

A Study of Human Resource Practices and Trends in U.S. Small Businesses

Jeffrey S. Hornsby
Ball State University

Donald F. Kuratko
Ball State University

William R. LaFollette
Ball State University

Richard M. Hodgetts
Florida International University

Larry R. Cox
Florida International University

*Please send all correspondence to Jeff Hornsby, Department of Management, Ball State University, Muncie, IN 47306, Office: (765)285-5306 FAX (765)285-8024 email jhornsby@gw.bsu.edu

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Abstract

Human resource practices of 341 small businesses were surveyed to investigate the current level of human resource practices. Little research has taken place in the U.S. since Hornsby and Kuratko (1990), while at least four empirical studies have been conducted in Canada. This lack of implementation is surprising given the passage of landmark legislation such as the Family and Medical Leave and Americans with Disabilities Acts. The results revealed that small firms in the U.S. and Canada are not much different in their utilization of HR practices. Less than half of the firms surveyed had formalized HR practices.

Introduction

The practice of effective human resource (HR) management is one that has been shown to be an integral part of small business success (Hornsby and Kuratko, 1990; Deshpande and Golhar, 1994; Smith, 1991; and Wagar, 1998). The vast majority of businesses in the U.S. today employ fewer than 100 people and most research conducted in the HR field tends to focus on larger firms that employ full-time HR professionals.

One early study of HR functions in smaller firms found that areas of accounting, finance production, and marketing, all take precedence over HR management (McEvoy, 1984). In many cases, the owner of a small business handles the personnel functions since they are usually limited when the firm employees only a few people. This practice of informal HR management may be detrimental to firm success. Each year the number of failures in small business increases by the thousands (with the owners reporting "managerial incompetence" as the major underlying reason (Hodgetts and Kuratko, 1998). One area of managerial incompetence cited is dealing with employee problems including recruiting, selection, ineffective or nonexistent training, lack of benefits, no use of incentives, inequitable compensation and weak or nonexistent performance appraisal.

A survey conducted by Hess (1987) showed that small business owners rank HR practices as the second most important management activity next to general management work. Amba-Rao and Pendse (1985) surveyed the compensation and maintenance practices of 78 small firms. Their study found that most firms lacked any systematic or rational approach in their compensation practices. Little (1986) examined the HR functions in 275 small firms employing fewer than 100 employees. This study found that typically the owner of a firm with less than 50 employees handled the HR function, while 62 percent of the firms with 51 to 100 employees had a full-time HR manager.

All these earlier studies on HR practice in smaller firms seem to suggest that human resource practices are deemed important to success but managed by individuals who have very little education or experience in the field. Most of the research up to this time was not empirical

and did not assess the degree to which small businesses employ more formal HR activities. Also, little was known about the effectiveness of the HR practices that were utilized.

Recent Empirical Research

Only a handful of small business HR management studies have been conducted in the 1990s. This is surprising, given the following statistics about small business employment:

- Approximately 22 million U.S. businesses exist and fewer than 7000 qualify as large firms (greater than 500 employees).
- Historically, 75 percent of new jobs have come from new firms.
- Small businesses directly or indirectly provide the livelihood of more than 100 million Americans.
- Small business represents 58 percent of all U.S. business employment (Hodgetts and Kuratko, 1998).

The empirical research conducted seems to suggest that smaller firms are progressing in developing HR practices and policies. At least five empirical studies investigated the types of practices utilized by small firms as well as the importance of these practices.

Hornsby and Kuratko (1990) studied 347 small businesses and found that firms under 50 employees had very little in place regarding formal HR practices; however, firms with 50 to 100 and 101 to 150 employees had similar HR practices in place. These firms cited the availability of a quality labor pool as the most critical HR issue. Another basic finding was that company size did significantly affect the use of formalized HR Practices, especially for job analysis, recruitment, compensation, benefits and incentive plans. However, less than half the firms surveyed employed any formal HR practices.

In a study of Canadian businesses, Ng and Maki (1993) found a significant difference between large and small firms in their ranking of the importance of HR functions. Smaller firms rated the retaining, obtaining and identifying functions as most important while large firms rated adjustment, identifying and developing employees as most important. In another Canadian study, Deshpande and Golhar (1994) found that workforce characteristics including firm success, ability to inspect work, worker flexibility, ability to work in groups, and self-discipline were perceived to be more significant to smaller firms.

Flanagan and Deshpande (1996) investigated management's perceptions of changes in HR practices after unions won elections. In a survey of 401 small manufacturing firms, they found the following: increased use of screening tests; increased training budgets and employee training; decreased merit increases and merit-based promotions; increased turnover and decreased employee commitment.

Finally, Wager (1998) studied the determinants of HR functions in small Canadian firms. His research found that less than half of the companies surveyed utilized formal appraisal (50%),

sexual harassment policies (35%), employee pensions (30%), TQM (34%), employee assistance programs (21%), employee attitude surveys (27%), and employee relations (19%). The research also showed that firms who emphasized open communication and employee participation were much more likely to have formal HR procedures.

The five studies cited above found consistent results regarding the limited use of HR functions in smaller firms. However, after the Hornsby and Kuratko (1990) study, all the research that investigated the extent of usage of formal HR activities was conducted in Canada. Given the passage of critical labor legislation such as the Americans with Disabilities Act, Family and Medical Leave Act, 1991 Civil Rights Act and the recent Supreme Court ruling on sexual harassment, an increased focus by U.S. firms on HR activities should be expected. The goal of this study was to investigate the current state of small business practices in the U.S.

Method

The sample for this study consisted of 341 small businesses located in the Midwest and Southeast United States. The data were gathered by means of a 25 item questionnaire (similar to the one used by Hornsby and Kuratko, 1990). The survey investigated each company's demographic background (i.e., type of business, size, number of years in existence, and whether or not an HR department existed) and HR practices in five major areas (job analysis and description, recruiting and selection, training, performance appraisal, benefits and incentives). The respondents were not only asked to indicate whether or not they performed a specific HR practice but also to indicate the frequency of its use and rate its effectiveness. The company owner was asked to indicate which selection procedures they used by placing a 1 (used frequently), a 2 (used sometimes), or 3 (never used) next to each procedure listed and then rate the effectiveness of the procedure on a five-point Likert scale. All respondents were given the opportunity to request a copy of the results of the study.

Student research assistants were utilized for survey distribution and data collection. Using surveying methodology similar to McEvoy (1984) and Hornsby and Kuratko (1990), research assistants utilized Chamber of Commerce and SBDC directories to develop a survey list. Probable respondents were contacted and asked to participate. Surveys were then distributed and collected by the research assistants.

Results

A total of 341 surveys were collected. Of these small businesses, 24 percent, 10 percent, 16 percent, and 50 percent were categorized as manufacturing, wholesale, retail and service small businesses respectively. Also, 50 percent of the respondents employed 50 or less, 23 percent employed 51 to 100 employees, 11 percent employed 101 to 150 employees, and 15 percent employed 150 to 500 employees. These demographic findings suggest that the sample does represent a broad range of smaller firms in terms of size and industry type. The remainder of the results discuss the specific HR functions studied.

Job Analysis and Job Description

The results found in Tables 1 through 4 suggest that over half of the companies surveyed utilize some form of job analysis with job observation being the most utilized method. Only half of the respondents utilized this information to write job descriptions for all their jobs, while 17 percent had job descriptions on two-thirds of their positions and 12 percent had job descriptions on one-third of their positions.

Recruitment and Selection

The results in Tables 5 through 8 found that the responding firms utilize newspapers (73%) and walk-ins (61%) the most but do utilize radio and employment agencies. Also, newspapers and walk-ins were rated more effective than other recruiting sources. The most utilized selection sources were interviews (93%), reference checks (85%), and application blanks (84%). Interviews, reference checks and drug tests were rated as the most effective selection procedures.

Benefits and Incentives

As seen in Tables 9 through 14, over 80 percent of the companies surveyed offered some form of health insurance but over half the respondents do not offer any other forms of insurance benefits. Fifty-seven percent offer sick leave and 84 percent offer a vacation package. Over 72 percent of the firms offered some form of incentive plan but offered very little variety in the types of incentive plans provided. Besides bonuses (56%), profit sharing (20%) and commissions (37%), less than 10 percent utilized any other form of incentive. Commissions and bonuses were rated the most effective of the incentive programs offered.

Performance Appraisal

Sixty-one percent of the firms appraised their employees' performance and goal setting (62%) and rating scales (59%) were the most utilized methods. Goal setting was rated as the most effective of the methods surveyed. Also, the appraisal data was mostly used for compensation (55%), determining training needs (52%), and employee development (52%). Employee development and compensation were rated as the most effective uses of appraisal information (See Tables 15 through 18).

Training

Ninety-four percent of the firms provided some form of training for their employees. Coaching was by far the most utilized training method (71%). Less than half the firms used any of the other training approaches provided in the survey. Coaching was also rated as the most effective training method (See Tables 19 through 20).

Table 1: Methods of Job Analysis Utilized

	Conduct Job Analysis		Observe Jobs		Questionnaires	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	189	56.6	149	44.5	55	16.4
No	145	43.4	186	55.5	280	83.6

	Interviews		Other	
	Frequency	Percent	Frequency	Percent
Yes	101	30.1	43	12.8
No	234	69.9	292	87.2

Table 2: How Many Jobs Do You Have Current Descriptions?

	Frequency	Percent
1 All	161	49.2
About 2/3	55	16.8
3 About 1/3	39	11.9
4 None	72	22

Table 3: Does your company conduct human resource planning?

	Frequency	Percent
Yes	143	43.1
No	189	56.9

Table 4: Does your company have a human resource induration system?

	Frequency	Percent
Yes	45	13.6
No	287	86.4

Table 5: Recruitment Sources Utilized

	Gov't Agency		Private Emp Agency		Walk ins		Radio	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 Frequently	11	3.7	19	6.3	79	26.3	9	3
2 Sometimes	56	18.7	89	29.7	106	35.3	23	7.7
3 Never	233	77.7	192	64	115	38.3	267	89.3

	Newspaper		Other	
	Frequency	Percent	Frequency	Percent
1 Frequently	133	44.3	46	15.3
2 Sometimes	86	28.7	33	11
3 Never	81	27	221	73.7

Table 6: Effectiveness of Recruitment Sources

	Gov't Agency		Private Emp. Agency		Walk ins		Radio	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 Very ineffective	15	17.9	12	10.4	23	13.9	13	26.5
2	21	25	26	22.6	34	20.5	1	2
3	35	41.7	40	34.8	50	30.1	23	46.9
4	5	6	23	20	32	19.3	1	2
5 Very effective	8	9.5	14	12.2	27	16.3	11	22.4

	Newspaper		Other	
	Frequency	Percent	Frequency	Percent
1 Very ineffective	28	14.4	8	10.8
2	12	6.2	6	8.1
3	31	16	15	20.3
4	55	28.4	22	29.7
5 Very effective	68	35.1	23	31.1

Table 7: Selection Sources Utilized

	Application Blank		Referee checks		Interviews		Drug Tests	
	Frequency	Percent	Frequency	Percent	Frequency	Percents	Frequency	Percent
1 Frequently	217	72.3	158	52.7	243	81	70	23.3
2 Sometimes	35	11.7	98	32.7	38	12.7	42	14
3 Never	48	16	44	14.7	19	6.3	188	62.7

	Personality Tests		Intelligence Tests		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percents
1 Frequently	27	9	36	12	22	7.4
2 Sometimes	40	13.3	49	16.3	12	4
3 Never	233	77.7	215	71.7	264	88.6

Table 8: Effectiveness of Selection Sources

	Application Blank		Reference Checks		Interviews	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 Very ineffective	15	5.7	14	5.3	11	4
2	19	7.2	17	6.5	2	0.7
3	81	30.7	53	20.2	17	6.1
4	64	24.2	83	31.6	73	26.4
5 Very effective	85	32.2	96	36.5	174	62.8

	Drug tests		Personality Tests		Intelligence	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 Very ineffective	24	16.7	35	31	29	23
2	10	6.9	17	15	18	14.3
3	43	29.9	27	23.9	37	29.4
4	19	13.2	22	19.5	27	21.4
5 Very effective	48	33.3	12	10.6	15	11.9

Table 9: Benefits Offered

	Health Insurance		Dental Insurance		Vision Insurance		Life Insurance	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
No	71	21.1	208	61.9	268	80	149	44.5
Yes	265	78.9	128	38.1	67	20	186	55.5

	Disability		Pension Plan		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
No	185	55.2	215	64.2	226	67.5
Yes	150	44.8	120	35.8	109	32.5

Table 10: Altered benefit package in last three years

	Frequency	Percent
Yes	142	43.3
No	186	56.7

Table 11: Do you have a sick leave policy?

	Frequency	Percent
Yes	171	57.2
No	128	42.8

Table 12: Do you have a vacation plan?

	Frequency	Percent
Yes	250	83.6
No	49	16.4

Table 13: Types of Incentives

	Incentive System		Commission		Bonuses		Profit Sharing		Gainsharing	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	241	72.2	123	36.5	189	56.1	66	19.6	5	1.5
No	93	27.8	214	63.5	148	43.9	271	80.4	332	98.5

	Stock Ownership Plan		Piece Rates		Standard Hour Plan		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	17	5	10	3	26	7.7	29	8.6
No	320	95	327	97	311	92.3	308	91.4

Table 14: Effectiveness of Incentives Offered

	Commission		Bonuses		Profit sharing		Gainsharing	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 least effective	3	2.4	4	2.2	8	12.7	4	57.1
2	2	1.6	8	4.5	4	6.3		
3	12	9.6	22	12.3	12	19		
4	27	21.6	50	27.9	14	22.2	1	14.3
5 Most effective	81	64.8	95	53.1	25	39.7	2	28.6

	Stock Ownership plan		Piece Rates		Standard		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 least effective	7	36.8	3	25	4	13.3		
2	1	5.3					2	5.9
3	2	10.5			7	23.3	5	14.7
4	1	5.3	1	8.3	8	26.7	9	26.5
5 most effective	8	42.1	8	66.7	11	36.7	18	52.9

Table 15: Performance Appraisals

	Performance Appraisals		Rating scale		Written Description		Evaluate Goal Accomplishment		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes	207	61.4	139	41.5	146	43.5	129	38.4	23	6.9
No	130	38.6	196	58.5	190	56.5	207	61.6	312	93.1

Table 16: Effectiveness of Performance Appraisal Data

	Rating scale		Written Description		Evaluate Goal Accomplishment		Other	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
1 least effective	11	7.9	8	5.5	5	3.8	2	7.4
2	4	2.9	3	2.1	7	5.4		
3	29	20.9	21	14.4	26	20	1	3.7
4	45	32.4	61	41.8	31	23.8	14	51.9
5 most effective	50	36	53	36.3	61	46.9	10	37

Table 17: Uses of Performance Appraisal Data

	Determine Wages		Discipline Employees		Identify Training Needs		Develop Employees		Validate Procedures		Other
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	
No	134	44.8	185	62.1	145	48.5	143	47.8	222	74.5	285
Yes	165	55.2	113	37.9	154	51.5	156	52.2	76	25.5	13

Table 18: Effectiveness of Performance Appraisal Information

	Determine Wages		Discipline Employees		Identify Training Needs		Develop Employees		Validate Procedures		Other
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	
1 least effective	4	2.4	13	11.2	2	1.3	2	1.3	6	7.7	
2	5	3	11	9.5	9	5.9	7	4.5	6	7.7	1
3	33	20	35	30.2	34	22.2	22	14.2	17	21.8	2
4	68	41.2	34	29.3	57	37.3	63	40.6	32	41	4
5 most effective	55	33.3	23	19.8	51	33.3	61	39.4	17	21.8	8

Table 19: Types of Training Utilized

	On-the-job training		Apprenticeships		Coaching		Workshops/Seminars		Computer Aided Instruction		Other
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	
No	18	6	216	72.5	88	29.4	177	59	225	75.8	273
Yes	282	94	82	27.5	211	70.6	123	41	72	24.2	24

Table 20: Effectiveness of Training Approaches

	On-the-job training		Apprenticeships		Coaching		Workshops/Seminars		Computer Aided Instruction		Other
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	
1 least effective	7	2.6	7	8.2	6	3	5	4.1	8	11.4	
2	3	1.1	3	3.5	1	0.5	6	4.9	4	5.7	
3	22	8	11	12.9	26	12.9	49	40.2	19	27.1	2
4	74	27	28	32.9	69	34.3	34	27.9	23	32.9	12
5 most effective	168	61.3	36	42.4	99	49.3	28	23	16	22.9	9

Discussion

The descriptive statistics provided in this study provide additional insight into the HR practices utilized by small firms of varying sizes and industry types. The findings in this study are very similar to the findings of Hornsby and Kuratko (1990) and Wagar (1998). Specifically, less than half of the firms surveyed consistently used any formal HR practices. It appears that U.S. firms have not progressed very far in their implementation of HR functions even though they are liable for discriminatory practices (including sexual harassment), paying overtime (Wage and Hour requirements), accidents caused by an “unsafe work environment,” and many other pieces of employment legislation. The 1990s has been a period of increased scrutiny in these and other employment areas but it seems that smaller firms either ignore them and “risk it” or take care of it in a more informal manner.

Perhaps the most important findings of this study are the effectiveness ratings for the various HR methods applied. It seems that firms in this study try to keep their HR practices simple by utilizing basic methods. For example, newspaper advertisements are rated most effective for recruiting, coaching is the most utilized training approach and bonuses are the most effective incentive program. A future study should look at whether or not these HR activities are significant determinants of overall firm success. A relationship between these activities and success indicators would provide evidence to encourage other small firms to implement them as well.

Also, since it appears that smaller firms have not increased their use of HR practices over the last decade, further research should be conducted which investigates how these firms are dealing with the plethora of legal issues confronting them during the 1990s. Again, this information could be shared with firms who have not been as progressive in dealing with the HR challenge.

In conclusion, it seems that smaller firms still are not focused on developing an HR function. Whether the firms are in the U.S. or Canada, there is a reluctance or disinterest in

utilizing some of the modern tools available for developing effective employee relations. Future research into the informal ways some of these firms are dealing with employee challenges may provide a guide for other smaller firms.

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