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**Article**

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Management Revue

**Provided in Cooperation with:**

Rainer Hampp Verlag

*Suggested Citation:* Behrends, Thomas (2007) : Recruitment practices in small and medium size enterprises: An empirical study among knowledge-intensive professional service firms, Management Revue, ISSN 1861-9916, Rainer Hampp Verlag, Mering, Vol. 18, Iss. 1, pp. 55-74

This Version is available at:

<https://hdl.handle.net/10419/78881>

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Thomas Behrends\*

## **Recruitment Practices in Small and Medium Size Enterprises. An Empirical Study among Knowledge-intensive Professional Service Firms\*\***

The lesser degree of institutionalization and formalization of HR-practices in small and medium-size enterprises (SMEs) usually leads to them being attested a severe "(HR-)Management Deficit". However, the vast majority of these empirical investigations argues from a perspective dominated by the viewpoint of large corporations. As a consequence, the highly differentiated HRM-systems of larger organizations are seen as the „desirable ideal“ for small and medium-size enterprises as well. On the basis of an empirical investigation into the recruitment practices of more than 300 professional service firms the study at hand tries to break from this *deficit model*. Instead, it is assumed that smaller organizations due to their – size-dependent – different preconditions resort to certain *functional equivalents* in accomplishing their elementary HR-requirements. It becomes apparent that first and foremost the quality of employee relations has a high impact on various measures of recruitment success in smaller organizations. This applies especially to those businesses that do not have implemented a separate HR-department.

Key words: **Small and Medium-Size Enterprises, Professional Service Firms,  
Recruiting**

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\*\* The author wishes to thank the anonymous reviewers for their constructive criticisms of an earlier draft of this paper.

Article received: August 25, 2005

Revised version accepted after double blind review: January 22, 2007.

## 1. Introduction

Following the basic argument proposed by the *resource based view*, any sustainable competitive advantage will only be realized through the specific utilization and availability of such resources that are valuable, scarce or rare and not easily imitated or substituted by competitors (Barney 1991; Grant 1991; Wernerfelt 1984). In light of these resource characteristics it seems evident to accord a substantial strategic potential to the so called *soft factors* of management (such as organizational culture, social capital etc.) – and thus the respective *human resources* available (Colbert 2004; Wright et. al. 2001; Lado/ Wilson 1994). This consideration gains even further importance when looking at *small and medium-size professional service firms* (PSFs). On the one hand, because of their comparatively lesser endowment with material or financial resources, smaller businesses are often highly dependent on an above-averagely motivated and qualified workforce. On the other hand, in the professional service sector – as in no other industry – there exists an extraordinarily close connection between workforce quality and the quality of those external products (or more precisely: *services*) offered on the market (Alvesson 1995; Cappelli/Crocker-Hefter 1996). Therefore, one can legitimately assume that in these companies the human resources available constitute an especially important prerequisite for sustainable organizational success. Consequently, the recruitment policies deployed by knowledge-intensive professional service firms should be of above-average importance and thus deserve a high level of attention.

Against the backdrop of these deliberations most of the pertinent empirical findings regarding recruitment practices in small and medium-size enterprises (SMEs) seem –at first sight – to reveal a substantial *management deficit* (Holliday 1995; Marlow/Patton 1993; Carroll et. al. 1999; Windolf 1983): Smaller companies often abstain from any systematic and professional approach when selecting new employees. They rarely use any long-term planning of manpower requirements, job profiles etc. and the usage of formal selection instruments is usually limited to the conducting of job interviews. However, the explanatory power of these empirical results has (at least) two major limitations: First, many studies are mainly focusing on SMEs in “classic“ industries. In these companies a lot of jobs are of a relatively simple nature with accordingly less complex skill requirements. They might thus be mapped out quite easily by employing relatively simple recruitment patterns. Under these circumstances and at least from an economic perspective any elaborate and highly differentiated recruitment policy seems less expedient (Martin 1996; Williamson 1981, 1984). Second, a large part of the empirical investigations refrain from any explicit theoretical foundation of the coherences researched but merely records and describes the recruitment instruments and policies consciously employed by management (Behrends/Martin 2006).

The investigation to be discussed here tries to take on these two limitations. By focusing on the recruitment practices of SMEs from the group of *knowledge-intensive professional service firms* and by linking our research question to a basic concept as stipulated in organizational system theory, we try to arrive at a more sustainable *size-dependent* explanation regarding the observable diversity of recruitment practices in SMEs.

## 2. Theory and hypotheses

### 2.1 HRM in SMEs – deficient or different?

The most stable insight of empirical investigations into the characteristics of Human Resource Management (HRM) in SMEs compared to larger organizations seems to be an observable *lesser degree of institutionalization and formalization* regarding HRM procedures and activities (Behrends/Martin 2006; Cassell/Nadin/ Gray/Clegg 2002). As such smaller companies often do not have a separate HR-department (or designated HR-experts) at their disposal, nor do they usually apply many of the elaborated HR-instruments (Behrends 2002 and 2004). Instead, HR-related activities are often limited to a mere processing of administrative tasks (such as pay-rolls etc.); while more strategic matters (if at all) are usually taken care of rather „en passant“ by senior management. But does this apparently inattentive treatment of HR-related tasks by many SMEs necessarily reveal a *management deficit*? When taking a closer look at the relevant literature we can find basically two – fundamentally different – interpretations (or even: “interpretative paradigms”) concerning the linkage between organizational size and HRM.

#### *The “deficit model”*

Many publications tend to construe the observable absence of (formal) HRM in small and medium-size enterprises as a severe „management deficit“. Thus they stress the need for stronger regulation of HR-related activities by implementing standardized tools and structures. However, this line of argumentation is obviously underpinned by a notion that regards the highly differentiated HRM-systems of large corporations as *the one best way* and therefore as a desirable ideal for SMEs as well. Often already through their empirical design, the respective studies are mainly focused on exploring the degree of proliferation of those modern HRM-practices usually found in *large corporations*. As a consequence, this view may only inadequately account for the *specific structural realities in SMEs* and thus lets this type of organizations nearly inevitably appear to be *unprofessional* and *deficient* (Curran/Blackburn 2001).

#### *The “equivalence model”*

In contrast to the “deficit model” a second perspective on explaining size-dependent differences concerning HRM – the so called “equivalence model” – is informed by the consideration that there is no *one best way* for handling the challenges of HRM. Building on a functionalistic understanding of organizations, this research perspective emphasizes the fact that certain indispensable HR-functions have to be fulfilled in any given social system in order to secure its long-term survival (Martin 2001). But as there usually exists a wider range of alternative options for handling these elementary functional requirements (so called *functional equivalents*), the suitability or appropriateness of an organization’s particular approach towards HRM can not be assessed generally but only against the backdrop of its specific context and *action requirements* (Bartscher-Finzer/Martin 2006; Behrends/Martin 2006).

So instead of a priori taking a “large corporations”-research perspective the *equivalence model* is basically open to the existence of rather different ways of coping with fundamental HR-related challenges. Therefore it may offer a suitable starting point for

point for explaining the diverse approaches of small and medium size enterprises in handling and fulfilling their *elementary HR-functions* – beyond merely imputing a deficient HRM to those businesses that forbear from implementing a formal HR-structure.

The recruiting of new employees can undoubtedly be viewed as such an indispensable HR-function. Every organization (or even more generally: *every social system*) needs certain rules or procedures by which access to and membership of the respective system is regulated (Martin 2001, Schwarb 1996). As they define the actors, channels and selection criteria for recruiting new employees, they fundamentally determine who will be able to exert influence on organizational actions – and who not. Insofar an organization's potential to successfully guide and coordinate employee behaviors in line with its goals and strategies through the management of other HR-related functions (e.g. incentives, leadership, personnel development or work organization), is already essentially delimited by its approach towards recruiting (Martin 2001).

## 2.2 Business size and organizational complexity

Scientific explorations into the characteristics of HRM in small and medium-size enterprises are usually framed around the assumption that size represents a central determinant of organizational behavior. At first view, this assumption may not necessarily seem plausible. In principle, every business – regardless of its size – is subject to certain economic regularities and is thus dependent on an efficient utilization of available resources and the generation of profits in order to secure its long-term survival. So it is obviously not business-size as such, but rather certain *size-dependent action-requirements* to which differences in approaching the fulfillment of elementary HR-functions between corporations of different size may be attributed (Behrends/Martin 2006). Therefore, in the light of the *equivalence model* an adequate exploration of the recruiting practices in SMEs should take its starting point in identifying size-dependent action-requirements that may generally exert an influence on the way organizations cope with their elementary HR-functions.

**Figure 1: Size, action-requirements and HRM** (Source: Behrends/Martin 2006)



The various approaches in the field of Organization Theory emphasize numerous (and thoroughly different) determinants of organizational action. For the theoretical foundation of our empirical investigation we initially want to resort to a fundamental explanatory variable that has already been proven to be closely tied to organizational size in general: *complexity*.

The notion of *complexity* is based on a deliberation about the interrelation between size and organizational behavior stemming from organizational system theory. This argument is based on the consideration that social systems, during the course of their growth, have to counteract the *increasing complexity of their (perceived) environment* by generating sufficiently complex internal structures and processes (Lawrence/Lorsch 1967).

In the course of this *functional differentiation* we observe an increasing generation of respective institutions and subsystems that are specifically geared to deal with selected, more or less self-contained sections of the environment (Blau 1970, Elias 1978, Scott 1986). In accordance with the above-mentioned “equivalence model”, this (size-dependent) mechanism may explain a considerable part of the observable variance in formal regulation among organizations of different size without referring to the quality of managerial decision making (Daft/Bradshaw 1980, Ford/Slocum 1977) – as Blau and Schoenherr (1971, viii) reveal by taking the example of hierarchical differentiation:

“Thus, the complexity of the organization imposes limits on a manager’s freedom of choice in deciding how many supervisors to appoint. But if it is correct that the complexity and other attributes of organizations largely govern the size of the supervisory component in them, it is not necessary to investigate the social and psychological processes by which managers arrive at decisions to appoint supervisors in order to understand why some organizations have more supervisors than others. In this case, it suffices to ascertain the relationship between conditions in organizations and variations in the supervisory component; and the same holds for explaining other organizational characteristics.”

From the numerous descriptions and case studies available in pertinent literature (at least) two basic characteristics of smaller enterprises can be distilled, that are certainly to be interpreted as showing a tendency towards *lesser system complexity* in comparison with larger corporations (Kotthoff/Reindl 1990; Manz 1993): As such the work reality for employees in smaller organizations is usually characterized by a more clearly defined and experienced interconnection between individual contributions and (collective) organizational performance. Furthermore, smallness provides a good basis for the reciprocity of internal cooperative interrelations through personal contacts between organizational members (Jennings/Beaver 1997).

Thus, in conferring the general connection between size, complexity and formal differentiation onto the fulfillment of HR-related functions, the implementation of a formally institutionalized HR-management (be it in the form of a department or policy unit etc.) as well as the adoption of formal HR-instruments can initially be conceived of as such an over-arching level of integration in which certain – in this case *HR-related* – system activities are bundled. Starting from the assumption that a (size-dependent) lower degree of complexity will also be reflected in the way SMEs handle their fundamental HR-tasks, one may expect – with regards to organizational recruiting – that the smaller an organization, the lesser its degree of (formally) institutionalized and regulated recruitment policies will be.

### **2.3 Size, recruitment practices and recruitment success**

Our discussion of complexity as a fundamental size-dependent determinant for organizational behavior provides a valuable starting point for an explication into the different approaches followed by larger and smaller businesses when dealing with HR-related functional requirements. It may have become clear that in light of the explanatory mechanism used here, the comparably *higher degree of professionalization and institutionalization* concerning *HR-practices* in larger organizations can not necessarily be attributed solely to superior or more mindful management, but should moreover be interpreted as an outcome of growth-induced adaptive behaviors in adjusting to their dynamically changing action requirements.

But in order to assess the suitability of either the *deficit-* or the *equivalence-*model of SME research it will not suffice to merely explain the *coming about* of different HR-related action patterns. Especially from a more application-oriented research perspective there is a substantial difference between these two competing paradigms in their inherent assumptions regarding the *relations between HRM* and the various indicators of *recruitment and/or business success*: Whereas the *deficit model* (at least implicitly) assumes a general superiority of formal HRM-systems, the *equivalence model* argues more in accordance with the basic assumptions of organizational contingency-theory. It thus presupposes that the adequacy and effectiveness of different HR-related arrangements may depend on the respective *fit between system behavior/structure and contextual/situational action requirements*. Therefore, in order to be *successful*, differences in business size should almost inevitably also lead to a different way of handling HR-related tasks.

Indeed, empirical studies usually reveal quite different ways of coping with the various aspects of HRM for the group of SMEs. This insight might actually not come as a big surprise. Under the label ‘SME’ trades an enormous heterogeneity of businesses with regard to other fundamental determinants that may unfold an important influence on organizational HRM (like *branch, technology, labor market, workforce qualification* etc.). Beyond that, referring to the simple dichotomy of “Large Corporations vs. SMEs” runs the risk of concealing the substantial differences in size – and consequentially in complexity – between micro (1-9 employees), small (10-49) and medium-size enterprises (50–250). Accordingly, the above-outlined interrelation between organizational size and complexity should prove valid and observable even *within* the group of SMEs.

*Recruitment as a “social process” – a (successful) functional equivalent?*

Given the deliberation that smaller businesses may be able to handle their elementary HR-requirements without recourse to formal structures and standardized procedures raises (at least) two further questions regarding the prospects of successful recruitment:

- a) What could such a “functional equivalent” for small businesses look like?
- b) And are there any conducive preconditions – beyond their mere *smallness* – which support the functioning of this alternative approach to selecting new employees?

Finding an answer to the first question seems to be rather easy: With reference to the pertinent empirical assertions in this regard, it quickly becomes evident that recruitment practices in SMEs usually follow a rather *informal* and *particularistic* pattern. It is often characterized by an intensive utilization of employee’s social networks and a stronger personality- and relationship-oriented selection process (Carroll et. al. 1999, Ram/Edwards/Gilman 2001). As a consequence, in a lot of smaller companies the hiring of new employees could be regarded as a comparatively *social process*. In view of the second question it becomes obvious that the operability and effectiveness of these “social-integrative” patterns of action – much more than the “system-integration” approach of most large corporations – depend on how much they are actually supported by the respective employees (Hartl et. al. 1998; Herriot 1989; Schwarb 1996): They for instance control the organization’s access to their social networks and thus function as *gatekeepers* in applicants preselection. Over and above that employees usually also play

an important role in both the new colleague's professional induction to his or her new work area and his personal socialization into the organization's norms and informal rules. In order to thus adequately absorb potential professionalism deficits in their recruitment practices through the effective use of this functional equivalent, SMEs should be conceived as substantially dependent on the (voluntary) support of their existing employees.

#### *The social order of SME's – between Gemeinschaft und Gesellschaft*

In this connection, empirical studies reveal some marked differences amongst SMEs concerning their employees' affective commitment to and involvement in organizational processes (Baron et. al. 1995; Barrett 1999; Curran/Stamworth 1981a, 1981b; Goss 1988; Kotthoff/Reindl 1990; Matlay 1999; Ram 1999; Wilkinson 1999). Roughly comparable with the classical sociological distinction between *Gemeinschaft* and *Gesellschaft*, Kotthoff and Reindl (1990) identify two basic types of corporate social orders: In so-called *collaborative social orders* (*gemeinschaftliche Sozialordnungen*) organizational action is based on a collective psychological contract which is characterized by mutual consideration of interests and trust. Work commitment and the willingness to cooperate in these companies are thus not just the result of (short) term cost-benefit considerations on the part of employees, but first and foremost result from their extensive identification with the "joint project" of running the company. In contrast, the work reality in SMEs with a so-called *instrumentalistic social order* is characterized by a high degree of mutual indifference or even mistrust. This manifests itself for instance in a wide-ranging usage of hierarchical powers as well as primarily technically or economically legitimated control mechanisms. The *social support of recruitment* by employees as sketched out above can therefore be expected to reside principally in those businesses whose social order shows a more *collaborative orientation*.

#### **2.4 (Preliminary) conclusions and theoretical hypotheses**

Drawing from our theoretical deliberations, so far the following insights can be summarized: With regard to the various aspects of HRM in SMEs, empirical studies regularly ascertain a comparatively lower degree of institutionalization and formalization especially on the part of smaller companies. This finding is often prompted rashly to ascribe a general *management deficit* concerning HR-related tasks (like *recruitment*) to these organizations. However, in the light of the aforementioned "*equivalence-model*" this conclusion is fundamentally challenged. Assuming that organizations in different contexts pursue quite different approaches towards successfully handling their elementary HR-functions, this alternative view rejects the existence of a size-independent "one best way" of HRM.

On that basis we refer to social system theory and its well-elaborated and empirically validated insights concerning the general relationship between organizational size, complexity and formal differentiation. Thus, it can be argued that larger organizations – in order to meet the demands of internal coordination – almost inevitably have to adapt to their (growth-induced) higher level of internal and external complexity by referring to more standardized bureaucratic procedures. Transferring this causal relation

to HRM in SMEs – and in particular to the area of recruitment practices – leads us to the following hypothesis:

H1: Organizational size is positively correlated with the deployment of institutionalized and formalized recruitment policies.

*This applies as well for*

H1a) (*Structure*): the implementation of a separate HR-department *and*

H1b) (*Strategy*): the extent of formal strategic HR-planning as for

H1c) (*Process*): the spread and use of various recruitment channels and tools.

With regard to the question of potential determinants for recruitment effectiveness/success we referred to sociological SME-research concerned with the different types of *corporate social orders* among small and medium-size businesses. These insights indicate that organizations that have a rather *communal* social order are much more likely to receive the employee's support necessary for successfully recruiting and integrating new coworkers. This positive relation between *communality* (or: *social integration*) and *recruitment success* should generally apply to all organizations – independent of their respective size. However, we expect this connection to be of superior impact especially in those businesses that rely on rather *informal* recruitment practices. Therefore the following hypotheses concerning the impact of corporate social order on recruitment and organizational success are formulated:

H2: The existence of a communal social order is positively correlated with recruitment and organizational success.

H2a) This correlation is higher for those businesses that do not have a separate HR-department.

### 3. The study

#### 3.1 Data and methods

The following results are based on a telephone-/online-survey conducted between December 2004 and January 2005. The aim of the study was to explore the recruitment policies of German SMEs in selected knowledge-intensive sectors.<sup>1</sup> The questionnaire spanned a total of 27 items/ item complexes and took about 15 to 20 minutes to be filled out. Next to some basic information (*sector, number of employees, ownership structure* etc.) the predominantly closed questions focused mainly on the areas of general *HR-practices, recruitment policies and –activities*, the organization's *social order* as well as various (however subjective) indicators of *recruitment- and business-success*.

In order to guarantee a qualified answering of the questionnaire in spite of the lesser degree of institutionalization of HRM in a lot of SMEs, all businesses were initially contacted by telephone, informed about the basic goals of the survey and asked to supply a competent contact person regarding HR-related activities. The participants then were given two alternatives to answer: they could do this directly via telephone or through a dedicated web-interface to which they were given a personalized log-in. All-

<sup>1</sup> The addresses of the businesses contacted were taken from an electronic directory, the *GelbeSeiten Business Deutschland* ([www.businessdeutschland.de](http://www.businessdeutschland.de)), the national B2B yellow-pages.

in-all 1713 SMEs were contacted in this way of which 364 eventually participated in the survey (a response rate of 21,25%). While 99 businesses decided for an immediate answering via telephone, the other 265 filled out the online-questionnaire. After the first triage and sample revision we ended up with a total of 342 valid questionnaires (revised response rate: 19,96%). The sample can be subdivided amongst the following professional service sectors:

**Figure 2: Sample distribution according to sectors**

	Frequency	Percentage
Management Consultants	105	30.7
Advertising Agencies	66	19.3
Publishing Houses	60	17.5
Media Corporations	43	12.6
IT- and New Media	33	9.6
Film Production	24	7.0
Others	11	3.2
Total	342	100.0

The classification of participating businesses in accordance with the SME-definition of the European Union led to the following particle size distribution of the sample:

**Figure 3: Sample distribution according to business size**

	Frequency	Percentage
Micro-Enterprises (1–9 Employees)	69	20.2
Small Enterprises (10-49 Empl.)	196	57.3
Medium Enterprises (50-250 Empl.)	69	20.2
Larger Enterprises (> 250 Empl.)	8	2.3
Total	342	100.0

Even though in the compilation of the data base only small and medium-size enterprises with up to 250 employees were considered, we still had eight larger Enterprises amongst the sample. Because this was such a small number we decided to abstain from a separate examination of these companies and excluded them from the analysis.

### 3.2 Measures

**Structure: HRM-Institutionalization.** A first and most common indicator of the degree of institutionalization of HRM can be seen with the existence of a *separate HR-department*. Businesses that have implemented such a department usually also employ respective experts able to deal with HR-related tasks and problems. The formal implementation of a whole *department* usually implies that *several* employees are primarily concerned with HR-tasks. As already the establishment of a *single HR-manager* could be regarded as some form of institutionalization, we additionally controlled for the *position of our interview partners*.

**Strategy: Recruitment Planning** was measured by asking respondents if and to what extent different the various activities during the course of personnel recruitment (*plan-*

*ning of manpower requirements, job offerings and adverts, selection processes*) follow a more or less standardized plan or procedure.

**Process:** Data on the respective *Recruitment Practices* in use was collected through two item batteries asking for frequency of use of a) the most important *recruiting channels* as well as b) the most common *selection instruments*.

#### *Recruitment success*

The definition of clear-cut and reliable indicators of success often presents a rather difficult undertaking in conjunction with HR-related topics, and the field recruitment is proving to be no exception to this (Gmür/Klimecki/Litz 2003, Kompa 1989). What may further aggravate this situation of encountering measurement problems, is the fact that a lot of smaller companies may not systematically record and archive the data necessary for a thorough evaluation (e.g. information about the rate of *fluctuation*). In view of these difficulties we have opted towards eliciting a number of different (subjective) indicators that could all be accorded certain explanatory power when looking at success-influencing factors in organizational recruitment. Therefore, we decided to test for recruitment success through three subjective measures indicating a) the company's *difficulties to fill vacant positions*, as well as the respondent's satisfaction with the respective a) *recruitment policy* and b) *workforce quality* of his or her organization.

#### *Organizational success*

The various aspects of organizational success were as well measured through subjective indicators. Here, respondents were asked to assess their company's relative position compared to their respective branch on three basic dimensions indicating business success: the (current and long-term) *economic success*, internal *cooperation* as well as *organizational innovativeness and flexibility*.

#### *Social character*

In order to assess the quality of employee relations we sought to align our measures with the empirical findings of Kotthoff and Reindl (1990). As Kotthoff/Reindl merely conducted a qualitative study, we tried to derive appropriate closed items to adequately survey their four basic dimensions of an organization's social order. Hence, we asked respondents to assess the degree of

- a) the personal relatedness of employees to their company,
- b) the co-orientation of senior management and employees,
- c) the collegiality of organizational cooperation as well as
- d) the meaning of formal hierarchical differences.

### **3.3 Results**

#### *Structure: HRM-institutionalization*

In accordance with Hypothesis 1a) the data stemming from our sample reveals a marked influence of business-size with regard to the existence of a separate HR-department (Figure 4). Here, as in similar other studies it becomes apparent that *micro* as well as *small* businesses usually abstain from the implementation of such a department. In contrast, the majority of *medium-size* enterprises (starting from a number of at

least 50 employees) obviously feels impelled to transfer the management of HR-related tasks into a more bureaucratic institutionalized framework.

**Figure 4: Existence of a separate HR-department** (in percentages)

Business having a separate HR-department...	Micro-Enterprises (1-9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
	4.4	10.7	66.7	21.0

This size-effect is also observable when looking more closely at the *respondent's position*.<sup>2</sup> Whereas in micro- and small enterprises the contact person only hardly ever explicitly placed his/her position within the company's HR-department (1,5% or 8,5%), this value rises markedly for the group of medium-size businesses.

**Figure 5: Position of interview partner within the organisation** (in percentages)

Position of Interview Partner	Micro-Enterprises (1-9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
Senior Management	64.7	53.2	30.8	51.1
Person in Charge of „HRM“	1.5	8.5	43.1	14.0
Other	33.8	38.3	26.1	34.9
Total	100.0	100.0	100.0	100.0

#### *Strategy: Recruitment planning*

Next to the implementation of an independent HR-department (*structural* aspect) and the formal assignment of HR-management responsibilities to certain organizational actors (*role* aspect), we collected information about another important indicator for the extent of formal HRM: *strategic planning*. In accordance with Hypothesis 1b) we find a significant interrelation between business-size and the degree to which different HR-activities concerning recruitment are taken on the basis of standardized plans or procedures (see Figure 6).

**Figure 6: Systematic management of personnel-selection** (in percentages)

Systematic management of processes in the area of ...	Micro-Enterprises (1-9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
Personnel Requirements Planning (e.g. job-chart method)	16.4	35.4	58.8	36.6
Personnel Advertisement (e.g. job adverts)	16.2	29.5	60.3	33.1
Personnel Selection (e.g. job interviews)	44.1	52.8	73.5	55.3

<sup>2</sup> As a reminder: During the telephonic pre-election the businesses were asked to supply a contact person responsible for HR-related matters in the organisation.

*Process: Recruitment practice*

In order to validate our hypothesis concerning the spread of various recruitment practices, we looked at the most important recruiting channels as well as the most common selection instruments used. In accordance with our Hypothesis 1c), our sample indicates that the regular deployment of such tools increases with organizational growth. In looking for new employees the interviewed businesses primarily resort to *printed job-adverts* or *online job-databases* as well as the *social networks of their employees*. More cost-intensive channels, such as the assignment of *outstaffing-agencies* or *head-hunters* are obviously only utilized in exceptional cases. The lesser significance of *federal employment offices* is also in accordance with most previous empirical evidence. It can be primarily attributed to the usually very specific and high-level skill-requirements of employees in knowledge-intensive professional service firms (Sehringer 1989; Windolf/Hohn 1984).

**Figure 7: Regularly used recruitment channels** (in percentages)

Regular usage of ...	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
Job-adverts in newspapers and magazines	17.6	26.6	37.7	27.1
Recommendation by Employees	32.4	21.4	27.5	24.9
Online Job-Database	11.9	25.4	34.8	24.6
Employment Office	7.5	15.5	14.5	13.7
Head-hunters/Personnel Consultants	5.9	3.6	10.1	5.5
Outstaffing-Agencies	1.5	2.6	8.7	3.7

However not with such significant deviations, we can also observe a relationship between organizational size and regular usage of different selection instruments. As such the type of instruments is usually limited to *evaluation of written job-applications* and the *conducting of job-interviews*. Even though we see a relatively high percentage for the *assessment of work-samples*, further investigation into the data revealed that these mainly play an important role in rather creative industries (advertising: 51,5%, film production 50,0%). More elaborate and expensive selection instruments (such as a *standardized testing processes* or *assessment centers*) are nearly not used at all.

**Figure 8: Regularly used selection instruments** (in percentages)

Regular usage of ...	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
Job-Interviews	73.9	80.8	85.3	80.3
Evaluation of Written Job-Application	72.5	86.5	95.6	85.5
Work-Samples	32.4	32.1	20.6	29.8
Contacting previous Employers	4.3	4.7	4.4	4.6
Biographical Questionnaires	4.3	5.2	5.9	5.2
Assessment-Centre-Process	2.9	1.6	4.4	2.4
Standardised Psychological Tests	-	2.1	2.9	1.8

In addition, a specific mention of the *probation period* should be made in this regard, as it allows the employing businesses the opportunity of testing the aptitude and “social fit“ of new employees on-the-job. Most of the businesses interviewed assign great importance to this phase. This may indicate that the probation period is used intensively by many SMEs as some kind of „prolonged selection filter“. In doing so, they can partially absorb potential deficits in their otherwise not very elaborate initial approach towards recruitment and correct possibly wrong decisions at a later stage.

**Figure 9: Significance of probation period for final Selection decision** (in percentages)

Significance of Probation Period	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10–49 Empl.)	Medium Enterprises (50–250 Empl.)	Total
Very important/Important	78.0	87.8	88.2	85.9

In summarizing, it can be noted that our Hypotheses concerning the relationship between *organizational size*, *formal HRM* and *recruitment practices* are reasonably well supported by the data at hand. The assumed effect of business-size is predominantly clearly observable even within the group of SMEs.

The indicators used to determine the degree of institutionalization of HR-practices seem to reveal a tendency that with rising business-size we see a higher degree of formal regulation with regards to organizational recruitment activities. The steep rise in the transition from smaller to medium-size businesses may be interpreted as an indication that from 50 employees onwards the complexity HR-tasks reaches such dimensions that the formation of an over-arching integration level (like an HR-department for instance) seems to become increasingly necessary and indeed expedient.

#### *Organizational size and recruitment success*

Next we want to look at a first rough validation regarding the size-dependency of *recruitment success*. Our starting point was informed by an orientation towards the over-arching goal of organizational recruitment: the filling of vacant positions with suitably qualified personnel. As such it should be initially noted that only (or at least) a quarter of the businesses surveyed regarded the filling of vacant positions with qualified personnel to be a serious problem (Figure 10). Even though the *number of incoming job-applications* in most businesses (77,3%) far outnumbered their current vacancies, nearly half of them (48,9%) lamented an insufficient *reservoir of qualified experts* in their specific segment of the job-market.

**Figure 10: Problems in filling vacant positions** (in percentages)

Difficulties in filling vacant positions	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10–49 Empl.)	Medium Enterprises (50–250 Empl.)	Total
Applies fully/mostly	16.9	27.7	28.9	25.8
Applies partially	18.5	26.6	23.2	24.2
Applies less/not at all	64.6	45.7	47.8	50.0

The reasons for potential problems in filling vacancies for our sample of SMEs seem to lie more in the general *situation on the job-market* than within their own specific approach towards recruitment. Accordingly, both the *approach followed* in personnel selection (see Figure 11) as well as the respective *results* (the quality of employed personnel, see Figure 12) are judged quite positively by the vast majority of businesses.

**Figure 11: Satisfaction with personnel recruiting** (in percentages)

How satisfied are you with the recruitment policies of your company?	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10–49 Empl.)	Medium Enterprises (50–250 Empl.)	Total
Totally satisfied	31.3	13.5	10.1	16.5
Mostly satisfied	47.8	50.0	58.0	51.2
Rather satisfied	13.4	23.4	20.3	20.7
Total	106,0	95,0	92,0	101,0

**Figure 12: Satisfaction with employee quality** (in percentages)

How satisfied are you with the quality of your employees?	Micro-Enterprises (1–9 Empl.)	Small Enterprises (10–49 Empl.)	Medium Enterprises (50–250 Empl.)	Total
Totally satisfied	42.6	18.5	14.7	22.7
Mostly satisfied	45.6	59.0	66.2	57.7
Rather satisfied	5.9	16.4	10.3	13.0
Total	113,0	102,0	102,0	106,0

In looking at the *interrelations between business-size and recruitment success* the above-averagely positive results within the group of micro-enterprises may seem especially striking. However, in view of their comparably lesser manpower requirements as well as the immanently subjective indicators used in our study, it still seems inappropriate to us to deduce from this a generally bigger recruitment success for this type of businesses. But this fact notwithstanding, it should at least be noted so far that – in accordance with the aforementioned “*equivalence model*” – the size-dependent lesser degree of professionalization and institutionalization of recruitment practices in smaller SMEs does not seem to entail a noticeable curtailing of fulfilling this HR- functional requirement.

#### *Corporate social order*

With regard to the four items we used to measure for the different dimensions of *corporate social order* it can be initially noted that the data paints a rather positive picture of the quality of work-relations in the sample (see Figure 13). As such the company-specific configuration of all four dimensions is characterized as at least *partially communal* by the vast majority whereas explicitly negative assertions are more the exception.<sup>3</sup>

<sup>3</sup> Such a skewed distribution concerning the quality of employee relations in SMEs is not that uncommon and in accordance with comparable investigations (see Curran/Stanworth 1981a for instance).

**Figure 13: Business-size and social integration** (in percentages)

Applies fully...	Micro-Enterprises (1-9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
„The employees feel very much personally associated with the company“	62.7	34.5	20.3	37.7
„Senior Management and Employees act in concert with one another“	69.1	40.5	20.3	42.2
„The cooperation in our company is a very collegial nature“	70.6	48.7	37.7	50.9
„Hierarchical differences play a very much subordinate role in our company“	49.3	28.4	27.5	32.4

In order to differentiate different types of social orders the items found in Figure 13 were condensed into a combined index. Only those businesses were assigned to the type of „communal social order“ that show a highest level of support for *all four dimensions* („applies fully“), whereas those company's whose average answering did not go above „applies mostly“ in total were not immediately classified as being „instrumentalist“ but certainly as (relatively) „less communal“ nevertheless. We thus arrived at the following distribution indicating that smaller SMEs seem to provide a somewhat better groundwork for the establishment of *social-integrative action structures*:

**Figure 14: Business-size and social order type** (in percentages)

Social Order Type	Micro-Enterprises (1-9 Empl.)	Small Enterprises (10-49 Empl.)	Medium Enterprises (50-250 Empl.)	Total
Communal	34.3 (n=23)	16.1 (n=31)	8.7 (n=6)	18.2 (n=60)
Hybrid	41.8 (n=28)	35.2 (n=68)	30.4 (n=21)	35.6 (n=117)
Less communal	23.9 (n=16)	48.7 (n=94)	60.9 (n=42)	46.2 (n=152)

In accordance with our deliberations it does initially seem that the businesses with a communal social order do in fact resort more strongly to the (quite cost-effective) *social networks of their employees* in searching for new staff (Figure 15).

**Figure 15: Type of social order and usage of social networks** (in percentages)

Regular usage of ...	Communal social order	Hybrid	Less comm. social order	Total
Recommendations by employees	36.2	31.9	15.3	25.0

However, the employee's commitment and loyalty in communal social orders is not a „one-way-street“ but based on reciprocity. As such the willingness to help achieving the company's goals obviously goes along with a higher *demand for participation*. As in the case of recruitment this demand is mirrored for instance in the granting of consultation rights during the process of recruitment (Figure 16).

**Figure 16: Type of social order and employee participation** (in percentages)

Possibility of Employees to Influence the Selection of Future Colleagues	Communal social order	Hybrid	Less comm. social order	Total
Comprehensive participation in this regard	35.0	21.2	7.9	17.6
Limited participation in this regard	53.3	59.3	53.6	55.6
Rather no participation in this regard	11.7	19.5	38.4	26.9

*Corporate social order and recruitment success*

In looking now at the assessment of organizational recruitment success depending on the type of social order, it seems to be consistent with our hypothesis H2 that the proportion of businesses that show a great degree of satisfaction with their *recruitment practices* as well as the *quality of their employees* is significantly higher within the group of communal social order types (Figure 17).

**Figure 17: Organizational social order and recruitment success** (in percentages)

Very/mostly satisfied ...	Communal social order	Hybrid	Less comm. social order	Total
with personnel recruitment	94.9	64.8	52.3	67.9
with quality of employees	100.0	76.1	68.2	80.4

As already mentioned it seems expedient to assert a comparably close relationship between the fulfillment of HR-functions and overall business success for the group of knowledge-intensive professional service firms. In addition to the indicators for recruitment success (as seen in Figure 17) we have also asked about a number of items concerning the overall assessment of business success. Here again the data suggests a consistently positive evaluation of the different indicators for those businesses with a communal social order (Figure 18).<sup>4</sup>

**Figure 18: Organizational social order and business success** (in percentages)

Above-average Occurrence ( <i>applies fully/mostly</i> )	Communal social order	Hybrid	Less comm. social order	Total
Current profitability	30.0	24.2	19.8	22.9
Long-term success	55.0	47.9	33.1	42.6
Working atmosphere	81.6	77.6	40.1	61.6
Employee motivation	76.7	65.5	28.4	51.1
Innovativeness	50.0	49.1	21.8	37.1
Flexibility	55.0	51.7	34.0	44.5

<sup>4</sup> A *size-dependent* investigation of the same success factors however shows a much more diffuse and inconsistent picture.

In addition with the descriptive statistics shown in Figure 19, we can thus assert that the assumed significance of a communal social order for the fulfillment of elementary HR-functions in SMEs is preliminarily supported.<sup>5</sup>

**Figure 19: Descriptive statistics and sorrelations** (n=334, \*\* p < 0,1; \* p < 0,5)

Variable	Mean	s.d.	1	2	3	4	5	6	7
1. HR-Planning	3.12	2.46							
2. Channels	2.04	.58	.28**						
3. Instruments	2.31	.39	.29**	.24**					
4. Comm. Social Order	4.21	.59	-.05	-.27**	-.08				
5. Satis. Recruitm.	5.70	.94	.02	-.09	-.06	.42**			
6. Satis. Workforce	5.95	.83	-.02	-.16**	-.12*	.43**	.48**		
7. Org. Success	3.23	.72	.18**	.02	.11	.30**	.24**	.15*	
8. Size	2	.644	.33**	.42**	.18**	-.32**	-.12*	-.14**	.14*

To recapitalize: On the basis of the – admittedly subjective – measures of success our sample reveals no distinct support for assuming a general superiority of formal HR- and recruitment practices. Instead, an examination of the different types of social orders indicates that the potential for success of the comparatively lesser bureaucratic approaches towards HRM in SMEs is quite significantly influenced by the quality of organizational work relations.

**Figure 20: Results of regression analysis** (standardized regression coefficients are shown with significance in parentheses)

Variable	Model 1: Workforce Satisfaction (HR-department)	Model 2: Workforce Satisfaction (No HR-dept.)	Model 3: Organizational Success (HR-department)	Model 4: Organizational Success (No HR-dept.)
β HR-Planning	.119 (.368)	-.003 (.953)	.067 (.628)	.120 (.094)
β Channels	-.130 (.377)	-.061 (.313)	-.220 (.173)	.031 (.691)
β Instruments	-.084 (.545)	-.081 (.171)	.212 (.135)	.037 (.599)
β Comm. Social Order	.141 (.309)	.445 (.000)	.249 (.096)	.404 (.000)
β Size	-.133 (.321)	-.047 (.446)	.340 (.020)	.240 (.002)
Adjusted R <sup>2</sup>	.03	.23	.19	.16
n	70	263	70	263

<sup>5</sup> For the purpose of calculating the respective correlation and regression coefficients we composed summary indices out of the different item complexes. Note that the (rather informal) *use of employee's social networks* was excluded from the channel-index, while the two items concerned with *workforce motivation* and *corporate climate* were excluded from the index for organizational success.

Finally, in order to test for hypothesis 2a) we conducted several comparative regression analyses using a) *satisfaction with workforce quality* and b) *organizational success* as independent variables. Here again, the results offer no clear-cut evidence for a causal relationship between recruitment or organizational success and any of the aspects of formal HR-/recruitment practices. However, in accordance with our hypothesis we find the *communality* of an SMEs social order to have a comparatively large and significant impact especially in those businesses that do not rely on an institutionalized HR-department.

#### 4. Summary and discussion

The lesser degree of institutionalization and formalization of HR-practices in SMEs usually leads to them being attested a severe "(HR-)Management Deficit". The vast majority of these empirical investigations abstains from any theoretical foundation and argues from a perspective dominated by the viewpoint of large corporations, seeing their highly differentiated HRM-systems as the „desirable ideal“ for smaller and medium-size enterprises as well. The study at hand tried to break from this *deficit model* and instead assumed that smaller organizations due to their – size-dependent – different preconditions resort to *functional equivalents* in accomplishing HR-functional requirements. Or to put it differently: the HR-practices in SMEs are not generally better or worse than those used in larger corporations, they may just follow a different logic. The empirical findings of our study support this *equivalence perspective*.

Referring to the well-explored relationship between organizational size, complexity and formal differentiation as a first theoretical foundation for the size-dependency of HR-practices, we observed significant size-effects in the recruitment behavior even *within* our sample of knowledge-intensive SMEs. A first and rather fundamental insight thus consists in the conclusion that there is no such thing as the “*typical HRM of SMEs*”. Instead, on the basis of the initial data analysis at hand we can note the following (preliminary) results:

- The bigger an organization, the more formal recruitment practices are used. This counts for both choice of recruitment channels as well as the usage of typical selection instruments.
- With increasing business size the degree of institutionalization of HRM also rises. The installation of a separate HR-department seems to be seen as a necessity only from approximately 50 employees onwards.
- Smaller companies are not generally less successful in the recruitment of personnel than larger ones.
- The smaller a company, the more strongly we should conceive its organizational recruitment behavior as the outcome of a *social process* which is in large parts supported and/or undertaken by the employees.
- In light of this social-integrative logic of recruitment the quality of employer/employee relations has a high impact on recruitment success in smaller organizations. This applies especially to those businesses that do not have implemented a separate HR-department.

### ***Study Limitations***

In concluding our deliberations we feel it necessary to make some restrictive and critical remarks as to the explanatory powers of the results presented. The cross table-analysis conducted here should merely be understood as a first step into the process of data analysis. While such a methodological approach is always and in many ways afflicted with inadequacies, one should keep in mind, that mere *size* should generally be regarded as a rather rough and imprecise explanatory variable for organizational behavior. Above that the usage of *subjective* assessments regarding the various indicators for success, or trying to assess the organizational social order through interviewing only one company representative might as well be regarded problematic. Insofar it seems appropriate to regard the findings at hand mainly as some initial but certainly helpful exploration into the diversity of recruitment practices in SMEs. Beyond that, by invalidating the oversimplified assumptions of the *deficit perspective* our study should contribute to sensitize the field of SME-research for the necessity of more theoretically founded empirical investigations into the area of HRM.

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