

Exploring micro-firms' staffing and recruitment decisions

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Abstract

This aim of this paper is to provide an overview of the proposed research into micro-firm staffing and recruitment decisions. First, it introduces the research topic and sets out the aims and objectives of the proposed study. A brief examination of related literature is then provided in order to highlight key discussions regarding HRM and decision making in small firms. Although the literature suggests that the motivations, values and personal network of the owner manager are key, there is scant literature relating to this. HRM and recruitment practices are often presented as *ad hoc* and problematic, however this is often compared to larger business practices. There remains a paucity of literature relating to how, why and when micro-firm owner managers make the first recruitment decision. The proposed methodology – a qualitative approach, utilising cognitive mapping techniques – is then outlined. Finally, the potential contribution that this research hopes to make to knowledge, policy makers and businesses is discussed.

Key words: micro-firms, entrepreneurship, small business growth, HRM, decision-making, cognitive mapping

Introduction to the Research

Small firms are often cited in academic literature as the key to vibrant economies and their perceived contribution to employment generation has made them a focus for policy makers for over 30 years (Beaver and Prince, 2004). A frequently used measure of small firm growth, and perhaps the most obvious to the casual observer, is in terms of employees (Curran & Blackburn, 2001). The initial decision to recruit is the first threshold in the employment growth of a micro-business and yet it is one which many micro-firm owner managers choose not to cross (Atkinson and Meager, 1994). It is this little understood stage in the management of a micro-firm which this research will focus on.

There are many small business growth models (e.g. Scott and Bruce, 1987; Churchill and Lewis 1983) which describe the transition phases of small firms and include their move from being an employer of few, to one of many. However, critics of these models (such as Storey, 1994) suggest they fail to explain the complexities associated with small businesses and merely describe rather than predict growth.

If small firms are to be heralded as key employment generators in the UK, there needs to be a greater understanding of why some owner managers choose to become employers and why some do not.

Aims:

To explore the decision to recruit a first member of staff in micro-firms in order to understand;

- the degree to which micro-firm owner managers assess the need to recruit (i.e. what can influence the decision beyond necessary strategic considerations),
- the processes by which micro-firm owner managers recruit the first member of staff.

Objectives:

To explain recruitment decisions and processes within the micro-business context in order to;

1. understand how owners managers assess the need for a first member of staff
2. evaluate the potential barriers for an owner manager in recruiting the first member of staff
3. develop an understanding of the processes by which the first recruit is selected
4. assess the impact of points 1, 2 and 3 upon policy measures in order to assist small firm stability and development.

Literature Review

Despite the perceived importance small firms and their growth play in employment creation (Beaver and Prince, 2004) there is limited literature on the specific area of the first recruitment decision. Therefore we look to literature on decision making in small firms more generally to assess what common characteristics may be gleaned to assist our understanding.

The nature of decision making in small firms

In the broader business literature, a clear strategy is seen as critical for decision making (Johnson and Scholes 2002). Timmons (1994) argues that formal planning enables small firms to assess alternatives, making decision making more efficient and effective. The resource-based perspective (Barney, 1991) suggests that competitive advantage is gained if the resources small firms have are hard to imitate and heterogeneous (Carter and Jones-Evans, 2000).

In the context of the initial recruitment decision, this would suggest that a rational search approach is the most appropriate. However, literature suggests that small businesses do not act in this way, instead taking a much more informal approach to staffing issues (Matlay 1999; Heneman *et al.* 2000; Baron 2003; Mazzarol 2003; Cardon and Stevens 2004; Kotey and Slade 2005; Barrett and Mayson 2008). Cardon and Stevens (2004) surmise that recruitment is characterised by informality and strategies employed are often *ad hoc*.

Mazzarol (2003) asserts that formality increases with firm size, which suggests practices are at their most informal at start-up. Williamson (2000) argues that there is a tendency for owner managers to ‘muddle through’, due in part to a lack of legitimacy. To obviate against this, small firms should imitate the practices of larger firms (Williamson, 2000). This highlights a contradiction; in order to appear legitimate and thus attract the best candidates, it should imitate other, larger businesses. Yet in order to gain competitive advantage, it should remain flexible and heterogeneous.

The majority of small business recruits come from the personal networks of the owner manager (Cardon and Stevens, 2004, Matlay 1999). Although there may be benefits such as shared values and a “common ground” (Timmermans, 2007) it may decrease the potential heterogeneity of the firm, as espoused as a source of competitive advantage by the rational, resource based perspective (Barney, 1991).

Heneman *et al.* (2000) suggest that the extant research into small firm employment decisions has been too heavily influenced by this rational search view. They highlight that the network, values and motivations of the owner manager play a pivotal role in recruitment decisions.

The role of the owner manager

Business ownership is the key differentiator (other than size) between small and large businesses (Stanworth & Curran 1976; Storey 1994; Beaver & Prince 2004). Business owners are embedded within the fabric of a small firm and the management of any small firm can rarely be separated from that of the owner manager (Scase and Goffee 1980; Carter and Jones-Evans 2000; Culkin and Smith 2000).

In an exploratory study, David and Watts (2008) found that owner managers were influenced to recruit either by necessity (to meet business needs in order to survive) or aspiration (recruiting as a strategic growth step). Forbes *et al.* (2006) suggest that, in addition to internal resource or aspirational influencers, there may be time dependant, external influences.

There may be fundamental difficulties faced by owner managers which deter them from considering recruiting. These include cash-flow uncertainty (Carter and Jones-Evans, 2000), individualism and a reluctance to delegate (Jack *et al.*, 2006) and a fear of legislation associated with becoming an employer (Blackburn *et al.*, 2008)

Alternatives to recruiting a member of staff

Many small firms do not have the resources to recruit specialists into the businesses (Culkin and Smith, 2000). An alternative option is the use of contingent labour to fill immediate requirements and provide specialist expertise without increasing overheads (Cardon, 2004). However, a lack of permanent contract may make these individuals more likely to leave at short-notice (Cardon, 2004). Unless their specific knowledge has been transferred, the human capital gained may be lost.

Family/friends may also be used to support business activities in either a formal or *ad hoc* way. Baines and Wheelock (1998) suggest that whilst this is common it is no less difficult than employing 'strangers'. In the context of the first recruitment decision, small firms may be bolstering the firms' resources with informal/unpaid support from close members of their social network, thus avoiding the first recruitment decision.

A third option for owner managers seeking to fill resource needs is to form an team. Increasingly academics are considering the 'entrepreneurial team' as a unit of study. Although this structure fails to take account of the power relationship between owner manager and 'worker' there may be useful comparisons to be drawn from the way in which new member additions are sought and selected.

Philosophy & Methodology

Understanding the various philosophical assumptions upon which research is based enables a researcher to adopt a critical eye. Without questioning differing research paradigms a researcher could be accused of blindly following methodological rules rather than engaging in scholarly activity (Billig, 2004). This research is underpinned by an assumption that we construct reality as individuals on a contextual basis. It is dynamic and complex and, as individuals, we have a level of free will to change elements of it (although the level of this continues to be a subject of debate). However, there are also larger structures that are also 'real' but which we do not conceive of (or construct) on a daily basis in our own lives. This is an objective reality, albeit a 'deep' reality that is not easily captured or understood. It is complex, emergent, stratified and relational (Reed, 2000). Our knowledge of this social world is therefore also dynamic, often partial and fallible. Although the research maintains a commitment to the socially constructed nature of the world, it rejects the notion that it is *merely* that (Ackroyd and Fleetwood, 2001).

Given the complexity of motivation and owner managers' first employment decision, a useful starting point appears to be focusing the study on individuals who have already vocalised their consideration to become employers. From informal observation that has taken place, a cohort of eight micro-businesses based in a business incubation unit has been identified, approached and recruited to the study.

This purposive sample has been access driven and selected both for their likelihood to provide rich insights into the research questions but also because of the relationship, trust and rapport already built between participants and the researcher.

In order to gain the most benefit from the already established relationships, and to gather deep knowledge about a range of concepts relating to the decision of becoming an employee, a conversational, face-to-face interview approach will be used to gather data. During semi-structured interviews, cognitive mapping techniques will also be used in order to elicit additional information. Cognitive mapping techniques have roots in psychology and, in particular, to Kelly's (1955) Personal Construct Theory (PCT). Since a main characteristic of micro-firms is that they are owner-managed, the enterprise often subsists between business and personal life (Culkin and Smith, 2000): there is no hard line between work and life outside work.

This suggests that whilst a purely psychological approach to the research area may help indicate some attributes that influence a micro-firm owner manager's recruitment decisions, they will also have been socially and culturally influenced (Zahra *et al.*, 2005). Their experience, perceptions and heuristics will affect their decision making (Brannback and Carsrud, 2009). In light of this, a consideration of the personal constructs of the owner-manager may greatly assist in better understanding decision making in relation to staffing a micro-firm.

Following the interviews, and because of the recognition that this is an open and fluid field of investigation, an iterative approach to data analysis will take place. The researcher will seek linkages and comparisons within the data, seeking to form plausible relationships among concepts. As with many other qualitative studies, the data collection and analysis will go "hand in hand" throughout the study (Marshall and Rossman, 1999).

Proposed Contribution

The proposed research will add to the currently limited understanding of the factors that influence an owner managers first recruitment decision. By doing so it may assist policy makers seeking to encourage small businesses to become employers and/or provide an alternative framework for micro-firm resourcing.

Understanding how owner managers assess the need for staff and the selection processes may also assist owner managers themselves by providing a framework to increase the effectiveness of this decision making process.

Furthermore, the findings of this research project may prompt further investigation into the under theorized and researched area of micro-firm recruitment and growth.

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