

## Human Resource Management Issues as a Small Business Grows

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*With the recent growth of small businesses in the private sector, it has become increasingly important to understand how small businesses use their human resources. Yet, very little research has been conducted to examine human resource management issues in small business. Additionally, their need to address human resource management issues is largely unstudied. This article attempts to begin to assess the issues facing small businesses, and how human resource management can be integrated as a small business grows.*

Small businesses represent a considerable portion of the U.S. economy. Indicative of the role of small business is the fact that the U.S. Small Business Association states that as of 1997, small companies account for the following:

- 52 percent of the private sector sales in dollars;
- 50 percent of private sector output;
- 41 percent of private sector business total assets;
- 41 percent of private sector total debt;
- 42 percent of private sector business net worth;
- 36 percent of all private sector innovation; and
- a total of 21 million small businesses filing tax returns.

This information indicates that small business is a major player in the U.S. economy.

While the statistics presented are important, also important is the fact that 54 percent of all private sector employment is found in small business. Big business and large corporations are not employing the numbers they once did, with small business employing the majority of the private sector workforce. Given this fact, one would think that research had been conducted examining how small businesses grow in terms of the number of employees. However, much of the focus has been on the traits and characteristics that make small businessowners and entrepreneurs successful, sales and profit growth, as well as growth of market share. The small amount of research that does focus on the growth of the number of employees is largely descriptive in nature, reporting trends found in small businesses.

The present study is exploratory in nature, in an attempt to begin to determine the underlying conditions

that might indicate *when* a small businessowner or entrepreneur might consider expanding his or her workforce. Additionally, an attempt to determine the human resource management issues that should be considered as a small business grows will be made. First, this report covers the literature to date. Second, data and analysis techniques are explored. Third, the results of the analysis are examined and discussed. Finally, conclusions drawn from the study are presented.

### Literature Review of Small Business Growth

Small businesses have been studied for many years, in an attempt to determine what differentiates successful small businesses from unsuccessful small businesses. One of the major issues surrounding the study of small business is that of defining small business. A wide variety of definitions of small business exist. For purposes of the present study, a small business is "one that is independently owned and operated and not dominant in its field of operation" (Hodgetts and Kuratko, 1995). Additionally, as the definition pertains to the present study, this indicates that for manufacturing firms there are:

- fewer than 250 employees;
- less than \$22 million in annual sales in the wholesale sector;
- less than \$7.5 million in annual sales in the retail sector; and
- less than \$10 million in annual sales in the service sector.

The literature to date focuses largely on firm growth. Given that the focus of the present study is on firm growth in terms of number of employees, the focus of the literature review is on literature to date associated with human resource management issues. Specifically, the literature review focuses on firm growth (an issue that affects several human resource areas, such as selection, training, and planning, for example), as that can and may influence and relate to the number of employees in the firm.

### Firm Growth

The economy in the United States has been very good for a considerable length of time. This has allowed for the

increase in the number of small businesses, as well as the success of these firms. One particular source of information describes how firms of all size grow (Flamholtz, 1990). This text, based on the compilation of a large amount of data, covers the various stages a business goes through. In particular, the first three stages are issues for small business. These stages are new venture, expansion, and professionalization. The first two stages are clear; however, professionalization is closely related to expansion. This stage focuses on formalizing the goals of the organization, as well as identifying human resource management policies and procedures.

The other stages listed are primarily of concern for larger and older organizations, and may not be issues for new ventures or small business. This represents a downfall of this text. While a self-assessment tool was developed to identify problems within an organization, the development was based on organizations of all sizes. The particular problem is that the types of problems a small business faces are not necessarily the same types of problems a large business faces. This text does, however, provide a foundation to draw from in order to develop an understanding of the types of influences that exist as a small business grows. While the text is not designed solely for small business, it does offer insights as to the issues surrounding firm growth—issues that small and large businesses both face.

Small business research has incorporated human resource management over the past few years. Much of this research has been descriptive in nature, indicating human resource management issues that the small business owner and entrepreneur should consider (Hodgetts and Kuratko, 1995; Tucci, Wyld, and Cappel, 1997). While this type of information is valuable, indicating what issues the small businessowner and entrepreneur should address as the small business grows, it does not indicate when a small business should expand its workforce. However, this is not inconsistent with planning in small businesses. Only 21 percent of successful businesses had formulated a formal business plan (Bhide, 2000). If only these businesses had formal business plans, it should be reasonable to assume that human resource planning, as it pertains to the business plan, also does not occur. It appears as though many businesses decide to move forward, not considering the value of planning in general, let alone human resource planning.

Some recent research has focused specifically on revenue and profit growth in most instances, as well as overall income (Box, Crouch, and Clow, 1994; Gray, 1998). These variables have represented the focus of most small businesses, as this leads to survival. However, these two studies have taken a different approach from previous studies. Each attempted to examine the relationship between increases in revenue and increasing the number

of employees. Both studies found that increases in the number of employees were tied to increases in revenues. However, these studies begin to reveal that some businesses proactively add employees, understanding how that can lead to greater levels of profitability, while others wait until the profits and revenues are available before adding additional employees. This demonstrates that some small businessowners realize that in some cases adding employees may be the key to generating additional revenues, and an investment, rather than a cost.

The two studies discussed above represent an initial step at determining when a small business should increase its number of employees. However, the emphasis should be on identifying a variety of variables that might indicate that a small businessowner or entrepreneur should expand his or her workforce. The present exploratory study begins to address this issue, by attempting to identify a variety of variables that might indicate *when* a small business should expand.

## Method

This section describes how these variables were determined, and which variables might best indicate when expanding the workforce is appropriate.

## Sample

The sample consists of 36 individuals associated with small business. Of this number, 20 were owners of small businesses, 6 were partners in a small business, 8 were managers in a small business, and 2 were employees in a small business. The businesses were from a variety of fields, with only a few fields being represented more than once, providing a diverse sample. The small businesses ranged from 1 to 150 employees, with an average size of 17. The small businesses ranged in age from 5 to 660 months, with an average age of 131 months. Additionally, nearly half (47.2%) of the firms surveyed indicated that their profits were increasing at a medium (steady) rate, with over half (52.8%) experiencing sales increases of a medium (steady) rate.

## Procedure

Small businesses were solicited to participate through two primary means. First, small business associations were approached in an attempt to gain participants. Second, small businessowners were contacted personally in an attempt to gain additional participants.

Once a participant was identified, an appointment was scheduled to interview the individual at his or her business or at a neutral site. The participant was assured anonymity and confidentiality, as well as the option to not answer questions or to stop the interview at any point. The interview consisted of a predetermined set of questions, con-

sisting of organizational demographic issues, problems faced by the business as it has grown, and the planning conducted by the organization, to name a few categories. Once interviews were completed, responses were coded into categories for data analysis.

### Measures

Questions were developed based on the first three phases and issues that a business moves through as outlined in *Growing Pains* (Flamholtz, 1990). These phases are new venture, expansion, and professionalization. Additionally, an instrument was presented in this text, but was tested across a wide range of organizations. Given this information, the goal was to ask small businessowners about the issues specifically facing small businesses.

Accordingly, 14 major clusters of questions were developed (see Exhibit 1). Cluster 1 focused on time spent at work, the duties at work, along with the underlying skills and activities associated with these duties. Cluster 2 focused on the problems faced at work, and the issues underlying these problems. Communication patterns were the focus of cluster 3. Cluster 4 focused on the skills needed or lacking by managers, resources provided to the managers, as well as trust in the managers to do their jobs. Cluster 5 focused on meetings held in the organization. Cluster 6 focused on the different types of planning conducted in the organization. Insecurity of employees was the focus of Cluster 7.

In an attempt to determine how the organization had grown since its inception, Cluster 8 asked several questions about different types of growth. Cluster 9 focused on the industry and market of the business. An attempt to determine if any types of resources were needed and how they were being acquired was made by the questions in Cluster 10. Cluster 11 focused on the firm's expansion. Specifically, inquiries were made about the different sets of issues faced by the firm as it expanded. The quality of the products, services, and relationships among workers and clients was the focus of Cluster 12. Cluster 13 focused on the formal systems in the organization. An attempt was made to determine the impetus to implement formal systems. The organization's culture was assessed by a series of questions in Cluster 14.

Finally, Clusters 15 through 19 explored additional questions about organizational success. Profits and sales information were asked to be provided. Respondents could indicate actual amounts, a descriptive estimate (e.g., low, medium, or high), as well as both of these types of responses.

### Analysis

Data were analyzed using SPSS 9.0 for Windows. Descriptive statistics were computed to ensure that all data

were coded correctly. Frequencies were used to determine the types of problems facing small business, as well as the frequency of these problems across organizations. Correlations were calculated to identify any preliminary relationships among the variables examined. Finally, factor analysis and reliability analysis were conducted to identify a common construct within some of the clusters.

### Results

Several questions were asked which required participants to identify a variety of skills, activities, and problems faced by the organization. These responses were analyzed using frequency analysis, simply to determine the problems that exist consistently across small businesses. One such question asked participants to identify specifically what they spend their time doing. Twenty-eight participants indicated that they spent their time involved in customer contact, with 20 responses indicating the production/operations being the second most common activity. Thirteen times respondents reported being involved in planning; 7 times, research; and 6 times, marketing and problem solving. Two human resource activities were listed, with interviewing being identified four times and training of employees stated three times.

When participants were asked to state the problems they face on a regular basis, a wide variety of responses were provided. The most common problem involved coordination between various parties, and was listed 17 times, with adjusting to situations being listed as a problem 12 times. Ten times correcting mistakes by others was stated as a problem, eight times communication was identified as a problem, seven times analytical problems were listed and six times the problem was identified as being organizational. Specific human resource problems were identified several times. Sixteen times rushing to meet deadlines due to changes in personnel was a stated problem and nine times a need for more workers was identified as a problem. Finally, four times general staffing problems were listed and once training workers was the stated problem.

To further identify the underlying cause of these problems, an additional question was asked addressing this issue. A majority of the underlying issues related to human resource problems. Twelve times the issue involved employees not using the appropriate procedure, 11 times employees did not complete their assignment or task, and 9 times employees did not complete their assignment in the allotted time. Five times the underlying issue was identified as employees lacking appropriate training, 3 times the stated problem was a lack of self confidence in employees, and twice both a lack of employee analytical skills and employee salaries were identified as leading to the problems. Only a few problems were not related to human resource issues. Nine times the identified issue was an inability to commu-

**Exhibit 1**  
**Small Business Interview Questions**

**Cluster 1**

How much time do you spend at work per day? \_\_\_\_ week? \_\_\_\_ month? \_\_\_\_

What do you spend your time doing? For example, planning, contacting customers, overseeing production, etc.

What activities or skills does this involve? For example, does it involve interpersonal or communication skills?

**Cluster 2**

What types of problems do you experience? For example, do you have to rush to meet deadlines, need more workers to get the job done, correcting problems or mistakes by others, etc.

What are the issues associated with these problems?

**Cluster 3**

How do you inform your employees of changes?

Do you communicate with your employees on a regular basis regarding the business?

How is communication handled in your business on a day-to-day basis?

**Cluster 4**

What skills do your managers need?

What areas or skills are your managers lacking?

Do you provide appropriate resources for your managers? For example, are there enough people to complete the job, the right equipment or funding to get the job done, etc.

Do you trust your managers/employees to do what you do?

When a job needs to get done, do you do it yourself? \_\_\_\_\_ Delegate responsibility and authority to your subordinates?  
\_\_\_\_\_

**Cluster 5**

Do you hold regular meetings of your managers/employees?

Why, or for what reason, do you hold these meetings?

Are the meetings orderly? \_\_\_\_\_ Effective? \_\_\_\_\_ Efficient? \_\_\_\_\_

Do you follow up on suggestions or directions given during these meetings?

**Exhibit 1 (continued)**

**Cluster 6**

Is planning conducted in your organization? In other words, does your organization lay out plans for the future?

Is the planning formal or informal?

Is strategic planning conducted, meaning that overall plans for the organization over the next 3 – 5 years are laid out?

Is operational planning conducted, meaning that plans on how the day-to-day activities are to be conducted laid out?

Is contingency planning conducted, meaning that plans are laid out addressing situations as they arise?

Do you ensure that all appropriate parties understand the plans?

Are the right or appropriate resources provided to allow the plans to be accomplished, such as personnel, equipment, capital, etc.?

Is progress toward the plan's objectives monitored or followed up on?

Are rewards tied to achieving the goals?

**Cluster 7**

Are some employees in your organization insecure?

What are the things that make employees insecure, nervous or uneasy in your workplace?

Why?

**Cluster 8**

Describe your firm's growth. For example, low, medium, high, decline. Are there changes associated with personnel, sales, profits, market share? Please provide numbers.

Has growth leveled off? If so, please describe the circumstances surrounding this set of circumstances.

Would you be willing to provide information regarding the firm's financial data, along with personnel data, if confidentiality were assured?

**Cluster 9**

What industry is your business in?

What market is your business in or focused on?

Are you targeting a particular niche in this market?

What is the growth potential?

**Exhibit 1 (continued)**

**Cluster 10**

Are you in need of acquiring material resources?

Are you acquiring these material resources? \_\_\_\_\_ If so, how?

Are you in need of acquiring financial resources?

Are you acquiring these financial resources? \_\_\_\_\_ If so, how?

Are you in need of acquiring personnel resources?

Are you acquiring these personnel resources? \_\_\_\_\_ If so, how?

**Cluster 11**

Describe your firm's expansion.

Is firm expansion planned for or done out of necessity?

What are the financial concerns associated with firm expansion?

What are the issues associated with sales revenues on firm expansion?

What are the issues associated with personnel on firm expansion?

What are the issues associated with equipment on firm expansion?

What are the issues associated with space on firm expansion?

**Cluster 12**

Have there been changes in quality of the products or services as your firm has grown? If so, have these changes altered or affected relationships among workers? Clients?

Have you noticed an increase in turnover as your firm has grown?

**Cluster 13**

What formal systems have you implemented in your firm as you have grown?

HR systems

- Financial and accounting systems
- What caused you to implement these systems?

**Cluster 14**

Describe your organization's culture. In other words, do the managers make decisions on their own, or do they discuss changes with other managers or workers?

How does your organization view mistakes?

Does the leadership in your organization encourage participation, or is input to leaders consultative in nature?

**Exhibit 1 (continued)****Cluster 15**

How old is the organization in months?

**Cluster 16**

How many employees are in the organization (converted to full-time equivalent)?

**Cluster 17**

What were the profits (in thousands of dollars) for the last fiscal year?

How does this level of profits compare with the previous year or years?

**Cluster 18**

What were the sales (in thousands of dollars) for the last fiscal year?

How does this level of sales compare with the previous year or years?

**Cluster 19**

What is your position in the organization?

nicate expectations, with getting to the right person and technology each being listed once.

Of the skills that managers need, communication skills and interpersonal skills were listed the most frequently, 29 and 23 times each, respectively. Ten times analytical skills, organizational skills, and job-specific knowledge were identified as necessary for managers. Among the other skills listed were computer skills and problem solving. The only human resource skills identified were hiring and firing skills, and were only stated three times.

When asked what skills that managers in the business lacked, eight times the skill listed was that of following procedures, which is related to human resource management. Among the other skills listed as lacking were communication (6 times), interpersonal skills (3 times), computer skills (3 times), organizational skills (3 times) and problem solving (3 times). Among the other skills listed were prioritizing and delegating work evenly.

Participants were asked to indicate if appropriate resources were provided to managers. In 26 of the cases, appropriate resources were provided. For the cases in which appropriate resources were not provided, training for employees and needing additional employees were stated three times each. Additionally, a lack of revenues was identified as the problem twice.

A variety of questions were asked that allowed for cor-

relations among variables to be calculated. Along with these questions, some follow-up questions were asked for some of the issues that allow for additional frequency analysis to identify underlying causes or reasons for the responses. Accordingly, some of the following results will focus only on the correlation between variables while others will provide additional results based on frequency analysis. These correlations and their power can be found in Exhibit 2. One set of relationships focused on the time spent working by the respondent. Time spent working per week was found to have positive, significant relationships with monitoring the progress toward the achievement of organizational objectives, growth in organizational profits, and growth in organizational size. The relationship between time spent working per week was found to be a significant, negative relationship with the need for acquiring financial resources. Finally, the ways in which financial resources were acquired consisted of relationships with lenders and researching ways to secure financial resources.

Focusing on communication within small businesses, several significant relationships with other variables were found to exist. Informing employees of changes in writing had a positive, significant relationship with the leveling off of organizational growth. Communication on a daily basis exhibited a relationship with the need for acquiring person-

## Exhibit 2 (continued)

<i>Employees understood plan correlated with:</i>		
monitoring progress toward objectives	0.36 <sup>a</sup>	0.50
having planned firm expansion	0.38 <sup>a</sup>	0.55
<i>Employee insecurity correlated with:</i>		
increase in the number of employees	0.44 <sup>a</sup>	0.73
increasing the quality of client relationships	-0.40 <sup>a</sup>	0.62
<i>Firm growth correlated with:</i>		
growth in sales	0.69 <sup>b</sup>	0.98
growth in market share	0.68 <sup>b</sup>	0.97
growth in personnel	0.59 <sup>a</sup>	0.96
growth in profits	0.37 <sup>a</sup>	0.49
planned firm expansion	0.40 <sup>a</sup>	0.68
slowing of business	-0.49 <sup>b</sup>	0.68
<i>Growth in personnel correlated with need for acquiring financial resources</i>		
	-0.37 <sup>a</sup>	0.59
<i>Needing to acquire financial resources correlated with quality of worker relationships</i>		
	-0.42 <sup>a</sup>	0.69
<i>Increasing the quality of products or services correlated with quality of client relationships</i>		
	0.37 <sup>a</sup>	0.50

a. Denotes significance at .05 level

b. Denotes significance at .01 level

nel resources that was positive and significant. Acquiring personnel was handled a variety of ways, but focused primarily on the use of referrals and recruiting. Additionally, communication on a daily basis had a positive, significant correlation with informing employees of changes verbally.

The level of trust that participants had in their managers and employees exhibited a few significant relationships. First, trust was found to have a positive, significant relationship with organizational profits. Second, when the participant did the job himself or herself rather than delegating, a variety of significant relationships were found to exist. The efficiency and effectiveness of meetings had a significant, negative relationship with doing a job by oneself.

Meetings within the company were found to have several significant relationships with other variables. Meetings on a regular basis had a significant, positive relationship with employee insecurity. Additionally, employees were found to

be insecure for a variety of reasons including a lack of confidence, environmental uncertainty in terms of organizational survival, lack of job skills, newness to the job, personal problems, and performance is known. Orderliness of meetings had positive, significant relationships with efficiency of meetings, effectiveness of meeting, having a strategic plan and having contingency plans. Efficiency and effectiveness of meetings were each found to exhibit relationships with having a contingency plan and growth in organizational profits that were positive and significant.

Planning in organizations, to include various types of planning, having the resources necessary to achieve the plans, monitoring progress made toward the plan, and tying resources to the achievement of plans, exhibited several significant relationships. General planning in organizations had significant, positive correlations with having a formal plan, having a strategic plan, having an operational



plan, and ensuring that employees understood the plans. Having a formal plan exhibited a negative, significant relationship with having the necessary resources for achieving the plans. Having a strategic plan was found to have a negative, significant relationship with increasing quality in the organization. Having an operational plan had a relationship with monitoring the progress toward achieving organizational objectives that was positive and significant. Finally, ensuring that employees understood organizational plans was positively and significantly related with both monitoring progress toward organizational objectives and having planned firm expansion.

Employee insecurity had a variety of relationships with other variables. Employee insecurity demonstrated a positive, significant relationship with an increase in the number of employees in the organization. However, employee insecurity had a significant, negative relationship with increasing quality of relationships with clients. The reasons for the insecurity are the same as those presented above in the discussion on company meetings.

Firm growth exhibited several relationships with other variables that were both positive and significant. Growth in sales, market share, personnel, and profits were all related to firm growth. Firm growth was also related to planned firm expansion. Firm growth had a significant, negative relationship with the slowing of business. Finally, growth in personnel exhibited a significant, negative relationship with the need for acquiring financial resources.

Needing to acquire financial resources was found to have a significant, negative relationship with the quality of worker relationships. Increasing the quality of products or services of the organization demonstrated a relationship that was positive and significant with the quality of relationships with clients.

Finally, for some of the variables, factor analysis and reliability analysis were conducted. For the variables focusing on firm growth, factor analysis was conducted, resulting in one factor. The single factor consisted of five variables, each with a factor loading greater than 0.40. The variables were firm growth, with a factor loading of 0.73; personnel growth, 0.69; sales growth, 0.71; profit growth, 0.44; and market share growth, 0.64. Given that a single factor was identified, reliability analysis indicated that the alpha reliability of the scale was 0.86.

Factor analysis was conducted on the variables associated with planning. The analysis resulted in identifying four factors. The analysis demonstrated that planning, formalizing plans and operational plans resulted in one component. Planning had a factor loading of 0.84, having operational plans had a factor loading of 0.80, and formalizing plans had a factor loading of 0.73. Tying rewards to the achievement of organizational objectives was found to be a single item component. Having the necessary resources to achieve the plan's objectives (factor loading

of 0.75) and ensuring that employees understand the plans (factor loading of 0.79) were the items making up the third component. The fourth component consisted of having a strategic plan (factor loading of 0.74) and having contingency plans (factor loading of 0.74). Reliability analyses did not demonstrate that any of the factors were high in alpha reliability.

Communication in organizations was found to consist of two factors, with two items in each factor. The factors focused on how communication was handled in the organization, either verbal (factor loadings of 0.80 for each item) or in writing (factor loadings greater than 0.87 for each item). Reliability analysis, however, did not result in high reliabilities.

Finally, factor analysis on the variables associated with organizational meetings resulted in one factor, which consisted of the orderliness (factor loading of 0.84), effectiveness (factor loading of 0.97), and efficiency of meetings (factor loading of 0.97). The resulting reliability analysis indicated an alpha reliability for the scale of 0.90.

## Discussion

The results associated with the present study begin to reveal some of the issues that a small business may want to consider as it increases the number of employees in the firm. As the study is highly exploratory, the results should be approached cautiously. Nonetheless, the results do begin to identify issues that should be considered, as little research on human resource management in small business has been conducted in the past.

By examining the results at a variety of levels, one begins to see several areas emerge that small businesses should consider addressing. One of these areas concerns planning in small businesses. Frequency analysis indicated that for two businesses, a lack of revenues was a problem. Additionally, four businesses indicated a need for more employees, as well as additional training for employees, each of which represent human resource management issues. This might begin to indicate that a lack of proper planning was conducted so that courses of action were in place in the event of a lack of revenues. However, a lack of planning is not unheard of in business in general, let alone in small businesses (Bhede, 2000).

To better understand the influence of planning, examining the correlations associated with planning begins to reveal the importance of planning, as well as human resource management. General planning is important when attempting to ensure that employees understand what is happening in the organization, as well as its direction. Employees need to have this understanding if they are to help the organization succeed. This will also help the firm expand, as employee understanding was found to relate to firm expansion. Additionally, businesses that conducted planning realized that they did not have the neces-

sary resources for achieving the plan. This further reveals the importance of planning, and while planning is a more general management issue, it is also a human resource management issue. Essentially, planning helps to identify the resources needed for the organization to succeed, to include human resources.

Organizations need to plan in order to know how many employees they need, as well as when they need additional employees. Human resource planning needs to be conducted within the realm of business planning. If business planning is not conducted, then it is highly unlikely that human resource planning is being conducted. This will also provide the necessary understanding for all employees, helping the organization not only grow, but survive. With the current low unemployment rate, knowing when you need more employees is very important to all businesses, including small business.

Finally, planning resulted in four factors, one which specifically relates to human resource management. Again, having the necessary resources and ensuring that employees understand the plans loaded on a single factor. Employees need to understand plans to be assets to an organization. This increases the human capital of the firm, which is in and of itself a resource. This might begin to explain for some small businesses why they believe that there is a need to provide additional training for employees. This increases the value of the employees to the organization, which can, in turn, help the organization succeed.

A second area of concern for small businesses is that of growth. Firm growth was found to be related to growth in sales, market share, personnel, and profits. While growth focuses on several dimensions, growth in personnel is definitely a human resource management issue. While this relationship is not surprising, the relationship between growth in personnel and the need for acquiring financial resources does lead to some interesting possible explanations.

Based on the correlation, as an organization grows in terms of the number of employees, the less there is a need for acquiring financial resources. First, it could be the case that the firms only increase the number of employees when they have the necessary financial resources to acquire more employees. This would appear to make sense in many situations. However, another plausible explanation is that by increasing the number of employees, the firm can generate additional revenue, reducing the need to acquire other financial resources. While the direction of the relationship is unknown, the power associated with the tests was very high in most of the cases. This indicates that firm growth is not a one-dimensional concept, and that personnel growth, or the size of the organization, is an issue a small business must consider (Box, Crouch, and Clow, 1998; Gray, 1998). As such, small businessowners might consider if adding new employees could lead to increased revenues (i.e., financial resources).

Finally, the variables associated with growth of small businesses did result in one factor when factor analysis was conducted. Additionally, the scale resulting from the items did exhibit a fairly high alpha reliability. This provides further evidence that firm growth is an issue that small businesses should seriously examine, to include increasing the number of employees.

A third area that small businesses should consider is employee insecurity. Employees became more insecure as the organization increased the number of employees. As an organization grows, the employee may not know his or her role in the organization, as well as be uncertain of his or her own survival as other equally competent employees are brought into the organization. It is important, once again, that the organization communicate its plans to employees, so that they understand what is taking place. Additionally, this will benefit the organization, since it could be that as employee insecurity decreases, the quality of relationships with customers increases. This could be the result of less perceived pressure or fewer distractions for the employee to consider. Small businessowners should monitor the perceptions of employees, as insecurity could be the result of growth.

Finally, considering some of the descriptive results based solely on the frequencies of responses, two other human resource management issues appear to surface. First, effectively staffing the organization was an issue brought forward by the participants of the study on several occasions. General staffing problems, interviewing, and rushing to meet deadlines due to personnel changes were listed several times as issues faced on the job that were dealt with on a regular basis. Additionally, hiring and termination skills were identified as necessary skills for running a small business. Finally, the need for additional employees was listed as an issue several times. This begins to indicate that understanding the importance of staffing in small business is an issue that may be creating problems for small businesses. The tight labor market might further accentuate the importance of staffing, as finding quality employees might be even more difficult when unemployment is low. However, effective staffing is an important human resource management area that appears to influence small business. As rushing to meet deadlines or the increased importance of staffing and termination skills for managers becomes more and more of an issue for a small business, this might be an indication that a small business should consider increasing the number of employees. However, an organization should not only increase its size, but should also ensure that it is effectively staffing the organization.

Second, it is not only important to staff the small business, but employees must have the necessary skills and abilities to perform the job. When they do not have these skills and abilities, employee training becomes an important issue. Training employees, correcting mistakes by oth-

ers, not using or following appropriate procedures, and an inability to complete the task all indicate that employee training may be an issue that small businessowners need to address. Additionally, communication and interpersonal skills were considered to be problems for some small businessowners. This is another area where training can be conducted so that effective and appropriate communication and interpersonal skills can be achieved, assisting the small business in achieving success. It is not only necessary to realize the importance of training, but a small business should determine if the above conditions exist. If they do, an organization should consider either providing training for employees, or when growing, hiring employees that already have the skills that are needed. While training might not indicate when a small business should grow, it is a consideration to make as a small business grows.

While the present study was largely exploratory in nature, the results do provide some indication of future directions for research. First, gaining further understanding into the planning process should be pursued. Studying the differences of organizations in terms of how they address human resource management issues, such as increasing the number of employees, should be conducted to determine if there exist systematic differences between organizations that develop business plans and those that do not. This could begin to identify the issues surrounding small businesses that might indicate when they should increase the number of employees in the firm. Additionally, this

might also point out different indicators based on whether the organization develops a business plan.

Another direction for future research is to begin to determine how to address training needs for small business. Studying how small businesses acquire the necessary skills and abilities could provide some insight as to how to more effectively and efficiently acquire the skills and abilities necessary for firm success. Specifically, whether or not training is a consideration as a firm expands its workforce should be examined.

Finally, given the preliminary results of the present study, further examination of the issues presented could be conducted. The exploratory results from the interviews provide some insight as to items that can be developed for use in a survey. The survey could then be sent to a large number of small businesses around the country.

## Conclusions

While the present study was largely exploratory, the results associated with it are very encouraging. Several relationships have been found, indicating that certain conditions might be indicating when a small business should consider increasing its size in terms of the number of employees. Additionally, other human resource issues that small businesses found to be problematic were also revealed. Future research should continue to build on the present findings to more accurately determine when a small business should add employees.

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**Exhibit 2**  
**Significant Correlations Related to Firm Growth in Small Businesses**

<u>Variables</u>	<u>r</u>	<u>Power of Correlation</u>
<i>Time spent working per week correlated with:</i>		
monitoring progress toward objectives	0.36 <sup>a</sup>	0.60
growth in organizational profits	0.35 <sup>a</sup>	0.58
growth in organizational size	0.37 <sup>a</sup>	0.62
need for acquiring financial resources	-0.44 <sup>b</sup>	0.57
<i>Informing employees of changes in writing correlated with leveling off of organizational growth</i>	0.36 <sup>a</sup>	0.60
<i>Communication on a daily basis correlated with:</i>		
need for acquiring personnel resources	0.35 <sup>a</sup>	0.58
informing employees of change verbally	0.38 <sup>a</sup>	0.65
<i>Trust correlated with organizational profits</i>	0.43 <sup>a</sup>	0.76
<i>Doing the job oneself correlated with:</i>		
efficiency of meetings	-0.44 <sup>a</sup>	0.57
effectiveness of meetings	-0.44 <sup>a</sup>	0.59
<i>Meetings on a regular basis correlated with employee insecurity</i>	0.38 <sup>a</sup>	0.59
<i>Orderliness of meeting correlated with:</i>		
efficiency of meetings	0.69 <sup>b</sup>	0.89
effectiveness of meetings	0.69 <sup>b</sup>	0.89
having a strategic plan	0.42 <sup>a</sup>	0.55
having contingency plans	0.94 <sup>b</sup>	0.99
<i>Efficiency of meetings correlated with:</i>		
having a contingency plan	0.65 <sup>b</sup>	0.83
growth in organizational profits	0.51 <sup>a</sup>	0.74
<i>Effectiveness of meetings correlated with:</i>		
having a contingency plan	0.65 <sup>b</sup>	0.85
growth in organizational profits	0.51 <sup>a</sup>	0.76
<i>General planning in organizations correlated with:</i>		
having a formal plan	0.56 <sup>b</sup>	0.85
having a strategic plan	0.38 <sup>b</sup>	0.63
having an operational plan	0.56 <sup>b</sup>	0.85
ensuring that employees understood plan	0.36 <sup>a</sup>	0.58
<i>Having a formal plan correlated with having the necessary resources for achieving the plans</i>	-0.35 <sup>a</sup>	0.51
<i>Having a strategic plan correlated with increasing quality in the organization</i>	-0.41 <sup>a</sup>	0.72
<i>Having an operational plan correlated with monitoring progress toward objectives</i>	0.56 <sup>b</sup>	0.85