMEs (i.e., Nu Co. Ltd., We Co. Ltd., Ze Co. Ltd., and Den Co. Ltd.) from the researcher’s previous study on the training practices of SMEs in high value-added and low value-added sectors (Kinigoma, 2006).

Table 3.2 – Sample of SMEs in High Value-Added and Low Value-Added Sectors

Company/Period of Trading	Activity	Number of Employees	Turnover & Sector	
• Nu Co. Ltd. – 10 years	Nursery	20	£3.5m	Low Value-Added
• Cen Co. Ltd. – 25 years	Central Heating Systems	12	£2.4m	Low Value-Added
• Be Co. Ltd. – 15 years	Cleaning & Janitorial Supplies	12	£3.2m	Low Value-Added
• We Co. Ltd. – 20 years	High-End Engineering	24	£5.5m	High Value-Added
• Ze Co. Ltd. – 20 years	Electronic Security Systems	20	£5.1m	High Value-Added
• Den Co. Ltd. – 50 years	Precision Engineering	45	£15.2m	High Value-Added

Based on this purposive sample, the research proceeded to comparing and contrasting owner-managers' subjective interpretations of the influence of institutional and situational contextual factors on HRM practices in high value-added and low value-added sectors. In the process, the research examined competing versions of organisational reality. The non-probability approach to sampling is an approach particularly advantageous in heterogeneous populations like the SME sector, where statistical generalisation is particularly problematic (Curran, 1991). Having decided on purposive sampling, it was necessary to consider methods of data collection.

3.7 Multi-Method Qualitative Research

Each method of data collection has its own advantages and disadvantages. The real issue, therefore, is not about which method to use, but rather about when and how to use each method. The answer, according to Yin (1994), depends on three conditions: the type of research, the extent of the researcher's control over actual behavioural events, and the degree of focus on contemporary, as opposed to historical, events. Yin (1984) uses the basic categorisation of 'who', 'what', 'where', 'how' and 'why' as his scheme for the types of questions. This research is both exploratory and explanatory in nature. It is concerned with exploring and explaining how business-specific 'situational' and sector-related 'institutional' contextual factors influence patterns of formal and informal HRM practices of SMEs in high value-added and low value-added sectors. Questions of an exploratory nature are not about 'how many' or 'how much', which are likely to favour a survey research. They are about feelings and meanings; therefore, consistent with the ontology of this research, data collection was guided by a social constructivist paradigm. Reality is viewed as subjective and knowledge of reality is deemed to be obtained only through the social construction of the actors involved. Such knowledge is conveyed through language, consciousness and shared

meanings, documents, tools and other objects (Yanow, 2000). The main concern in this research was to ask 'how' questions in order to explore and explain how owner-managers of SMEs interpreted their formal and informal HRM practices in the face of sector-related institutional and business-specific situational contextual influences. In this way, this research recognised the interaction between economic, social and political processes, their influences, and their impact on owner-managers' perceptions of their HRM practices.

This is an approach consistent with what Aldrich et al. (1989) suggest in stating that if an understanding of the economic, social and political process, and the dynamics involved in SME networks is the aim, then a research method that guides the use of a qualitative approach to data collection and analysis must be adopted. A qualitative approach to data collection was considered appropriate in this research in that in such an approach there is explicit recognition that the interface between SME business policy and SME owner-managers' perceptions, attitudes and actions is complex and does not always operate rationally. SME business policy is often a reflection of ideology and SME owner-manager behaviour is itself often conditioned and responds to policy. What is observed cannot, therefore, be taken at face value. In view of such complex socio-political considerations of HRM practices in SMEs, a qualitative approach to data collection is preferable in that the research was required to explore complex social and political aspects of HRM practices in SMEs. These complex realities needed to be highlighted and incorporated in the analysis. It was for these reasons that semi-structured in-depth interviews and document search methods of data collection were considered more appropriate for this research. Both methods of data collection were considered to be consistent with the exploratory and explanatory character, as well as the social constructivist and multiple reality paradigm of this research.

3.8 Research Methods

The interview is probably the most widely employed method in qualitative research (Bryman and Bell, 2011). For this study, the interviews based on purposive sampling and document searches based on convenience sampling were the primary source of data. In view of access difficulties normally associated with SME research (Marlow, 2005), the interviews and document searches were considered to be the most convenient and cost effective ways of accessing SMEs. The interview and document search methods of data collection were preferred to questionnaires, observations or focus groups as the main source of data, because interviews and document searches allow the researcher to get as close as possible to the world of SME owner-managers in order to interpret their world as seen by them. Use of questionnaires would not have provided the opportunity to explore issues in depth, and the use of an observation method of data collection would have required extended periods observing SMEs. SME owner-managers are always busy as the businesses invariably revolve around them and it is unlikely that they could be convinced to agree to extended periods of observation in their businesses. For the same reason, it would also have been difficult to get SME owner-managers to give up time to attend research focus groups.

Therefore, after considering existing alternative methods of data collection, the interview and document search methods were considered to be complementary, convenient and effective ways of obtaining information on owner-managers' views of their HRM practices. The research interview takes a variety of forms, ranging from informal, relatively open structured interviews to more formalised structured formats. The more structured approach is generally preferable when eliciting data from a relatively large sample. In contrast, a more open structure is preferred when an investigation is on highly complex issues from a small sample, as in this research. The interviews in this research consisted of a pilot phase in which the

interviews were loosely structured and not recorded. The pilot phase was followed by a primary data collection phase in which the interviews were semi-structured and digitally recorded.

3.8.1 The Pilot Study

Initial pilot interviews were conducted in December 2011 with two small SMEs namely, Clean Co. Ltd. (cleaning and janitorial services in a low value-added sector) and Info Tech Ltd. (information technology consultancy in a high value-added sector). Each of the two pilot interviews lasted approximately an hour and half. Participants for the initial pilot were selected from the author's SME client base on the Business Link Northwest Ltd. client management system. The SMEs were initially requested by e-mail on 5th November 2011 for their participation in the pilot study. Both SMEs were provided with information on the aims and objectives of the research, as described in the participants' brief, shown in Appendix 3C. This was followed up a week later on, 12th November 2011, with a telephone call, during which the 19th and 21st December 2011 were agreed with the owner-managers of Clean Co. Ltd. and Info Tech. Co. Ltd. respectively, for the initial pilot interviews. Both owner-managers confirmed that they had been trading for more than five years and satisfied the EC criteria for small SMEs. Clean Co. Ltd. employed twenty-three full-time staff and Info Tech. Ltd. employed a total of twelve full-time staff. Both companies are located within the Greater Merseyside sub-region.

Pilot interviews were subsequently conducted, with the researcher adopting a relaxed and informal approach, without the use of an interview schedule. Instead, in both cases, the companies were presented with the HRM theoretical framework, shown in figure 3.3, for their observations, questions and comments. The researcher explained the framework to each of the participating owner-managers, who were then invited to discuss their HRM practices.

The researcher paid particular attention to references to institutional and situational contextual accounts in the SME owner-managers' descriptions. In both cases, SME owner-managers provided accounts of their practices that supported the theoretical framework.

For example, in discussing the theoretical framework at Clean Co. Ltd., the owner-manager contrasted the informal on-the-job training of unskilled operatives, most of who were on the national minimum wage, with the more formalised approach to the selection and recruitment of new recruits. Formalised selection and recruitment practices included background checks on potential recruits, including the Criminal Records Bureau (CRB) for possible previous convictions. Operating within a market segment comprised of high profile blue-chip customers, such checks were required by client companies as part of their security procedures. As such, the checks were considered essential for gaining and retaining contracts in a highly competitive sector with relatively low barriers to entry (Porter, 1985). Therefore, in describing his relationship with customers, the owner-manager alluded to institutional influences within the sector that lead cleaning companies to adopt homogeneous (i.e., convergent) formalised selection and recruitment practices. At the same time, the owner-manager also indicated that he did not have the resources to pay his employees any more than was mandated by the national minimum wage legislation. He went on to indicate that low pay may be the reason for the relatively high employee turnover in his business. This owner-manager's description of his company's inability to improve pay rates was in terms that were specific to Clean Co. Ltd. rather than the sector in general. Therefore, the owner manager's characterisation of aspects of pay and rewards, as well as selection and recruitment practices, during the meeting was supportive of the contextual homogeneity and contextual heterogeneity influences suggested by the theoretical framework in figure 3.3.

Info Tech Ltd. operated as a second tier supplier of IT solutions to a London-based multi-national software company that operated through a network of second tier suppliers throughout the UK. Although Info Tech Ltd. is an independent company, much of its operations are closely controlled through a series of service agreements with its main customer in London. The researcher was interested to establish why the owner-manager, who was originally from London, chose Merseyside as his business location. The owner-manager explained that he had studied in Liverpool and had, over the years, established strong ties with the local community. He noted that his connections with local institutions gave him access to potential new recruits with the right attitude. In his explanation, he emphasised recruits with the right attitude. He indicated that he mostly relied on his intuition and personal judgement rather than a clearly specified formal procedure for selecting and recruiting employees. The company-specific (i.e., situational) informal approach to selection and recruitment was contrasted with a formalised approach to training and development. Formalised training and development is linked to technological innovations initiated by its London based multi-national software company customer. Therefore, the owner-manager's account of Info Tech Ltd.'s training and development practices was supportive of a homogeneous perspective of HRM within an established supply chain. In contrast, his account of his selection and recruitment practices seemed supportive of a heterogeneous perspective of HRM.

Based on the results of this initial pilot, the researcher then reviewed the interview data from four other case-SMEs that participated in the 2006 study on the training practices of SMEs. The results of the pilot were found to be consistent with the pilot in that these cases also supported owner-managers' institutional and situational explanations of their training practices, seemingly confirming the theoretical framework in figure 3.3. It was on the basis of the results of this initial pilot study that the researcher agreed to make a presentation at the

LJMU Business School First Thursday Research Group meeting, which was chaired by the researcher's Director of Studies prior to the primary research interviews.

3.8.2 Primary Research Interviews by Purposive Sampling

For the main study, a sample of twenty SMEs in high value-added and low value-added sectors had been selected from the Business Link Northwest Ltd. client data base in December 2011. Business Link Northwest Ltd. was the Business Link franchise for the Northwest of England. It maintained an independent, confidential small business database system as part of its delivery of the Small Business Service (SBS) contract under the auspices of the North West Development Agency (NWDA). The Business Link Northwest Ltd. client data base system segregated SMEs by sectors, showing SMEs in high value-added sectors (i.e., high-end engineering, information technology and digital, pharmaceuticals, biotechnology, management consultancy, professional services, etc.) and SMEs in low value-added sectors (i.e., manned security cleaning and janitorial, leisure, hotels and hospitality, etc.).

The initial sample of twenty SMEs were contacted by e-mail and provided with information on the aims and objectives of the research as well as an approximate duration of the interviews, while promising complete confidentiality as described in the participants' brief, shown in Appendix 3C. The email also stated that the interviews were to be audio-recorded and requested the consent of the SME owner-managers. Fifteen of these replied with twelve owner-managers expressing a willingness to participate, including four from the 2006 study. The twelve who agreed to participate were subsequently contacted by telephone on 5th January 2012 to arrange face-to-face meetings in order to explain the purpose of the research in person and address any of their questions. All twelve SMEs were subsequently visited over a 5 day period between 6th January and 11th January, 2012. Following these meetings, three

owner-managers changed their minds and decided not to participate in the study. The sample of six SMEs that eventually participated in the study was chosen from the remaining nine, based on the researcher’s assessment of their commitment to participating in the study. Dates were agreed with the participating SMEs by telephone, and subsequently confirmed by email, as shown in table 3.3

Table 3.3 – Primary Research Interview Schedule

Company	Date of Interview
Nu Co. Ltd	20 th January 2012.
Cen Co. Ltd.	10 th April 2012
Be Co. Ltd.	16 th March 2012
We Co. Ltd	20 th March 2012
Ze Co. Ltd	19 th April 2012
Den Co. Ltd.	5th June 2012

The interview format was in-depth and semi-structured in that it was designed as a way to balance the need for flexibility and the need for a focused approach on the subject of the research. The interview guide was based on the theoretical model and explored how owner-managers perceived the influence of situational (i.e., divergent or heterogeneous practices) and institutional (i.e., convergent or homogeneous practices) contexts of their formal and informal HRM practices. The researcher deployed closed questions to confirm or obtain specific information, and facts or opinions, as well as closed questions to explore and probe SME owner-managers’ responses (Saunders et al., 2007). Prompts were used to encourage participants to expand on their experiences.

The in-depth semi-structured format made it possible for SME owner-manager informants to expand on their comments as well as introduce and develop issues that had not been contemplated and included in the interview schedule. In this sense, the interview schedule served as a useful prompt in guiding the interviews, as well as a means of ensuring that the discussions remained focused on the subject of the research in a way that was both flexible and sufficiently systematic. This made it possible to make a comparison of interview accounts of case-SME owner-managers between high value-added and low value-added sectors. The interviews were conducted at the participants' business premises during office hours. They were audio-recorded, lasted between two to three hours, and were all personally transcribed by the researcher between February and June in 2012 as the interviews progressed. The transcription of interviews highlighted the need for a reliable data analysis for compiling text records of interviews as soon as they had taken place (Saunders et al., 2007). For this reason, transcription of each of the interviews was completed within ten days of the interview taking place. The audio-recording of the interviews allowed the researcher to concentrate on listening and questioning, which enabled accurate recording of participants' views. To ensure a high quality of recording and ease of transcription, a digital voice recorder was preferred to a conventional tape recorder. This made it possible to play the recordings during and after transcription, repeatedly in order to get close to the views expressed by respondents without losing the quality of recordings. The use of a digital recorder also had the advantage of being less obstructive during the interviews.

Guided by the RP, the interviews were designed to explore the institutional and situational constructs that owner-managers use as the basis for their opinions and beliefs about their HRM practices (Denscombe, 1998). Thus, the in-depth interviews proved effective in eliciting authentic accounts of owner-managers' experiences, which made it possible to probe their thoughts, allowing them to develop their ideas, experiences and feelings. SME owner-

managers' personal accounts of their experiences enabled the exploration of the life-world, because their accounts provided descriptions of specific experiences. Owner-managers' descriptions constituted the text that was used to interpret the subjective experiences, as described in the following extract by *Dahlberg and Drew (1997:310)*:

Descriptions of such experience should be instantly recognizable, expanding and enriching the store of knowledge about the life-world. The end result of phenomenological description and its universal nature connects us with others, ultimately validating our own experience.

By remaining close to SME owner-managers and being emotionally involved, the interviews represented a rejection of the positivist assumption that both interviewer and interviewee are properly treated as objects in that the owner-managers were regarded as subjects engaged in actively constructing the features of their cognitive world with the aim of achieving an inter-subjective depth through a deep mutual understanding, as described by Reason and Rowan (1981:205) in the following excerpt:

Humanistic approaches favour 'depth interviews' in which interviewee and interviewer become 'peers' or even companions. In this 'humanistic' version of the interview, both the type of knowledge and the validity of the analyses are based on deep understanding of the person and wholeness in human inquiry.

This is similar to what Burgess (1980) suggests in stating that the interview is seen to give greater depth than other research techniques because it is based on a sustained relationship between informant and researcher. By facilitating a free flowing dialogue, the in-depth interviews took the form of a conversation similar to what Burgess has referred to as the unstructured interview as a conversation.

However, from a social constructivist perspective, this view of the interview may still be regarded as too simplistic in that it underplays the role of the researcher and language

(Hammersley and Atkinson, 1983), or because the context of the research process has an effect on the text eventually produced. For example, Bulmer (1979) has questioned the ability of researchers to suspend their awareness of preconceived concepts and theories by stressing that entirely theory-neutral interviewing is not feasible. He states that research is not only conditioned by what is already known about the social world being studied, but also by the context of the research process. For this reason, it is necessary to emphasise the distinction between the social constructivist philosophical stance of this research, which involves a pre-determined conceptual framework and a 'constructionist' epistemology, in that the 'constructivist' epistemological stance also assumes a dualistic ontology, which separates the research subjects from their objective reality. By implication, this means the existence of objective truths about social phenomena beyond subjective interpretations of reality (i.e., subject-object). Thus, from a constructivist perspective, the language that the owner-managers used in conveying their views was treated as an objective medium for subjective interpretations, which distinguishes the epistemology of this research from a subject-subject constructionist paradigm.

To address the RP it was necessary to derive a set of research questions that were used as prompts, and in this respect, the HRM theoretical framework guided the structuring of the interview questions. Informed by the HRM literature, the research questions were based on three domains of HRM practices, namely, selection and recruitment, employee training and development, and employee appraisal and rewards practices (Paauwe and Boselie, 2003). To facilitate a free flow of ideas and to highlight the contrasts between formality and informality of HRM practices, the interviews were semi-structured as follows:

- For contextual factors influenced the pattern of formal and informal employee selection and recruitment practices of SMEs in 'high value-added' and 'low value-

added' sectors; the interviews examined the degree to which informal and formal selection and recruitment practices enabled or constrained SMEs in both sectors.

- For contextual factors influenced the pattern of formal and informal employee training and development practices of SMEs in 'high value-added' and 'low value-added' sectors; the interviews examined the extent to which informal and formal training and development practices enabled or constrained SMEs in both sectors.
- For contextual factors influenced the pattern of formal and informal appraisal and rewards practices of SMEs in 'high value-added' and 'low value-added' sectors; the interviews examined the extent to which informal and formal appraisal and rewards practices enabled or constrained SMEs in both sectors.

The semi-structured format of the interviews proved useful in separating the data into distinctive segments for subsequent comparison. It also made it easier to probe and interrogate SME owner-managers' accounts in order to compare and contrast how owner-managers perceived ways in which formal HRM practices complemented informal HRM practices. In the process, it was possible to assess similarities and differences in the HRM practices of SMEs in high value-added and low value-added sectors. Although a conceptual framework was used to construct an interview guide for the study, the interview process was deliberately relaxed and proved sufficiently informal in ways that encouraged owner-managers to raise issues spontaneously. Often, this involved providing historical accounts of formalised and informal HRM practices. The overall quality of the data was enhanced by prompting respondents to discuss how informal and formal HRM practices either 'constrained' or 'enabled' their operations. In this way, it was possible to explore how owner-managers perceived their HRM practices as employers based on the economic, social and political rationales for their formal and informal practices. Therefore, the interview data consisted of first-hand oral accounts of owner-managers' experiences in a

way that sought to benefit both the research and participating SME owner-managers. Essentially, the quality of the information obtained was enhanced by the fact that the owner-managers that agreed to participate in the study were also equally keen to think through, review issues and discuss concerns about their formal and informal HRM practices with an accredited business counsellor. Therefore, the interviews were considered to provide a useful opportunity to review practices by owner-managers. Consequently, the approach to the interviews and subsequent reviews of the transcripts with owner managers contributed to enhancing the quality of the interview data that was subjected to analysis analysed.

In general, owner-managers readily recognised and provided adequate descriptive accounts of their formalised selection and recruitment, training and development and appraisal and rewards practices. On the other hand, owner-managers' descriptions of their informal HRM practices consisted of accounts that challenged formalised HRM practices. In such instances, owner-managers used terms such as 'word of mouth' for informal selection and recruitment practices; 'passed on' or 'watching the tradesman' in the case of training and development and 'my personal judgement' in the case of appraisal and rewards practices. The dates for document searches were agreed at the end of each of the interviews and were subsequently confirmed by email exchanges with the six participating SME owner-managers.

3.8.3 Document Searches by Convenience Sampling

Contemporaneous notes from document searches were used to supplement interview accounts of owner-managers in case-SMEs in that, unlike informal HRM practices, formalised HRM practices can be expected to exist, or be reflected, in official documentation (i.e., systems processes and procedures memos, letters, informants' diaries, selection and recruitment, training and recruitment, and appraisal and rewards documentation). On the other hand, an absence of formal processes, procedures or official documentation might also indicate the

absence of formalised HRM practices. Therefore, document searches were conducted in tandem with semi-structured interviews over the same five-month period, from January 2012 through to June 2012, as shown in table 3.4.

Table 3.4 – Document Search Schedule

Company	Date of Searches
Nu Co. Ltd.	27 th January 2012.
Cen Co. Ltd.	20 th April 2012.
Be Co. Ltd.	21 st March 2012
We Co. Ltd.	28 th March 2012
Ze Co. Ltd.	26 th April 2012.
Den Co. Ltd.	15 th June 2012.

Participating owner-managers were requested to show and discuss documented evidence of their HRM practices as part of a conversation. Evidence was observed and noted in some cases, but there were several instances where owner-managers did not provide documentation. This was not unexpected given that informal practices are prevalent in much of the SME sector. Therefore in contrast to the purposive sampling used for the interviews, sampling in the case of documentary searches was by convenience. However, in the instances where owner-managers could not provide documentary evidence, they still provided credible descriptions of documentation and contents where official documentation had been lost or could not be located. At the same time, data from internal documents were not taken at face value, in that the fact that those responsible for their production might be conveying a personal point of view (Bryman and Bell, 2011). This is a particularly important aspect of data search in SMEs, where the owner-manager has substantial influence in what is documented, and what is kept or omitted in documents. Therefore, searches took account of

the fact that documentary records in SMEs may be selective in what is reported, and how it is reported, in reflecting the owner-managers preferences, particularly in instances where such records are produced as part of a requirement for public accountability or funding. For this reason, the contents of official documentation in the six SMEs that participated in the study were interrogated to explore the contexts in which they originated (Atkinson and Coffey, 2004). This approach is consistent with the view that written records, however official, do not necessarily reveal how organisations operate in reality (Atkinson and Coffey, 2004). Indeed, Atkinson and Coffey (2004) have stated that documents belong to a separate ontology, a reality that they refer to as 'documentary reality'. However, in combination with interview accounts, they were considered a useful source of contextualised data, which complemented owner-managers' interview accounts of their HRM practices.

Document searches were conducted by the researcher, initiating a conversation on the SMEs HRM practices (i.e., selection and recruitment, training and development and, appraisal and rewards) in a relaxed manner. Owner-managers were invited to disclose documentary evidence of HRM practices as the conversations progressed. As expected, the availability of documentation varied across the SMEs involved in the study. Although, in most part, there was poor record-keeping in the SMEs, which meant that some documents could not be located, owner-managers were encouraged to provide accounts of contents of documentation that could not be located. Document searches and the discussion of the documents that were made available included business letters, e-mails, faxes, diaries, financial records and budgets, consultancy reports, official awards, and other official reports provided by owner-managers. The information provided in each SME was contemporaneously summarised in the form of hand-written notes and subsequently proved to be a rich source of contextualised data for assessing and exploring the HRM practices of the SMEs involved in the study. For example, in Nu Co. Ltd., contemporaneous notes on communications between the nursery

owner-manager and the local authority (LA) in connection with funding under the provisions of the 2006 Child Care Act contributed to establishing the institutional context for the company's formal and informal HRM practices. In the case of Cen Co. Ltd., official correspondence about requests for training and placements, and accreditation particulars contributed to the researcher's understanding of HRM practices within the sector. For Be Co. Ltd., various e-mail correspondences with local authorities and Job Centres, as well as records of HRM systems and procedures, contributed to establishing the context for formalised HRM practices. In We Co. Ltd., financial records were used to explore and highlight trends in expenditure on consultancies to implement numerous industry-related, environmental, quality, and health and safety standards. Notes from this review proved useful in establishing the institutional contexts for formalised practices and the company's transition from a provider of low cost fabricated metal products and services to a provider of high value-added precision engineering services. In both Ze Co. Ltd. and Den Co. Ltd., contract documentation and documentary records of quality standards were used to provide retrospective accounts of product and market development in both companies. Contemporaneous notes during both document searches also proved useful in establishing the contexts for the formalised HRM practices in Ze Co. Ltd. and Den Co. Ltd. Table 3.5 is a chart that summarises the list of documents that were produced and discussed in relation to each of the participating SMEs.

Table 3.5 – Record of Document Searches in Participating SMEs

SMEs	Records Searched and Discussed
Nu Co. Ltd.	<ul style="list-style-type: none">• Email Records• Funding Documentation• Criminal Records Bureau guidelines• Employees’ Progress Reports• Employees’ Training Records
Cen Co. Ltd.	<ul style="list-style-type: none">• Company Manual• Consultancy Reports• Email Records
Be Co. Ltd.	<ul style="list-style-type: none">• Recruitment Records• Sales Records• Employees’ Attendance Records• Employees’ Pay Records
We Co. Ltd.	<ul style="list-style-type: none">• Email Records• Budgets and Financial Records• Employees’ Training Records
Ze Co. Ltd.	<ul style="list-style-type: none">• Email Records• Consultancy Schedules• Suppliers’ Brochures
Den Co. Ltd.	<ul style="list-style-type: none">• Advertising Records and Budget• Recruitment Records• Contract Documentation• Organisational Chart

3.9 Cross Sectional Design

Research can be longitudinal or cross sectional with conventional longitudinal studies seeking to examine changes over a long period of time; typically, changes over a number of years. This research was undertaken under time and resource constraints, which made a longitudinal study impractical. On the other hand, with a cross-sectional design it was possible to study contrasting cases of SMEs in high value-added and low value-added sectors flexibly, within a relatively short time frame. However, although primarily a cross sectional design, it arguably has longitudinal features in that, based on owner-managers' accounts, it was possible to probe and interrogate case SME owner-managers' views throughout the five-month period from mid-January to mid-June 2012. Notes taken during follow-up visits for document searches with case-SME owner-managers from February 2012 through to June 2012 formed part of the iterative analytical process during, and subsequent to, the formal data collection phase, which ended in mid-June 2012.

3.10 Data Analysis

The analysis of qualitative data is not based on specific formulas or precise recipes. In other words, there is no one best approach, as yet, to the analysis of qualitative data (Yin, 1994). *'It's not just the case that there are a variety of ways of analysing qualitative data but also, analysis in general means different things to different people'* (Coffee and Atkinson, 1996:6). For some, analysis is primarily about coding, indexing, sorting, retrieving or the manipulation of field notes and interview transcripts. For others, it is more about speculation, imagination and interpretation. As such, it is not surprising that few researchers have sought to provide a detailed systematic account of an exact procedure for analysing qualitative data. For this reason, there is a great deal of variation in the analysis of qualitative data. A number of techniques have been advanced by different theorists. These techniques have evolved in

accordance with different lines of research and theoretical interests and stances. For example, Miles and Huberman (1984) consider analysis of qualitative data to consist of three concurrent stages of activity; data reduction, which refers to the process of selecting, focusing, simplifying, abstracting and transforming the raw data that appears in the transcript; data display, which is concerned with the organised assembly of information; and conclusion drawing and verification, which occurs with the beginning of data collection whereby the researcher starts to note what things mean, noting regularities, patterns, explanations, possible configurations, causal flows and propositions.

The approach for this research is different from the concurrent stages advocated by Miles and Huberman (1984) or Turner's (1983) stages in that the theoretical framework in figure 3.3 established a set of pre-analytical categories with which to navigate the data. As a qualitative research, this study sought to explore and provide an explanation for the theoretical framework in figure 3.3. The flexible approach to data analysis adopted is similar to what Strauss (1987: 192) describes in the following extract:

'We do not believe that strict instructions can be given for how to proceed in detail with all kinds of materials, by everyone, holding all kinds of research, at all phases of the research project. Methods are developed and change in response to changing contexts.'

The use of pre-analytical categories in the analysis of data in this research also makes this research different from a grounded theory approach. As such, it was still possible to apply an interpretive approach without the restrictive effect of a pre-determined set of stages. This was possible by studying the interview transcripts and notes of the documentary searches for patterns in one case, and comparing the patterns with other interview transcripts and notes. Therefore, the approach adopted was in some respects identical to open coding (Coffey and Atkinson, 1997).¹ Guided by the pre-analytical categories, the analysis involved a line by line, paragraph by paragraph examination of the transcripts and review of the notes from the

document searches. In this way, the analysis involved an examination of how owner-managers' interview accounts and the researcher's notes from document searches reflected the institutional and situational contexts of HRM practices of SMEs in accordance with the pre-analytical categories derived from the theoretical framework in figure 3.3.

Given that the research was based on pre-analytical categories, the analytical process involved searching for institutional and situational accounts of the formal and informal HRM practices of SMEs. In this sense, institutional and situational contexts of HRM practices in the data were deemed to constitute the categories of explanations used by owner-managers to explain their formal and informal HRM practices. As a result, data analysis in this research was relatively straightforward, in that unlike grounded theory, the analysis was not based on emergent themes from research data, and use of a computer programme for analysis was not required. As a result, the analysis effectively commenced with the process of data collection during the interviews and document searches from mid-January 2012. In this respect, data collection was not viewed as separate from the continuing process of categorising owner-managers' accounts of their HRM practices. Thus, the analytical process was characterised by a simultaneous process of data collection, ongoing analysis and interpretation based on the pre-analytical categories derived from the theoretical framework. This is identical to Coffey and Atkinson's (1996:11) description of the qualitative analytical process in the following excerpt:

In an ideal world, nobody would ever get into such a predicament with their data. Researchers would realise that analysis is not a separate set of procedures applied to an inert body of data. Whatever research strategy is being followed, research problems, research design, data collection methods, and analytic approaches should all be part of an overall methodological approach and should all imply one another. Indeed, for most kinds of qualitative research, they should not even be thought of as different stages in the research process. What is conventionally referred to as analysis is a pervasive activity

throughout the life of a research project. Analysis is not simply one of the later stages of the research, to be followed by an equally separate phase of ‘writing up results’.

By applying the pre-analytical framework, it was possible to segment the data into distinctive blocks of formal and informal HRM practices in accordance with the HRM domains used in the study (i.e., selection and recruitment, training and development, and appraisals and rewards practices). This subsequently resulted in twelve separate blocks of data, as illustrated in table 3.6, which were then compared for patterns.

Table 3.6 – A framework for Analysis based on Pre-Analytical Categories

		<u>Contextual Influences</u>	
	HRM Practices	Situational	Institutional
	Selection and Recruitment	X	X
Formal HRM Practices	Training and Development	X	X
	Appraisal and Rewards	X	X
	Selection and Recruitment	X	X
Informal HRM Practices	Training and Development	X	X
	Appraisal and Rewards	X	X

Yin (2003) has described pattern matching as a desirable strategy for analysing case studies and suggested that this is achieved by comparing an empirically-based pattern with a predicted pattern. Hence, according to Yin (2003), the presentation of patterns is similar to the deductive stage of the scientific method involving testable hypothesis. However, Yin’s (2003) pattern matching approach of hypothesis testing differs from the qualitative approach for this research in that the analysis of the data involved reading and re-reading of interview transcripts and notes (Easterby-Smith et al., 2002); bringing order, structure and meaning to raw data (Strauss and Corbin, 1998); and the constant comparison of owner-managers’ accounts for patterns based on the pre-analytical institutional and situational categories (Glaser and Strauss, 1967) between SMEs in high value-added and low value-added sectors.

Hence, from the data, the research qualitatively illuminated owner-managers' subjective interpretation of business-specific 'situational' and sector-related 'institutional' contextual influences on their formal and informal HRM practices. The analysis involved distinguishing between two categories of explanation (i.e., situational and institutional) and then separating these into explanations that related to formal or informal HRM practices. Thus the analytical process involved a simultaneous process of data collection and interpretation of owner-managers' 'institutional' and 'situational' accounts of their HRM practices. This was achieved by separating 'institutional' accounts based on what owner-manager perceived to be obligatory on their businesses (i.e., institutional influences) from what they perceived to be business-specific or situation imperatives (i.e., situational influences). The interpretation of institutional factors centred on accounts of the need for compliance with legislative requirements, social desirability and legitimacy (i.e., coercive, mimetic and normative influences). By their nature, these were formal or informal obligations that applied within sectors, groups or clusters of SMEs. In contrast, situational influences were discretionary and based on owner-managers' accounts of HRM practices, which were specific to individual SMEs. For example, accounts of financial resources, internal organisation, internal organisational climate, ownership and management style, etc., were interpreted as situational factors in the sense that these accounts were SME specific, as opposed to being formally or informally institutionalised within sectors, groups or SME clusters. The process of identifying and segmenting owner-managers' accounts eventually culminated in the documentation of the researcher's account of owner-managers' perceptions of the influence of contextual factors on the formal and informal HRM practices of SMEs in high value-added and low value-added sectors during late June, July and August, 2012. The research effectively utilised the pre-analytical framework to collect data, compare owner-managers'

accounts, contrast and document subjective interpretations of institutional and situational influences on the HRM practices of SMEs in high value-added and low value-added sectors.

3.11 Theorising, Generalisation and Theoretical Saturation

The process of theorising in this research was based on the view that theorising is integral and not separate from analysis. The procedure in this research did not involve use of computer programmes. It involved thinking with the data and going beyond the data, and applying and trying out alternative conceptual ideas. Accounts of theorising are often expressed in terms of theory building, particularly those involving computer-aided data analysis. In such approaches, there is often an emphasis on coding schemes with categories and concepts ordered systematically. Although there is recognition that theorising is a creative activity, such approaches often stress the extent to which concepts are derived from the data. However, it would be wrong to assume that there is a single approach to theorising. As Coffey and Atkinson (1996) have stated, there are a variety of paths to theory and there are different kinds of theories and ideas. For this reason, it cannot be assumed that theory can only be built by the ordering of codes alone. Thus, the interweaving of analysis with new ideas occurred throughout this research process and the use of ideas is seen as integral to the qualitative research process.

Therefore, theory verification in this research involved creative intellectual work and speculation about the data and trying out different ideas prior to, and in the course of, the data collection and beyond. Given that abductive reasoning had led to the development of the theoretical framework for the study, the qualitative phase of the research constantly sought ways to explain and confirm or find reasons to undermine the theoretical framework in figure 3.3. It was this intense intellectual speculative process of trying out and progressively logging and reviewing different ideas, and the reading and re-reading of the interview transcripts that

produced the analytical framework linking the situational and institutional contextual influences to the formality and informality of HRM practices subsequently applied in writing up the thesis, and the concept of 'zones of convergence' as part of the discussion in the data analysis.

Theoretical saturation was achieved by ascertaining that the analytical framework in figure 3.3 was supported by the data in all six case-SMEs. In addition, the research involved continued reflections on personal experience of SMEs owner-managers' accounts of their HRM practices. Based on these reflections and discussions with academic colleagues, no personal experience of the HRM practices of SMEs in high value-added and low value-added sectors have, to date, been ascertained as not fitting the theoretical framework in figure 3.3. However, the non-random nature of the sample of SMEs also suggests the possibility of sample selection bias (Becker and Huslid, 2006). Therefore, for theoretical generalisation to the SME population as a whole, it was necessary to review the framework with SME owner-managers who have had no previous dealings with the Business Link organisation. The need for this was highlighted in the course of reviewing the research findings with supervisors at LJMU. SMEs in high value-added and low value-added sectors, who have had no previous direct dealings with Business Link, were identified through a third party organisation and were initially contacted on the 5th of December, 2012. Meetings were subsequently arranged by email and telephone contact on 12th December 2012. The purpose of the research was explained to each owner-manager. Each of the two owner-managers were provided with the participant's brief by email, with both confirming their SME status. Meetings with the SME owner-managers were subsequently held on the 19th and 20th December, 2012. During the meetings, the conceptual framework was introduced, explained and discussed with each owner-manager. In both cases, the owner managers confirmed that the framework was a correct representation of the institutional and situational influences on their HRM practices

by providing accounts of the institutional and situational influences that determined their current HRM practices. The accounts of the owner-managers in both cases confirmed the generalisability of the theory to the SME population

3.12 Research Limitations

3.12.1 Limitations of qualitative research

This research is based on the views and perceptions of a small sample of SME owner-managers in high value-added and low value-added sectors. It was designed to capture the richness and complexity of HRM practices in a non-random sample of SMEs. Therefore, generalisation in this research is based on a theoretical proposition.

3.12.2 Owner-managers' frame of reference

The research represents the views of owner-managers and does not include an analysis of the views of employees. Although owner-managers' views are the best single source of the research constructs in that they are the ones who implement reality as the principal decision makers, owner-managers views may be different from those of employees who are at the receiving end. Therefore, a more comprehensive insight into the HRM practices may need to include an analysis of the views of employees alongside those of owner-managers. However, SME research faces access problems, and in view of the resource and time constraints faced by the researcher, gaining access to the views of employees would have been very difficult.

3.12.3 HRM Practices

The research has been based on a set of HRM practices informed by the literature. Although justification for the use of these practices is informed by the HRM literature, it is important to stress that the nature of HRM literature, particularly in the SME sector, is still in its infancy and yet to be fully developed. Therefore, the extent to which the HRM practices selected

represent real HRM practices in ‘small’ SMEs is yet to be empirically justified. On the other hand, the selected practices are consistent with practices outlined in the IiP Standard, which the UK government has been promoting to SMEs, and can, therefore, be considered relevant in the context of the UK government’s skills policy on SMEs.

3.12.4 Cross-Sectional Design

It is a study based on a cross-sectional design that compares the HRM practice of SMEs in high value-added and low value-added sectors. The results represent a snapshot of the views of owner-managers at a specific point in time during a period of severe economic downturn in the UK economy in 2012. Consequently, it would be just as informative to establish if owner-managers’ views remain the same over a period of time based on a longitudinal study.

3.12.5 HRM Formality and Informality

Informality is conceptually difficult to define and operationalise empirically (Marlow et al., 2010). Therefore, the separation of informal practices from formalised practices in this research has largely been based on a commonsense application of informality by treating informality as *‘practices that evade or challenge formality, face to face rather than procedural or bureaucratic’* (Marlow et al., 2010:957). Formality, on the other hand, has attracted much more attention and is, therefore, more clearly defined in that in most other studies, employment practices and policies are used as the key indicators (Marlow et al., 2010).

3.12.6 Researcher’s Influence

The researcher successfully contacted the SME owner-managers by virtue of his role as a business adviser with Business Link Northwest Ltd. For this reason, it is acknowledged that

the researcher may have influenced the participants' responses in the course of the interviews and document searches.

Given that the approach in this research is qualitative, there are no claims to detached objectivity. On the other hand, even if detached objectivity was sought from the outset, the application of positivist research design in pursuit of objectivity pre-determines the design, the instruments, what is being looked for, what is found and what is concluded. Therefore, the qualitative approach adopted in this research was influenced by a desire to recognise the self as a subjective individual. Therefore, detached objectivity in research may not be a realistic goal in that research is inherently a cultural process which is rooted in a combination of political and personal outcomes. Consequently, it is much more realistic to admit shortcomings in the quality of qualitative research by providing a reflexive account of how personal biases were managed in the course of the research process. In this sense, reflexivity is more to do with making personal biases visible to the reader by reflecting critically on the self as the researcher and coming to know the self within the process of research itself (Lincoln and Guba, 1985).

This research was prompted by an apparent contradiction inherent in the simplistic formalised HRM 'best practices' promoted by successive UK governments over the years and the complex reality of HRM practices of SMEs. The conceptual framework which shaped this research was therefore developed by the researcher in a bid to provide an insight into the complex reality of the HRM practices of SMEs. Therefore, in seeking to explore and verify the conceptual framework, the researcher brings to this research a set of pre-conceptions formed in the course of his employment with Business Link Northwest Ltd. during when he was directly involved in promoting these very HRM 'best practices' to SMEs. It is undoubtedly the case that the researcher's career as a business adviser and counsellor spanning several years of interaction with SME owner-managers from a variety of industrial sectors has been beneficial in enabling this research. However, it is also recognised that this experience and the pre-conceptions formed in the course of the researcher's role as SME advisor and counsellor for several years makes it more difficult to be entirely objective. In

addition, the researcher has personal goals for engaging in this research in that the success of this research in providing a plausible theoretical explanation for the complex reality of HRM practices of SMEs potentially enhances the researcher's career progression aspirations in academia.

Therefore, the researcher fully acknowledges the role of implicit pre-understanding in this research in that *"the explanation of human experience free from our perspective and involvement in the life-world are impossible"* (Dahlberg and Drew, 1997:p.315) So whilst celebrating the extent to which the researcher's experience gives him privileged insight into SME owner-managers' perceptions of their HRM practices, the researcher has nevertheless exercised sufficient control over his normal attitude to operate in a detached manner in the course of the process of data collection and analysis. The researcher acknowledges that his identity, values and beliefs have played a role in the production and analysis of the data. For this reason, the researcher remained on his guard to minimise the effect of his pre-conceptions and personal biases by suspending judgement throughout the duration of the study. This was achieved by a process of ongoing peer review and debriefing as the researcher was supported by three supervisors who reviewed and discussed findings on an ongoing basis in the course of the duration of the research. In addition, the researcher frequently engaged in informal conversations with friends, research colleagues and family members to test out ideas throughout the course of the research process.

3.13 Research Ethics

Saunders et al. (2007) identifies a set of rights for research participants as follows:

- Not to participate.
- Not to be harassed or offered inducements beyond the scope of participation.
- To be contacted at reasonable times.
- To determine within reason, when they will participate in the data collection process.

- To expect the researcher to abide by the extent of the consent given.
- Not to be subject to any attempt to prolong the duration of an interview.
- Not to answer any question, or set of questions.
- Not to be subjected to questions that would create stress or discomfort.
- To expect agreed anonymity and confidentiality to be observed strictly in relation to the discussion and during the reporting of the data.

Accordingly, the methodology and research methods outlined in this chapter were all subject to prior approval by the LJMU research ethics committee. All necessary measures were taken to ensure the anonymity of participating SMEs and their owner-managers. These measures will continue to be observed in the course of discussing and reporting the results of the research. All undertakings of confidentiality, as outlined in the sample Participants' Brief and Sample Consent Form presented in Appendices C and D respectively, have and will continue to be protected.

3.14 Research Validation

As a qualitative research, the use of quantitative criteria for research validity, such as reliability, objectivity, internal and external validity, was considered inappropriate because they are rooted in a positivist paradigm. Unease with the use of such standards has been due to the fact that such criteria '*pre-suppose that a single absolute account of reality is feasible*' (Bryman and Bell, 2011:395). However, from a social constructivist paradigm, there are versions of reality (i.e., multiple realities) as opposed to a single reality about the social world. For this reason, Guba and Lincoln (1994) have proposed 'trustworthiness' and 'authenticity' as two main criteria for assessing qualitative research. They suggest that

trustworthiness is made up of four criteria, which parallel the four criteria in a positivist paradigm; credibility that parallels internal validity; transferability that parallels external validity; dependability that parallels reliability, and confirmability that parallels objectivity (Bryman and Bell, 2011).

3.14.1 Credibility

All the transcripts were reviewed prior to document searches with each of the six case-SMEs to ensure that all the transcripts represented accurate reflections of owner-managers' subjective views, attitudes and perceptions of the influence of situational and institutional contextual on their HRM practices. All parts of the transcripts deemed to have been contested by participants, including views, attitudes or perceptions of HRM practices, were amended for inclusion or removed and did not form part of the analytical process.

3.14.2 Transferability

The research combined data from interviews and document searches and, as such, provided a thick description thereby making it more likely that the findings of this research could be applied in a variety of SME contexts.

3.14.3 Dependability

The research process involved regular discussions with research supervisors and peers about the general approach to the collection and analysis of data. Records of the research process from the development of the questions, the selection of participants as evidenced by signed copies of participant consent forms, field notes, interview transcripts and data analysis decisions were maintained throughout the duration of the study. In particular, the need to demonstrate theoretical generalisability to the SME population as a whole was the product of

ongoing progress reviews and discussions with research supervisors throughout the duration of the study.

3.14.4 Confirmability

Although complete objectivity was not the goal in view of the qualitative nature of the study, the research was conducted in good faith. As such, the results have not been consciously swayed by personal theoretical inclinations that have not been supported by the data collected in the course of the research.

3.14.5 Authenticity

The activities and decision making in SMEs are mostly centred on the views of owner-managers. As such their views, attitudes and perceptions are critical to advancing knowledge of HRM practices in the SME sector. The research satisfies the authenticity criteria in a number of ways: ontologically, in helping to improve understanding of HRM practices in SMEs; educationally, in the potential to provide employees in SMEs with a better appreciation of owner-managers' perspectives of their HRM practices; as a catalyst for employees in SMEs to engage in action to change their circumstances, and tactically, to empower SME employees to take steps necessary for engaging in action.

3.15 CONCLUSION

In view of the weak theoretical foundations of HRM practices in SMEs, the primary focus of research in this field needs to be on making a contribution to theory development. Therefore, there are no real alternatives to qualitative approaches if the goal is to advance theory development. In contrast, quantitative approaches, which are based on the manipulation of variables, are most suited to testing existing theories and are considered inappropriate for theory development. This is not to completely reject positivist approaches in SME research; it

is simply to emphasise that quantitative approaches are unsuited to research in what is still a relatively new field of study, such as HRM in SMEs, where academic research is still in its infancy. Although there has been a marked increase in qualitative research approaches in SME research in recent years, the gulf between SME HRM theory and skills policy in SMEs is still very substantial because SME policy has continued to be based on normative theoretical models derived from the practices of larger businesses (Wilkinson, 1999).

In view of the paucity of appropriate theory on SMEs, it is essential to start to look at alternative approaches to theory generation in SMEs. In this research, abductive reasoning provided an alternative approach to theory generation from inductive research. Based on the theoretical framework derived from abductive reasoning, a deductive-based qualitative research approach was used to explore and verify a new theoretical perspective of HRM in SMEs. Therefore, in this research, abductive reasoning proved to be the basis of a new theoretical insight. The methodology and methods chapter demonstrates how abductive reasoning can contribute to the development of new theoretical insights and how such insights can then be subjected to empirical analysis for verification through qualitative methods of research. In such qualitative methods, the case study research strategy, by virtue of its inherent flexibility, can offer an effective way of collecting qualitative data on the HRM practices of SMEs. Through the interpretation of such data, it was possible to build on the existing literature to explore and explain a new theoretical approach on the HRM practices of SMEs.

Finally, this chapter has outlined the research methodology and the research design to address the RP and the specific research questions posited for empirical investigation. In the process, the constructivist epistemological and multiple reality ontological philosophy guiding the research were outlined. The research methods of semi-structured depth interviews, document

searches, methods of data collection, as well as the interpretivist approach to data analysis, has been explained. The next chapter presents the results of the study.

CHAPTER FOUR

4.0 DATA ANALYSIS

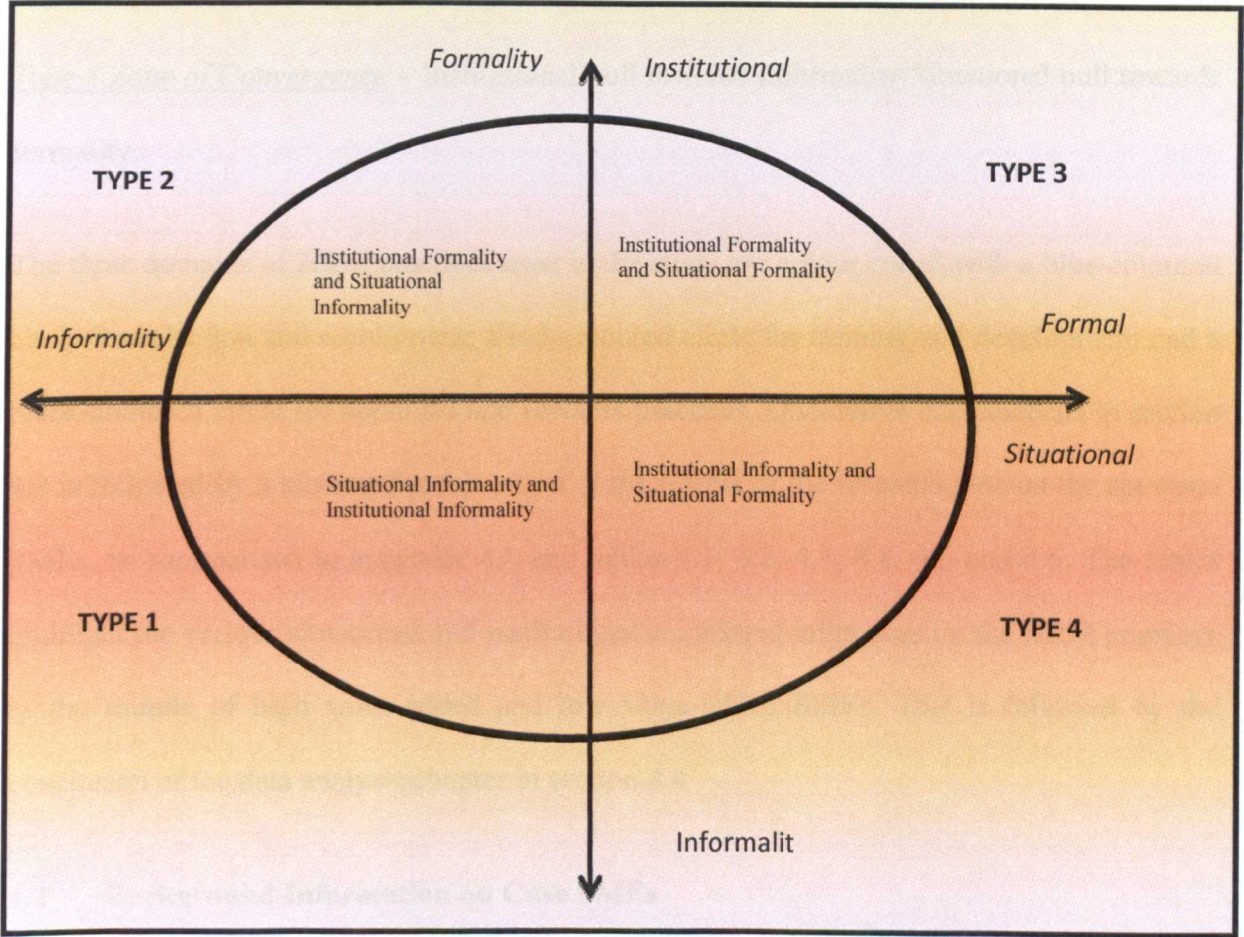
4.1 Introduction

This chapter outlines the analysis of the research data from the transcripts of the semi-structured in-depth interviews and contemporaneous notes from document searches. Firstly, brief background information on each of the sample of six case-SMEs in the study is provided in section 4.2. Using excerpts of the interview transcripts, institutional and situational contextual influences are illustrated in relation to selection and recruitment, training and development, and appraisal and rewards practices for each of the six case-SMEs. Data analysis is based on pre-analytical categories as reflected in the HRM conceptual model in figure 3.3. Based on the conceptual model, a matrix, integrating the institutional and situational contexts of HRM formality and informality, was developed in order to highlight homogeneous pulls (i.e., institutional influences) and heterogeneous pulls (i.e., situational influences) on HRM practices, in figures 4.2 to 4.19. Data interpretation was based on classifying owner-managers' narratives of their HRM practices. Practices perceived as obligatory within sectors, groups or clusters are categorised as institutional. In contrast, HRM practices that owner-managers perceived as business-specific were classified as situational. As illustrated in figure 4.1, the formal and informal dimensions of institutional and situational contextual influences resulted in four typologies of contextual influences, which were used to illustrate homogeneous and heterogeneous pulls on the HRM practices of case-SMEs. The typology presented is not intended to indicate points of convergence and there is no suggestion of any quantitative measures such as frequency, intensity, density or any other quantitative measure of formality or informality of HRM practices resulting from institutional and situational contextual influences. In keeping with the qualitative character of this research, the typology is descriptive in indicating four alternative zones of convergence based

on the institutional and situational influences on the formal and informal HRM practices of case SMEs. Therefore, for the purpose of this study, the precise positioning of the colour coded dots within each of the four zones of convergence is irrelevant.

Type 1 Zone of Convergence – Institutional pull towards formality/Situational pull to informality

Figure 4.1 – A typology of Institutional and Situational Influences on HRM practices



Type 2 Zone of Convergence – Institutional pull towards formality/Situational pull towards formality

As depicted in figure 4.1, institutional and situational influences resulting in formal and informal practices are labelled as Type 1, Type 2, Type 3 and Type 4 typologies of influences, which for the purpose of this study will be referred to as ‘zones of convergence’ as follows:

Type 3 Zone of Convergence – Institutional pull towards formality/Situational pull towards formality

Type 1 Zone of Convergence – Institutional pull towards informality/Situational pull towards informality.

Type 2 Zone of Convergence – Institutional pull towards formality/Situational pull towards informality.

Type 3 Zone of Convergence – Institutional pull towards formality/Situational pull towards formality.

Type 4 Zone of Convergence – Institutional pull towards informality/Situational pull towards formality.

The three domains of HRM practices used in the study are colour coded with a blue-coloured circle for selection and recruitment; a red-coloured circle for training and development and a black-coloured circle for appraisal and rewards practices. Qualitative data analysis in section 4.3 is followed by a tabulated presentation of the results of the research data on the six case-SMEs, as summarised in appendix 4A and tables 4.1, 4.2, 4.3, 4.4, 4.5 and 4.6. The tables highlight the various situational and institutional contextual influences on the HRM practices in the sample of high value-added and low value-added SMEs. This is followed by the conclusion of the data analysis chapter in section 4.4

4.2 Background Information on Case SMEs

Case SME 1 – Nu Co. Ltd. (Low Value-Added Sector)

Nu Co. Ltd. is an established neighbourhood nursery that specialises in the care of children under the age of five. The business employs mostly low-skill staff, with most of these having joined the company with no formal qualifications. Therefore, a key feature of the operation has been to recruit potentially suitable employees and put them through subsidised training programmes leading to basic nursery care qualifications. Training programmes are supported with funding from the local authority. For several years, the company had experienced severe problems with staff retention prior to the implementation of the IiP quality standard, which

led to the formalisation of many aspects of its employees' management practices. It has been trading for over 10 years and currently employs twenty full-time staff with an annual turnover in the order of £3.5m.

Case SME 2 – Cen Co. Ltd. (Low Value-Added Sector)

Cen Co. Ltd. is a long-established heating systems engineering company that specialises in the repair and maintenance of central heating systems with a diverse customer base predominantly in the domestic market sector. It employs a total of twelve full-time staff including three administrative personnel and has annual sales in the order of £2.4m. The company has been trading for twenty-five years.

Case SME 3 – Be Co. Ltd. (Low Value-Added Sector)

Be Co. Ltd. is a well-established cleaning materials supplies business that has been trading for fifteen years. It employs twelve full-time staff and has annual sales in the order of £3.2m with a diverse customer base in the public sector, including schools, colleges, local authorities, care homes, nursing homes and a growing number of private sector customers including hotel chains.

Case SME 4 – We Co. Ltd. (High Value-Added Sector)

We Co. Ltd. is a long-established precision engineering company that has been trading for twenty years and specialises in the design and manufacture of mechanical components and steel structures for the construction, pharmaceuticals, food and automotive sectors. It employs a total of twenty-four skilled engineering personnel and has annual sales in the order of £5.5m.

Case SME 5 – Ze. Co. Ltd. (High Value-Added Sector)

Ze Co. Ltd. specialises in the design, assembly and installation of advanced electronic surveillance security systems. It is a family-run company with a customer base in the banking, finance and insurance services sectors. The company has been trading very successfully for over twenty years and employs a total of twenty full-time staff, including three in administrative positions. It has annual sales in the order of £5.1m.

Case SME 6 – Den Co. Ltd. (High Value-Added Sector)

Den Co. Ltd. is a long-established precision engineering company that specialises in the design and manufacture of sophisticated mechanical components for the oil and gas sector. Its manufacturing capabilities include an extensive application of numerical control technology and computer-aided design and manufacture. It is a family business that has been trading for over fifty years and currently employs forty-five full-time staff, with annual sales in excess of £15.2m. The management of Den Co. Ltd. aims to maximise growth under increasingly difficult trading conditions. It is a first tier supplier to a number of multi-nationals in the oil and gas sector. Den Co. Ltd. operates within an Oil and Gas supply chain and is regarded as a market leader by its director.

4.3 Qualitative Data Analysis

4.3.1 Selection and Recruitment Practices in Case SMEs

- **Nu Co. Ltd.**

Nu Co. Ltd. operates in a highly regulated child-care sector. As such, much of its selection and recruitment practices have been conditioned by UK child-care legislation. The Child-care Act, which passed into law on 11th July 2006, is widely regarded as a pioneering Act and remains a cornerstone of the UK government's effort to transform childcare provision and

Early Years services throughout England by incorporating key commitments in the Ten Year Childcare Strategy published in December of 2004. The Act entrenched the role of local authorities (LA's) by requiring them to undertake new duties to improve outcomes for pre-school children as part of an under-five 'Every Child Matters' (ECM) government campaign. The Act aims to reduce inequalities in outcomes, secure sufficient childcare places in England and provide parents with care information, with financial incentives and subsidies through the LAs. The UK government's desire to expand nursery provision through new legislation in England also resulted in an increased demand for qualified nursery staff with an NVQ Level 2, which is the stipulated minimum qualification for all nursery staff in England.

Against this backdrop of government legislation and increased demand for qualified nursery staff, informal selection and recruitment practices in Nu Co. Ltd. have been conditioned by the lack of qualified nursery staff in the external labour market, which means that much emphasis has been placed on seeking out and recruiting suitable mature adults who are either retired or nearing retirement. The main aim is for potential employees who are resident in the locality of the nursery, including housewives with the desired personal attributes, with little or no career progression aspirations, and willing to undertake LA subsidised nursery training.

'The staff now, they are mostly local and they all enjoy working here. Many of them are retired and they like working with kids. They do it for the fun of it, not to get a promotion'.

To address this need, Nu Co. Ltd's approach to selection and recruitment of new staff is based on 'word of mouth' and personal recommendations from known and trusted contacts in the local community. Consequently, a significant proportion of new recruits tend to be mature adults who are resident within close proximity and easy travelling distance to and from the nursery. The company deliberately sought potential recruits who did not have a desire for

career progression because these group of employees are perceived by the owner-manager to be the least likely to seek alternative employment elsewhere once they have been trained.

'It is who we can get, are they right for us and are they willing to stay?'

Whilst formalisation was necessary to ensure that new recruits were eligible for funded training under the provisions of the Child Care Act in the initial phases of recruitment, pockets of informal selection and recruitment practices are also evident in locating suitable potential recruits within the local community. Consequently, Nu Co. Ltd. combines a process of formally assessing candidates' eligibility for funded training, with informality in the use of known local contacts using 'word of mouth' and personal recommendations. Thus, a formal process of establishing candidates' eligibility for funded training exists alongside informally assessing personal qualities, career expectations and overall suitability for employment in the nursery:

'In nurseries, what we have to do is to get funding – we are well funded so we can get eighty per cent subsidy off for their training courses – I want them to go on training courses funded by the local authority.'

In Nu Co. Ltd., lack of availability of qualified nursery staff in the external labour market (i.e., external labour market conditions) has created the context for publicly funded formalised training and development. The company's selection and recruitment systems are designed to enable the identification of suitable potential recruits, who have no obvious career progression aspirations, from amongst the resident, local, mature, adult population, as these employees are more likely to remain with the company once fully trained (i.e., the absence of an internal labour market due to size).

'Before, we used to have all kinds of younger people and they get the training and we lose them. Now it's different, the people we have now, they all want to stay and that's been really good for us.'

For Nu Co. Ltd., retaining trained staff was critical to performance because the company had been experiencing an excessively high turnover of staff, estimated to be around eighty per cent. The attendance records showed that the company did not only have a high turnover of staff, it also had a very high rate of absenteeism, which proved highly disruptive and costly to the business. Therefore, compared with an absenteeism rate of twenty percent pre-2006, the current rate of less than five per cent also represents a marked improvement.

The level of employee turnover pre-2006 was deemed unsustainable and had threatened the continued viability of the business prior to the implementation of a formalised selection and recruitment process as part of the LiP quality standard. Thus, the situational contextual factors impacting the selection and recruitment practices of Nu Co. Ltd. include absence of an internal labour market that could support career progression on one hand, and, on the other, an external labour market unable to provide the required qualified labour in a so-called low value-added sector.

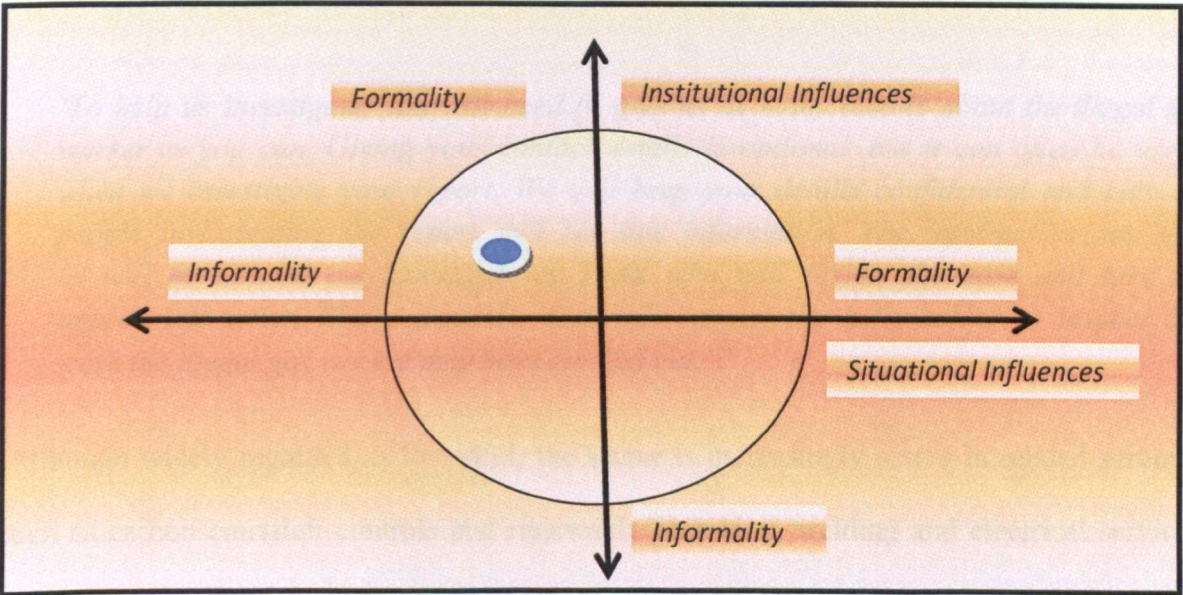
'Hello, I was wondering if we could have a chat. I got one of your leaflets and I think my daughter might be interested in working at the local nursery.'

(Source: email records)

At the same time, institutional contextual factors related to legislation and regulatory standards, including Criminal Records Bureau (CRB) checks on potential recruits (i.e., coercive isomorphism), have also been significantly influential in the company's selection and recruitment practices. Nu Co. Ltd. deemed it necessary to recruit employees who satisfied the local authority eligibility criteria for funding and who were most likely to undertake and complete nursery training to an institutionally mandated standard. For Nu Co. Ltd. it seems that the combined impact of recruiting employees meeting the eligibility criteria for funded training of nursery staff to institutionally mandated standards, and the situational

necessity to retain trained staff by recruiting mature adults with little or no ambition for subsequent career progression elsewhere, have combined to create the conditions for formality in selection and recruitment from an institutional standpoint, and informality of selection and recruitment from a situational perspective. Figure 4.2 is a representation of the institutional and situational influences, which indicates a type 2 zone of convergence.

Figure 4.2 - Convergence of Institutional and Situational Influences on the selection and recruitment practices of Nu Co. Ltd.



Ironically, the availability of funding for nursery training also encouraged the owner manager to adopt an informal approach to selection and recruitment. This indicates that selection and recruitment priorities were more to do with personal qualities and attributes and less to do with nursery qualifications, in the knowledge that there was public funding available for potential employees who did not possess the required nursery qualification.

‘The main thing is that we get the right people and, that they like to work here. Our training is not that of a problem, I mean because the council can help to get them trained.’

- **Cen Co. Ltd.**

Cen. Co. Ltd. also operates in a highly regulated sector, which requires all gas engineers to be CORGI (i.e., the Council for Registered Gas Installers) registered. Based on the regulatory requirements in the sector, it is mandatory for all gas engineers to be qualified to an approved standard in compliance with legislative and regulatory operating standards. Therefore, it is a criminal offence in the UK to operate as a gas engineer without CORGI registration. To this effect, the company's engineers' manual contains the following advice to customers:

'To help us investigate, you will need to give us as many details about the illegal gas worker as you can. Giving your contact details is optional, but it can often be useful when we investigate your report. We will keep your details confidential and only the people investigating the report will see this information. The information you give us will be sent to our Investigations Team who will review the case and take the appropriate action. Where possible, they will contact the householder to inspect any work the illegal gas worker may have carried out.'

Although widely regarded as low skill, the sector is increasingly active in related services, such as carbon emission controls and renewable plumbing, welding and electrical services. These services are a potential path to value-added services in the sector. Rapid growth in the range of related services, fuelled to a significant extent by the environmental lobby, makes it obligatory for businesses in the sector to comply with a broad range of regulatory standards, including health and safety, and environmental legislation. Thus, gaining accreditation in the various quality standards is a priority for companies with a desire to grow and expand. Currently, there are numerous institutional structures governing environmental and carbon emission standards, which make it essential for businesses in the sector to adopt a formalised approach to their selection and recruitment practices.

'Either through the Job Centre, or we could put an advert in the paper, but mainly through the Job Centre, but we do tend to get a lot of people sending C.V.s in every day – new applicants everyday – we just put them in the file and in the future just get them out from the file.'

'Well, first of all, they would apply for the job, and then we will give them an interview. In the interview, we will go through the checklist – they can either take the application form away with them or they can fill it in while they are here, and then from there off – on the back of that, then we will look at their qualifications and see which is best suited to us.'

In addition to the need for compliance with the regulatory demands of the sector, it is also evident that aspects of informal recruitment practices based on family affiliations have also become institutionalised, suggesting that selection and recruitment practices may not only be conditioned by the need for compliance with regulatory standards. Indeed, the company's selection and recruitment practices are equally a manifestation of wider institutional norms and practices:

'It is mainly father and son relationship in our trade.'

In the above interview excerpt, the owner-manager was alluding to a common practice within the sector, for male members in particular, to succeed their fathers. Therefore, despite operating in a highly regulated industrial sector, to present selection and recruitment practices in Cen. Co. Ltd. as exclusively formalised would be an inaccurate representation. In spite of the institutional structures that condition businesses in the sector to adopt a formalised approach to selection and recruitment, the owner-manager of Cen. Co. Ltd. also acknowledges the role of informality in assessing applicants' suitability as potential employees of Cen. Co. Ltd. Thus, a situational need, based on an informal process of assessing the ability of new recruits to 'fit in' with the company's existing employees and its way of doing business, also represents an important aspect of the company's selection and

recruitment practices. This is, perhaps, more so in view of the ready availability of qualified labour in the external labour market.

'It would be more if we knew them first off, that would count. I mean they always say don't they, it's not what you know, it is who you know, so if we know them first that would be an advantage.'

In addition, as the owner-manager makes clear in the next excerpt, informality could be viewed as a better way of assessing potential employees' general attitude and, therefore, the compatibility of potential new recruits with the rest of the existing workforce in the company.

'But it is more the person, whether they look interested, because believe it or not, people can come in for an interview and they just don't seem interested,'

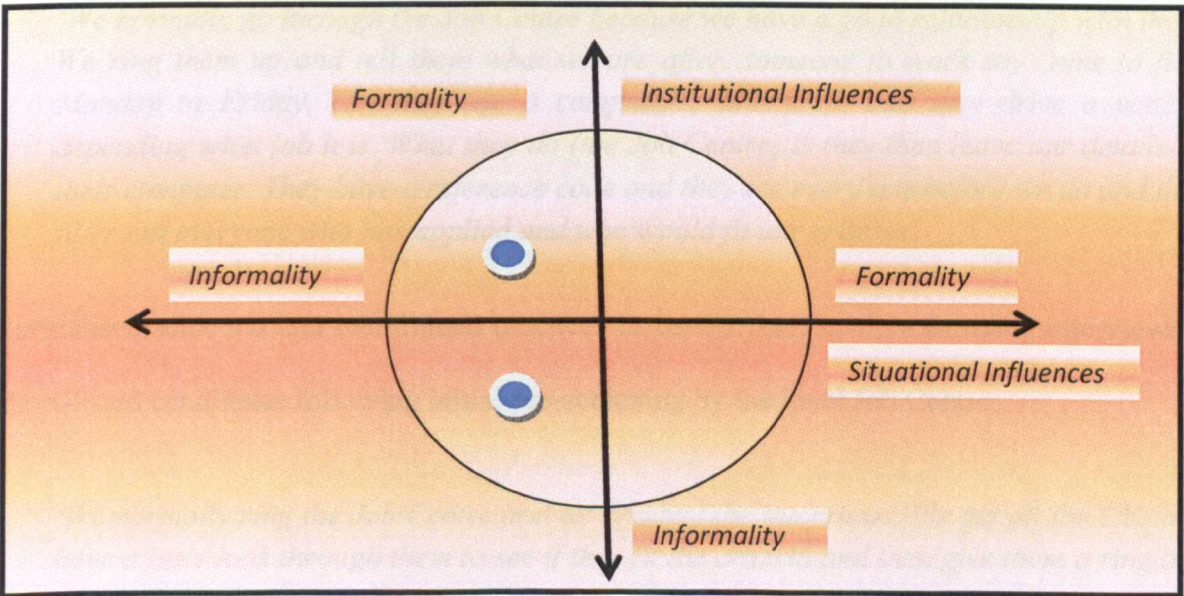
Cen Co. Ltd. also recruits a limited number of apprentices and much of this process is informal as apprentice positions do not require any formal entry qualifications. Referring to a recent recruitment of an apprentice, the owner-manager emphasised the benefits of informality in the following excerpt:

'The father works with us, and he said "Can you let our son come in and you could mould him into a good engineer?" And now they are out on the road and it works well. We actually know the person, so it's a father and son, we know the father, we know what the son is like, so we have got past experience of him.'

The need to comply with strict regulatory standards means that in Cen Co. Ltd. there is a necessity to recruit engineering operatives possessing valid operating licenses (i.e., coercive isomorphism). At the same time, there remains a desire to recruit engineers who 'fit in' with the family atmosphere of the business (i.e., internal social and political dynamics). How this requirement is met depends on the personal judgement of the owner-manager. Similarly, the informal practice of recruiting family members as engineering apprentices has become institutionalised within the sector (mimetic isomorphism – institutional norms). Therefore,

contextual influences conditioning selection and recruitment practices of Cen Co. Ltd. include coercive and mimetic isomorphism and the availability of ‘qualified engineers’ in the external labour market (i.e., external labour market conditions). As depicted in figure 4.3, selection and recruitment practices in Cen. Co. Ltd. can, therefore, be characterised as one in which an institutional pull towards formality and informality for qualified engineers is combined with a situational pull towards informality (i.e., fitting in). This suggests an axis of convergence in type 1 and type 2, as shown in figure 4.3

Figure 4.3 – Convergence of Institutional and Situational Influences on the selection and recruitment practices of Cen Co. Ltd.



- **Be Co. Ltd.**

Formalised selection and recruitment practices in Be Co. Ltd. have been conditioned by the expectations of a customer base predominantly in the public sector. As part of their procurement policies, many of the company’s public sector customers have prioritised enlisting suppliers that possessed quality standards, such as the IiP standard, as part of their procurement policies. Therefore, for Be Co. Ltd., accreditation against such standards is

simply a matter of survival given its reliance on the public sector for custom. An examination of the company's sales records for the accounting year ended 5th April, 2010 indicated that over eighty percent of its current revenue is derived from the public sector. The company had achieved IiP accreditation as part of its expansion programme ten years ago, and a formalised selection and recruitment procedure was implemented as part of the IiP training and development quality standard.

'We always go through the Job Centre. Yes, we don't really use agencies or anything like that. We always go through the Job Centre because they are normally always full-time positions as well.'

'We normally go through the Job Centre because we have a good relationship with them. We ring them up and tell them what we are after, someone to work say nine to five, Monday to Friday, can they use a computer?, Microsoft, can they drive a van? – depending what job it is. What they do (the Job Centre) is they then leave our details on their computer. They have a reference code and they see every one before we do and they filter out everyone who has applied and who would fit our criteria'

Formalised selection and recruitment practices in Be Co. Ltd. involve formally interviewing short-listed candidates following initial pre-screening by the local Job Centre;

'We normally ring the Job Centre and we conduct the interviews. We get all the CVs and have a little look through them to see if they fit the criteria and then give them a ring and then make a decision'

'Yes, we take notes and we have to fill in a form when they come in for an interview. We have a standard form that we use that just asks them their name and address, if they have got any holidays booked, if they are sick, what was their last job, if they have got any dependants. We ask them basic questions before they come in for an interview. We use a set of scores, then we have a little look at the scores and then weigh them up and find the best person.'

However, selection and recruitment practices at Be Co. Ltd. have not only been influenced by its institutional context, they have equally been influenced by its situational context as the

owner-manager considers a formal procedure to be particularly beneficial in managing relationships in the company, as she explains in the following excerpts:

'No, we don't normally say to anyone "Do you know anyone looking for work?" We normally just put it straight through to the Job Centre because, for example, because the drivers want their daughters to work here, then if they applied for the job through the Job Centre and were really good, then yes, they would probably get it, but we don't really go by personal recommendations just in case there is any conflict.'

'If you have someone and they are one of the drivers' daughters, and they aren't any good, we just feel a little bit awkward saying, "Oh! You have done that wrong, or we are going to have to let you go, because then it has a knock-on effect with the driver – it is part of their family type of thing.'

Formalised selection and recruitment practices in the company were evidenced by the availability of job descriptions for different roles, equal opportunities documentation and documentation for recruitment procedures. From the interview excerpts, it is apparent that the situational context, which makes a formalised approach to selection and recruitment essential in order to demonstrate impartiality to avoid accusations of nepotism, is integral to sustaining team cohesion and good inter-personal working relations throughout the company:

'We want our staff to see that we are fair to everyone. We don't want them to feel that we have - that they have been badly treated, and that's really important to us.'

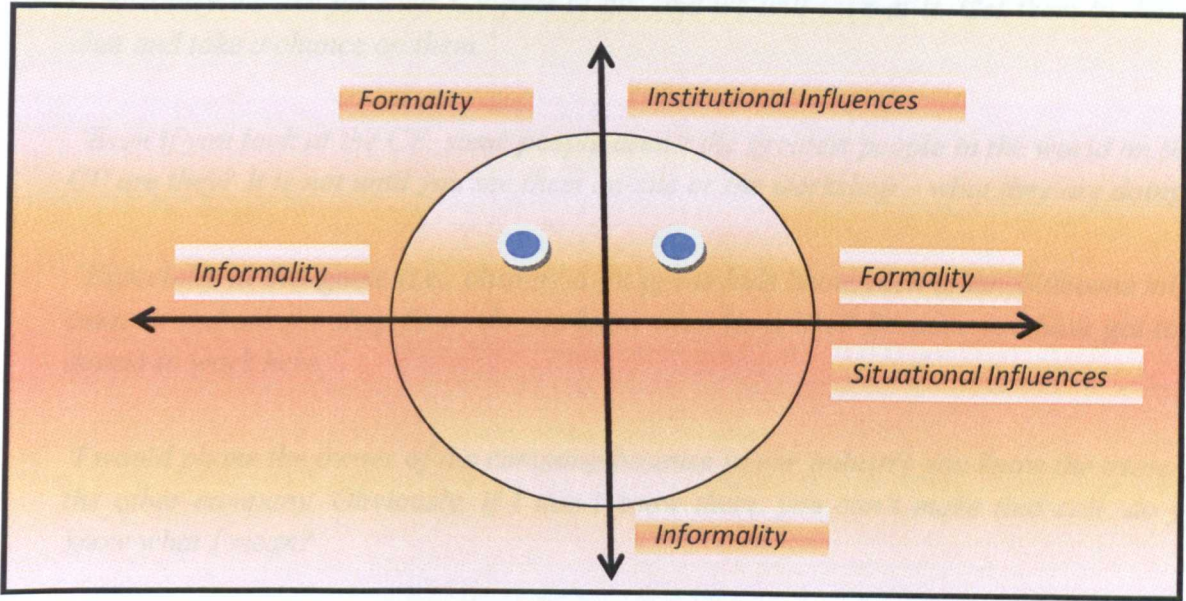
'Yes, we have staff and we like to keep them. I think that is why we are close knit.'

However, alongside an institutional pull towards a formalised approach to selection and recruitment, the owner-manager also readily admits to the importance of new recruits 'fitting in', which goes beyond formal qualifications and interview scores. In the next excerpt, she explains the role of informality in assessing a candidate's suitability and potential to 'fit in' with the existing employees in the company:

'It probably goes right back to the first interview, you get a feeling when you interview someone that they are going to fit in, they are going to work well or things like that. You just get a little feeling and then you think, if I can train them, then they will be good. We usually get a little inkling.'

Therefore, selection and recruitment practices in Be Co. Ltd. are the result of a combination of institutional influences (i.e., coercive isomorphism) due largely to a customer base predominantly in the public sector, as well as a situational desire within the company to be perceived by employees as fair and transparent in order to maintain high employee morale, motivation and good working relationships amongst employees (i.e., internal social and political dynamics). Thus contextual factors impacting the selection and recruitment practices of Be Co. Ltd. combine coercive influences from an institutional perspective, as well as the company's internal social and political dynamic from a situational perspective. Analysis of the institutional and situational influences on the selection and recruitment practices of Be Co. Ltd. indicates two separate zones of convergence in an institutional pull towards formalisation combined with a situational pull towards formalisation (i.e., type 3 zone of convergence) on one hand, and an institutional pull towards formalisation (i.e., coercion) combined with a situational pull towards informality (i.e., new recruits fitting in), indicating a type 2 zone of convergence. Figure 4.4 is a depiction of the institutional and situational influences on the selection and recruitment practices of Be Co. Ltd.

Figure 4.4 – Convergence of Institutional and Situational Influences on the selection and recruitment practices of Be Co. Ltd.



- We Co. Ltd.**

We Co. Ltd. is reliant on a pool of skilled engineering personnel recruited informally from the external labour market, mainly by ‘word of mouth’ and personal recommendations by known contacts within the sector:

‘It is mainly by word of mouth.’

We Co. Ltd. operates within a geographical cluster of inter-connected SMEs that are in competition but also collaborate at the same time. Within this geographical cluster, We Co. Ltd. is able to effectively deploy an informal approach to its selection and recruitment practices in that informal selection and recruitment is routine, and has generally become accepted as the most effective way of securing the right calibre of staff for the specialised needs of the cluster.

'Yes, recommendations to say, good lad, good girl, or whatever, '

'Obviously we ask for their CV first of all, and we will look at it. Get them in, have a chat and take a chance on them. '

'Even if you look at the CV, some people aren't the greatest people in the world on their CV are they? It is not until you see them on-site or the workshop – what they are doing. '

'Especially in this game (i.e., cluster) a lot of the lads know each other. Someone might come in and ask the shop floor, do you know what he is like? Because you have got to be decent to work here. '

'I would phone the owner of the company because in our industry you know the owner of the other company. Obviously, if I don't know them, you can't make that call, do you know what I mean? '

As an illustration of the degree of informality in selection and recruitment within the sector, in the next extract the owner-manager indicates his preference for informal selection and recruitment by a process that can best be described as 'trial and error'.

'We will just have to take them on to see what they are like, and two to three weeks down the line see their performance and what they are like, and if they are no good you have to get rid of them. '

In many respects, informal selection and recruitment practices in We Co. Ltd. seem to be reflecting institutional norms and informal practices peculiar to the cluster, whereby the owner-manager's practices mimic practices within the sector. The owner-manager considers this way of recruiting as the most effective way of recruiting staff within the cluster. Indeed during the document search, the owner-manager produced a copy of an email record from one of his competitors asking if We Co. Ltd. were interested in taking on a member of his engineering staff:

'I think our Billy wants out – do you want him? ' (E-mail record)

In addition, the specific operating conditions of the company also seem to favour an informal approach to selection and recruitment on the grounds of practicality due to the level of bureaucracy the owner-manager perceives to be associated with a formalised approach to selection and recruitment, not to mention the financial constraints that he links to extended credit periods given to customers. Extended credit periods to customers are typical of the sector and they are usually part of the contractual terms and conditions with customers.

'It is more paperwork. You just haven't got the time. There is too much paperwork involved. You have got to do a risk assessment just to go to the toilet, it's just ridiculous the amount of paperwork you need. It's another employee, its more money, there is no money for that.'

'It's just that we haven't got the cash flow to take them on (formalised recruitment). In this industry, you get paid 60 days, 90 days from the end of the job so you have got to pay the wages. Truthfully, without any financial back-up you are struggling against the brick wall.'

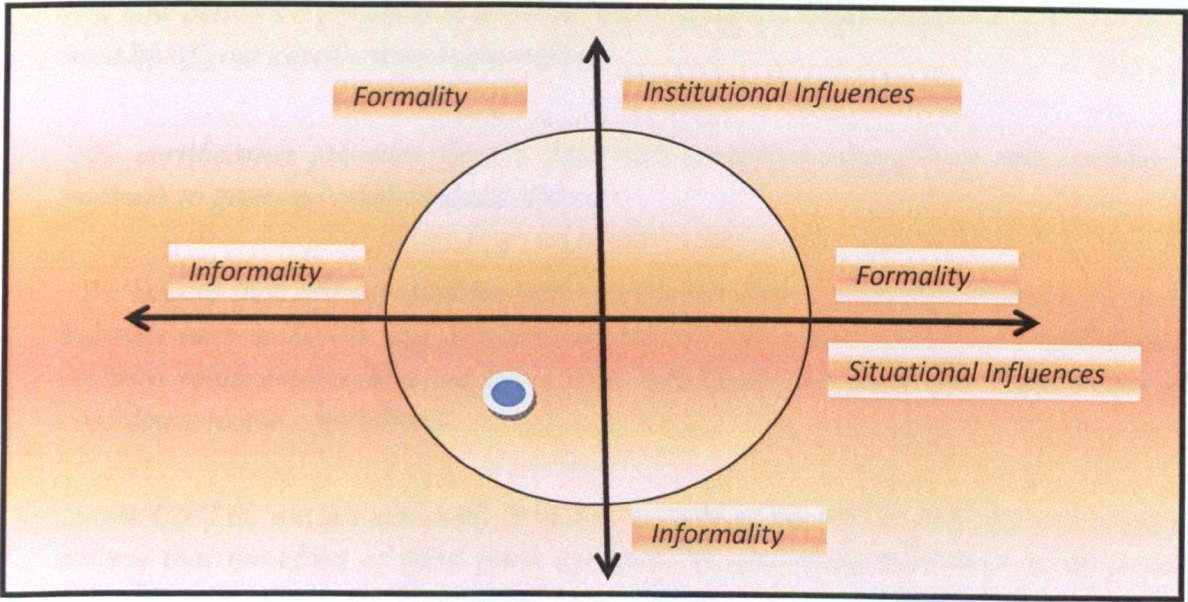
A review of the company's financial records during the document search showed that although the company was quite profitable, in the last three years in particular, the company's liquidity had been deteriorating. As a result, the owner manager has been considering making an application for public funding towards additional working capital:

'There is business out there and we can grow the business. The main problem is cash flow, so if we can get money from the likes of the there is no reason why we cannot continue to expand and employ more people. As things are at the minute, we just can't do it. You know, we are always in the red.'

The data suggests that We Co. Ltd. is reliant on a pool of skilled engineering personnel in the external labour market (i.e., external labour market conditions) within a geographic industrial cluster, characterised by collaborative working amongst competing SMEs. Within these mostly family businesses, informal selection and recruitment practices have become institutionalised as a way of selection and recruitment in the sector (i.e., mimetic

isomorphism). At the same time, informal selection and recruitment practices in We Co. Ltd. have also been conditioned by a situational need to minimise bureaucracy (i.e., effectiveness) and conserve cash, given that the company operates under severe liquidity constraints (i.e., financial constraints). Therefore, the institutional and situational contextual influences impacting selection and recruitment practices in We Co. Ltd. converge on the need for an informal approach to selection and recruitment, thereby suggesting a type 1 zone of convergence, as depicted in figure 4.5.

Figure 4.5 – Convergence of Institutional and Situational Influences on the selection and recruitment practices of We Co. Ltd.



- **Ze Co. Ltd.**

Ze Co. Ltd. operates in a highly regulated electronic surveillance security sector under the auspices of the National Security Inspectorate (NSI) and its guidelines for the industry. NSI approval serves as a quality assurance, which companies in the sector are operating to approved industry standards, as well as the standards set by the Police and Fire Rescue Services, the insurance industry and the financial services sector. Meeting the insurance

industry standards is crucial for Ze Co. Ltd. because its customer base is concentrated in the financial services sector, which is one of the most security sensitive sectors in the UK economy. The company brochure includes the following excerpts on NSI certification:

'Third party certification provides reassurance to our existing and potential customers that we are a reputable and trusted contractor that has been independently verified as meeting industry standards.'

'NSI has provided certification services for over 40 years and is widely recognised by consumers, specifiers, police and insurers as the badge they can trust. NSI approval is only given to those companies that are able to consistently meet our exacting standards.'

'NSI services are continually being adapted and developed to keep pace with new technologies, relevant legislation and ever-increasing customer needs and expectations. NSI now delivers a portfolio of products that provides a single source of solutions for the breadth of your certification requirements.'

'NSI certification provides Ze Co. Ltd. with a recognised approval that enables the business to gain and retain valued clients.'

'We believe that NSI certification adds significant value to the way in which we do our business here at Ze Co. Ltd. We consider that we are experts at business and domestic security requirements and we know that our customers value the reassurance and confidence in our capabilities.'

'At Ze Co. Ltd. we are extremely proud to be part of the NSI community and we firmly believe that the effect of third party certification and recognition by a sector specific body like NSI ensures we have added value and the edge over our competitors as well as keeping our own standards.'

'We chose NSI because we were told that NSI was the best for the industry and we wanted the best for our company.'

Although Ze Co. Ltd. is highly reliant on skilled electronic engineering personnel, its recruitment practices are informal as selection and recruitment is based primarily on 'word of mouth' and personal recommendations from known contacts within the sector.

'We talk to wholesalers and suppliers, and they say, "Do you know anyone in the industry that is after a job?" So we tend to get the majority of our electronic engineers through word-of-mouth. We find that through the Job Centres we cannot get the quality of people. It's mainly word-of-mouth and also what we do mainly is to make sure that we train them properly, because the people that come to us realise that they have got to have some training before they go out to a job.'

'Just wondering if you know someone who can take over from John. John is leaving and I need someone that can conduct inductions.' (E-mail records)

Thus, informal selection and recruitment practices are conditioned by an industrial sector that historically, has been dominated by a few multinational electronic giants who between them have in excess of ninety per cent of the world-wide market. Through their distribution centres and local agents, these multi-nationals have a highly structured and long-established network of training centres for the sales and distribution of their technologies. The skills required to operate these technologies are generic in nature, portable and highly transferrable. Consequently, informal recruitment practices have become institutionally entrenched amongst approved local agents and distributors.

'It is the same for the others – I don't know enough about the smaller ones but the ones we know all do the same. Talk to different agents and get recommendations by word of mouth.'

On the other hand, in view of the sensitivities associated with the security industry, it is also necessary, from an institutional perspective, for new recruits to be thoroughly vetted as part of the NACOSS (i.e., National Approval Council for Security Systems) accreditation, which is the recognised acronym for codes of practice for the security industry, to ascertain the eligibility of recruits to operate as engineers in the sector:

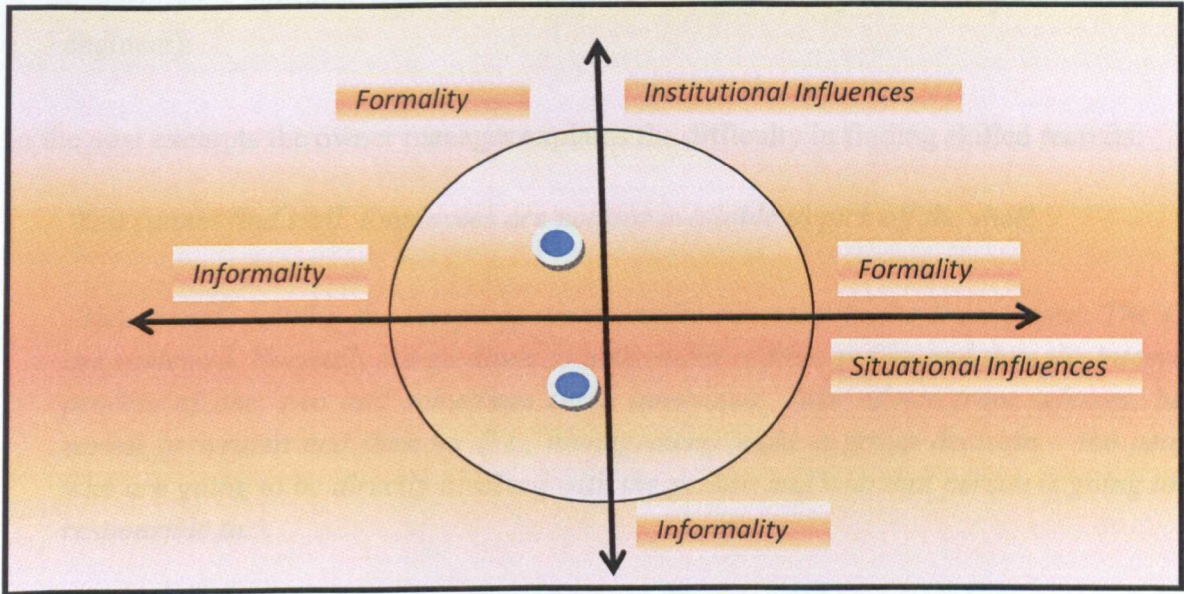
'We also have to vet them, the police and insurance companies, to make sure that they haven't got a background – not been in prison or whatever, so we've got certain things that we've got to do first. We vet them to make sure they are okay, they can work in our

industry – going into somebody's house, shop and then we have to train them as we want them. '

Therefore, for Ze Co. Ltd. there are various institutional influences leading to the formalisation of selection and recruitment practices that are linked to government legislation and regulatory requirements, which serve to legitimise businesses in the sector on one hand, and informal selection and recruitment practices based on institutional norms on the other. At the same time, from a situational perspective, the owner-manager of Ze Co. Ltd. finds informal recruitment a more practical, less bureaucratic and generally more effective way of properly focusing the search for potential recruits.

Along with its main competitors, Ze Co. Ltd. is largely dependent on technological innovations developed by a few multi-nationals who dominate the industry (i.e., industrial structure and technology). For Ze Co. Ltd., a ready availability of a pool of skilled labour (i.e., external labour market conditions) and the convenience of informally identifying suitable employees through a network of trade contacts in the sector suggests selection and recruitment practices influenced by external labour market conditions, and the dynamics within the sector (i.e., mimetic isomorphism). This suggests that selection and recruitment practice in Ze Co. Ltd. is characterised by two zones of convergence, depicted in figure 4.6. An institutional pull towards informality converges with a situational pull towards informality on one hand (i.e., type 1), and an institutional pull towards formality that converges with a situational pull towards informality on the other (i.e., type 2).

Figure 4.6 – Convergence of Institutional and Situational Influences on the selection and recruitment practices of Ze Co. Ltd.



• **Den Co. Ltd.**

Den Co. Ltd. relies on highly skilled engineering operatives and finds it increasingly difficult to recruit skilled staff from the external labour market due to the specialised nature of its operations. As a market leader in the Oil and Gas sector, the company’s operations involve technically sophisticated engineering products and services applied in pre-drilling, production and de-commissioning. Its expertise includes service systems, such as product life-cycle management (PLM), document management systems, 3D computer-aided design and manufacture, and systems engineering. Its product range includes complex surface finishes, sealing systems including static, linear and rotary seals, seal configurations, as well as hardware expertise in piston and rod. As a market leader, the company provides a range of tailored and bespoke solutions to the Oil and Gas sector. To deliver these services to required standards, the company needs highly skilled employees and is willing to train them if necessary. The next excerpt is a recent advertisement for a Safety Compliance Engineer:

'Reporting to the Quality Manager, you will be responsible for procurement and quality control of a model range. Your responsibilities will include ensuring on-time delivery to a world-wide customer base' (Recruitment Records-Vacancy for a safety and compliance engineer).

In the next excerpts the owner manager explains the difficulty in finding skilled recruits:

'You cannot find staff. Employees are not just available to pick off the shelf.'

'New people joining the company, we normally advertise in the local paper. The CVs are reviewed. Normally we go down to a short-list of four or five and then the interview process of one, two and sometimes three interviews. Take advice from referees, be it verbal or written and then we (i.e., management) make a group decision – the people who are going to be directly involved with the person and who that person is going to be responsible to.'

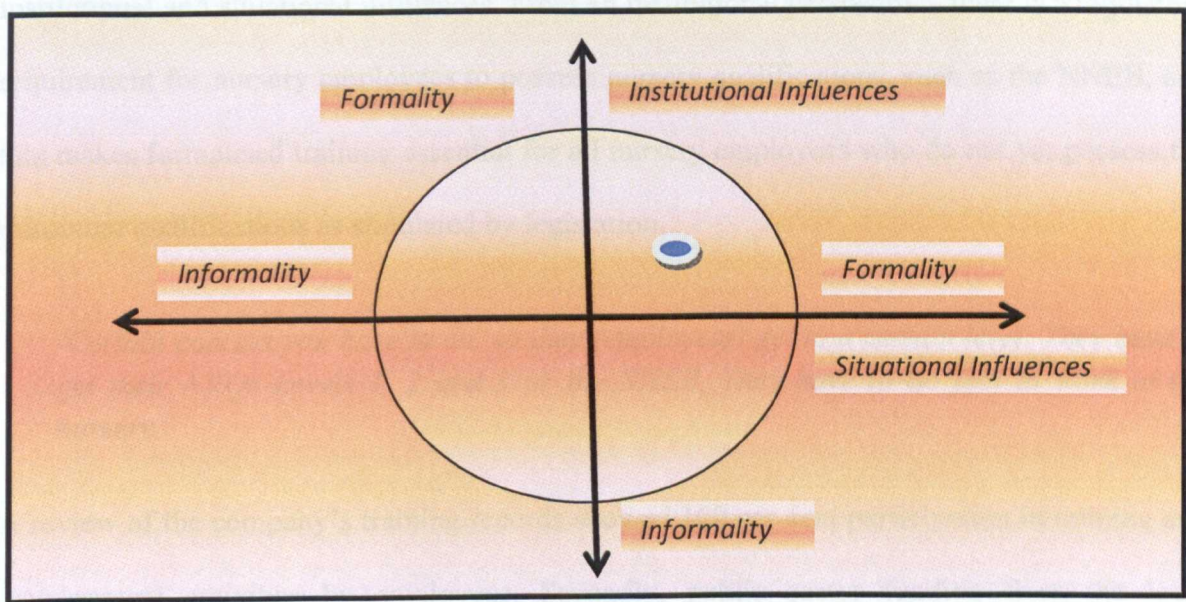
Due to a lack of availability of skilled engineers, formalised selection and recruitment practices in the company are designed to identify candidates that could potentially be trained or up-skilled in accordance with the specific skill sets required by the company.

'You interview and find people with the best credentials as you can, and then retrain them in the areas where they are missing.'

Therefore, formalised selection and recruitment practices in Den Co. Ltd. are conditioned by a shortage of skilled labour in the external labour market (i.e., external labour market conditions). Hence, there is a need to recruit employees willing and capable of undergoing the required in-house training. The need for suitable potential employees in combination with a desire for legitimacy within a supply chain suggests that selection and recruitment practices in Den Co. Ltd. are conditioned by a combination of coercive influences and lack of skilled labour in the external labour market. Consequently, the bulk of its advertising is in specialist industrial publications. A review of its advertising budget shows that the company spends between £10K and £20K each year in advertising. Den Co. Ltd. is strategically positioned at or near the top of the supply chain of a highly significant sector internationally and has

embarked on numerous business improvement initiatives over the years. Therefore, formalised selection and recruitment practices in the company are viewed as having been conditioned by an institutional and situational pull towards formalised selection and recruitment, which suggests a type 3 zone of convergence, as depicted in Figure 4.7.

Figure 4.7 – Convergence of Institutional and Situational Influences on the selection and recruitment practices of Den Co. Ltd.



4.3.2 Training and Development

- Nu Co. Ltd.**

The 2006 Child Care Act reformed and simplified regulatory and inspection arrangements, including an integrated quality framework for care quality and the education of pre-school children in England. The parts of the Act covering sufficiency, information and outcomes came into effect from 1 April, 2008 and the remainder in September 2008. The Act provides for a rigorous inspection and monitoring regime for all nursery provisions. The company’s training and development manual contains the following statement:

'Childminders must have attended a childcare training course within six months of registration and most hold a current paediatric first aid certificate at the point of registration. First aid training must be approved by the local authority and consistent with guidance set out in the practice guidance for the Early Years Foundation Stage.'

Therefore, the institutional framework in which nurseries operate is one in which all aspects of training and development are deemed critical and politically sensitive. Consequently, formalised training and development practices in Nu Co. Ltd. are conditioned by both institutional and situational influences. From an institutional perspective, there is a regulatory requirement for nursery employees to possess nursery qualifications, such as the NNEB, and this makes formalised training essential for all nursery employees who do not yet possess the minimum qualifications as stipulated by legislation.

'Certain courses you have to do, so they (employees) get to a certain level. They have to get their NVQs Levels 1, 2 and 3 or the NNEB. They have to do that to work in the nursery.'

A review of the company's training records showed 100 per cent participation in training and development activities by employees. Secondly, public sector funding from the local authority is subject to numerous administrative requirements that have to be complied with to secure funding. Inevitably, there is a certain amount of bureaucracy involved, which requires formalisation of training and development practices, including the maintenance of an audit trail for inspections. It is this need for formalisation of training and development practices in Nu Co. Ltd. that eventually led to the recruitment of a training and development manager to oversee the administration of the company's training and development programme. In this context, its LiP status is seen by the owner-manager as crucial in ensuring continued financial backing from the LA.

'We get funded so we have to show how we train our staff – where they get their training to get our funding.'

'We have actually got a training manager and she also helps out with the NVQ Level 2 qualification, which is the lowest level in the nursery.'

On the other hand, from a situational perspective, formalised training is perceived to have resulted in improvements in general administration and is viewed as key to securing funding from the public sector:

'The administration part of it was the main part. I was always busy with the children. I know it's terrible, but the administration sometimes gets pushed to the back because the children are the most important thing. It (formalised training) made me get my finger out and look at the administration and make sure it was all right. It has to be a whole doesn't it, the nursery has to be whole – you can't just look at the children and forget administration and the staff. It has to be the whole and that is something that really helped me.'

In addition, as illustrated in the next excerpts, the owner-manager felt that formalised training made nursery staff feel valued. In turn, this, it is suggested, served to motivate employees and improve the working atmosphere within the nursery. The owner-manager felt that this may have, indeed, contributed to a marked reduction in staff turnover, which had represented a significant cost to the business in the years preceding the implementation of the IiP standard.

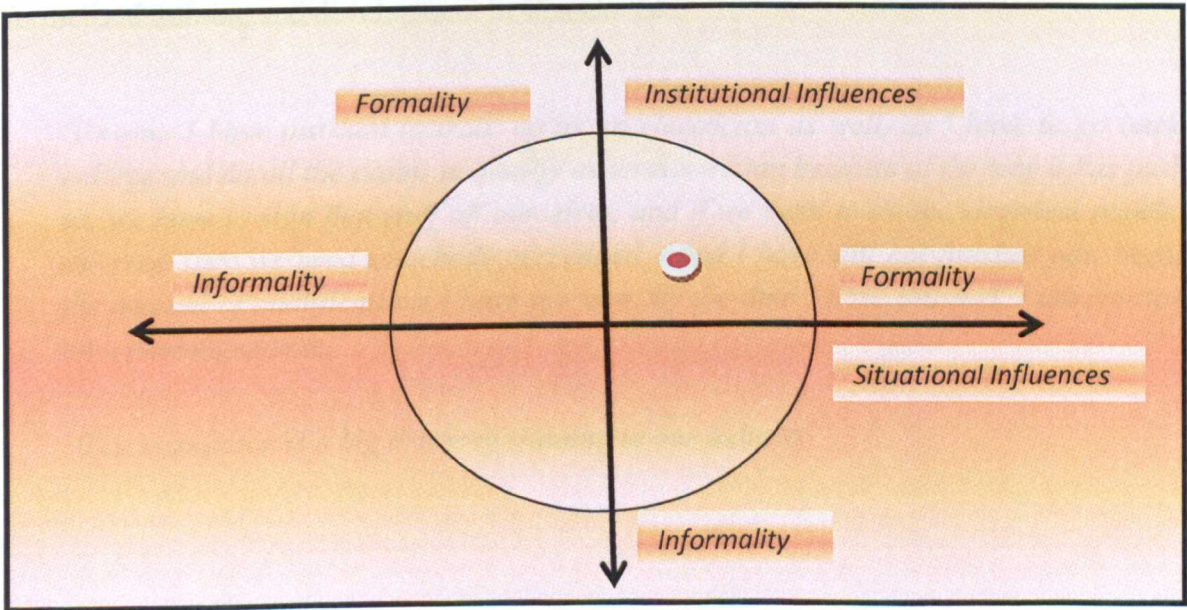
'Yeah, I am happy with that really, in a way, because if I have a high turnover of staff, I have to retrain them and that all costs money. So I'd rather keep the ones that I've got and spend a bit more money on them. To me, that is just as important, because I have to spend money anyway if I have got to get other staff.'

'To start off with, there were only ten per cent on training courses before. Now we have got up to fifty per cent. In nurseries, staff get up to a certain standard and there is not a lot of places for them to go to after that level, they kind of reach a top level and there is not a higher level to go to. So what we have done through training and doing their appraisal – we have gone different ways. That makes them a lot happier, and so a lot more women tend to stay.'

The data suggests that formalised training and development practices in Nu Co. Ltd. are linked to an institutional funding structure (i.e., coercive isomorphism) as part of the local

authority’s drive to expand nursery provision, as contained in the 2006 Child Care Act. The policy is integral to the authority’s economic and social policy. In combination with the regulatory and legislative structure under which nurseries are licensed to operate, coercion plays a significant role in the formalised training and development practices of Nu Co. Ltd. From a situational perspective, there is a lack of skilled potential recruits in the external labour market (i.e., external labour market conditions) and there is an internal dynamic in which formalised training is perceived to have had a positive impact on employees’ morale and work motivation. In turn, this may also have contributed to a marked improvement in staff retention (i.e., internal social dynamics). Therefore, the context for formalised training and development in Nu Co. Ltd. includes coercive isomorphism, shortage of skilled potential recruits in the external labour market (i.e., external labour market conditions) and its positive effect on staff morale (i.e., internal social and political dynamics). Analysis of training and development practices in Nu Co. Ltd. indicates a convergence based on formality from both the institutional and situational perspectives suggesting a type 3 zone of convergence, as depicted in figure 4.8.

Figure 4.8 – Convergence of Institutional and Situational Influences on the training and development practices of Nu Co. Ltd



- **Cen Co. Ltd.**

Cen. Co. Ltd. operates in a highly regulated sector in which licensed companies are required to adhere to strict health and safety and environmental regulatory standards. This requirement has created the conditions for institutionally-driven formalised training and development practices throughout the sector. Companies in the sector can only maintain their operating license on account of their training and development records, in line with regulatory changes.

'We have to comply with safety regulations. Every five years an engineer, whether he is qualified or not, has to be re-trained; so that means that in five years time they (engineers) have to go back to achieve the standards to keep us up-to-date with legislation, so that training we have got at the minute, even though we did it, we still have to get the vast majority of it, we still have to go back and re-sit exams every 5 years, which is a cost to us.'

'We also use a consultant as well for health and safety. The health and safety is consistent, it is all the time. It does and sometimes it's just repeating itself over and over again, but because that is what they want you to do, that is what we have to do.'

Training and development is not just viewed as a necessity to maintain an operating license, it is also a pre-requisite to business growth. In this sense, there is a commercial imperative to formalised training and development in Cen Co. Ltd.

'I mean, I have just had to train up as an electrician as well, as I have to go back to college and do all the exams to qualify as an electrician because of the way it has pushed us, we have to sign that stuff off ourselves, and if we want to do the electrical panels on the roof, then we need somebody accredited – and I have still not finished now because the amount of qualifications I have got now, by the time I have finished, I am constantly on a training course.'

'Yes, regulation is a big driver of training in our industry.'

As the owner-manager goes on to emphasise, the consequences of not complying with regulatory standards would mean loss of contracts and, ultimately, closure.

'I mean, probably loss of contract, which could mean the company shutting down, they are the main bodies, they are the governing bodies and they could shut you down.'

Institutional structures have also induced an increased demand for informal training following the recent restructuring of training provision in response to an apparent shortage of skilled engineers in the sector about five years ago. For several years the sector had experienced severe skill shortages. In response, institutional structures were put in place for a marked expansion of institutionally-based formalised training leading to qualifications in local colleges to address this shortage. As part of this initiative, training programmes that previously took a number of years to complete were condensed into a shorter time-scale that combined theory with practical training support. However, as the owner -manager explained in the next excerpt, newly-qualified engineers from such training programmes are not generally viewed as sufficiently competent to operate in the field as 'qualified engineers'.

'In my mind, the courses are completely useless but they still do exist. You cannot become a qualified engineer in six weeks.'

Therefore, an unintended consequence of this expansion has been an increased demand for informal on-the-job experiential learning in the form of placements with established gas engineering companies. In the next extract the owner-manager emphasises the need for on-the-job, informal, experiential learning as a necessity for becoming accepted as 'fully qualified':

'I think what they are doing after the two years – and this went right across the board – if they don't get in with a company somewhere and get the experience – so basically they have put them on a course for two years and not given them anything at the end of the course'

Also, as the next excerpt suggests, the owner-manager acknowledges the role of informal learning in imparting the behavioural and attitudinal ‘tacit’ skills needed to function effectively as a qualified engineer in the sector:

‘The on-site stuff is crucial because you can get an engineer who is “fully qualified” but is not proficient because, basically, he can go into a house to change a radiator and he does a nice radiator change – looks fantastic, but he walks across the carpet and he bangs the old radiator into the front door on his way out.’

The above excerpt suggests that aesthetic skills learned informally on-the-job are just as crucial to becoming fully proficient in the sector. Thus, when recruiting new apprentices, the observations made by apprentices in picking up ‘soft’ aesthetic skills on-the-job are viewed by the owner-manager as critical for being recognised as a ‘properly qualified engineer’:

‘It is the way that we look at doing things. For example, if they are engineers doing the job, the biggest fall down with the apprentices is the apprentices will just stand there and look, and as far as he is aware that is his job. He just stands there and watches everything that is going on, but that is not good enough. What the apprentice should be doing is looking at what the engineer is doing and passing him the next item that he needs – so he is thinking all the time, not just stood there watching. So, if an engineer is putting in a radiator, for instance, he is going to need plugs, screws, and before you know it, when it gets done. The way the apprentice starts to think, well if I don’t get everything from the van, I am going to and from the van every five minutes. So he starts thinking himself, and then the proficiency kicks in, and the first thing that he needs to do is to put a dust sheet down, and it is building that proficiency in the apprentice right from the very beginning, which they don’t have when they come from college.’

Institutional structures in the sector may be perceived as highly influential in the company adopting formalised training and development practices, however, the owner-manager also stressed the centrality of informal training in the development of an ‘appropriately qualified engineer’. This suggests a situational need for informality in training and development, and an institutional requirement for formality as well as informality in relation to the training and development of engineering operatives. The situational requirement for informality, in

particular, is based on the demands of a domestic market sector in that the skill sets needed for operating in the domestic sector differs in many ways from those needed for the industrial market segment. Often, in the domestic sector, it is necessary for an engineer to possess good communication skills, remain calm in emergency situations, and show initiative when required. This suggests that an engineer with a background in the commercial or industrial sector, and possessing portable and transferrable skills, for example, may lack the softer, aesthetic skills normally acquired informally in the specific context of the domestic sector. However, amongst the administrative staff, it is the combination of institutional funding for training in administrative skills, as part of a government subsidised training initiative, and a situational need to support the personal career ambitions of a member of the administrative team that led to the adoption of a formalised approach to training, delivered by an external provider.

'The only reason why we did it (i.e., formal training) while there was funding in place was because the funding gave us time to get used to that person, to see how they worked. It gives us time, whereas, if we say to someone, we are taking this person on, we don't know until they have been doing the job for a couple of weeks, a couple of months whether it is suitable for them. It was a good incentive because we had Gemma for some time before we had to start paying her, and now she is here full-time.'

'No, it is normally external; most of the training (i.e., administration) done is by external bodies. We will get it ourselves. We ask them the questions, what they want to do. I mean, Gemma is going through an accounting qualification. We have got people in college that are seeing her and building her confidence as an accounting technician because that is what she wanted to do. She is doing her own job at the same time, but she is also doing this extra training, but nobody minds.'

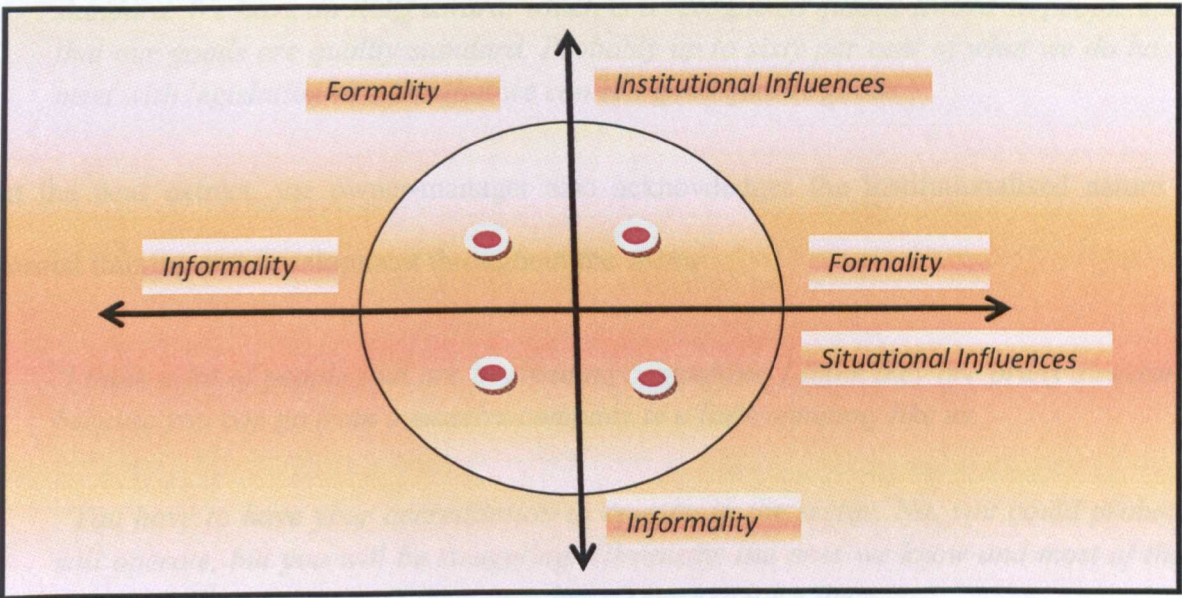
It is evident that institutional structures have been highly influential in the company's approach to training and development as it operates in a highly regulated sector. However, institutional structures in the industry in recent years have created an external labour market in which there is an over-supply of institutionally certified engineering operatives. These

institutionally certified engineers are not necessarily considered adequately skilled engineering operatives by owner-managers. As the owner-manager of Cen Co. Ltd. acknowledges, external labour market conditions had induced an institutionalised demand for informal training in established businesses by way of placements from training organisations. Therefore, institutional influences are both direct (i.e., formalised training) and indirect (i.e., informal training) in that institutional training for engineers has also induced a demand for informal, on-the-job training for institutionally certified engineers. Therefore, in the case of Cen Co. Ltd., institutional influences do not only result in formalised training and development, they have also indirectly led to increased informal training in the sector. From a situational perspective, the kind of support provided for a member of the administrative team to undertake accountancy training was conditioned by a combination of the owner-manager's idiosyncratic inclination in supporting such an arrangement, and the internal social and political dynamic that was perceived as supportive of a member of a close-knit family company.

Institutional and situational contextual influences on the training and development practices of Cen Co. Ltd. can be described as combining coercive and mimetic isomorphism from an institutional perspective, as well as owner-manager's idiosyncrasy and the internal social dynamics of the company from a situational perspective. Figure 4.9 is a depiction of the institutional and situational influences on training and development in Cen. Co. Ltd. and highlights four separate zones of convergence, based on an institutional pull towards formality in combination with a situational pull towards informality; an institutional pull towards informality, induced by inadequacies in existing institutional training, in combination with a situational pull towards informality, based on a need for softer aesthetic skills. In addition, there is also a situational pull towards formalised training and development to support the career ambitions of a member of the administrative team. This is connected to the

internal social dynamics of the company as well as the owner-manager’s idiosyncrasy in agreeing to an arrangement that did not offer any long-term benefits to the business.

Figure 4.9 – Convergence of Institutional and Situational Influences on the training and development practices of Cen Co. Ltd.



• **Be Co. Ltd.**

Be Co. Ltd. operates in a sector with strict environmental and health and safety regulatory standards. Pressure to comply with British Institute of Cleaning (BIC) institutional standards coupled with a customer base in the public sector, which values accreditation against such quality standards, makes formalisation of training and development critical to Be Co. Ltd.’s survival and long-term performance. Quality standards are required for the company to maintain its status as an approved supplier to a customer base in the public sector. In particular, given relatively low operating margins, the company sustains its performance by maintaining a large customer base with a diverse products range. In turn, maintaining a large customer base requires the company to continue to maintain its quality standards, which

include the ISO 9001, Health and Safety, Environmental (ISO 14001) and liP people management standards.

'We have health and safety policies, we have environmental policies to do with all the washroom stuff. We have a BIC policy and we are in the process of doing an ISO standard. We have an ROQ award, which is a recognised quality award so people know that our goods are quality standard. Probably up to sixty per cent of what we do has to meet with legislation in order that we can sell good quality goods.'

In the next extract, the owner-manager also acknowledges the institutionalised nature of formal training and development throughout the sector:

'I think a lot of people that are in cleaning companies, I think they are pretty structured because you can go from a massive company to a little company like us.'

'You have to have your accreditation to operate in the sector. No, you could probably still operate, but you will be struggling. Obviously, the ones we know and most of them are local. We compete with them and they all have to have them.'

Formalised training practices have also been conditioned by institutional financial support for NVQ training, particularly in relation to fork-lift training for warehousing staff as part of a government-funded training initiative.

'We also have a lot of NVQs because we can get a lot of free funding.'

'The lads in the warehouse are different because they all have to have the forklift training. We have to put them through that because they are using machinery, so they need the NVQ to make sure they are handling the boxes correctly.'

In respect of the administrative staff, institutional financial support for NVQ training in the company is also viewed as beneficial in developing skills and knowledge-sharing in the company:

'It's just like if you put them on a course to use Microsoft word, they just bring in new systems and share the experience, things like that.'

The specific operating conditions of Be Co. Ltd. have been influential in the company adopting a formalised approach to training and development. It is also an approach designed to sustain the company's quality image with its main customers, as the next extract suggests:

'I think it has got to be formally documented and done properly to make sure you are doing the right job because when we make deliveries, we make sure that the van is full, the vans are cleaned every day, the van drivers are dressed smartly because they are promoting our company when they are out there. They need to look professional. I do not want the lads going out in track suit tops and football tops because they have got to go out and represent the company. So it's part of the training to say to them, "There is your uniform, you must wear at all times." They get given their boots, their shoes, everything what they have got to look like.'

Perhaps the most significant contribution of formalised training in Be Co. Ltd., which was acknowledged by the owner-manager, is its positive impact on employee morale, which is viewed as having had a significant effect on its good record of staff retention.

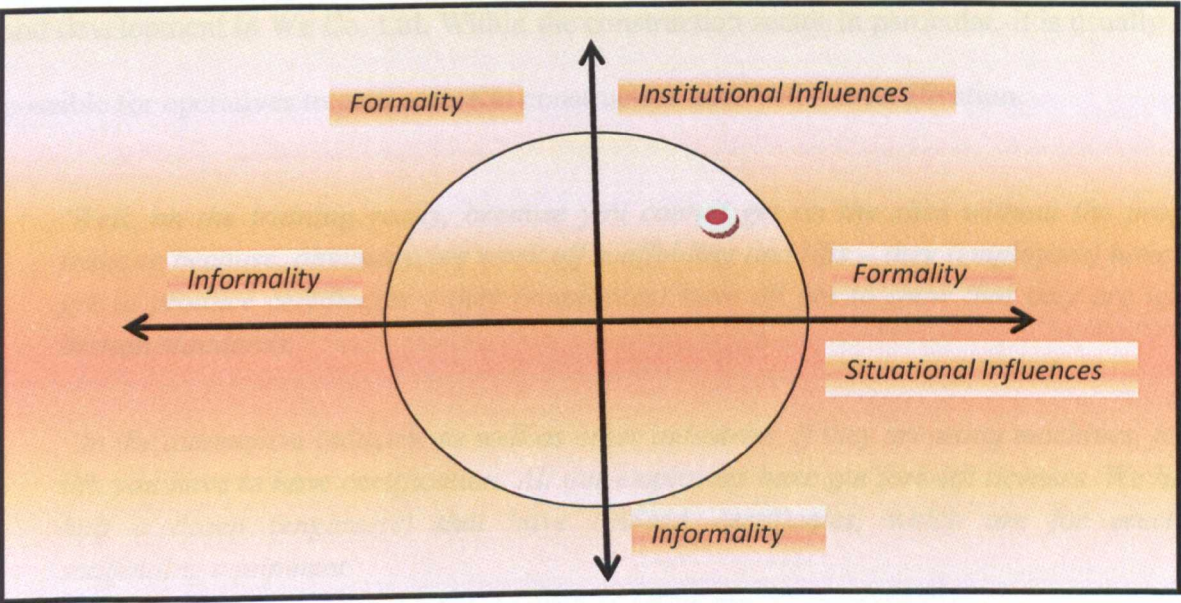
'Yes, I think the least number of years by an existing member of staff at the moment is seven years' service, so that is how long people stay when they come.'

'Once we have staff, we like to keep them, then look after them. I think that is why we do our appraisals in a way, just to check that everyone is happy with everything – they have got any queries.'

Therefore, formalised training and development practices in the company are conditioned by a customer base predominantly in the public sector, which requires suppliers to demonstrate their 'best training practice' credentials in order to retain their status as approved suppliers (i.e., coercive isomorphism – legitimacy). In addition, there are regulatory and legislative standards governing operations in the sector that are mandatory, such as health and safety standards (i.e., coercive isomorphism). Therefore, an institutional pull towards formalised training in Be Co. Ltd. is attributable to a set of institutional, customer-driven, coercive influences due to a desire to enhance its legitimacy with its customer base. The analysis also

indicates a situational pull towards formalised training and development due to its positive impact on employees' morale, motivation and overall job satisfaction, which the owner-manager acknowledged had contributed positively to staff retention, in spite of the absence of an internal labour market (i.e., internal social and political dynamics). Training and development in Be Co. Ltd. can, therefore,, be characterised as a type 3 zone of convergence, which combines an institutional need for formality with a situational need for formality, as shown in figure 4.10.

Figure 4.10 – Convergence of Institutional and Situational Influences on the training and development practices of Be Co. Ltd.



• **We Co. Ltd**

We Co. Ltd. operates as part of a supply chain comprising numerous blue chips in the construction, automotive, food and pharmaceuticals sectors. To maintain its status as a first tier supplier in these sectors, it is required to achieve and maintain quality standards stipulated by the construction, automotive, food and pharmaceutical sectors. As a precision engineering company, it currently has a substantial presence in the local construction industry. For example, its operation in the construction sector requires Construction Line

Certification (i.e., certifies that the company has met the pre-qualification requirements appropriate to public sector and private sector procurement). In addition, it requires CHAS certification to demonstrate that the company operates in compliance with health and safety legislation (i.e., SCATS).

'You have to have your health and safety standards for construction companies and you have also got another card, which is SCATS.'

The need to achieve and maintain a variety of quality standards means that there is an ongoing requirement for formalised training and development for operatives. Therefore, industry related regulatory and quality standards are significant drivers of formalised training and development in We Co. Ltd. Within the construction sector in particular, it is usually not possible for operatives to gain access to construction sites without certification.

'Well, on the training really, because you cannot get on the sites without the proper training because, obviously, we work off scaffolding and lifts – they (employees) have all got to produce certificates – they (employees) have all got to show that they are up to certain standards.'

'In the automotive industry, as well as other industries, if they are using machines, fork-lift, you have to have certification. All our employees have got fork-lift licenses. We have half a dozen (engineers) that have PASMA certificates, which are for erecting scaffolding equipment'

The need for formalised training and development within the sector is not just viewed as a response to regulatory requirements, it is also undertaken as a legitimacy-enhancing device aimed at existing and potential blue chip clients and customers:

'The guy in the office, the draftsman, he is a young lad and he has done a week's course last week – a structural steel draftsman course management, and there is myself and Joe, we have all done management courses. No, it's not (the course) compulsory, but it looks good in the company profile.'

Many tenders in the sector require the completion of a pre-qualification questionnaire. A review of the company's existing contracts showed at least ten different quality standards that the company has to have accreditations for. Institutional pressure for formalised training and development is also due to the company's participation in a government sponsored apprenticeship scheme:

'If they are on the apprenticeship scheme they go to college one day a week on a block course.'

Participation in this government supported engineering apprenticeship scheme also enables the company to secure funding from the public sector. However, as the owner-manager goes on to indicate, the engineering skills needed to operate effectively in the type of work undertaken by the company are predominantly high level craft-based skills, mostly acquired informally on-the-job:

'Well, they are paired with a tradesman and that is the best way of learning – the best way of learning is watching what the tradesman is doing. You show a bit of loyalty to the apprentices, they may not be capable of doing a job on their own (initially) but two or three years down the line, you can expect them to start doing little jobs on their own.'

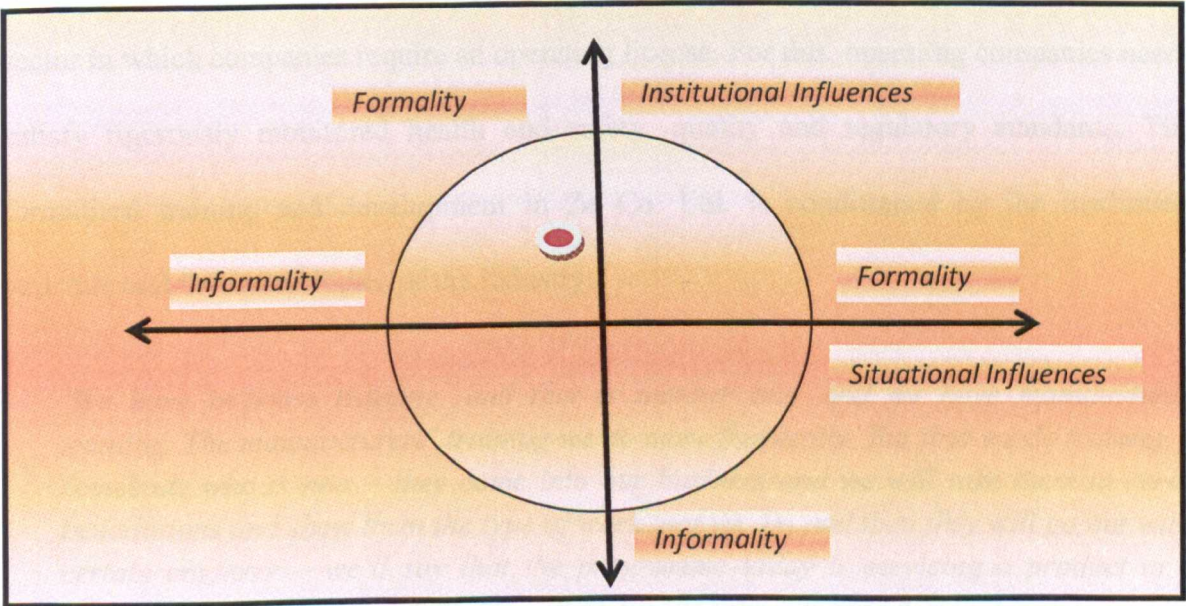
Partly for this reason, the owner-manager does not consider engineering staff to require any additional formalised training beyond that needed for employees to gain certification that enables them to operate as qualified engineers in the sector.

'They cannot improve their skills (formally) because they are all qualified and, obviously, the health and safety stuff, they come round every three to five years and when they run out, we have to put them through the courses again.'

Therefore, We Co. Ltd. is an SME in which an institutional requirement for formalised training and development is complemented by a situational requirement for informal, on-the-job learning as an effective way of meeting its skill needs in a specialised engineering niche.

Numerous institutional factors influence the adoption of formalised training and development in the company. These include its integration within a supply chain for leading brand names (i.e., industrial structure), an institutional framework for apprenticeship training for which there is financial support (i.e., coercive isomorphism/ resource dependency), as well as health and safety regulatory and legislative requirements (i.e., coercive isomorphism) of the construction industry, which accounts for the bulk of its current turnover (Source: Financial records). At the same time, from a situational perspective, informal training practices prevalent on the shop-floor are conditioned by an operating environment in which informal on-the-job training and learning is viewed by the owner-manager as the most effective way of developing the skilled engineering operatives needed by the company. The operating context of We Co. Ltd. is one in which institutional factors have proved influential in the company adopting formalised training and development practices in combination with a situational pull towards informal training and development, thereby suggesting a type 2 zone of convergence, as depicted in figure 4.11

Figure 4.11 – Convergence of Institutional and Situational Influences on the training and development practices of We Co. Ltd.



- **Ze Co. Ltd.**

A significant factor leading to a formalised approach to training and development in Ze Co. Ltd. is that it is part of an international industrial structure of a technologically advanced security sector dominated by large multinational companies. These multinationals are the key drivers of technological innovation in the sector. Between them, they control up to ninety per cent of the world-wide market (Source: Company Brochure). Their technologies are promoted world-wide through an international network of distribution centres that are used as training centres for their new technologies. These programmes are offered free to approved agents and distributors internationally:

'The manufacturers' training we do frequently – The manufacturers can even visit us to provide training. We might have a group of engineers, and the manufacturers will go over the system, how they programme, how the system operates, because we want all of our engineers to know how the full system operates, how to programme it, because a lot of our customers' programmes are computerised.'

Given the dependence of the entire sector on these technologies, the industrial structure and technological trends are significant drivers of formalised training and development throughout the sector. In addition, Ze Co. Ltd. operates within a highly regulated security sector in which companies require an operating license. For this, operating companies need to satisfy rigorously monitored health and safety, quality and regulatory standards. Thus, formalised training and development in Ze Co. Ltd. is conditioned by the institutional structure and the technologies of the industry:

'We have in-house training, and that is number one, and we have manufacturers' training. The manufacturers' training we do more frequently. But first we do training for somebody who is new – they come into our business and we will take them to certain installations and show them the type of work that we do, and then they will go out with a certain engineer – we'll say that the programme today is servicing a product or an alarm, and this is how we do it. He will go through the full aspect of that system and then he will come back; and then he will be given all the paperwork with them and after that

we get the manufacturers in. The manufacturers come in – we might have a group of four and the manufacturers will go over the system – how to programme – because, of course, a lot of our intruder customers' programmes are done on the computer and there are slightly different functions. So, it has to be shown and it has to be shown properly. We give them the manuals and we go over this; and for the first two weeks they go out with the engineer to make sure they programme the systems the way we want it done.'

As the next excerpt shows, formalised training and development practices are particularly pronounced in the induction of new recruits:

'The in-house training that we do we start from health and safety right the way through to the programming of equipment. Firstly, if it's a youngster, we go through the full health and safety – about ladders, even driving, checking vans to make sure that there are no bald tyres. All sorts of things – from there we go on to the health and safety aspects on sites – the basics – where to connect the faulty vaults, because there are all sorts of areas where an engineer can badly hurt himself. How to keep away from the mains; and then we go into the aesthetics about how the job's got to look. We don't want the cables going into the middle of the walls. Aesthetics, it's got to look good, how the customer responds and talks, how he presents an image for the company.'

In the next excerpt, the owner-manager makes the distinction between the period when little or no training and development was undertaken, and the much improved service quality standards for customers, accompanying increased formalisation of training and development in general administration:

'Got to get the paperwork right – it's got to be legible. Many years ago, when we really didn't have a training programme, we found that there is no signature at the end of the job, and they will send the money sometimes with a note saying, "Oh, well it's okay, but I wouldn't recommend you", or, "It wasn't good enough – would you come back and move this cable?" or one thing or another. Now, with the training, we get recommendations and people are happy. They come back and they say, "It's fabulous. They even cleaned up". The guy even came down and we are really happy and so they recommend us to Joe Blogs next door.'

However, in spite of highly formalised training and development practices, the owner-manager also readily acknowledges the criticality of informal training in the form of on-the-job learning, in adapting and adding value to externally available technologies, particularly in

programming and light assembly, which differentiates Ze Co. Ltd. from its competition, and from which it derives its competitive advantage:

'It is not written down – how we develop our systems. We talk and pass things and ideas onto one another. We have monthly meetings – the engineers and staff – we talk about what's gone wrong. We don't write it down. It's an open conversation. If they've got a particular quirk with a panel – the way it is programmed – one-to-one with our engineers. You can't beat it – it's an integral part of the training.'

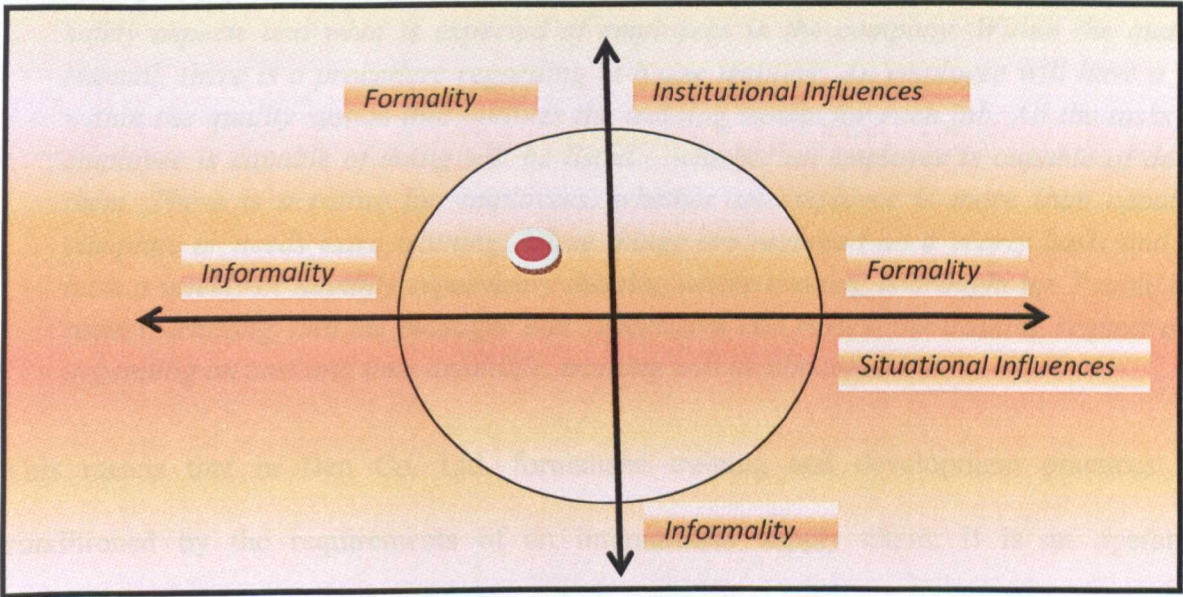
It seems that although training and development is highly formalised in response to the institutional requirements of the industry, the informality associated with adapting manufacturers' hardware and programming technologies are considered key to the company's success to date.

Institutional factors, the structure of the industry and a requirement for compliance with environmental legislation constitute the main coercive influences that create the need for formalised training and development practices in Ze Co. Ltd. The owner-manager considers formalised in-house training as 'No. 1.' Conditioned by an institutional context of being embedded in an international supply chain, Ze Co. Ltd. combines formality and informality in its training and development in that a situational need for informal, on-the-job training in adapting existing technologies is combined with formalised training to meet regulatory standards in the sector. In a highly competitive sector, these quality standards also serve as legitimacy enhancing devices. The informal nature by which Ze Co. Ltd. adapts existing technologies is explained by the owner-manager.

These informal practices enable the company to adapt otherwise standard technologies widely available to competitors in ways that differentiate its products and services, from which it derives its competitive edge (i.e., technology, tacit knowledge, and internal social and political dynamics). Therefore, training and development in Ze Co. Ltd. can be

characterised as combining an institutional pull towards formality in combination with a situational pull towards informality, thereby suggesting a type 2 zone of convergence, as depicted in figure 4.12.

Figure 4.12 – Convergence of Institutional and Situational Influences on the training and development practices of Ze Co. Ltd.



• **Den Co. Ltd.**

Den Co. Ltd. operates as part of an international supply chain in the Oil and Gas sector. The sector is governed by international manufacturing quality standards. The need to maintain high operating quality standards has intensified in recent years following increased competition from overseas suppliers, particularly in the Far East.

‘The most crucial thing for this company at the moment is to get the right quality to satisfy our customers. The most crucial thing is to make sure that the quality is of the highest standard and that our prices are within what our customers expect.’

Influenced by a need to implement world class manufacturing standards, the company regularly implements and updates numerous manufacturing process improvement initiatives.

Most of these initiatives are accompanied by an intensive, ongoing, formalised training and development as part of a continuous manufacturing improvement programme. Recent initiatives have ranged from health and safety systems to manufacturing processes, environmental, and energy management standards.

‘There is a procedure in our quality manual where we go through all the health and safety aspects and what is expected of employees in the company. Within the quality manual, there is a procedure regarding in-house training. An employee will have a file within the quality system that outlines the training matrix for each job. All the tasks an employee is capable of doing will be listed – whether an employee is capable of doing them. There is a rating for employees, whether an employee is more than capable, adequate or needs extra training. These things are reviewed on a yearly basis and we have a weekly or monthly supervisory meeting where training is brought up. People can request training, and the manager and supervisors can review the training request and, depending on cost and time available, training will be allocated.’

This means that in Den Co. Ltd. formalised training and development practices are conditioned by the requirements of an international supply chain. It is an operating environment in high-end engineering where ‘right first-time’ manufacturing principles, as well as ‘just-in-time’ delivery systems at internationally competitive rates are key to sustainable competitive success. For example, the company’s process improvement manual outlines key performance indicators with clear lines of responsibility, as follows:

Key Performance Indicator	Criteria	Owner
On-time Delivery	Percentage of deliveries on time	Line Manager A
Quotation Performance	Number of outstanding quotes	Line Manager B
Quality Performance	Number of defects	Line Manager C
Workplace Organisation	Audit Scores and Safety Incidents	Line Manager D
Direct vs. Indirect Time	Breakdown of non-paying activities	Line Manager E

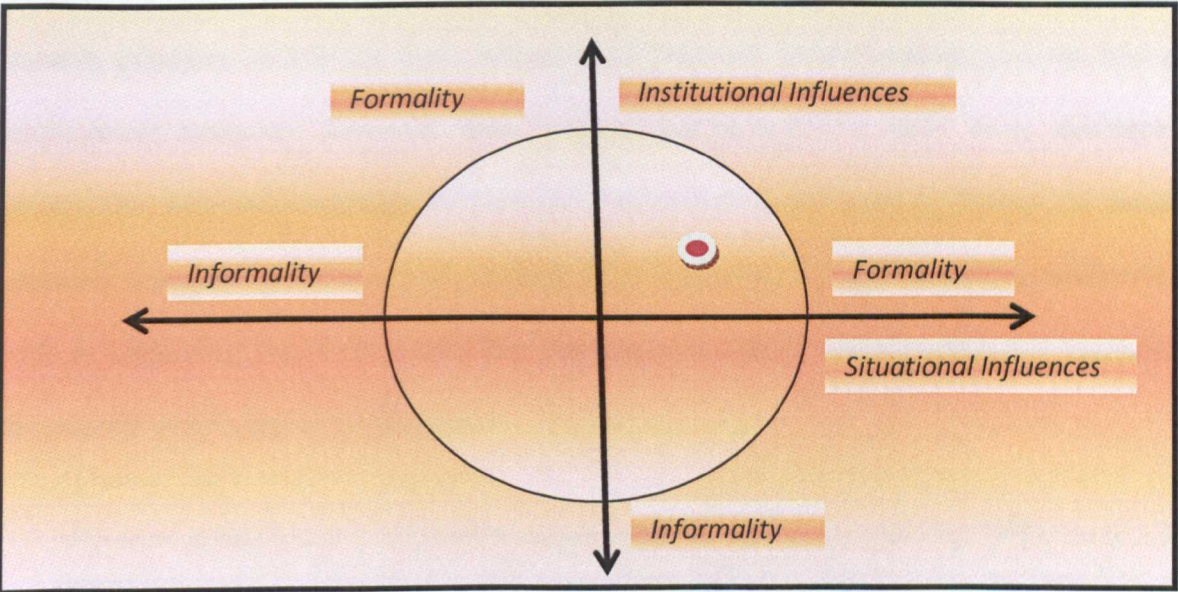
The company's business improvement processes include Lean and Kaizen manufacturing processes (Source: Contract Documentation). At the same time, lack of readily available skilled labour in the external labour market means that the company's situational context requires it to invest in its own formal training to develop the high level skills it needs for its operations.

Consequently, a key driver of formalised training and development in Den Co. Ltd. is considered to be shortage of skills in the external labour market (i.e., external labour market conditions). Den Co. Ltd. is a market leader and a first tier supplier to the Oil and Gas sector, and continues to face intense competition from the Far East.

'We lead our competitors in many areas and the last thing we want is to lose our position. So we are here, having to do things that we have never had to do before to control our costs.'

Therefore, formalised training and development in the company is also significantly conditioned by the nature of the industrial structure (i.e., supply chain) in a highly competitive international environment. The combined effect of institutional and situational contexts induces a highly structured and formalised approach to training and development. This suggests a Type 3 zone of convergence, as shown in figure 4.13.

Figure 4.13 – Convergence of Institutional and Situational Influences on the training and development practices of Den Co. Ltd.



4.3.3 Appraisal and Rewards

- Nu Co. Ltd.**

An institutional funding structure designed for the training and development of nursery staff has also brought about the need for greater accountability in the use of public funds. For this reason, there is a requirement for nurseries to maintain up-to-date records of their training activities and transactions. As part of this process all nurseries are required to maintain records in ways that demonstrate a clear audit trail. In part, it is this need for accountability that also made it necessary to recruit an HR manager to assist with the implementation of a formalised appraisal and rewards system, introduced as part of the liP training and development quality standard.

‘One of the main ways to evaluate training is, obviously, if we have more people staying with us. Also, with the appraisal, if they are happier – if they are happy with what they are doing and if they are achieving their personal goals – that’s really the way; personal goals for them but also the goal of the company. I think we’ll take the risk, and that’s why we say we retain 80 per cent of our staff; and I’m happy with that.’

In addition, institutional structures governing low pay in the UK, such as the national minimum wage (NMW) regulations, have also indirectly influenced the remuneration and rewards practices of Nu Co. Ltd., whose employees are overwhelmingly in the low pay employment category. However, from a situational perspective, there is no evidence to suggest that appraisals practices are formally linked to financial rewards. Rather, the focus of appraisal practices in Nu Co. Ltd. seemed to be connected to non-financial considerations, such as addressing employees' anxieties and concerns, along with ensuring and maintaining the general well-being of employees:

'We have actually got a training manager, and she also helps with the NVQ Level 2. She has two aspects to her job. She does something called a surgery now, on Tuesdays, and she just sits in the staffroom. If anybody wants to come in and talk to her – if they have got problems or if they want different training courses, or if they just want advice. She's there for that hour and anyone that wants it can go to her. It's like having a mini personnel officer, isn't it really? But that is something that we didn't have before.'

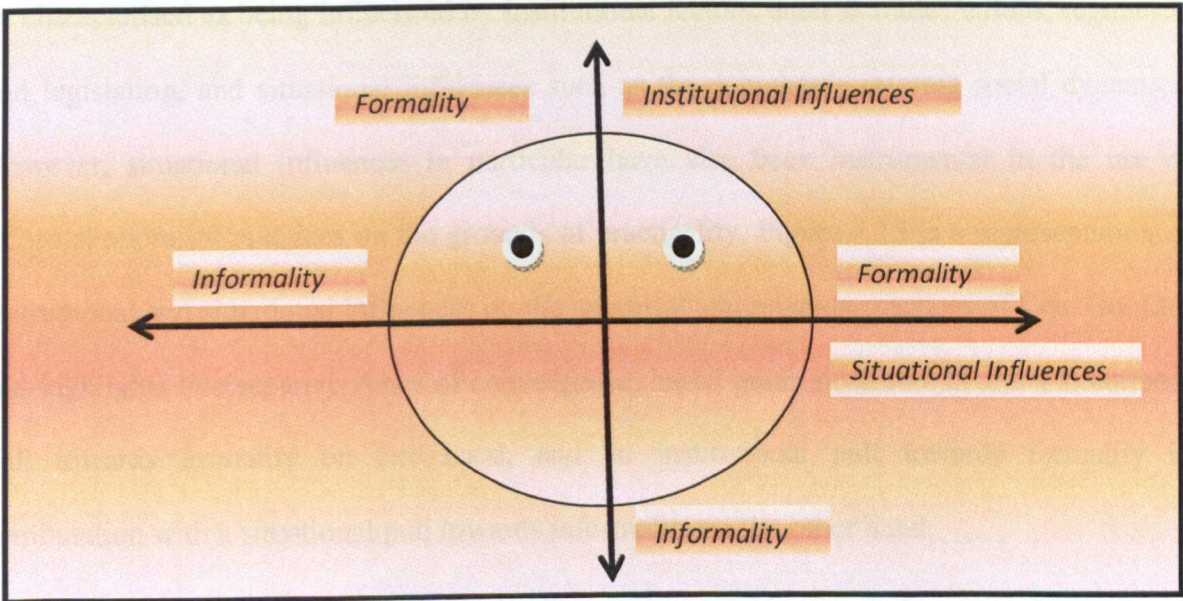
However, commenting on an informal open-door policy, the owner-manager also acknowledges the limitations of the six-monthly formalised appraisal process instituted as part of the liP training and development quality standard. In this respect, the owner-manager views the informality of weekly surgeries as not only beneficial in meeting the specific needs of employees on an ongoing basis, but it is also viewed as complementary to the six-monthly formalised appraisal process put in place as part of the liP training and development quality standard:

'Even though we appraise every six months in the nursery, six months is a long time, so that's something we have done (Tuesday open-door sessions) and its working well – the staff seem very happy with it.'

Therefore, contextual influences leading to a formalised approach to appraisal and rewards practices in Nu Co. Ltd. can be characterised as combining institutional factors, such as the

national minimum wage legislation (National Minimum Wage Act, 1998). In accordance with the NMW Act 1998, the company’s pay records show that the owner-manager provides all employees with a statement on minimum wage in their pay statements. Therefore, appraisal and rewards practices in Nu Co. Ltd. are characterised by formalisation from an institutional and situational perspective on one hand (i.e., type 3 zone of convergence) and a combination of institutional pull towards formalisation and a situational pull towards informality (i.e., type 2 zone of convergence). Therefore, Nu Co. Ltd. has two separate zones of convergence in relation to its appraisal and rewards practices, as depicted in figure 4.14.

Figure 4.14 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Nu Co. Ltd.

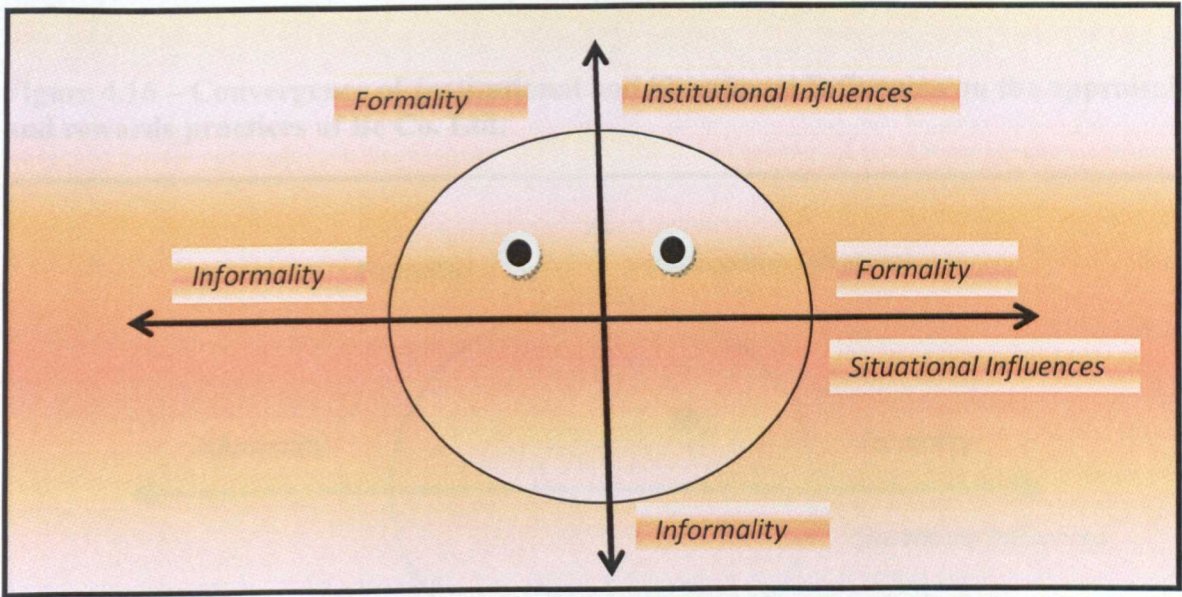


• **Cen Co. Ltd.**

Cen Co. Ltd. is part of a federation of gas maintenance engineering companies. Pay and rewards structures within the sector are determined through national negotiations by the trades union. Due to regulatory requirements connected to health and safety and consumer protection legislation, ongoing formalised performance appraisal practices form part of the

normal operating procedure throughout the sector (i.e., coercive isomorphism). However, although coercive influences have led to the adoption of a formalised approach to appraisal practices, in subsequent document searches there was no evidence of a direct link between pay and performance (Source: Pay records). In part, this is due to the family atmosphere of the company where there is a general climate of '*looking after one another*' or '*taking care of the family*', which would have been incompatible with a formalised performance-related rewards system. Besides, implementing a formalised rewards system may not have been practical in view of the important role of experienced 'qualified' engineers in the company's informal training and development practices. Such contributions are difficult to quantify and measure (i.e., effectiveness). In Cen Co. Ltd., appraisal and rewards practices may, therefore, be characterised as being influenced by institutional factors, such as trades unions, regulation and legislation, and situational influences such as the company's internal social dynamics. However, situational influences in particular have also been instrumental in the use of informal appraisal practices on the grounds of practicality. Figure 4.15 is a representation of institutional and situational influences on the appraisal and rewards practices of Cen. Co. Ltd. and highlights two separate zones of convergence, based on an institutional and a situational pull towards formality on one hand, and an institutional pull towards formality in combination with a situational pull towards informality on the other hand.

Figure 4.15 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Cen Co. Ltd.



- **Be Co. Ltd.**

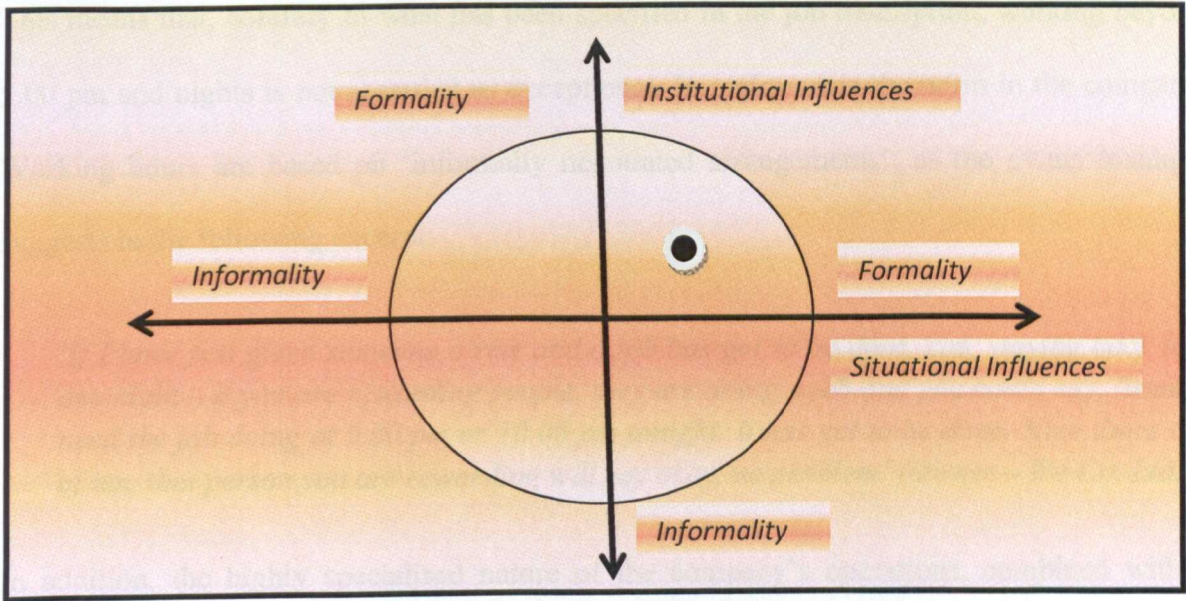
Conditioned by institutional and situational influences, formalised appraisal and rewards practices characterise Be Co. Ltd. From an institutional perspective, formalised pay and rewards practices were implemented as part of the company’s IiP standard.

‘We used to do that anyway, but the IiP sort of made it a bit more concrete.’

Be Co. Ltd. was also seeking to enhance its image and legitimacy by implementing the IiP standard because it was substantially reliant on the public sector. Many organisations in the public sector require their suppliers to be IiP accredited (i.e., coercive isomorphism). The internal dynamics of Be Co. Ltd. is also one in which fairness and transparency was viewed as critical to maintaining morale and team cohesion. The owner-manager attributes this to the company’s good record of employee retention. Appraisal and rewards practices in Be Co. Ltd. are, therefore, characterised by a single zone of convergence, which combines an

institutional pull and a situational pull towards formalisation, thereby suggesting a type 3 zone of convergence, as depicted in figure 4.16.

Figure 4.16 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Be Co. Ltd.



• **We Co. Ltd.**

We Co. Ltd. is a first tier supplier within a supply chain and as the owner-manager indicates in the following excerpt, there are pay norms for qualified engineers within a highly specialised sector:

‘We know our competitors and how much the lads here should be getting. So we kind of know what we need to pay them once they are fully qualified.’

However, the informal working practices that characterise operations on the shop floor mean that a formalised process of performance appraisal was impractical. Consequently, much of the company’s appraisal practices are based on the owner-manager’s judgement when, as he states ‘it’s just my opinion of what I think.’ The owner-manager goes on to suggest that this is done in ways that are not necessarily formally linked to pay. A review of the job description

for engineering personnel clearly stated that the normal working hours were from 9.00 am to 5.00 pm. However, the owner-manager stated that this, in reality, was not always the case:

'The lads are happy to work long hours if we have loads of work, so it's not been a problem so far. It's just the way we work here.'

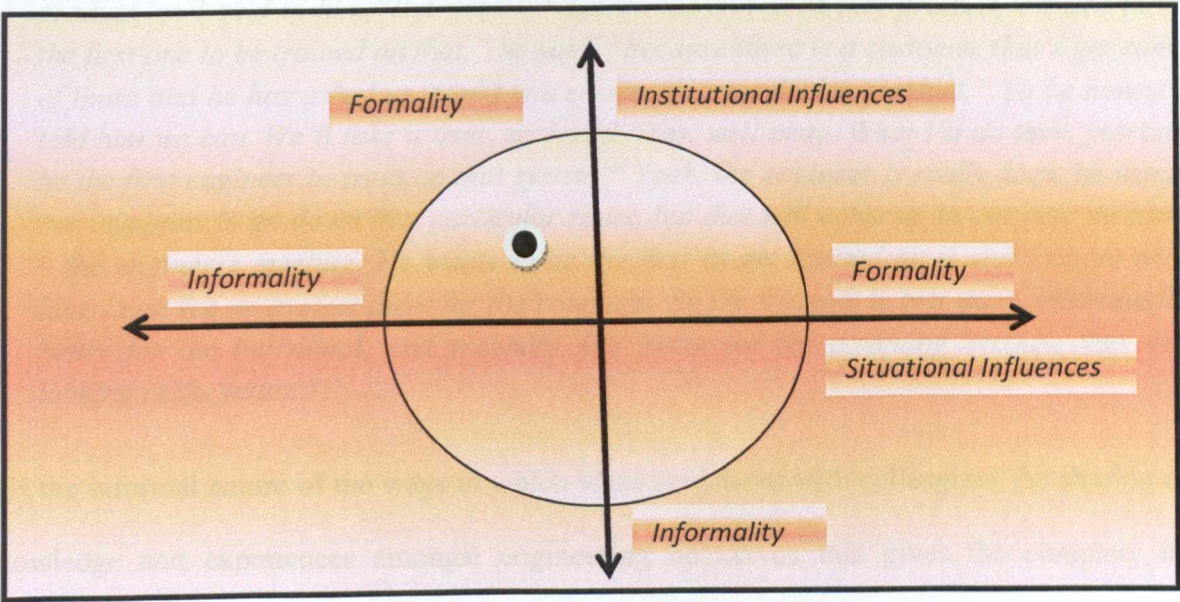
This means that, contrary to what has been specified in the job description, working beyond 5.00 pm and nights is not regarded as exceptional. In reality, it is the norm in the company. Working hours are based on 'informally negotiated arrangements', as the owner-manager suggests in the following excerpt:

'If I have just given someone a rise and a job has got to be done, say, staying back late one night – if you are rewarding people, they are doing a job and you could say, listen, I need the job doing at 9.00 pm or 10.00 pm tonight. It has got to be done. Nine times out of ten, that person you are rewarding will say okay, no problem' (Owner – We Co. Ltd.).

In addition, the highly specialised nature of the company's operations, combined with a mutually supportive work environment, discourages the implementation of a rigid performance appraisal system that formally links pay to performance on the grounds of practicality (i.e., effectiveness). The result is an institutionally driven, formal appraisal system, based on pay rates within the sector on one hand, and a situation need based on informally negotiated understandings between the owner-manager and employees (i.e., internal social and political dynamics) on the other.

Therefore, in We Co. Ltd., an institutional need to formalise appraisal and rewards practices is perceived to be combined with a situational need for informality to produce a type 2 zone of convergence, as depicted in figure 4.17.

Figure 4.17 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Be Co. Ltd.



- Ze Co. Ltd.**

In Ze Co. Ltd. there is an established institutional structure on pay and rewards for professionally qualified engineers in the sector. Companies in the sector share information on pay rates, which are broadly identical throughout the sector.

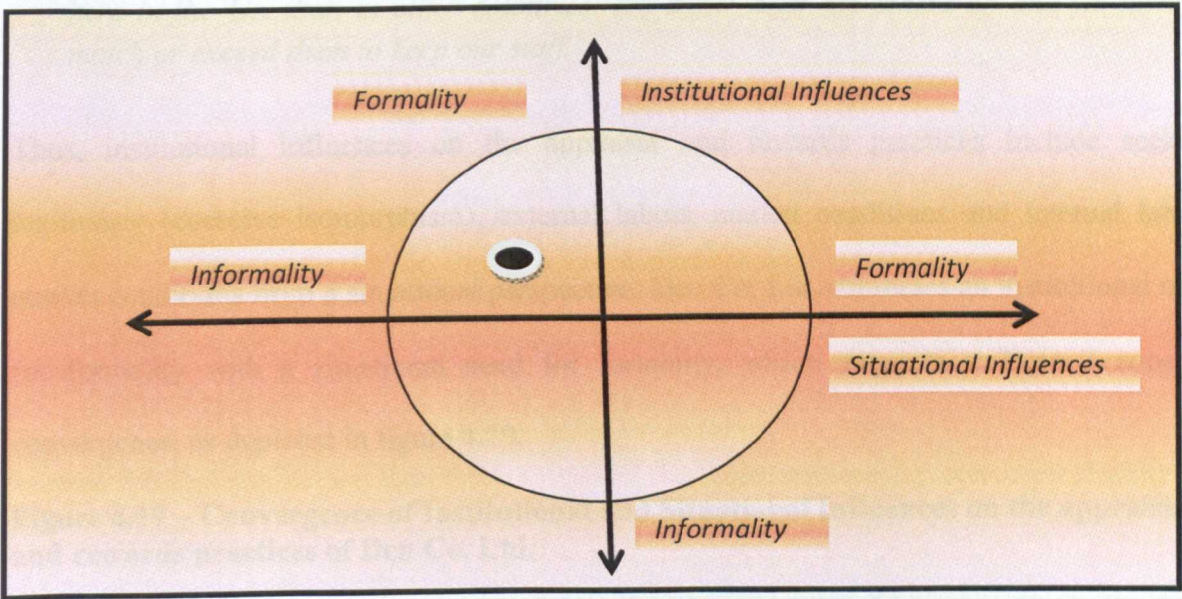
‘We know what our competitors pay their engineers and we talk to other engineers as well.’

However, in contrast with an institutionally conditioned formalised training and development, appraisal and rewards practices are conditioned by a desire to work collectively for the good of the company in a manner that can best be characterised as a ‘negotiated understanding’. This internal dynamic is, perhaps, best typified by the owner-manager’s attitude to a suggestion by one of the engineers regarding an opportunity for training, which the employee viewed as beneficial to the company’s strategic positioning and future competitiveness.

'Well, I will look at why does he need the training – have we missed something first and foremost. Had an engineer the other week, said to me we wanted a particular type of product, so I said to him, "But why?" "But we haven't used that product, I'd like to be the first one to be trained on that," he said, "because there is a customer that's got some of those and he has asked us would you service that particular product." To be honest I told him we can. We'll take it over, so I said "Yes, well okay. What I'll do then, you can be the first engineer to train on that system." Yeah, the engineer is really keen, he wants our company to go down that particular route, but that will come up in our next meeting – the engineers meeting. He wants to be the first to get trained on it and I agree with him. I can see an avenue there for the company. So the training is two ways, individually better for the individual, and secondly, it's better for the company because they are looking at the future.'

It is the informal nature of the ways in which ideas are shared with colleagues, the sharing of knowledge and experiences amongst engineering operatives that gives the company its competitive edge. These informal practices are not readily attributable to individual engineers and are not directly linked to individual performances. This makes a strictly formalised appraisal and reward structure perhaps unrealistic and impractical. On the other hand, a formalised appraisal process is part of the company's quality standards, so whilst there is a formalised appraisal framework, appraisals are not directly linked to pay. Therefore, from an institutional perspective, formalised appraisal practices serve as legitimacy-seeking devices aimed at customers, as well as an essential requirement for legitimately operating in the sector (i.e., coercion). However, from a situational perspective, informal rewards practices are considered compatible with the internal social and political dynamic of the company. Therefore, in spite of an institutional based need for formalisation, the specific operating conditions of Ze Co. Ltd. is viewed as more conducive to an informal approach to appraisal and rewards, which suggests a type 2 zone of convergence that combines formality from an institutional perspective and informality from a situational perspective, as depicted in figure 4.18.

Figure 4.18 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Ze Co. Ltd.



• Den Co. Ltd.

Formalised appraisal and rewards practices in Den Co. Ltd. are conditioned by a highly structured training and development framework developed as part of a standardised operating procedure that incorporates processes for continuous improvement. At the same time, the absence or lack of readily available skilled labour in the external labour market made it necessary to create an internal labour market. The organisational structure is functional and hierarchical. Therefore, formalised appraisal and rewards systems have been designed in line with a need to provide career progression opportunities for key personnel.

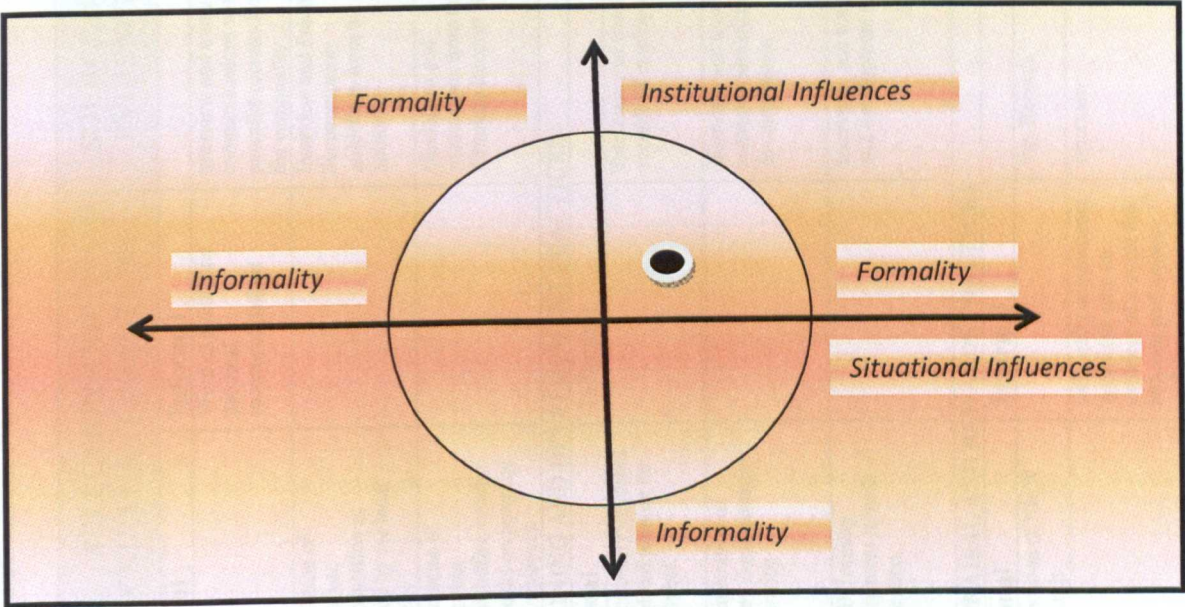
‘Here we have some key staff that we cannot afford to lose. We try to keep them by giving them an opportunity in higher positions and, hopefully, we can continue to keep them and pay them well.’

Therefore, formalised appraisal and rewards practices in Den Co. Ltd. are conditioned by its integration within an international supply chain

‘We need to make sure that what we pay and do with our staff falls in line, if not better, than those of our international competitors. We generally have to pay more for our staff here in the UK than in other countries. We know what the others do and we have to match or exceed them to keep our staff.’

Thus, institutional influences on the appraisal and rewards practices include seeking legitimacy (coercive isomorphism), external labour market conditions and internal labour market conditions from a situational perspective. Den Co. Ltd. combines an institutional need for formality with a situational need for formality, which suggests a Type 3 zone of convergence, as depicted in figure 4.19.

Figure 4.19 – Convergence of Institutional and Situational Influences on the appraisal and rewards practices of Den Co. Ltd.



Tables 4.1 to 4.6 and Appendix 4A summarise the results of the analysis of the data from semi-structured depth interviews and document searches in the six case SMEs.

TABLE 4.1 ANALYSES OF HRM PRACTICES IN NU CO. LTD.

	OBJECTIVE	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		INTERPRETATION
		Formal	Informal		Situational	Institutional	
Nu Co. Ltd.	Seek out mature adults in the local community with no ambitions for career progression		Word of mouth and personal recommendations	Interview and e-mail communications with potential recruits from the community	A situational need to retain staff and reduce staff turnover	Institutional	<ul style="list-style-type: none">• ELM conditions• ILM conditions
	To comply with the provisions of the Child Care Act.	Completion of appropriate documentation as required by the local authority.		Interview and Funding documentation guidelines from the local authority		Structure of institutional funding	<ul style="list-style-type: none">• Coercive isomorphism
	Comply with regulatory requirements by conducting Criminal Records Bureau checks on new recruits.	Maintenance of appropriate administrative systems for checks on potential new employees		Guidelines and instructions from the Criminal Records Bureau		Legal requirements as stipulated by legislation	<ul style="list-style-type: none">• Coercive Isomorphism.
	TRAINING AND DEVELOPMENT PRACTICES						
		Formal	Informal		Situational	Institutional	
	To training new employees to NNEB standard due to a lack of qualified staff in the external labour market.	Institutionally validated formalised training for employees.		Interview and training records of employees.		NNEB Standards as stipulated by legislation	<ul style="list-style-type: none">• Coercive isomorphism
	Securing funding from the local authority by enhancing legitimacy	Administration of funding documentation preparation		Interview and local authority administrative documentation		Legislative requirement and the availability of public funding	<ul style="list-style-type: none">• Coercive isomorphism
	To maintain employees' morale and job motivation	NNEB Training development records preparation		Interview, and training and development records	Improvement in staff morale and motivation leading to marked reduction in staff turnover		<ul style="list-style-type: none">• Internal social dynamics
	APPRAISAL AND REWARDS PRACTICES						
		Formal	Informal		Situational	Institutional	
	To comply with the national minimum wage legislation	Application of NMW standards		Pay Records		National minimum wage legislation	<ul style="list-style-type: none">• Coercive isomorphism
	Maintain morale and employees' motivation.		Informally administered appraisals with no evidence of a direct link between performance and rewards	Interview	Informal weekly discussions with employees		<ul style="list-style-type: none">• Internal Social Dynamics

TABLE 4.2 ANALYSES OF HRM PRACTICES IN CEN CO. LTD.

Cen Co. Ltd.	OBJECTIVE	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		Interpretation
		Formal	Informal		Situational	Institutional	
Cen Co. Ltd.	Recruit candidates who are qualified.	Recruits need to be certified gas engineers.		Interview and Company manual- Company manual advises operators to report any illegal activities as part of their duties.		The gas industry is regulated and only certified engineers can operate in the sector	<ul style="list-style-type: none">• Coercive isomorphism
	Recruit candidates who fit in with the company's family atmosphere		Assessed informally and based on the owner-manager's intuition	Interview	Based on the owner-manager's personal judgement and intuition.		<ul style="list-style-type: none">• Internal social dynamics• Owner-manager idiosyncrasy
	Maintain the tradition of selection and recruitment of apprentices from within		Assessed informally based on social or family affiliations	Interview		Based on owner-manager's judgement and intuition.	<ul style="list-style-type: none">• Normative isomorphism.• Internal social and political dynamics.
		TRAINING AND DEVELOPMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		
	Comply with regulation - training as required by changes in existing and new legislation.	Formal	Informal		Situational	Institutional	
	Train employees in line with the specific needs of the sector.	Institutional training provided by regulatory bodies	Informal on-the-job training in 'tacit' skills learned on-the-job.	Interview		Training in line with regulatory standards	<ul style="list-style-type: none">• Coercive Isomorphism
	Assist a member of the administrative team to achieve personal goals.	Externally provided professional training		Interview		Institutional need for informal training	<ul style="list-style-type: none">• Industry structure• External Labour Market (ELM) conditions
	Maintain the tradition of training those within the family of the owner and employees.	Institutional training	On-the-job informal training	Interview	Owner-manager's judgement.	Training to obtain certification	<ul style="list-style-type: none">• Owner-manager idiosyncrasy• Coercive isomorphism• Internal social dynamics• Mimetic isomorphism
		APPRAISAL AND REWARDS PRACTICES		SOURCE OF EVIDENCE	CONTEXT		
	Comply with industry pay norms - Pay and rewards take account of union negotiated rates.	Formal	Informal		Situational	Institutional	
	Meet the specific needs of the business.	Nationally agreed rates	Informally agreed based on owner-manager's judgement on the grounds of practicality.	Training and development records; Interview; Email records of requests for placements from local institutions	Owner-manager's judgement	Institutional bargaining process	<ul style="list-style-type: none">• Coercive isomorphism
				Interview and Email records			<ul style="list-style-type: none">• Internal and social dynamics• Effectiveness

TABLE 4.3 ANALYSES OF HRM PRACTICES IN BE CO. LTD.

	OBJECTIVE	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		INTERPRETATION
		Formal	Informal		Situational	Institutional	
Be Co. Ltd.	Meet customer expectations	Formalised recruitment practices are part of the company's IIP standard.		Interview and Document Search – Recruitment records setting out recruitment procedures for operatives		Legitimacy	<ul style="list-style-type: none">Coercive isomorphism
	Maintain transparency	Selection process involves working with the local Job Centre .		Interview	Company avoids any suspicions of nepotism		<ul style="list-style-type: none">Internal social and political dynamics
	Recruit staff that fit in		Based on the owner-manager's intuition and judgement	Interview	New recruits have to fit in with the 'one family' ethos of the business		<ul style="list-style-type: none">Internal social and political dynamics
TRAINING AND DEVELOPMENT PRACTICES							
		Formal	Informal		Situational	Institutional	
	Retain customers and expand customer base	Training and development practices administered in accordance with the IIP standard		Interview and Document Search- Sales records showing customer retention of 95 per cent over the past 12 months.		Legitimacy	<ul style="list-style-type: none">Coercive isomorphism
	Maintain morale and employee motivation	Training and development practices administered in accordance with the IIP standard		Interview and document search – Employees absenteeism records show above 98 per cent attendance	Conducive to good employee morale, motivation and retention		<ul style="list-style-type: none">Internal social and political dynamics
APPRAISAL AND REWARDS PRACTICES							
		Formal	Informal		Situational	Institutional	Interpretation
	Maintain transparency	Appraisal process conducted in accordance with the IIP standard		Employees' appraisals records showing performance scores and pay records .	Transparency, employee motivation.		<ul style="list-style-type: none">Internal and social dynamics

TABLE 4.4 ANALYSES OF HRM PRACTICES IN WE CO. LTD.

	OBJECTIVES	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		INTERPRETATION
		Formal	Informal		Situational	Institutional	
We Co. Ltd.	Recruit candidates specialised skills within a geographical cluster		Word of mouth and personal recommendation from known contacts.	Interview and Document Search - email exchanges with competitors in connection with a potential vacancy		Informal recruitment practices are the norm within the cluster	<ul style="list-style-type: none"> Normative and mimetic isomorphism External labour market conditions (ELM)
	Minimise bureaucracy and be practical		Word of mouth and personal recommendations	Interview and Financial records showing projected cash flow deficits over the next 12 months	Extended credit periods to customers leading to negative cash inflows		<ul style="list-style-type: none"> External labour market conditions Finance Effectiveness
		TRAINING AND DEVELOPMENT PRACTICES					
	To comply with construction regulatory requirements	Formal Formalised training in line with changes to regulatory standards	Informal	Interview and Employees training records on health and safety, risk assessment, waste disposal etc.		Legitimacy	<ul style="list-style-type: none"> Coercive isomorphism Performance Institutional funding
	To enhance legitimacy	Formalised training in line with changes to regulatory standards		Interview		Legitimacy	<ul style="list-style-type: none"> Coercive isomorphism
	To develop skills in line with the specific needs of the sector		Informal on-the-job training.	Interview	Informal training is the most appropriate way of developing skills in the company		<ul style="list-style-type: none"> Up-Skilling
		APPRAISAL AND REWARDS PRACTICES					
	Observe pay norms in the sector.	Formal	Informal Based on owner-manager's assessment of what the going rate is in the sector	Interview		Situational Pay rates within the sector for qualified engineers.	<ul style="list-style-type: none"> Normative and mimetic isomorphism
	Respond to the specific needs of the business.		Informal negotiated understandings with employees	Interview	Owner manager's judgement		<ul style="list-style-type: none"> Owner-manager idiosyncrasy Internal social dynamics

TABLE 4.5 ANALYSES OF HRM PRACTICES IN Ze CO. LTD.

OBJECTIVES	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		INTERPRETATION
	Formal	Informal		Situational	Institutional	
Ze Co. Ltd.	Recruit skilled engineers within the sector.	Informal recruitment by word of mouth and personal recommendation	Interview and document search – email records of contacts with approved agents seeking potential new recruits.		Institutionalised norm	<ul style="list-style-type: none"> Normative isomorphism Mimetic isomorphism
	Identify skilled engineers through existing network of contacts.	Informal by word of mouth and personal recommendations	Interview	Convenient and less bureaucratic due to the availability of skilled employees in the sector		<ul style="list-style-type: none"> External Labour Market (ELM) conditions
	Comply with NACOSS Regulation	Formalised procedures including CRB checks in line with NACOSS regulatory requirements	Interview and Document Search – Consultants' schedule indicating due dates for renewing health and safety, NACOSS standards.		Administration of regulatory standards	<ul style="list-style-type: none"> Coercive isomorphism
	TRAINING AND DEVELOPMENT PRACTICES					
	Formal	Informal	Interview and Document search – Suppliers' Brochures illustrating training programmes for their technologies	Situational	Institutional	Interpretation
Training operatives in new and emerging technologies	Formalised training programmes initiated by multi-nationals through their training centres				Technologies are developed and distributed by manufacturers who dominate the sector	<ul style="list-style-type: none"> Technology Industrial Structure
Comply with NACOSS regulations	Formalised induction for new recruits in line with NACOSS regulatory requirements		Interview.		Need for legitimacy and a commercial imperative.	<ul style="list-style-type: none"> Coercive isomorphism Legitimacy
Adapt existing technologies.		Informal on-the-job learning	Interview	The adaptation of software and light assembly technologies that give Ze Co. Ltd. its competitive advantage.		<ul style="list-style-type: none"> Internal Social Dynamics
	APPRAISAL AND REWARDS PRACTICES					
	Formal	Informal	Interview	Situational	Institutional	Interpretation
Observe industry pay norms		Informal communications and exchanges with agents and distributors in the sector.			Pay rates within the sector	<ul style="list-style-type: none"> Mimetic isomorphism
Maintain flexibility and avoid a rigid pay and rewards structure		Based on owner-manager's intuition	Interview	Owner-manager's judgement and intuition		<ul style="list-style-type: none"> Internal social dynamics

TABLE 4.6 ANALYSES OF HRM PRACTICES IN DEN CO. LTD.

	OBJECTIVES	SELECTION AND RECRUITMENT PRACTICES		SOURCE OF EVIDENCE	CONTEXT		INTERPRETATION
		Formal	Informal		Situational	Institutional	
Den Co. Ltd.	Acquire specialised skills	A formalised process designed to identify skill gaps		Interview and Document Search – Advertising records in specialist industrial publications	Shortage of skilled personnel in the external labour market		<ul style="list-style-type: none">External Labour Market (ELM) conditions
	Meet customer expectations.	Formalised recruitment procedures		Interview and Document Search – Recruitment records outlining skill sets and qualifications.		Manufacturing standards instituted within a supply chain	<ul style="list-style-type: none">Industrial Structure (Supply chain relationships)
		TRAINING AND DEVELOPMENT PRACTICES					
	Demonstrate continuous improvement	Formalised manufacturing processes established in line with internationally agreed standards	Informal	Interview and document Search – Contract documentation outlining continuous improvement standards.		Institutional manufacturing standards for the oil and gas sector	<ul style="list-style-type: none">Industrial StructureExternal Labour Market (ELM) conditions.
		APPRAISAL AND REWARDS PRACTICES					
	Comply with industry pay norms	Formal Annual performance appraisals	Informal	Interview		Institutional pay norms	<ul style="list-style-type: none">Mimetic isomorphism
	Retain skilled staff	Annual Performance Appraisals in line with a career progression structure		Interview and Document (Organisational chart - A Hierarchical functional organisational structure)	<ul style="list-style-type: none">Above industry average in order to retain staff.Hierarchical organisational structure		<ul style="list-style-type: none">External Labour Market (ELM) conditionsInternal Labour Market Structure

4.4 Conclusion

Analysis of the data on HRM practices of SMEs in high value-added and low value-added sectors demonstrates heterogeneity of HRM practices in response to situational contextual influences on one hand, and homogeneity of HRM practices in response to institutional contextual influences on the other. As such, the results of the analysis of the data represent a rejection of a best practice perspective of HRM practices based on a set of universalistic ‘best practices’. The analysis also shows that it is insufficient to regard HRM practices of SMEs in high value-added and low value-added sectors as simply heterogeneous in that the HRM practices of SMEs in both sectors are also subject to homogeneous influences from an institutional contextual perspective. To explain the complexity of HRM practices of SMEs requires an integration of the institutional contextual (i.e. homogeneous) and situational contextual (i.e. heterogeneous) perspectives. In addressing the research questions posited for empirical investigation, the next chapter presents an examination of results of the analysis of the research data and then discusses the research findings.

CHAPTER FIVE

5.0 DISCUSSION OF FINDINGS

5.1 Introduction

In this penultimate chapter, the results of the analyses of the research data are discussed by examining, in section 5.2, the situational contextual influences that result in HRM heterogeneity, and in section 5.3, the institutional contextual factors that result in HRM homogeneity. In section 5.4, tables 5.1, 5.2 and 5.3 summarise the institutional pulls in case-SMEs towards HRM homogeneity and the situational pulls in case-SMEs towards HRM heterogeneity. The research questions are addressed in section 5.5, and a new open systems model of HRM in SMEs is presented in figure 5.1. The findings of the research are compared and contrasted, in section 5.6, with existing HRM literature on SMEs. The additional significant findings of the research are discussed in section 5.7; the implications of the study are summarised in section 5.8 and, finally, the chapter is concluded in section 5.9.

5.2 HRM Heterogeneity in SMEs

Normative models of HRM contrast formalised HRM practices in high value-added sectors with informal HRM practices in low value-added sectors. According to normative models of HRM, competing on the basis of high value-added is deemed to be a way for SMEs to adopt and implement HRM best practices which are linked to performance. Evidence from the case-SMEs suggests that whilst the sector in which an SME clearly plays a role in the HRM practices of SMEs, as in the case of Den Co. Ltd., this in itself does not determine the HRM practices of SMEs. The HRM practices of SMEs are mediated by a variety of situational contextual influences. Therefore, in the study sample of SMEs in high value-added and low value-added sectors numerous situational contextual influences were evident, as shown in tables 4.1 – 4.6 and summarised in Appendix 4A. These factors include the impact of the

wider society (Stanworth and Curran, 1981); HR Supply, industrial sector, product-market structure, competition in product market, ownership and organisational character of the business (Wong et al., 1997); changing operational environment in relation to the management of employee relations (Kinnie et al., 1999); sector characteristics (Tsai et al., 2010; Ram, 2000); external environment (Hill and Stewart, 2000); and changing economic and regulatory conditions (Edwards and Ram, 2006). The research findings are, therefore, supportive of the heterogeneity literature. The heterogeneous influences found in the research are described under a set of headings: internal social and political dynamics, external labour market conditions, internal labour market conditions, the regulatory environment, supply chain relationships and the industrial structure, ownership and management style, the existing skills base and technology in case SMEs.

5.2.1 Internal social and Political Dynamics

Owner-managers in case SMEs attached a great deal of importance to ensuring that new recruits 'fitted in' and could get along with existing employees. The desire to recruit employees who fitted in was a recurring theme in case SMEs in the study. In some case-SMEs, this was achieved informally, even when a formalised approach to selection and recruitment was the predominant means of selection and recruitment. For example, in Nu Co. Ltd., which is in a low value-added sector, and We Co. Ltd. and Ze Co. Ltd., which are both in high value-added sectors, the owner-managers relied on word-of-mouth and personal recommendations from known and trusted contacts. In a low value-added sector SME, such as Cen. Co. Ltd, although the primary means of recruitment was highly formalised, the owner-manager admitted to the limitations of adopting a formalised approach in identifying potential new recruits that 'fitted in', even when they were deemed to have satisfied the more objective criteria in the selection process. Therefore, in spite of a highly formalised approach

to selection and recruitment, the owner-manager used her personal judgement and intuition to assess the compatibility of potential recruits with the existing employees.

The study also finds that internal social and political dynamics played a role in the training and development practices of case SMEs. In Be Co. Ltd., formalised training and development was an integral part of the company's effort to maintain morale and motivate employees. As the owner-manager indicated, the company's absenteeism and staff turnover records have been outstanding as a result. Similarly, in Nu Co. Ltd., formalised training and development was perceived to have been particularly conducive to a good level of motivation and staff retention, resulting in a dramatic reduction in staff turnover. In Cen Co. Ltd., the owner-manager viewed informal training and development as conducive to passing on tacit skills to new recruits. This is similar to the situation in We Co. Ltd. However, for Ze Co. Ltd., informal training and development is perceived to be responsible for creating an internal social and political dynamic, that encourages the informal exchange of ideas and experiences from which it derives its innovative practices. Such innovative ideas involve the ongoing adaptation of existing technologies in ways that differentiate its products and services from the rest of the sector. The owner-manager described how this informal process was the main source of its competitive advantage.

In Be Co. Ltd., the internal social and political dynamic was such that formalised appraisal and rewards practices were viewed by the owner-manager as conducive to employees' morale and motivation. For example, formalised appraisal and rewards practices in Be Co. Ltd. were viewed as a way of demonstrating transparency to employees in a bid to avoid any suspicions of nepotism in what is still a close-nit family business. Appraisal and rewards practices in Be Co. Ltd. were based on clearly defined sales targets for administrative staff. The direct linking of performance and financial rewards in Be Co. Ltd. differs from appraisal and

rewards practices in other case-SMEs where such direct linkages are considered to be neither desirable nor particularly feasible. In Cen Co. Ltd, engineers played a highly significant role in on-the-job training by imparting softer, aesthetic skills to new recruits and apprentices in ways that are not amenable to objective measures of performance. For this reason, linking pay directly to performance would not have been practical and could, in fact, have had a negative impact on the social and political dynamics of the company. The evidence suggests that social and political dynamics of We Co. Ltd., in which the owner-manager's judgement formed the basis of the company's appraisal and rewards practices, were appropriate and seemed to have continued to serve the company well. There was no evidence that the owner-manager's personal judgement had been challenged. On the contrary, the owner-manager's perception was that his employees were content and willing to work beyond normal working hours if required to do so in accordance with fluctuations in work load. Often, this involved working night time and unsocial hours. In contrast with the formalised appraisal and rewards practices of Be Co. Ltd., informal appraisal and rewards practices seemed to be the norm in a high value-added sector SME such as We Co. Ltd. As the owner manager of We Co. Ltd. indicated, appraisal and rewards practices were mostly informal, and based on his judgement and intuition through an ongoing process of negotiated understandings with employees. On the other hand, in Nu Co. Ltd., which is an SME in a low value-added sector, formalised appraisal and rewards practices were perceived to have a positive impact on employees, even when there is no obvious direct linkage with financial rewards. This suggests that appraisal and rewards practices have implications beyond performance, as subject to context, they can have more to do with employees' feelings, motivation and job satisfaction. Consequently, in Nu Co. Ltd., the informal weekly 'open-door, drop in' appraisal sessions provided an opportunity for employees to express and discuss their feelings and the types of training they were interested in. In Nu Co. Ltd., appraisal and rewards practices may have had more to do

with fostering a caring social and political dynamic in the company. Thus, just as formalised appraisal and rewards practices are deemed to have a positive impact on employees' morale and job satisfaction in Be Co. Ltd. (Storey, 2010), subject to the internal social and political dynamics of an SME, informal appraisal and rewards practices prevalent in SMEs are equally capable of having a positive impact on morale, motivation and job satisfaction.

5.2.2 External Labour Market Conditions

The nature of the external labour market is found to have influenced HRM practices in case-SMEs. In Nu Co. Ltd., the effect of the availability of institutional funding from the LA, as part of the provisions of the Childcare Act, encouraged an informal approach to selection and recruitment in the knowledge that new recruits could undertake formalised training with financial support from the LA. The availability of LA funding for nursery training meant that the owner-manager's main concern in recruiting new staff was on locating mature adults in the local community with the right personal attributes. This meant that formal childcare qualifications were desirable but did not constitute the determining factor. In contrast, in Cen Co. Ltd. an informal approach to the selection and recruitment of apprentices may have been necessitated by the need to sustain a close-knit family ethos in the business. However, an informal approach to recruiting qualified engineers has, at the same time, been conditioned by relatively easy access to institutionally certified engineers in the external labour market. On the other hand, as the owner-manager also readily recognised, institutionally certified engineers were not always regarded as competent to operate in the domestic sector as they were deemed to need additional informal, on-the-job training to be regarded as fully competent. This suggests that, unlike Nu Co. Ltd., the lack of availability of institutional funding for the training of engineers in Cen Co. Ltd. made it necessary to formalise aspects of its selection and recruitment to ensure that newly recruited engineers not only 'fitted in' with the family ethos of the company, but were also institutionally certified to operate in the

sector. In Den Co. Ltd., formalised selection and recruitment, training and development, as well as appraisal and rewards practices, have been influenced by a lack of skilled labour in the external labour market. For this reason, it was necessary to have in place formal systems and processes to identify suitable recruits that could be trained in accordance with the specialised needs of the oil and gas sector. Therefore, the desire to retain fully trained employees was a contributory factor in a highly formalised appraisal and rewards process.

5.2.3 Internal Labour Market Conditions

Most SMEs lack an internal labour market and career progression opportunities and this was evident in case-SMEs in both high value-added and low value-added sectors. In Nu Co. Ltd. the absence of an internal labour market and the inability of the company to provide career progression opportunities for employees was the cause of an extremely high staff turnover that had threatened the very survival of the nursery. To cope with the absence of an internal labour market, the owner-manager had to initiate a dramatically different approach to the selection and recruitment of employees. This process entailed informal selection and recruitment practices designed to identify suitable recruits in the local community. It is significant that these changes resulted in a dramatic reduction in staff turnover. It is also significant that formalised training and development, and appraisal and rewards practices may, in reality, have been geared to retaining trained nursery staff, based on an affinity with the nursery, rather than being related to financial rewards or career progression. Indeed, employees joining the nursery may have been doing so to satisfy other social or personal needs rather than for career progression or monetary rewards. In contrast with Nu Co. Ltd., in Be Co. Ltd. absence of an internal labour market was addressed through a transparent incentives structure for sales and administrative staff as part of a formalised appraisal and rewards process. In We Co. Ltd., there was also an absence of an internal labour market, however, the owner-manager's approach to this was through financial rewards based on

informally negotiated understandings. In Den Co. Ltd., there was a highly formalised rewards structure linking pay and promotions to performance. This suggests that although case-SMEs had limited internal labour markets, the means by which they addressed it varied across case-SMEs in high value-added and low value-added sectors. Therefore, Den Co. Ltd., where there was a high demand for specialised skills and a critical need to retain skilled staff, took the more direct form of creating an internal labour market through a hierarchical organisational structure with formalised incentive structures, such as pay and rewards, and career progression within the company.

5.2.4 Supply Chain Relationships

Supply chain relationships are found to have a significant impact on the HRM practices of case-SMEs in high value-added and low value-added sectors. In Nu Co. Ltd., the formalised aspects of its selection and recruitment, training and development, and appraisal and rewards practices were also conditioned by its relationship with the LA. In this respect, the LiP quality standard is viewed as a legitimacy enhancing device. The need for legitimacy applies equally with funding organisations in the public sector, such as the LA, as with parents searching for quality local nursery provisions. Indeed, many parents rely on the recommendations of the LA, and LiP quality accreditation forms an important part of this advice. In Be Co. Ltd., there is a requirement to comply with established operating standards in the hygiene industry. As a supplier to numerous public sector clients, Be Co. Ltd's relationship with its customers is sustained by having accreditation against recognised quality standards for the industry. Indeed, without such accreditations, the company's legitimacy to operate in the sector would have been threatened. Similar conditions apply to case-SMEs in high value-added sectors operating within supply chains. In the case of We Co. Ltd. the implementation of formalised quality standards, such as Construction Line, are requirements for the sector. As such they are legitimacy enhancing devices. In Ze Co. Ltd., formalised training and development practices

are driven primarily by the technologies developed and marketed to agents within an international supply chain. Similarly, in Den Co. Ltd, the company's formalised processes are part of internationally recognised quality standards governing the oil and gas industrial sector.

5.2.5 The Regulatory Environment

Government regulations are found to play an important role in the HRM practices of SMEs in high and low value-added sectors. In Nu Co. Ltd. the NMW is found to have an influence on employees' pay. Indeed, the owner-manager ensures that a NMW statement is enclosed in employees' pay slips. Nu Co. Ltd. is also obliged to ensure the eligibility of new recruits to work in a nursery by obtaining clearance from the Criminal Records Bureau. Formalised aspects of selection and recruitment practices in Cen Co. Ltd. are conditioned by a legal requirement to only employ engineers who are institutionally certified as approved gas engineers. Similarly, ongoing formalised training and development for engineering operatives is conditioned by a requirement for engineers to regularly update their credentials in line with changes in legislation and regulatory standards. As employers, SMEs are obliged to comply with national legislation governing NMW, equal opportunity, and health and safety legislation. In the case of Ze Co. Ltd., legislation governing the electronic security industry involves a formalised process of vetting employees and obtaining clearance from the CRB. Therefore, operations in case-SMEs reflected various legislative and regulatory standards for the various sectors in which they operated.

5.2.6 The Existing Skills Base

The data indicated that the existing skills base of case-SMEs influenced their HRM practices in a variety of ways. In We Co. Ltd., the company's existing pool of specialised engineering craftsmen enabled and facilitated informal on-the-job training of new recruits and

apprentices. However, in Den Co. Ltd., the highly specialised skills base did not reduce the need for formalised training due to a much greater need for continuous improvement in a highly competitive international environment. In contrast, the skills needed in We Co. Ltd. are far more specialised and specific to an industrial cluster. The localised nature of the competition may also have contributed to collaborative working amongst competing SMEs within the cluster.

5.2.7 Ownership and Management Style

Case-SME owner-managers' style, including idiosyncrasy, is found to have played a significant role in the HRM practices of case-SMEs. In We Co. Ltd., the owner-manager's judgement and intuition, and the informal approach to assigning tasks to employees, was part of an ongoing informal approach to selection and recruitment, training and development, and appraisal and rewards in the company. In Cen Co. Ltd., it was the owner-manager's disposition to agreeing to a member of the administrative staff undertaking formalised accountancy training to advance her personal career ambitions that made such training possible. The owner-manager agreed to the employee undertaking such training in spite of the fact that the training did not offer the company any potential long-term financial benefit.

5.2.8 Technology

The technology deployed was also found to have an impact on the HRM practices of case-SMEs in a variety of ways. In Ze Co. Ltd., the technologies deployed were externally developed by a few multi-national companies that currently dominate the sector. This made formalised training in these technologies essential to companies operating in the sector. In contrast, the craft-based advanced engineering skills of We Co. Ltd. were deemed to be more suited to informal training and development than the formalised training needs of Ze Co. Ltd., which are conditioned by the surveillance technologies upon which it relies. On the

other hand, the process of adapting existing technologies in the sector in ways that give Ze Co. Ltd. its competitive advantage is largely through informal on-the-job training.

These situational contextual factors lead to HRM variations, not only between SMEs, but also within SMEs. Differences in HRM practices within SMEs are consistent with parts of the HRM literature that suggest HRM variation between functions, groups of employees and individuals (Wright and Boswell, 2002). In Nu Co. Ltd., selection and recruitment practices were characterised by a combination of formality and informality. Training and development practices were formalised, and appraisal and rewards practices combined formality and informality. In Cen Co. Ltd., informal and formalised practices characterised selection and recruitment, and training and development. Appraisal and rewards practices were predominantly informal. The owner-manager's inclination to offer an opportunity for a member of his administrative team to undertake formalised accountancy training supports the view that HRM varies between individual employees in SMEs (Wright and Boswell, 2002). In Be Co. Ltd., selection and recruitment was predominantly formalised but there were also pockets of informality in the process of assessing potential employees who 'fitted in'. Selection and recruitment, training and development, and appraisal and rewards practices in We Co. Ltd. were predominantly informal but also contained pockets of informality in response to the regulatory standards of the sector. Appraisal and rewards practices were mainly informal. In Ze Co. Ltd., selection and recruitment was informal. On the other hand, training and development combined formality in response to regulatory requirements, and informality in adapting existing technologies that gave the company its competitive edge in the sector. Den Co. Ltd., on the other hand, was highly formalised in all aspects of its HRM practices.

5.3 HRM Homogeneity in SMEs

Analyses of the data also illustrate the complex interaction of formalised and informal HRM practices in case-SMEs. It is the interaction of these contextual influences that gives weight to the view that HRM practices in SMEs are heterogeneous. However, to assume that HRM practices are entirely heterogeneous would be misleading in that such a view dislocates SMEs from their institutional contexts. Institutional contextual influences are evident in case-SME based on factors such as legislation and the regulatory environment, supply chain relationships, as well as informal HRM practices conditioned by institutional norms and values within sectors, groups and clusters of SMEs. This means that in addition to heterogeneous influences, the HRM practices of SMEs are equally subject to institutional influences, which result in HRM homogeneity within sectors, groups or SME clusters. The institutional factors influencing HRM practices in case-SMEs are described under the regulatory environment; supply chains relationships; technology; and the informal institutional norms and values in which SMEs exist and operate.

5.3.1 The Regulatory Environment

Although the regulatory environments of SMEs have a heterogenising effect on HRM practices between sectors, groups or clusters of SMEs, data from the study supports the view that the regulatory environment also creates conditions in which SMEs are obligated to adopt formalised HRM practices (Di Maggio and Powell, 1983, 1991; Edwards and Ram, 2003) within groups, sectors or SME clusters. Some aspects of selection and recruitment in Nu Co. Ltd., including checks with the CRB on potential recruits and the effect of the NMW (Arrowsmith et al, 2003) are not specific to Nu Co. Ltd. The requirements apply to all nurseries and are deemed to have a homogenising influence on the selection and recruitment practices of the child nursery sector. Similarly, the need for employees to possess NNEB

qualifications is not unique to Nu Co. Ltd. as it is a requirement for all nursery provisions without which they could not be licensed to operate. Coupled with an institutional funding structure within local authorities, the regulatory environment of nurseries leads to homogeneity in HRM practices of nurseries. Similarly, the highly regulated gas maintenance and engineering sector operates under nationally mandated regulatory standards, which apply to all gas maintenance engineering companies. These range from the institutional certification of new recruits as well as ongoing certification of qualified engineers, in line with changes in regulatory standards. The standards apply to the entire industry and, as such, have a homogenising effect on the HRM practices of gas engineering companies. In both Be Co. Ltd. and Nu Co. Ltd, there was a need to enhance legitimacy in that both were, in different ways, reliant on the public sector. Therefore, in both companies, there was a need to enhance legitimacy with IiP accreditation. In this sense, implementation of the IiP standard in SMEs can be said to have a homogenising effect on HRM practices in SMEs. Consequently, coercion is a significant contributory factor to HRM homogeneity in SMEs.

5.3.2 Supply Chain Relationships

Supply chain relationships create dependent relationships between SMEs and larger companies. This is evident in case SMEs such as We Co. Ltd. and Den Co. Ltd. In We Co. Ltd., formalised training and development standards, in line with the regulatory standards and institutional norms (Paauwe and Boselie (2003) stipulated within the cluster by blue chip customers, have had a homogenising influence on HRM practices within the cluster. Similarly, informal selection and recruitment practices prevalent in the cluster are part of an institutionalised norm (Paauwe and Boselie, 2003; Suchman, 1995) within a localised geographical cluster of SMEs, because the craft-based engineering skills within the cluster are identical and transferable within the cluster.

5.3.3 Technology

The homogenising effect of technology is particularly evident in the case of Ze Co. Ltd, which operates in an industry dominated by a few multinationals that develop and market advanced surveillance systems. As such, the formalised training and development needs in these technologies are common to businesses within the sector. In this sense, these technologies are perceived as having a homogenising effect on HRM practices in SMEs. In turn, these technologies may also have institutionalised informal selection and recruitment practices in SMEs. Indeed, the owner-manager of Ze Co. Ltd. suggested that informal recruitment in the sector was a more effective way of locating appropriately skilled staff.

5.3.4 Institutional Norms and Values

In Cen Co. Ltd., the practice of informal succession planning, which involves taking on family members as trainees, training them informally and preparing them to succeed their parents, constitutes an institutional norm in the sector (Nunez, 2002). This is typified by a remark made by the owner-manager of Cen Co. Ltd. when he states that '*It's mainly father and son in our business*'.

5.4 HRM Homogeneity and Heterogeneity

Analysis of the data demonstrates that HRM practices are neither entirely homogeneous nor entirely heterogeneous. Neither are they entirely formal or entirely informal. In reality, HRM practices of SMEs are highly complex and are characterised by varying degrees of homogeneity and heterogeneity, formality and informality. Tables 5.1, 5.2 and 5.3 highlight the institutional contextual and situational contextual influences on HRM formality and informality in the sample of SMEs in the study.

Table 5.1 – Institutional and Situational Contextual Influences on Formal and Informal Selection and Recruitment Practices of SMEs in High Value-Added and Low Value-Added Sectors

HRM Practices of SMEs	Institutional Influences leading to HRM Homogeneity		Situational Influences leading to HRM Heterogeneity	
	Formal	Informal	Formal	Informal
Selection and Recruitment Practices				
Nu Co. Ltd	<ul style="list-style-type: none"> Coercive isomorphism 			<ul style="list-style-type: none"> External Labour Market conditions Internal Labour Market Conditions
Cen Co. Ltd.	<ul style="list-style-type: none"> Coercive isomorphism 	<ul style="list-style-type: none"> Normative isomorphism Internal social and political dynamics 		<ul style="list-style-type: none"> Internal social dynamics Owner-manager idiosyncrasy
Be Co. Ltd.	<ul style="list-style-type: none"> Coercive isomorphism 		<ul style="list-style-type: none"> Internal social and political dynamics 	<ul style="list-style-type: none"> Internal social and political dynamics
We Co. Ltd.		<ul style="list-style-type: none"> Normative isomorphism External labour market conditions 		<ul style="list-style-type: none"> Financial situation External labour market conditions
Ze Co. Ltd.		<ul style="list-style-type: none"> Normative isomorphism Mimetic isomorphism Coercive isomorphism 		<ul style="list-style-type: none"> Effectiveness External labour market conditions
Den Co. Ltd.		<ul style="list-style-type: none"> Industry structure and supply chain relationships 	<ul style="list-style-type: none"> External labour market conditions 	

Table 5.2 – Institutional and Situational Contextual Influences on Formal and Informal Training and Development Practices of SMEs in High Value-Added and low Value-Added Sectors.

Training and Development Practices	Institutional Influences leading to HRM Homogeneity		Situational Influences leading to HRM Heterogeneity	
	Formal	Informal	Formal	Informal
Nu Co. Ltd.	<ul style="list-style-type: none"> Coercive (2) isomorphism 		<ul style="list-style-type: none"> Internal social and political dynamic 	
Cen Co. Ltd.	<ul style="list-style-type: none"> Coercive isomorphism (2) 	<ul style="list-style-type: none"> Industry structure External labour market conditions Mimetic isomorphism 	<ul style="list-style-type: none"> Owner-manager idiosyncrasy Internal social and political dynamics 	
Be Co. Ltd.	<ul style="list-style-type: none"> Coercive isomorphism 		<ul style="list-style-type: none"> Internal social and political dynamics 	
We Co. Ltd.	<ul style="list-style-type: none"> Coercive isomorphism (2) Performance Institutional funding 			<ul style="list-style-type: none"> Up-skilling
Ze Co. Ltd.	<ul style="list-style-type: none"> Technological isomorphism Industry structure and supply chain relationships Coercive isomorphism (2) 			<ul style="list-style-type: none"> Internal social and political dynamics
Den Co. Ltd.	<ul style="list-style-type: none"> Industrial structure and supply chain relationships External labour market conditions 			

Table 5.3 – Institutional and Situational Contextual Influences on Appraisal and Rewards Practices of SMEs in High Value-Added and Low Value-Added Sectors

Appraisal and Rewards Practices	Institutional Influences leading to HRM Homogeneity		Situational Influences leading to HRM Heterogeneity	
	Formal	Informal	Formal	Informal
Nu Co. Ltd.	<ul style="list-style-type: none">Coercive Isomorphism			<ul style="list-style-type: none">Internal social and political dynamics
Cen Co. Ltd.	<ul style="list-style-type: none">Coercive Isomorphism			<ul style="list-style-type: none">Internal social and political dynamics
Be Co. Ltd.			<ul style="list-style-type: none">International social and political dynamics	
We Co. Ltd.		<ul style="list-style-type: none">Normative Isomorphism		<ul style="list-style-type: none">Owner-manager idiosyncrasyInternal social and political dynamics
Ze Co. Ltd.		<ul style="list-style-type: none">Mimetic Isomorphism		<ul style="list-style-type: none">Internal social and political dynamics
Den Co. Ltd.			<ul style="list-style-type: none">External labour market conditionsInternal labour market structure	

5.5 Research Findings

5.5.1 Selection and recruitment practices in high value-added and low value-added sectors

As illustrated in figure 5.1, the selection and recruitment practices of case-SMEs in high and low value-added sectors reflect the institutional and situational contexts in which they exist and operate. These sectors do not constitute a defining factor in the selection and recruitment practices of SMEs as suggested by normative models of HRM.

5.5.2 Training and development practices in high value-added and low value-added sectors

As illustrated in figure 5.2, the training and development practices of case-SMEs in high and low value-added sectors reflect the institutional and situational contexts in which they exist. These sectors do not constitute a defining factor in the training and development practices of SMEs as suggested by normative models of HRM.

5.5.3 Appraisal and rewards practices in high value-added and low value-added sectors

As illustrated in figure 5.3, the appraisal and rewards practices of case-SMEs in high and low value-added sectors reflect the institutional and situational contexts in which they exist. These sectors do not constitute a defining factor in the appraisal and rewards practices of SMEs as suggested by normative models of HRM.

5.5.4 Formal and Informal HRM Practices in high value-added and low value-added sectors

As illustrated in figures 5.1, 5.2 and 5.3, formal and informal HRM practices exist to varying degrees in case-SMEs in high and low value-added sectors. Informal and formal HRM practices are complementary in both high and low value-added sectors. Therefore, a dichotomy of HRM practices contrasting formalised HRM practices in high value-added with

informal HRM practices in a low value-added sector is not supported by the data on case-SMEs. Informal HRM practices do not just effectively substitute for formalised HRM practices but, in some cases, informal practices are a superior alternative to formalised HRM practices of SMEs in high and low value-added sectors. For example, in We Co. Ltd., which is in a high value-added sector, informal selection and recruitment was considered by the owner-manager to be a more effective method of recruitment. In addition, informal training was viewed as the most effective way of up-skilling employees. In Ze Co. Ltd., which is in a high value-added sector, informal training proved to be a source of competitive advantage. The analysis finds that in case SMEs, formality and informality exist as a duality. This is a finding consistent with arguments by Myszal (2000:4), who states that *'the management of organisations involves a combination of impersonal and procedural rules and more particularistic local standards'*. Myszal's arguments have been based on work undertaken by Elias (1978). Myszal (2000) contends that informality and formality are a duality, as illustrated in figure 5.20.

This position represents a shift away from the notion of formality and informality as a dichotomy in which a 'one happy family' view is contrasted with the 'bleak house' view of informal HRM practices. According to this view, formality and informality are not contradictory as both can co-exist simultaneously in organisations. As Myszal argues in the following excerpt (in Marlow et al, 2010: 956-958):

'We tend to identify formal practice with public, instrumental, macro, private, social and integrative. If we start with the understanding that formality and informality are part of a single span, however, then they may be seen as resources to be mobilized, rather than predictable or fixed in their constitution and effects.'

5.5.5 Differences in HRM Practices between SMEs in High Value-Added and Low Value-Added Sectors.

In view of the above, there are no differences in the HRM practices of case-SMEs in high and low value-added sectors. HRM practices in both sectors are influenced by homogeneous and heterogeneous influences, which lead to formality and informality of HRM practices in both sectors. Therefore, formalised HRM practices do not separate SMEs in high value-added sectors from those in low value-added sectors. The HRM practices as defined by the selection and recruitment, training and development and appraisal and rewards practices are conditioned by the institutional and situational influences in which the SMEs exist and operate. Therefore, analysis of the research data supports the RP in that the HRM practices of case-SMEs are simply reflecting their institutional and situational operating contexts.

5.6 Findings in Relation to the Existing Literature

5.6.1 Selection and Recruitment

Selection and recruitment practices in both high and low value-added sectors did not resemble the formalised approach comprising a four-phased systematic process involving an assessment, a job analysis, the production, and person specification (Tanova and Nadiiri, 2005). In most case-SMEs, selection and recruitment was mostly informal. For the most part, this took the form of ‘word of mouth’ and recommendations by trusted contacts in the various sectors. Informal selection and recruitment practices prevalent in much of the SME sector are often criticised. Such criticisms include risk of a smaller pool of applicants that does not include the most ‘*suitably qualified candidates*’ (Greenidge, et al., 2012:164-182; Deshpande and Golher, 1994). The research found the opposite to be the case in that often, a smaller pool of staff from known contacts is less bureaucratic, saves time and is more effective in locating the most appropriate recruits in SMEs. Therefore, the findings of the research are consistent with the literature, which suggests that informal recruitment practices are often more

effective than more formal methods (Carroll, 1999; Zottoli and Wanous, 2000). Given that case-SMEs in both high and low value-added sectors find informal selection and recruitment to be effective, it may be too simplistic to assume that SMEs opting for informal selection and recruitment practices only do so due to a lack of resources. On the contrary, they may, in fact, be acting perfectly rationally in their best economic interests in not formalising their selection and recruitment practices. One reason for informal selection and recruitment practices in SMEs may be due to a desire to ensure that new recruits fit in with the existing set-up in SMEs. Formalised selection and recruitment practices are not always appropriate for this purpose. As the owner-manager of We Co. Ltd. indicated, often it is by '*trial and error*'. A recurrent theme in the informal selection and recruitment practices of SMEs is the desire to recruit people who 'fit in'. This theme has attracted some empirical analysis. There is established literature on the notion of 'fitting in' whereby owner-managers commonly express a preference for informal selection and recruitment. Some early studies, such as Granovetter's (1974) investigation of job-search, suggest that employers might have a better chance of finding satisfactory jobs by utilising acquaintances. Adapting this theory, Brass (1995:62) suggested use of networks on selection and recruitment as a more effective way of recruiting staff with a better fit to the organisation:

'recruitment through networks refers to all recruitment practices that go through informal channels to recruit people directly or indirectly known to the firm (or the owner) prior to being recruited.'

The reason given for this is that the owner-manager and the potential employee already know each other and the mutual attraction might be due to a perceived similarity that makes someone informally recruited a better 'fit' for the organisation. Kristof (1996) has also described the person-organisation fit (P-O fit) as the compatibility between people and organisation that occurs when an entity provides what another entity requires and/or the

entities concerned share fundamental characteristics. Kristof (1996) suggests that value and goal congruence between employee and organisation can contribute to positive organisational outcomes. These theoretical accounts may explain why, as in a number of case SMEs in this study) 'fitting-in' was a significant consideration for owner-managers, as they sought applicants from a pool of potential employees based on the owner-manager's inner perceptions of 'person-organisation fit' (Timing, 2011). Given that the decision to employ is often based on the owner-manager's intuition and instinct, for some SMEs formalised selection and recruitment practices may not effectively substitute for the informality of the owner-managers' intuition and instinct. In addition, it is evident, particularly in the case of We Co. Ltd., that bureaucracy and time constraints can also preclude use of formalised selection and recruitment methods (Klasset et al., 2000). Viewed from such a perspective, arguments predicated on ignorance and lack of information, based on an information asymmetry, seem particularly weak because some have argued that there may be information failures associated with lack of management training and lack of HR specialists in SMEs (de Kok and Uhlaner, 2001). This has led many to conclude that SMEs typically resort to using personal contacts and 'word of mouth' strategies (Leung, 2003). For example, Carroll et al. (1999:248) concluded that *'recruitment practices in SMEs had little in common with systematic procedures prescribed in HRM textbooks'*. However, although for most the situational context suggests a preference for informal selection and recruitment practices, the reality could be more complex in that in the case of Be Co. Ltd., for example, the main aspects of its selection and recruitment are formalised, for reasons of internal dynamics, in ensuring transparency, and to demonstrate impartiality and absence of nepotism to existing employees. Similarly, in Den Co. Ltd., a highly formalised approach to selection and recruitment was conditioned by lack of qualified labour in the external labour market.

5.6.2 Training and Development

The study found that subject to context, formal or informal training and development can be equally effective ways of developing skills in SMEs. We Co. Ltd. provides an example of the use of informal training to develop skills. The highly specialised skills required within a geographical cluster were determined by the owner-manager who had demanded informal training for development of new skills rather than formalised training and development. Indeed, the owner-manager indicated that formalised training was unnecessary and not required by employees. In Ze Co. Ltd, informal training and development was not just a means of developing skills, but was considered a source of competitive advantage. The reason for this, as Billett (2002) and Lave and Wenger (1992) have suggested, is that authentic learning only effectively takes place within a situated context, which makes learning a function of the activity, context and culture in which an organisation exists and operates. They argue that knowledge has to be treated as being situated, and is a product of the activity, context and culture in which it was developed and used. They, therefore, suggested that theoretical knowledge and skill can be memorised but rarely applied in real operating conditions. In contrast, it is argued that people who acquire knowledge on-the-job accrue an increasingly rich contextualised knowledge and understanding. It is through such interactions that people develop a real understanding of tasks. It also means that, unlike institutionally-based formalised training, workplace learning is highly heterogeneous (Eraut et al., 2000). For example, in Cen Co. Ltd., informal training and development practices, resulting, in part, from mimetic influences, matched the situational need of the company for on-the-job training, particularly in the softer behavioural skills required for engineers to operate effectively in the domestic market sector. These sort of skills are informally learnt on-the-job by *'the apprentices looking at what the engineer is doing and passing him the next item that he needs – he needs to put a dust sheet down, and it is building that proficiency in*

the apprentice right from the beginning, which they don't have when they come from the college' (Owner – Cen Co. Ltd.). In We Co. Ltd, much of the skill development needs were acquired on-the-job and the owner-manager did not perceive a need for any training to upgrade skill levels beyond what was acquired informally in this way. This view of informal training contradicts the view in some parts of the existing literature. Extant literature on training and development in SMEs often criticises lack of formal training in suggesting that this accounts for their lack of competitiveness and low productivity. Theorists such as Ashton and Sung (2002) have linked such formalised practices to competitiveness and performance by adopting the perspective of market failure. Others have based their arguments on a link between formalised training practices and competitive strategy (Boxall and Purcell, 2003). The premise from both perspectives is that formalised training practices are associated with those businesses in high value-added sectors. In many respects, Lloyd's (2002) study of the aerospace and pharmaceutical sectors had previously demonstrated that those businesses in high value-added sectors may be just as constrained by institutional factors as those in low value-added sectors in adopting formalised training and development practices. Similarly, in this study, the training and development practices of SMEs in high value-added sectors are no different from those in low value-added sectors. This indicates that apart from extreme cases, the training and development practices of SMEs in high value-added sectors cannot be assumed to be any different from those in low value-added sectors. As highlighted by the results of this research, the training and development practices of SMEs in high and low value-added sectors are conditioned by institutional and situational influences. The findings challenge policy prescriptions predicated on the assumption that businesses in high value-added sectors automatically adopt high skills strategies that require formalised training practices (Dench et al., 2000). It is for this reason that it has been argued that the issue of skills needs to be examined at the level of the firm (Lloyd and Payne, 2004) rather than in the

context of the national economy. This may explain why in a number of case-SMEs there was a preference for informal training practices. For example, in We Co. Ltd., informal training and development was effective in up-skilling qualified engineers and apprentices, indicating that informal training and development practices were equally useful in up-skilling employees in so-called high skill value-added sectors. Ashton et al. (2005) addressed this point by focusing directly on skill formation rather than training, and argued that firms go through a three-phase process of formalisation, specialisation of inputs into training, and delegation of authority. They showed that these processes are associated with size, suggesting that small SMEs would be more likely than micro SMEs to up-skill. Although the sample of SMEs in this study does not include micro-SMEs, these ideas are consistent with the findings of this study and might, indeed, explain why the result of the WERS demonstrates, that satisfaction with training and skills development was generally high in small firms (Forth et al., 2006). This brings into sharp focus a common criticism of SMEs that they lack competitiveness due to a lack of formal training (Matlay, 2004). Such criticisms fail to take into account the role of tacit knowledge in SMEs because, as in Ze Co. Ltd. for example, tacit knowledge, which the owner-manager described as informal training, was the basis of the company's competitive advantage in a highly competitive sector in which rival competitors had equal access to surveillance technologies supplied by multi-national manufacturers.

This finding is closely connected to notions of tacit knowledge in SMEs in that the ideas are close to comments made by the owner-manager of Ze Co. Ltd. when he emphasised the 'collective' in stating that *'it is not written down – we talk and pass ideas onto one another'*. This process of adapting existing technologies in ways that provide Ze Co. Ltd. with its competitive edge is also consistent with views expressed by Tsoukas (2003) when he suggests that existing technologies can be deployed in unique ways. Therefore, the experiences of the owner-manager of Ze Co. Ltd. resemble ideas of an interface between

explicit and tacit knowledge. Hence, in the SME sector, there may be a need to explore the interface between technology and tacit knowledge.

5.6.3 Appraisal and Rewards

The study also found that subject to context, in both high and low value-added SMEs, appraisal and rewards practices combined formality and informality to varying degrees. Informal appraisal practices often reflected the 'give and take' arrangements in the family atmosphere in case-SMEs. In most cases, this was based on the owner-manager's personal judgement and intuition, as in the cases of We Co. Ltd., Ze Co. Ltd. and Cen Co. Ltd. In the absence of accurate and reliable measures of performance, performance-related pay may indeed do more harm than good. This perspective is consistent with views expressed by a number of theorists. For example, Azzone and Palermo (2011:90) have argued that, *'strong asymmetry information problems outside the control of individuals can constrain performance'*.

The practicality of formalised appraisal processes linked to merit pay in SMEs is highly problematic given that in many SMEs, job roles are often blurred, as in the case of Cen Co. Ltd. and We Co. Ltd., where existing skilled employees were relied upon to pass on skills to new recruits. As the owner-managers of these SMEs suggested, social and political dynamics in these businesses were more conducive to an informal approach to appraisals and rewards. In the case-SMEs, there was often a sense of shared responsibility in a family atmosphere where rewards are not necessarily linked to performance based on the contributions of a group or an individual. As such, pay and rewards systems, as part of a high commitment model (HCM) of HRM, can undermine feelings of competence and self-determination (Wood, 1996). Similarly, according to the standard principal-agent (P-A) literature, pay-for-performance should be avoided in situations where there is a high degree of uncertainty, such

as in many SMEs. Hence, the findings of the research are consistent with the views of Laursen (2002) and particularly Pfeffer (1998a) who has criticised merit pay on the grounds of subjectivity, short-term focus, fear, lack of team work and lack of concern for organisational performance. On the other hand, the research is also supportive of the view that, subject to context, formalised appraisal and rewards practices can equally motivate employees if linked to performance, as advocated by Latham et al. (2005); Schuster and Zingheim (1993) and Huselid (2005), as is the case in Den Co. Ltd. and Be Co. Ltd. The owner-managers of these SMEs perceive that employees can be motivated to perform if they are given an indication of a direct link between effort and reward through a formalised process of individual and group targets (Latham et al, 2005).

5.7 Other Findings

5.7.1 Polarisation of demand for skills

It is significant that Den Co. Ltd., which is an SME in a high value-added sector, and Nu Co. Ltd., which is an SME in low value-added sector, were both experiencing a shortage of skilled labour and had difficulty recruiting staff from the external labour market. Therefore, although in the case of Nu Co. Ltd. the need was for very basic nursery skills, this suggests that skill shortages in the economy may not necessarily be confined to the so-called high value-added sectors. It is a significant finding in the context of a policy framework that is predicated on competitiveness through high skills in high value-added sectors. UK government policy over the last few decades has been predicated on the need to compete in high value-added sectors, such as high-end engineering, bio-technology, information technology, aerospace and pharmaceutical sectors (Lloyd, 2002). The implications of such a policy framework are inconsistent with the results of the research by Lloyd (2002:64-81), who investigated the training practices of two companies in high value-added sectors, in that

'despite their favourable product market positions these companies remained constrained by their broader institutional framework'. Hence, it is too simplistic to assume that skill shortages are unique to high value-added sectors. Keep and Mayhew (2004:299-300) have characterised flaws in the high skill, high value-added versus low skill, low value-added dichotomy, as follows:

'This clash between perception of the general economic benefits of more graduates and the reality in part stems from current policies, which are based on a stockpiling approach. The labour market is viewed as a vast warehouse, within which boxes are stored – one box for each worker (or potential worker). The boxes are assigned labels denoting the highest qualification held by each worker (Levels 1-5). Policy tends to view it as an unqualified good to ensure that the greatest number of boxes as possible have as high a number on them as possible. The problem with this type of viewpoint is that it ignores what is actually in the boxes, or to what uses this might or might not be put. It also assumes that employers are particularly concerned about the labelling the boxes carry. Thus we tend to assume that having more boxes with a level 4 on them is inherently better than having more boxes with a level 3 on them, and that if we have more boxes than another country – say Germany – this means that our stock of qualifications is superior and our performance will therefore be better. Is this assumption logical? Is it the case that the manager of a retail outlet (say a small W H Smith store) in England, with a Level 4 in the shape of a degree in Art History from the University of Coventry, will be inherently more effective as a store manager than their counterpart in Germany who only has a Level 3 qualification, gained via a rigorous, high-quality apprenticeship in retailing?'

5.7.2 HRM and Changing Demographic Trends

The experience in Nu Co. Ltd. of recruiting mature personnel also has implications for HRM in the context of an aging workforce in the UK economy. This is important because a contributory factor to retaining staff was the training opportunities provided by the nursery. There have been theoretical developments in connection with demographic dynamics and HRM. One example is socio-emotional selectivity theory, which argues *'that age is associated with increasing motivation for deriving emotional satisfaction and a decreasing motivation to expand one's horizon'* (Carstensen et al., 2003: 103). This theory has been

supported by Krause and Shaw (2003:579) who suggest '*that older individuals compensate for the continuing and gradual loss of resources by investing in what is left in an increasing circle of roles or life domains*'. Employment of older workers can be interpreted as a way for people to pass time or as a means to remain active. Castensen's (1998) theory views this as more complex in arguing that HRM practices may actually have a stronger effect on attitudes and behaviours amongst this group of employees. The rationale for this view, according to Reker (2000), is that there is increased pressure to extract meaning from life domains as relevant life domains contract with age. This is in sharp contrast to a more exploratory period of life domain for younger employees who find it relatively less important to extract meaning from the domain of work. This has implications for HRM in that older employees would be more inclined to expect more from HRM practices than younger employees. It follows that older workers will expect their working lives to have personal and professional significance. Although these views are very preliminary, they are significant in that although much attention has been directed at skill shortages in the economy, the fit between HRM systems and an aging workforce may become an increasingly critical issue for HRM researchers.

5.7.3 Mimetic Isomorphism and Informal Selection and Recruitment Practices in SMEs

Whilst in general, isomorphism is often couched in terms of formalisation of practices, the study also demonstrates the impact of mimetic isomorphism in some niche sectors where case-SMEs adopt informal selection and recruitment practices. It is known from institutional theory that mimetic isomorphism is a process whereby organisations model themselves on other organisations in the face of uncertainty (Bartram, 2011). For example, in Cen Co. Ltd., whilst the selection and recruitment of qualified engineers is highly formalised, for apprenticeship positions there is a long-standing tradition within the sector whereby employees are selected and recruited from amongst the ranks of family members and

employees' relatives. As one owner-manager remarked, *'It is really father and son relationships in our trade'* (Owner – Cen Co. Ltd.). This response may, in fact, be reflective of an institutional norm and, therefore, suggestive of mimetic isomorphism in informal selection and recruitment practices within the sector. By implication, this means that selection and recruitment practices can vary, depending on the group of workers or the individuals involved (Wright and Boswell, 2002). It is a type of behaviour consistent with the view that organisations exhibit legitimacy-seeking behavioural patterns by adopting the norms, beliefs and values of the environments in which they evolve (Hassi and Storti, 2011). As such, it makes organisations embedded in similar environments structurally compatible (DiMaggio and Powell, 1983). Such mimetic influences were also evident in the data on the informal selection and recruitment practices of We Co. Ltd. and Ze Co. Ltd. In We Co. Ltd., mimetic influences were demonstrated by the informal selection and recruitment practices within the sector. These informal practices seemed suited to the situational context of We Co. Ltd. because they were considered more economical from a financial standpoint, in addition to being less bureaucratic and generally more effective in a niche sector characterised by significant inter-firm co-operation. We Co. Ltd. operates in a highly specialised engineering sector characterised by informal selection and recruitment practices, including a practice that can best be described as a process of 'trial and error', which the owner-manager implied when he suggested, *'have a chat and take a chance on them'*. This is indicative of a tradition of informality in the selecting and recruitment of engineering operatives peculiar to a geographic engineering cluster. The owner-manager goes on to explain that this is normally accomplished by word of mouth or a simple telephone call, as he states, *'I would phone the owner of the company (in the sector) because in our industry you know people'*. Therefore, informality in selection and recruitment is the preferred way of selection and recruiting within a sector in which competitors also work collaboratively in ways similar to an

oligopolistic industrial structure. The extent of such oligopolistic structures within industrial segments is yet to be fully incorporated in the analysis of human resource management practices of SMEs. In particular, such characteristics or patterns of behaviour would seem to undermine the assumptions that underlie the closed systems perspective of normative frameworks. Ze Co. Ltd. also exhibits similar characteristics in its selection and recruitment practices, so when the owner-manager states, *'We talk to wholesalers and suppliers and say, "Do you know anyone in the industry that is after a job?" We find that through the Job Centres we cannot get the quality of people'*, the owner manager may, in effect, have been reflecting an institutional norm within a niche segment in which the company operates, whilst also providing an insight into inter-firm cooperative behaviour within a cluster of SMEs.

5.7.4 Inter-Firm Collaboration and Networking in SMEs

The collaborative arrangements between We Co. Ltd. and its competitors within a localised high technology, geographical cluster represents an example of inter-firm collaboration and networking in SMEs. Inter-firm co-operation has been described as a process that enables businesses to work collaboratively to achieve common goals and has been defined as *'the presence of deliberate relations between otherwise autonomous organisations for the joint accomplishments of individual operating goals'* (Schermerhon, 1975:846-856). Inter-firm cooperation is of particular importance in the SME sector because such cooperation is often a way of supplementing and complementing internal resource limitations, yet in the existing HRM literature there is a failure to recognise such working relationships, which involve the sharing of costs and risk minimisation. For example, an owner-manager of a competing SME in the same cluster had wanted to know if the owner-manager of We Co. Ltd. was interested in taking on a member of his engineering staff. Several reasons have been put forward for collaborative working by companies, including geographical proximities and social networks. The role of geographical networks in which We Co. Ltd. and its competitors exist in fostering

collaborative working has been recognised in the literature on industrial districts and clusters. The rationale for such collaborative ties is that they foster trust relations over a period of time, generating confidence, risk taking and cooperation in the local business community. Likewise, interpersonal relationships beyond strictly economic aims also support cooperation, and, in the process, facilitate access to resources. In this regard, social, family and ethnic ties can facilitate the exchange of resources, including skilled human resources. The failure of the existing policy framework to incorporate such informal and formal collaborative arrangements within business clusters can lead to mistakes in policy prescriptions on the HRM of SMEs. Therefore, in examining the HRM practices of individual firms it is necessary to locate such practices within wider social and institutional contexts.

5.8 Implications of Research

5.8.1 Relationship between HRM and SME Performance

The broader social and institutional contexts in which SMEs operate suggest that the relationship between HRM and performance is highly complex. As an example, in Cen Co. Ltd., institutional pressures for formalised training and development were accompanied by a situational need to support the personal career ambitions of a member of the administrative staff who wished to train as an accountancy technician. This support was based largely on social and political grounds rather than on economic grounds, suggesting that owner-managers' attitude to HRM practices in SMEs may not always be economically rational as both internal dynamics and owner-manager idiosyncrasy play a role in HRM practices of SMEs. For this reason, and as demonstrated by the results of this research, HRM practices of SMEs are not always homogeneously applied within SMEs as they can vary between functions and groups, as well as between individuals in an organisation (Wright and Boswell, 2002). In some cases, this may be the result of owner-manager idiosyncrasy. From such a

perspective, it is understandable why in seeking to establish a causal link between HRM and SME performance, results have not been conclusive. The answer may lie in the fact that HRM practices, particularly in SMEs, involve complex, non-linear political and social relationships. Over the last few decades, much effort has been made to explore whether a causal link exists between HRM and performance in what Legge (1995) describes as the 'Holy Grail'. Some have attempted to do this by investigating the relationship between performance and bundles of HRM practices (McDuffie, 1994). However, as Boselie et al. (2005: 81-82) have indicated, '*a steady body of empirical evidence has been accumulated since the pioneering days of the mid-1990s*'. To date, the 'Holy Grail' of a decisive proof remains just as elusive because of the complex and evolving nature of contextual factors in organisations. Given this complexity, the real question may not be whether there is a relationship between HRM and performance, but whether there is any connection between the two, because although statistical techniques can deal with causality, they are inadequate in dealing with social systems that are subject to external influences involving human agency. HRM practices involve dealing with humans not just as resources, but also as belonging to groups both within and outside organisations. As such, employees' behaviours are influenced and shaped by wider institutional settings beyond the immediate work environment. As Paauwe (2004) notes, HRM evolves in response to both relational and economic rationality. This means that subject to context, there may well be an advantage for organisations to operate within local norms (Ferndale et al., 2008). Considering the multiplicity of influences, it is plausible to argue that the concept of HRM is too complex to be reduced to a set of distinctive variables. Moreover, the impact of institutional influences on HRM practices is not uniform, as some practices are impacted more strongly than others (Ferndale et al., 2008). Thus, there is a need to examine HRM from an environmental standpoint incorporating an institutional (i.e., homogeneous) (Truss, 2012) and situational (i.e., heterogeneous) (Harney

and Dundon, 2006) contextual perspectives. From such a perspective, the effect of HRM in SMEs is best viewed in the context of financial, political and social outcomes.

5.8.2 Implications for HRM Theory on SMEs

HRM theory in SMEs requires an open systems perspective because such a perspective recognises that SMEs are embedded in social, political and economic networks (Edwards et al., 2003). SMEs have less control over their environments than large organisations. Therefore, by examining SMEs in isolation, normative models of HRM are too simplistic (Barrett and Rannie, 2002; Cassell et al., 2002). Drawing on an open systems perspective makes it possible to examine situational and institutional contextual influences together (DiMaggio and Powell, 1983; Paauwe and Boselie, 2003).

Based on the findings, it is posited that theoretical advances in HRM need to recognise the tension between formality and informality on one hand, as well as HRM homogeneity and heterogeneity on the other. In particular, extant literature has long overlooked the tension between homogeneity and heterogeneity, treating such forces as mutually exclusive. To this researcher's knowledge, this research is the first attempt at integrating the contextual homogeneous and contextual heterogeneous perspectives of HRM practices of SMEs. Consequently, how owner-managers reconcile these tensions involves some trade-off, which is recognised in labour process theory (Boxall et al., 2011). Labour process theory has long recognised contradictions in management goals, warning against a search for a set of consistent practices that underlie an HR system (Delbridge, 2007). Therefore, the view that all employees in an organisation are managed in the same way cannot be assumed, in that subject to situational and institutional contexts, groups of employees or individual employees can be managed in significantly different ways (Wright and Boswell, 2002; Gallie, 2007). Thus, based on the analyses of institutional and situational influences on HRM practices of

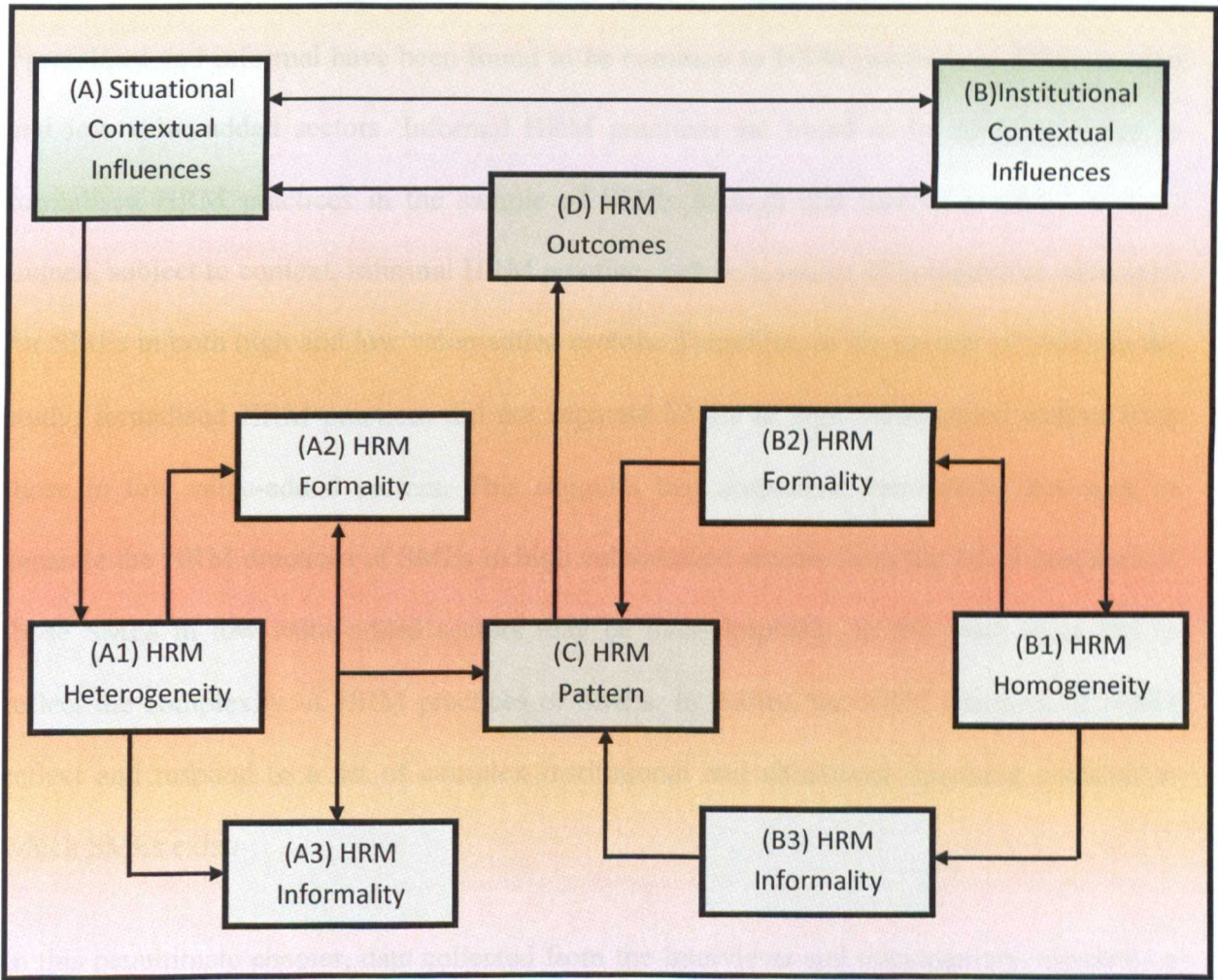
SMEs, HRM theory needs to recognise that, subject to context, these influences create conditions in which HRM practices can be expected to push in different directions simultaneously. For this reason examining HRM practices in isolation does not represent a systematic approach, in that HRM practices in SMEs involve different combinations of formality and informality pushing in different directions. This makes HRM in SMEs highly complex. Therefore, theoretical focus ought to be on establishing what combinations of formality and informality might be effective in different situational and institutional contexts.

Secondly, HRM systems are not designed solely for economic purposes. They are subject to a combination of socio-political and economic influences (Paauwe and Boselie, 2007). In this regard, it is evident that coercive influences exerted through best practice initiatives have been adopted by SMEs for reasons of legitimacy (Boxall and Purcell, 2008). For example, in the UK, the IiP quality standard, which has been vigorously promoted within SMEs, has often been adopted by SMEs for reasons of social legitimacy irrespective of their impact on profitability or financial performance (Hoque and Bacon, 2008).

Based on analysis of the data, an open systems model of HRM in SMEs that integrates formality and informality from institutional and situational perspectives is advanced as a substantive contribution to knowledge of how the complexity of HRM practices of SMEs can be viewed. The HRM framework developed as part of this study is presented in figure 5.1. The model depicts the interaction of formalised and informal HRM practices due to situational (i.e., HRM heterogeneity) and institutional influences, which create conditions for formal or informal HRM practices within sectors, groups or SME clusters (i.e., HRM Homogeneity). At one end, the framework depicts situational contextual influences on SMEs (A), which result in HRM heterogeneity, i.e., formalised HRM practices (A1) and informal HRM practices (A2). At the opposite end, the framework depicts institutional contextual

influences on SMEs (B), which result in HRM formality (B2) or informality (B3). The pattern of HRM practices (C) that results is the result of these two influences; a heterogeneous pull (A1) and a homogeneous pull (B1).The HRM outcomes (D) as a result of institutional and situational is a complex mix of social, economic and political outcomes.

Figure 5.1 – An Open Systems Framework of HRM in SMEs



5.9 Conclusion

Based on analysis of the data from the purposive sample of six SMEs in this study, the RP that ‘the HRM practices of SMEs in high and low value-added sectors are conditioned by institutional and situational contextual influences’, is supported. Firstly, the selection and recruitment practices of SMEs in high and low value-added sectors reflect homogeneity due

to institutional contextual influences, as well as heterogeneity due to situational contextual influences. Secondly, in their training and development practices, SMEs in high and low value-added sectors reflect homogeneity due to institutional contextual influences, as well as heterogeneity due to situational contextual influences. Thirdly, in their appraisal and rewards practices, SMEs in high and low value-added sectors reflect homogeneity due to institutional contextual influences, as well as heterogeneity due to situational contextual influences. Formalised and informal have been found to be common to HRM practices in SMEs in high and low value-added sectors. Informal HRM practices are found to be complementary to formalised HRM practices in the sample of SMEs in high and low value-added sectors. Indeed, subject to context, informal HRM practices can be a source of competitive advantage for SMEs in both high and low value-added sectors. Therefore, in the sample of SMEs in the study, formalised HRM practices did not separate SMEs in high value-added sectors from those in low value-added sectors. This suggests that normative frameworks that seek to separate the HRM practices of SMEs in high value-added sectors from the HRM practices of those SMEs in low value-added sectors may be over-simplistic, in that such ideas fail to reflect the complexity of HRM practices of SMEs. In reality, the HRM practices of SMEs reflect and respond to a set of complex institutional and situational operating contexts in which SMEs exist.

In this penultimate chapter, data collected from the interviews and documentary searches on the six participating owner-managers have been analysed. The analyses affirm the RP by showing that the HRM practices of SMEs are conditioned by sector-related institutional and business-specific situational influences. The chapter also highlighted and discussed additional findings of significance to HRM policy and practice on the SME sector. Substantive and formal contributions to SME HRM theory and SME culture have been highlighted and discussed. The next chapter concludes the thesis by highlighting the key findings in relation

to the original aims of the research, discusses the implications for future research, and reflects on implications for future practice.

CHAPTER SIX

6.0 CONCLUSION

As outlined in the terms of reference in section 1.1 of this thesis, this research was designed to demonstrate the complexity of HRM practices of SMEs. The thesis set out to highlight the limitations of current theorising on HRM in SMEs in relation to the existing policy framework on skills in the UK. The research was designed to advance an alternative theoretical model of the HRM practices of SMEs; empirically examine the theoretical model by means of a deductive-based qualitative research; discuss the research findings in light of the existing literature; assess the policy implications of the findings and make recommendations. To address the terms of reference, the preceding chapters of this thesis outlined the key literature and used deductive-based qualitative research to verify the proposed model of HRM in SMEs. The thesis commenced with a set of general questions about the suitability of policy interventions at the level of the firm premised on market principles as follows:

- To what extent is the failure to adopt formalised HRM practices in SMEs due to the imperfections of the labour market?
- Is reliance on a market-led approach to HRM likely to lead to the correction of market imperfections?
- To what degree are SME owner-managers in low value-added sectors inclined to change their attitudes to formalised HRM practices?
- Is it truly the case that those businesses in high value-added sectors have managed to escape the low skill, low value-added trap, and if so, how?

- In what ways are those businesses in high value-added sectors any different in their approach to HRM from those in low value-added sectors?
- If those SMEs in high value-added sectors are not necessarily any different in their approach to HRM from those in low value-added sectors, then what are the implications for HRM in SMEs and UK Skills policy?
- To what extent are policy interventions at the level of individual firms appropriate?

To answer these general questions, it is necessary to briefly reflect on the key literature in section 6.1 before summarising the contribution of the research to knowledge in section 6.2. The policy implications of the research and recommendations are discussed in section 6.3 and the limitations of the research are reviewed in section 6.4. The thesis is concluded with suggestions for further research in section 6.5.

6.1 Key Literature

In highlighting the limitations of current theorising, the HRM literature on SMEs was reviewed to show that existing normative models of HRM are too simplistic in that they fail to reflect the complexity of the HRM practices of SMEs. Normative models of HRM frequently contrast the HRM practices of SMEs in high value-added sectors with HRM practices of SMEs in low value-added sectors. As such, normative models of HRM have linked formalised HRM practices and competitive success with SMEs in high value-added sectors. In contrast, informal HRM practices, prevalent in much of the SME sector, have been linked with a lack of competitiveness of SMEs in low value-added sectors. It is this oversimplistic view of the HRM practices of SMEs that prompted this researcher to undertake a study in 2006 on the training practices of SMEs, which concluded that formalised training practices did not separate SMEs in high and low value-added sectors (Kinigoma, 2006).

Building on the findings of this research, this subsequent research has been designed to explore, analyse and compare the HRM practices of SMEs in high and low value-added sectors. Therefore, an important objective of this study was about the interaction between different domains of HRM practices in high and low value-added sectors. It remains a key question as to why, as normative models of HRM suggest, many SMEs remain reluctant to adopt HRM best practices if, indeed, it is in their best interest to do so. As discussed in the literature review chapter of this thesis, there are different schools of thought on this question. On one hand, there is a school of thought that views informality in SMEs in terms of a 'one happy family' (Wilkinson, 1999) scenario in suggesting that informality is simply a characteristic of small firms. This view is consistent with more recent findings by Storey et al. (2010) that formality in the employment relationship results in a significant decrease in job satisfaction. On the other hand, there is another school of thought that views informality in terms of a 'bleak house' scenario (Woodham and Lupton, 2006; Barrett and Rainnie, 2002; 1989).

The school of thought that views informality as a 'bleak house' have two competing explanations for why, in spite of all the effort to encourage SMEs to adopt such formalised HRM best practices under successive UK governments, many SMEs are still failing to heed the message. The more traditional view, which is linked to 'market failure', is based on a lack of resources in SMEs, which is why much effort has been directed towards providing additional resources to SMEs. Policy-makers have assumed that by providing resources to SMEs to correct for market failure, SMEs would eventually formalise their HRM practices and begin to adopt high value-added competitive strategies. This is a 'supply' perspective in which it is argued that the failure by SMEs to adopt formalised HRM practices include a misconception of the benefits of formalised HRM practices in what Storey and Westhead (1997) have referred to as the ignorance explanation; the implication being that SMEs would

eventually adopt formalised HRM practices if only they were made aware of its financial and long-term economic benefits. Other resource constraints suggested include lack of access to finance and an absence of internal labour markets in SMEs, leading policy-makers to continue to direct financial resources to SMEs in a bid to correct for perceived market failure. The problem, however, is that in spite of all the effort under successive UK governments over the years, there is, as yet, no convincing evidence of any marked change in attitudes in SMEs. Moreover, there are still sectors of the economy that are continuing to successfully compete by adopting low value-added competitive strategies. Therefore, competitive success may not necessarily be confined to sectors in high value-added sectors commonly associated with high value-added competitive strategies.

A more contemporary view of the failure of SMEs to formalise their HRM practices is one based on the lack of demand for skills (Finegold and Soskice, 1988). According to this view, it is the failure of UK businesses to adopt high value-added competitive strategies due to institutional constraints peculiar to the UK that accounts for the failure of SMEs to adopt formalised HRM practices. Therefore, unlike the market failure explanation in which HRM best practices are assumed to precede competitive strategy (i.e., a push effect), the systems failure perspective is based on the view that competitive strategy precedes HRM practices (i.e., a pull effect). The literature review highlighted the limitations of the HRM-Strategy alignment on the grounds that it lacks empirical support. Therefore, in this research, it has been argued that it is the failure of these normative models to provide plausible explanations for HRM practices of SMEs that has led some to shift their focus away from normative theoretical models of the acontextual homogeneity HRM literature, towards the situational contextual (i.e.heterogeneity) perspective of HRM in SMEs. However, the situational contextual perspective glosses over the homogenising influence of the institutional contexts of SMEs.

6.2 Contribution to Theory

The situational contextual literature represents a rejection of the acontextual homogeneity view of HRM in suggesting that the HRM practices of SMEs are conditioned by their operating contexts. Therefore, subject to context, SMEs can be expected to combine formality and informality in reflecting variations in their situational contexts. According to the situational contextual perspective, the HRM practices of SMEs do vary across work groups, functions and individual employees within organisations (Wright and Boswell, 2002). However, although acknowledgement of the role of the operating context on the HRM practices of SMEs in the situational contextual literature represents a significant advance on the acontextual homogeneous literature, there is still a failure to acknowledge the homogenising effect of institutional influences on the HRM practices within sectors, groups or clusters of SMEs. This means that although it is proper to reject the acontextual homogeneous perspective, it is equally necessary to recognise and incorporate the institutional contextual perspective of HRM practices in SMEs based on institutional theory (Tsai, 2010).

To the best of this author's knowledge, there has as yet been no previous attempt to integrate the heterogenising effect of the situational contextual perspective with the homogenising effect of the institutional contextual perspective of HRM in SMEs. Therefore, this contribution to knowledge is unique and represents a more systematic approach to understanding HRM in SMEs. This is because although an institutional theoretical perspective explains institutional influences, there is a failure in such an approach to take into account the unique situational contexts in which individual SMEs exist and operate. On the other hand, a situational contextual perspective equally ignores the broader institutional contexts within which SMEs are located. Consequently, each of these two perspectives

addresses a part of the larger piece without attending to the whole of HRM in context (Oliver, 1991). Thus, combining these two perspectives addresses the HRM practices in SMEs holistically by integrating the homogenising influence of sector-related institutional factors (Jackson and Schuler, 1995) with the heterogenising influence of business-specific situational factors (Harney and Dundon, 2006). In other words, whilst the situational contextual literature acknowledges the existence of HRM formality and informality, it fails to recognise tensions between HRM homogeneity and heterogeneity in SMEs, as shown in tables 5.1, 5.2, and 5.3.

In essence, the result of this research is a contribution to HRM theory based on an open systems theoretical perspective of HRM, shown in figure 5.21. This theoretical contribution is novel in that although the situational contextual perspective acknowledges the co-existence of HRM formality and informality in SMEs; in contrast, an institutional contextual perspective assumes that HRM formality and informality exist independent of each other (i.e. HRM formality or informality) based on institutional theory through coercive, normative and mimetic isomorphism. A systematic approach needs the integration of two levels of analysis; one based on formality *and* informality (i.e. a situational contextual perspective based on HRM heterogeneity (i.e. formality and informality)) and another based on formality *or* informality (i.e. an institutional contextual perspective based on HRM homogeneity). Although there is still much more theoretical and empirical work required in the critical area of HRM in SMEs, the theoretical perspective presented in this research represents a significant step forward in the way HRM practices in the SME sector is conceptualised and, in this respect, makes a contribution to HRM theory development.

The findings of this research represent a rejection of current theorising on HRM in SMEs in that normative frameworks, as currently presented in the existing literature, are too

prescriptive and fail to reflect the operational reality of SMEs in high and low value-added sectors. Firstly, existing normative frameworks are based on universalistic prescriptions in which HRM practices, either separately or collectively, are inexorably linked to performance, regardless of context (Beer et al., 1984; Bartram, 2011), even though there is, as yet, no evidence of such a linkage (Godard, 2004). On the contrary, the evidence from the research shows that HRM practices of SMEs may not be solely in response to economic factors in that they are also conditioned by a complex web of political and social influences (Harney and Dundon, 2006).

Hence, the research has demonstrated that SMEs in so-called high and low value-added sectors combined formality and informality in their HRM practices. For example, Ze Co. Ltd. may be categorised as an SME in a high value-added sector, however, its selection and recruitment practices were informal, due to the ready availability of qualified labour in the external labour market. Access to a pool of skilled potential employees was possible through known contacts within the sector, and the owner-manager did not see a need for a formalised approach to selection and recruitment. In contrast, formalised selection and recruitment practices in Nu Co. Ltd., which is categorised as an SME in a low value-added sector, were conditioned by lack of both qualified labour in the external labour market and institutional support for training. As such, contrary to the view that informal HRM practices prevalent in SMEs is a problem that has been overcome by those SMEs in high value-added sectors, informal HRM practices can and do substitute for formalised HRM practices in both high and low value-added sectors, as evidenced by analysis of the data on selection and recruitment, training and development, and appraisal and rewards practices in case-SMEs.

The research confirms that in their selection and recruitment practices, SMEs in high and low value-added sectors combine formality and informality in their HRM practices. Selection and

recruitment practices in both sectors reflect institutionally induced homogeneous and situational heterogeneous influences. In their training and development practices, SMEs in both high and low value-added sectors combined formality and informality in their HRM practices. Training and development practices in both sectors reflect institutionally induced homogeneous and situationally induced heterogeneous influences. In their appraisal and rewards practices, SMEs in high and low value-added sectors combined formality and informality in their HRM practices. Appraisal and rewards practices in both sectors reflected institutionally induced homogeneous and situational heterogeneous influences. Reflecting a heterogeneous perspective, the formal and informal HRM practices of SMEs are found to be complementary in both high and low value-added sectors.

Therefore, contrary to simplistic stereotypical characterisations of ‘one happy family’ and ‘bleak house’ scenarios, the HRM practices of SMEs in high and low value-added sectors are characterised by complexity in that they tend to be fragmented and diverse (Carroll and Wager, 2010).. Consequently, this research challenges the notion that HRM in SMEs is universally formal or informal, ad hoc, reactive or pro-active. The research finds that in reality, HRM in SMEs is highly complex, and the degree of complexity is evident in two separate tensions of formality and informality on one hand, and homogeneity and heterogeneity on the other. From an institutional contextual perspective, formalised HRM practices include coercive isomorphism (DiMaggio and Powell, 1983; Jackson and Schuler, 1995) and technological influences (Gunnigle and Moore, 1992) and mimetic isomorphism (Tsai, 2010), whereby SMEs within sectors, groups or clusters mimic practices in other SMEs. The research findings are consistent with parts of the HRM literature that recognise the effect of the regulatory environment, such as environmental, employment, health and safety and government policy in general on organisations’ HRM practices (Brewster, 2004). This means that, in reality, HRM practices of owner-managers of SMEs can be expected to

include reflections and responses to pressures from regulatory agencies (Gestel and Nyberg, 2009; Paauwe and Boselie, 2003). Institutional theorists have long argued that it is such influences that account for differences in the HRM practices of different countries, whilst also explaining commonalities of HRM practices within countries (Gooderham et al., 2006). By extension, this argument applies equally in a national context in that institutional structures within countries would be most pronounced amongst companies within different sectors, groups or clusters of SMEs in ways that reflect variations in their regulatory environments.

Analysis of the data indicates that from a situational contextual perspective, formalised HRM practices in SMEs are conditioned by a number of factors including a need for increased efficiency, internal social and political dynamics, up-skilling, owner-manager idiosyncrasy, external labour market conditions, the existing skills base, and technology. Also, from a situational contextual perspective, informal HRM practices in case-SMEs are shown to have been conditioned by a number of factors including internal, social and political dynamics, need for increased effectiveness and efficiency, technology, external labour market conditions, need for new recruits to fit-in, and financial constraints. In this respect, the findings are consistent with parts of the HRM research that indicate variations in HRM practices between SMEs (Kinnie et al., 1999; Wilkinson, 1999; Bacon and Hoque, 2005; Edwards et al., 2006).

In essence, there are two opposing influences comprising situational contextual influences pulling in the direction of HRM heterogeneity, and institutional contextual influences pulling in the direction of HRM homogeneity. By integrating the 'pull' effect of situational contextual influences with the 'pull' effect of institutional contextual influences this research represents a more systematic approach to HRM theorising. The research findings support the

theoretical framework on HRM in affirming that ‘the HRM practices of SMEs in high and low value-added sectors are conditioned by institutional and situational contextual influences’. Consequently, the theoretical contribution of this research is to extend the level of analysis of HRM practices of SMEs beyond a situational contextual perspective (i.e. HRM formality and informality) by incorporating an institutional contextual perspective based on HRM homogeneity (i.e. HRM formality or informality). This theoretical contribution is related to a strand of HRM that argues that the effective management of employees is influenced by situational and other contextual factors (MacDuffie, 1995; Huselid et al., 1997; Delaney and Huselid, 1995; Jackson et al., 1995). By combining the ‘institutional’ and ‘situational’ contextual perspectives, the research is novel and based on a multiple theoretical framework incorporating heterogeneity and homogeneity of HRM practices.

6.3 Contribution to Policy and Recommendations

Based on normative models of HRM, the acontextual homogeneous perspective of HRM has been the dominant driving force behind the skills strategies of successive UK governments. The UK policy framework over the last few decades has tended to treat HRM ‘formality’ and ‘informality’ in SMEs as mutually exclusive. However, the situational contextual literature recognises the existence of formal and informal HRM practices as a duality from a situational contextual perspective which is why it is deemed to represent a considerable advance on the acontextual homogeneous perspective. However, the situational contextual perspective has a drawback in that it dislocates SMEs from the homogenising influence of their institutional contexts. Therefore, by incorporating the situational contextual perspective with the institutional contextual perspective, the research makes a contribution to skills policy development in SMEs. In so doing, the research provides an insight into why in reflecting their operating contexts, large numbers of SMEs in a variety of sectors are yet to embrace

HRM ‘best practices’ as advocated by policy makers in the UK given the complexity of HRM practices of SMEs in both high and low value-added sectors.

This complexity may also explain level of resistance evident in the record of the IiP Standard, which has been vigorously promoted within the SME sector over the last two decades. Programmes such as the IiP prioritise measurable_tangible formalised HRM practices. In contrast, process and experiential based informal learning is often ignored. Therefore, programmes such as the IiP have tended to be highly prescriptive in advocating standardised formalised practices irrespective of situational and institutional contexts of SMEs. The IiP standard had originally been based on four key principles of commitment, planning, action and evaluation. Organisations seeking recognition had to produce a portfolio of evidence and were tested on 23 indicators based on the four principles. Over the years, the focus has shifted somewhat towards assessment criteria based on outcomes. However, there remains a requirement for training and development to be linked to business aims and objectives, and strategy in order to sustain competitiveness. This is in spite of the evidence that the link between formal training and outcomes in relation to worker skills is weaker in small firms than in large firms (Edwards, 2010). It is for this reason that Edwards (2010) has argued that it is too simplistic to assume as current policies do, that there is a lack of training in small firms. Edwards (2010) suggests that the degree of variability of operating contexts between small firms means that policy needs to work at the level of individual firms, a local area or sector. In support of Edwards’ (2010) comments, it is recommended that HRM policy needs to reflect the reality of institutional contextual (i.e. homogeneous) and situational contextual (i.e. heterogeneous) influences on HRM practices of SMEs..

This research recognises that the debate on HRM practices in SMEs is located within a broader policy agenda. This relates to a perceived lack of skills and competitiveness within

informal HRM practices, and low value-added competitive strategies in the UK SME sector. As such, it is often argued that such informal practices can be contrasted with practices in competitor nations such as Germany (Streeck, 1986), where institutional regulatory structures leave businesses with no other option but to seek competitive advantages through the adoption of high value-added competitive strategies. Therefore, this research has a number of implications for the UK policy agenda on UK competitiveness. Successive UK governments have adopted a market-led approach to skills. This approach is predicated on a view that businesses in high value-added sectors, competing on high value-added strategies can offer a solution to the UK's perceived lack of competitiveness (Finegold and Soskice, 1988). Therefore businesses in low value-added sectors are being encouraged to emulate the practices of those businesses in high value-added sectors.

Thus, in the UK, there has been a policy framework designed to shift the competitive trajectory from low skills and low value-added competitive strategies towards high skills and high value-added strategies. Therefore, policy has assumed that businesses in high value-added sectors, and supposedly competing on the basis of high value-added strategies, are more likely to adopt formalised HRM 'best practices' deemed to be beneficial to the UK economy at large. The problem, however, is that the UK government's market-led approach raises a number of questions. Firstly, there is an assumption that levels of skill in the UK are lower than those of other competitor nations, such as Germany, due to a lack of formalised HRM practices. Yet, as the findings in this research suggest, use of informal HRM practices as a way of enhancing and developing skills could be very widespread in the UK economy, particularly amongst SMEs. Consequently, it may not necessarily be the case that such practices simply represent a cheaper alternative for SMEs, as suggested by arguments predicated on market failure. On the contrary, informal HRM practices can both complement and serve as effective alternatives to formalised HRM practices in many SMEs, depending on

their operating contexts. This view is consistent with research that found that the provision of training was not particularly related to the level of competition or business performance (Kitching and Blackburn, 2002). Also, given the role of coercive factors on HRM practices of SMEs, it is likely that in the context of an unregulated labour market, many SMEs may also opt for market niches in which they can escape such coercive pressures, thereby avoiding the need to engage in formalised HRM practices.

Secondly, Keep and Mayhew (1999) have long argued that businesses in low value-added sectors can continue to survive and their path to a high value-added trajectory is unclear (Wilson and Hogarth, 2003). Besides, from a contextual perspective, it is possible for businesses to continue to survive in low value-added sectors in that belonging to a low value-added sector does not necessarily mean competing on the basis of low value-added strategies, because the degree to which businesses depend on skills for their success varies markedly. For example, whilst in the road haulage sector, Marchington et al. (2003) found that skill development had a positive impact on worker motivation and retention in cases where skills are deemed less critical, like the clothing businesses studied by Ram (1994), where workers had specific and unique abilities that the employer relied on. Therefore, from a contextual perspective, skill is a contested and socially constructed process (Cockburn, 1983).

Thirdly, even if SMEs were to adopt such formalised practices, there is no conclusive evidence of a link between formalised HRM and financial performance, because such practices are adopted by SMEs not just for economic reasons but also for social and political reasons (Paauwe and Boselie, 2007). Thus, the theoretical basis for a market-led approach premised exclusively on the supply of skills (i.e., market failure) on one hand, and demand for skills (i.e., systems failure) on the other, is not supported by the findings in this research. HRM practices of SMEs reflect SME owner-managers' responses to pressures from

regulatory agencies (Paauwe and Boselie, 2003) and are, therefore, conditioned by institutional as well as situational operating contexts of individual SMEs. The HRM practices of SMEs need to be viewed in the context of a broader institutional framework as opposed to the closed systems perspective of existing normative models of HRM. In this respect, national institutions may explain the variety of HRM practices between different countries (Gestel and Nyberg, 2009). In view of the above, it is difficult to see how a market-led approach, which is premised on the profit maximising motives of SME owner-managers, can set the UK economy in a high skills, high value-added trajectory, as assumed by the current UK coalition government. If it is the case that HRM practices of individual SMEs are shaped not just by their situational contexts but also by their institutional contexts, then HRM practices in SMEs have to be approached from an open systems perspective.

The open systems perspective does not presume an alignment of HRM and strategy but rather acknowledges that the relationship between HRM practices and SME skills and competitiveness is complex. Consequently, given the degree of complexity involved in the HRM practices of individual SMEs, it is difficult to envisage how long-term policy objectives can be realised without direct government intervention in the form of labour market regulation as argued by Ashton and Green (1997) and Ashton et al. (1999). Consequently, it is unlikely that interventions at the level of the firm based on market principles would be sufficient. Crouch (1997: 3709-371), for example, highlights the fundamental problem with the market-led approach to national skill systems, as governments rely on '*individual profit-maximising firms for solutions to collective problems*'. Therefore, on both theoretical and practical grounds, the UK's market-led approach has a number of limitations. In contrast, according to Ashton and Green (1997), in a number of East Asian countries, direct government intervention has enabled the economies of Singapore, South Korea and Taiwan to adjust rapidly to changing economic conditions in moving towards high value-added

production. As depicted in figure 6.1, in the case of the UK, this may take a mixed consensus-led approach along either the Japanese model of ILM or the German model of OLM. Either way, a useful starting point for the UK would probably be a mixed consensus-led/mixed OLM/ILM model. This option is proposed on the grounds that it is highly unlikely the rigidities of an alternative state-led system, such as in France, can ever take root in the UK.

Figure 6.1 – Categories of National Systems of Vocational Training

		FORM OF REGULATION		
		Market-Led	Mixed (Consensus-Led)	State-Led
LABOUR MARKET MODEL	Occupational Labour Market (OLM)	UK (pre-1960s) ↓	Germany	
	Mixed OLM/ILM	UK (post 1960s) US →	UK ↑	
	Internal Labour Market (ILM)		Japan ↓	France

Source: Adapted from Rubery and Grimshaw (2003)

A mixed consensus-led/mixed OLM/ILM model of skill formation in the UK would inevitably entail major changes to existing structures, including a dramatic revision of the liP model. Changes to the structure of the liP model in recent years including a focus on outcomes have tended to reflect a heterogeneous perspective of HRM in that there has been an attempt to make it increasingly less prescriptive. However, this is not enough because the ideology of liP is still embedded in a closed systems perspective in which SMEs are dislocated from their broader social and institutional contexts. In addition, it will inevitably

entail changes to the existing National Vocational Qualifications (NVQ) framework, which is largely controlled by employers that pursue their short-term interests in an unregulated market-led system.

6.4 Research Limitations

Firstly, although steps were taken to minimise sample selection error, the fact that all SMEs involved in the study are based in Greater Merseyside does not entirely eliminate the possibility of sample selection error. However, this is inevitable in view of the resource and time constraints under which the study was conducted. Secondly, the study highlights the policy implications of the proposed model and has not included ways in which a consensus-led regulatory system could be successfully implemented in the UK. Thirdly, the timing of this study coincides with a period of severe economic downturn and austerity in the UK economy. Therefore, the effect of the severity of the economic downturn on owner-managers' perceptions of their HRM practices is not known. Finally, the research can be characterised as one with strong reliance on face to face interviews. This is because the interview is not just economical but also a practical way of researching SMEs. Alternative approaches including ethnography would not have been practical.

6.5 Suggestions for Future Research

In making a contribution to HRM theory, the findings of this study are consistent with the view that organisations in the same industry have both commonalities (i.e., homogeneity) in reflecting institutional influences as well as differences (i.e., heterogeneity) due to situation-specific factors, in their HRM practices. However, although it is part of an increasing number of studies on the HRM practices of SMEs, knowledge of HRM in the SME sector is still in its infancy, which suggests that much more research is still needed in the continued development of theory on HRM in the SME sector. It is with the continued development of theory that

empirical approaches based on theory testing can be expected to be much more meaningful and relevant to the real practical needs of SMEs. In this regard, it may yet be premature to direct the research effort towards quantitative approaches that attempt to link HRM practices to performance, based on the manipulation of variables. Evidently, the results of such approaches have been very mixed to date and not at all conclusive.

The priority has to be on theory generation; there is a continuing need, therefore, for strengthening theoretical foundations of HRM practices in the SME sector. As such, there are numerous additional areas in which qualitative research can continue to make a contribution to HRM theory in SMEs. An area that is particularly relevant to future research is connected with changing worker values in the employment relationship. The historical view of career and organisational loyalty used to characterise employment relationships in SMEs under a 'one happy family' differs significantly from current realities in that employment relationships, as traditionally characterised by job security and long-term employment in exchange for employee loyalty, have witnessed dramatic changes recently. Consequently, HRM systems reflecting such mutual exchanges are changing dramatically (Tsui and Wu, 2005). According to Cappelli (2000) these developments have resulted in a growing power shift toward employees, and this shift has been met with changes in loyalty expectations in organisations. Employment relationships in organisations have become more fluid, and low levels of loyalty pose a particular challenge to the development of appropriate theory on HRM in SMEs. Therefore, there is a need to include a theoretical perspective that seeks to integrate changes in loyalty expectations, given the implications of such a perspective with respect to selection and recruitment, training and development, and appraisal and rewards practices in SMEs. Additional research is needed to improve understanding of such changes and how they might impact the HRM practices of SMEs in the future.

The study confirms that it may be simplistic to treat informal selection and recruitment practices as second best to formalised selection and recruitment practices. As Timing (2011:570-584) has remarked, *‘although staffing practices in SMEs are largely thought to be informal and unsystematic, this claim requires important qualification, that is, that the degree of formalisation of staffing practices can be expected to vary by the size of the SME.’* In fact, SMEs do in some cases use formalised selection and recruitment practices (Henegan and Berkley, 1999). However, an important feature of selection and recruitment practices in SMEs is that in many cases new recruits have to show they are able to ‘fit in’, as in the cases of Be Co. Ltd. and We Co. Ltd., to be considered suitable potential employees. It seems that when it comes to choosing potential employees based on their potential to ‘fit in’, there may not, in fact, be no real alternatives to informality and the subjective judgements of owner-managers. For example in both Ze Co. Ltd. and We Co. Ltd. the owner-managers preferred to recruit through known contacts in their specific industrial niches and clusters. Such informal recruitment practices were found to be embedded in the cultural norms and values within the specific industrial clusters. For this reason, there is a need to undertake additional research on the HRM practices within industrial clusters in order to explore the role of mimetic isomorphism in the selection and recruitment practices of SME clusters. Indeed, there is a need for a skills policy framework that reflects the informal selection and recruitment practices within industrial clusters in de-regulated market conditions. At the same time, as in the case of Be Co. Ltd., the study is also supportive of parts of the HRM literature, which suggest that the family orientation of SMEs often requires owner-managers to use formalised selection and recruitment practices as a way of demonstrating transparency in order to avoid accusations of nepotism and cronyism (Bird, 1989). This view directly contradicts recent findings by Storey et al. (2010) that formality in the employment relationship results in a decrease in job satisfaction. Consequently, there is a need to explore

further the relationship between formality and job satisfaction in different SME operating contexts.

The study confirms that it may be too simplistic to treat informal workplace learning in SMEs as inferior to formalised training. Extant literature on training often attributes the lack of competitiveness in SMEs to a lack of formal training (Matlay, 2004). Therefore, tacit learning, which cannot be formally codified and measured, is often not included in the traditional definition of training (Malik et al., 2011). For example, in We Co. Ltd., informal on-the-job training was viewed as the principal means of up-skilling employees and the owner-manager did not perceive any need for additional training for employees beyond that acquired informally on-the-job in the course of the day-to-day operation. Yet, just how informal training contributes to employees' skills in SMEs is still relatively under-explored. Consequently, there is a need for additional research on how informal training contributes to skill development in SMEs in both high and low value-added sectors. For example, in Ze Co. Ltd. informal training practices were the means by which the company was able to uniquely adapt existing technologies in ways that differentiated its services and from which it derived its competitive advantage (Kitching, 2007). The experience of Ze Co. Ltd. points to a potential line of additional research designed to explore the relationship between technology, informal training and the competitiveness of SMEs in high value-added sectors. Judging by the example of Ze Co. Ltd., it is suggested that there is a need for a policy shift away from formal and informal training towards an increased focus on learning.

The study also finds that the appraisal and rewards practices of SMEs are often informal and exercised through the personal judgement and intuition of the owner-manager as part of an on-going process of negotiated understanding. At the same time, the research finds that subject to context, formalised appraisal practices can serve to motivate employees as in the

case of the sales administration staff in Be Co. Ltd. Similarly, in Nu Co. Ltd., appraisal and rewards practices were deemed to have had a particularly positive impact on employees' morale and contributed to employee retention. However, how formalised appraisal and rewards practices impact employees' morale, particularly in low value-added sectors, requires further examination.

Given that this research is based on data collected from SMEs based in Merseyside, there is a need to expand the research beyond the Merseyside sub-region to SMEs in the rest of the UK. Based on the findings of such additional research, it is possible to draw firm conclusions on how the findings in this research can contribute to policy developments on skill development and the future competitiveness of SMEs. Further more, the findings of this research are based on the practices of small SMEs (i.e. SMEs employing less than 50 employees based on the EC definition). Therefore, there may be a need to expand the sample to include SMEs employing less than 10 employees (i.e. micro SMEs) as well as those employing between 50 to 249 employees (medium-sized SMEs) in order to draw firm theoretical conclusions on the SME sector in general.

In conclusion, the findings of this research are consistent with the view that formality and informality co-exist as a duality in SMEs in high and low value-added sectors (Katzell, 1962; Marlow, 2010). This view is long-standing and consistent with views expressed by Katzell (1962), who has long argued that no one system of organisation is capable of serving as a blue print for all organisations. This means that organisations can be expected to combine formality and informality. Therefore, the real issue is one of how much formality and informality in any organisation, in that no one mode of practice could be used to describe HRM practices in any one organisation.

In order to understand the HRM practices of an organisation, it is necessary to examine the entire domain of HRM practices in order to assess the inter-play between formality and informality across the entire domain of practices. From this standpoint, studies based on single practices or confined to examining parts of an organisation may not be sufficiently comprehensive in that they may be reflecting HRM practices of parts of an organisation and not the whole organisation.

In SME research, there is a need to continue to adopt approaches that recognise the homogeneity and heterogeneity of their HRM practices. HRM in SMEs is far from the simplistic notions of 'best practice' promoted by practitioners. On the contrary, HRM in SMEs is often fragmented and contradictory, with varying levels of formality and informality. There are no best practices unique to SMEs in high value-added sectors. Those in high value-added sectors are just as likely to adopt formal and informal HRM practices as those in low value-added sectors. It is also necessary to acknowledge that HRM in SMEs is often determined by a desire for legitimacy.

This means that initiatives such as the IiP Standard are not always adopted for strategic reasons. The resource dependency of SMEs often determines their adoption of HRM best practices. Therefore, to address the general questions of this thesis, SMEs in high value-added sectors are not necessarily HRM best practice exemplars for SMEs in low value-added sectors. It is too simplistic to assume that failure of large sections of SMEs to adopt such best practices is due solely to market imperfections in that there are wider institutional factors at play. In the context of a liberal market economy in the UK, the goal of an economy on a high skill, high value-added trajectory cannot be realised without changes to the regulatory framework in which SMEs exist and operate. If, indeed, the UK is in a low skill, low value-

added trajectory, then the solution lies in a national consensus on regulation, and not on the HRM practices of individual firms in the context of a liberal market economy.

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APPENDICES

3A – 2006 Results – Contextual Influences on Training in SMEs

SMEs	SECTORS	FORMAL TRAINING	INFORMAL TRAINING	STRATEGY	CONTEXTUAL FACTORS
COMPANY A	Low Skill – Nursing Home	In administration to improve efficiency and in response to regulation. Improve morale and maintaining reputation	Aesthetic and behavioural skills	Low Value-Added Competitive Strategy	<ul style="list-style-type: none"> • Regulation • Internal social dynamics • External labour market structure • Legitimacy
COMPANY B	Low Skill-Textiles	Formal training required in the use of new technology amongst engineering operatives	Informal training amongst support operatives	High Value-Added Competitive Strategy	<ul style="list-style-type: none"> • External labour market structure • Technology • Internal Social Dynamics • Managerial Style • Legitimacy • Operational Complexity
COMPANY C	Low Skill-Clothing	Formal training amongst managerial staff	Informal training amongst machinists on the shop floor	Low Value-Added Competitive Strategy	<ul style="list-style-type: none"> • Technology • Internal Social Dynamics • Operational Complexity
COMPANY D	High Skill-Transportation	Formal training amongst operatives driven primarily by new technology	Informal recruitment conditioned by availability of skilled potential recruits in the external labour market	High Value-Added Competitive Strategy	<ul style="list-style-type: none"> • Technology • Regulation • External Labour Market Conditions
COMPANY E	High Skill-Vehicle Maintenance	Formalised recruitment due to a shortage of skilled labour in the external labour market	Informal training for operatives on the shop floor	High Value-added/ Low Value-added Competitive Strategies	<ul style="list-style-type: none"> • Regulation • External Labour Market Conditions • Technology
COMPANY F	High Skill-Security Services	Formal induction and recruitment of apprentices	Informal training for operatives	High Value-Added Competitive Strategy	<ul style="list-style-type: none"> • Technology • Industrial Structure

SMEs	SECTORS	FORMAL TRAINING	INFORMAL TRAINING	STRATEGY	CONTEXTUAL FACTORS
COMPANY G	Low Skill-Metal Fabrication	Formal training in administration	Informal training amongst engineering operatives	Low Value-added and High Value-Added Competitive Strategies	<ul style="list-style-type: none"> • Regulation • Technology • External Social Networks
COMPANY H	Low Skill-Metal Fabrication	Formal training for administrative staff	Informal training for fabricators	High Value-Added and Low Value-added Competitive Strategies	<ul style="list-style-type: none"> • External Labour Market Conditions • Regulation
COMPANY I	Low Skill-Vehicle Repairs	Formalised training for operatives	Informal training practices linked to automation	High Value-added and Low Value-Added Competitive Strategies	<ul style="list-style-type: none"> • Regulation • Technology • External Labour Market Structure
COMPANY J	Low Skill- Retail	Formalised training amongst operatives	Informal training in health and safety	Low Value-Added Competitive Strategy	<ul style="list-style-type: none"> • External Labour Market Conditions • Legitimacy
COMPANY K	Low Skill-Retail	Formalised Induction for recruits	Informal training for customer service operatives	Low value-added competitive strategies	<ul style="list-style-type: none"> • External Labour Market Structure • Management Style
COMPANY L	High Skill-Aviation	Formalised training for operatives	Informal training in the application new technologies.	Low Value-added Competitive Strategies	<ul style="list-style-type: none"> • Regulation • Technology
COMPANY M	High Skill – Information Technology	Formalised induction for new recruits	Informal training for software engineers	Low Value-Added Competitive Strategy	<ul style="list-style-type: none"> • External Labour Market Structure • Industrial Structure
COMPANY N	High Skill- Information Technology	Formalised recruitment and Induction	Informal training for software development operatives	High Value-Added Competitive Strategy	<ul style="list-style-type: none"> • External Labour Market Structure • Technology • Internal Social Dynamics

Source: Kinigoma, D. (2006) *Human Capital and Small Business Potential: A case study of training in High and Low Skill Sectors on Merseyside*

1. Discuss how the recruitment strategies is conducted. Discuss the factors that influence recruitment process and how and why?
-

3B - Sample Interview Schedule



Interview Schedule

Contextual influences on Patterns of HRM in the Small Business Sector

1. Discuss how the recruitment of employees is conducted. Discuss the factors that influence recruitment practices, how and why?
2. Discuss how employee training is generally conducted. Discuss the factors that influence employee training practices, how and why?
3. Discuss how employee performance is monitored or assessed generally. Discuss the factors that influence employee appraisal practices, how and why?
4. Discuss how employee rewards are determined. Discuss the factors that influence employees' rewards practices, how and why?
5. Discuss how employer views performance monitoring and possible connections between recruitment practices, training, performance monitoring, and rewards practices.

3C- Sample Participants' Brief

LIVERPOOL JOHN MOORES UNIVERSITY PARTICIPANT INFORMATION SHEET



Title of Project 'Contextual Influences on Patterns of Training in the Small Business Sector'

Researcher:

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You are being invited to take part in a research study. Before you decide it is important that you understand why the research is being done and what it involves. Please take time to read the following information. Please let me know if anything is not clear or if you would like more information. Please take time to decide if you want to take part or not.

What is the purpose of the study?

Some people believe that small businesses need to formalise their training practices in order to be competitive. Formalised training practices are different from informal training practices in that formalised training means the degree to which a procedure exists and is regularly applied to employees' selection and recruitment, training and development, performance appraisal and

rewards. In contrast, informal training practices do not rely on a formal procedure or pre-determined guidelines.

This is a student-led research study which is designed to explore the views and experiences of owner-managers on how formal and informal training practices either constrain or enable their businesses. Two types of small businesses will be participating in the study, i.e., four 'high' skill and four 'low' skill businesses.

If you accept the invitation to participate in the study you will be given this information sheet and asked to sign a consent form. You will be one of eight small business owner-managers taking part in the study, which will be undertaken in the form of case studies involving interviews and document searches.

The aim of the research is to make a contribution to small business training theory by comparing the training practices of small businesses in 'low' skill sectors with those in 'high' skill sectors. By contrasting the training practices of small businesses in these sectors, the study can influence training policy in ways that make it more responsive to the needs of small businesses.

Do I have to take part?

No, your participation is voluntary and it is up to you to decide whether to take part or not. If you agree to participate, you will still have the right to withdraw at any time from the study and you do not have to give any reason for your withdrawal. A decision to withdraw will not affect your rights, any future treatment or service you receive.

What will happen to me if I take part?

The study will be completed by 1st June 2013 and your participation will be at the initial stage of the research during the data collection phase, which will be completed by 31st September 2012.

The interview will take place in your business premises during normal office hours, between 9.00am and 5.00pm. The interview is expected to last between 2 and 3 hours and will be audio recorded. During the interview we will jointly discuss the role of formal and informal selection and recruitment, employees' training and development, performance appraisals and rewards in your business in order to gain a deeper understanding of how these practices either 'enable' or 'constrain' your business. A transcript of the interview will be reviewed with you subsequently to ensure it accurately reflects your view of your training practices.

In order that the document search is restricted to relevant documentation, I would like to conduct a review of your business as part of the document search. The review will involve a discussion of the background of your business and an assessment of its key strengths, weaknesses, opportunities and threats. During this review, documentation and associated processes relating to your training

practices will be examined and discussed. Notes of processes and documentary records will be made during the meeting. The document search will take between four to six hours and can be conducted over a number of sessions to minimise disruption to your daily business routine.

Are there any risks/benefits involved?

I am an experienced business adviser, trainer and counsellor, having worked with small businesses for over 20 years. The interviews and document searches will be scheduled with your agreement to minimise disruption to business activities and routines. You also have the right to re-schedule appointments or cancel participation at any time.

Will my taking part in the study be kept confidential?

The information you provide in the course of the interview, and any other subsequent information obtained from you as part of this study, will be strictly confidential. Information including direct quotes obtained as part of this study will be anonymised prior to any publication. As it is intended to seek publication of the findings, data obtained as part of the study will be stored for a maximum of 5 years from the date of completion of the study.

All electronic data will be stored on LJMU servers and can only be shared with the research supervisor. Data will not be shared with, or transferred to, any other parties without your consent or permission.

Contact Details of Researcher:

Dagogo Kinigoma
Liverpool Business School
Faculty of Business and Law
Liverpool John Moores University
E-mail: D.Kinigoma@ljmu.ac.uk
Telephone: 0151 208 5273

3D – Sample Consent Form

LIVERPOOL JOHN MOORES UNIVERSITY CONSENT FORM



Research Title: Contextual Influences on Patterns of Training in the Small Business Sector.

Name of Researcher: Dagogo Kinigoma

Liverpool Business School

Faculty of Law and Business

I confirm that I have read and understand the information provided for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily.

1. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason, and that this will not affect my legal rights. ☐
2. I understand that any personal information collected during the study will be anonymised and remain confidential. ☐
3. I agree to take part in the above study. ☐
4. I understand that the interview be audio recorded and I am happy to proceed. ☐
5. I understand that parts of our conversation may be used verbatim in future publications or presentations but that such quotes will be anonymised. ☐

Name of Participant

Date Signature

Name of Researcher

Date Signature

Name of Person taking consent
(if different from researcher)

Date

Signature

4A - ANALYSIS OF INSTITUTIONAL AND SITUATIONAL CONTEXTUAL INFLUENCES IN CASE SMEs.

LOW VALUE-ADDED SECTORS	Homogeneity and heterogeneity	Mode of HRM Practice	Contextual Influences
Nu Co. Ltd.			
Selection and Recruitment	Situational	Informal	<ul style="list-style-type: none"> • External Labour Market • Internal Labour Market
Training and Development	Institutional	Formal	Coercive isomorphism
	Institutional	Formal	Coercive isomorphism
	Institutional	Formal	Coercive isomorphism
	Situational	Formal	Internal social and political dynamics
Appraisal and Rewards	Institutional	Formal	Coercive isomorphism
	Situational	Informal	Internal and political dynamics
Cen Co. Ltd.			
Selection and Recruitment	Institutional	Formal	Coercive isomorphism
	Situational	Informal	Internal social and political dynamics
	Institutional	Informal	Normative isomorphism
Training and Development			Internal social and political dynamics
	Institutional	Formal	Coercive isomorphism
	Institutional	Informal	Industry structure
			External Labour market conditions.
	Situational	Formal	Owner-manager idiosyncrasy
	Situational	Formal	Internal Social and political dynamics
Appraisal and Rewards	Institutional	Informal	Mimetic isomorphism
	Institutional	Formal	Coercive isomorphism
	Institutional	Formal	Coercive isomorphism
	Situational	Informal	Internal Social and political dynamics
			Effectiveness
Be Co. Ltd.			
Selection and Recruitment	Institutional	Formal	Coercive isomorphism
	Situational	Formal	Internal social and political dynamics
	Situational	Informal	Internal social and political dynamics
Training and Development	Institutional	Formal	Coercive isomorphism
	Situational	Formal	Internal social and political dynamics
Appraisal and Rewards	Situational	Formal	Internal social and political dynamics

HIGH VALUE-ADDED SECTORS			
We Co. Ltd.			
Selection and Recruitment	Institutional	Informal	<ul style="list-style-type: none"> • Normative isomorphism • External labour market conditions
	Situational	Informal	<ul style="list-style-type: none"> • External Labour Market conditions • Finance • Effectiveness
Training and Development	Institutional	Formal	<ul style="list-style-type: none"> • Coercive isomorphism • Performance • Institutional Funding
	Institutional	Formal	<ul style="list-style-type: none"> • Coercive isomorphism
Appraisal and Rewards	Situational	Informal	<ul style="list-style-type: none"> • Up-skilling
	Institutional	Informal	<ul style="list-style-type: none"> • Normative isomorphism
Ze Co. Ltd.	Situational	Informal	<ul style="list-style-type: none"> • Owner-manager idiosyncrasy • Internal social and political dynamics
	Situational	Informal	
Selection and Recruitment	Institutional	Informal	<ul style="list-style-type: none"> • Normative isomorphism • Mimetic isomorphism
	Situational	Informal	<ul style="list-style-type: none"> • External labour market conditions
Training and Development	Institutional	Formal	<ul style="list-style-type: none"> • Coercive isomorphism • Technology • Industry structure
	Institutional	Formal	<ul style="list-style-type: none"> • Coercive isomorphism
Appraisal and Rewards	Situational	Informal	<ul style="list-style-type: none"> • Internal social and political dynamics.
	Institutional	Informal	<ul style="list-style-type: none"> • Mimetic isomorphism
Den Co. Ltd.	Situational	Informal	<ul style="list-style-type: none"> • Internal social and political dynamics
	Situational	Formal	
Selection and Recruitment	Situational	Formal	<ul style="list-style-type: none"> • External labour market conditions
	Institutional	Formal	<ul style="list-style-type: none"> • Industry structure (Supply chain relations)
Training and Development	Institutional	Formal	<ul style="list-style-type: none"> • Industry structure • External labour market conditions
	Institutional	Formal	<ul style="list-style-type: none"> • Mimetic isomorphism
Appraisal and Rewards	Situational	Formal	<ul style="list-style-type: none"> • External labour market conditions • Internal labour market conditions
	Situational	Formal	

¹ Coffey, A., Atkinson, P. (1996) Making Sense of Qualitative Data, Complimentary Research Strategies, Sage Publications, London.