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# Expertise of Owners, Investment of Time, and Human Resource Outsourcing in Very Small Businesses

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*Very small enterprises (VSEs) are firms in the product and service sectors of the economy that are not part of a larger company and have 10 or less employees. The manner in which they practice human resource management is analyzed. Four questions are explored including the extent to which 17 HRM activities are performed in-house or outsourced by VSEs. Next, the perceptions of VSE owners' expertise in HRM are analyzed. How VSE owners obtain their knowledge of HRM and the percentage of their time invested in HR activities and decision making are also addressed.*

**Key Words:** Human resources, Very small business enterprises, Outsourcing, Owner knowledge, Percentage of time in HR

## Introduction

This paper summarizes the results of a study that explores the human resource management (HRM) practices of the owners of very small enterprises (VSEs). The study aims to answer four research questions concerning VSEs. They are: (1) of 17 traditional HRM activities, which ones are performed in-house versus being outsourced; (2) what is the perceived level of HRM expertise of VSE owners; (3) how do the owners of VSEs obtain their knowledge of HRM; and (4) how much time do VSE owners invest in HRM activities?

In this study, the term *very small enterprise* is defined as an organization engaged in the creation of products or the provision of services for profit that employs 10 or less employees. A VSE is not part of a larger firm. These organizations comprise about 79 percent of all firms and employ approximately 17 percent of all employees in the U.S. (Headd, 2000).

A VSE is distinguished from a small business on the basis of number of employees. According to the Small Business Administration, a small business is defined as "one that is organized for profit; has a place of business in the United States; makes a significant contribution to the U.S. economy by paying taxes or using American products, materials

or labor; and does not exceed the numerical size standards for its industry. The business may be a sole proprietorship, partnership, cooperative, or any other legal form" (United States Small Business Administration, 2006). The Small Business Administration uses the term *size standard* to represent the largest size an organization can be and still be regarded as a small business. It has established two widely accepted size standards: 500 employees for most manufacturing organizations and \$6 million in annual receipts for most non-manufacturing organizations.

Nowhere has the economic impact of entrepreneurial activity been seen more than in the creation of new employment opportunities (Heneman, 2000; Katz, Aldrich, Welbourne & Williams, 2000; Reynolds, Hay, & Camp, 1999). The U.S. Small Business Administration reports that America's small businesses employ more than 50 percent of the private workforce (U.S. SBA News Release, 2002). Small business is considered a vital stimulus for economic growth and development. It provides jobs for millions of people, a variety of goods and services, and an increase in national competitiveness and prosperity (Zahra, 1999). No less than 51 percent of the nation's gross domestic product is

generated by the operation of small business (Small Business Administration, 1999). From 1990 to 1995, small companies created approximately 77 percent of the new jobs in the U.S. From 1996 to 1997, they created 76 percent of the net new jobs (Pearson, Summers, & Mills, 2005).

The task of describing and analyzing the implementation of human resource management (HRM) in VSEs is both daunting and important. The difficulty in accurately assessing current practices of small ventures is suggested to be three-fold: (1) manager reluctance to participate in studies due to the time required or the impression that HRM practices do not lead to improved performance, (2) researcher preference to publish in mainstream journals that generally pay little attention to small business, and (3) enterprise sample size that creates challenges to quantitative data analysis (Heneman, 2000, p. 11). Furthermore, poor HRM practices can have a significant impact on performance, even leading to the company's failure (Deshpande, 1994, p. 49). The old view of labor as a factor of production, whose cost should be minimized, is being replaced by the realization that people are "...the key to finding and sustaining a competitive edge" (Bacon, 1996, p. 82). Heneman and Berkeley (1999, p. 58) report that firms with 50 or less employees have significantly fewer HR departments as compared to firms with 50-99 employees.

Given this background, we must understand that general-managers or owner-managers in VSEs likely perform most HRM activities.

This study of VSEs is important because information concerning their human resource management practices is virtually nonexistent. It provides answers to questions about the extent of the use of traditional human resource management activities, the expertise of owners responsible for human resource management activities, how VSE owners acquire their HR knowledge, and the percentage of time VSE owners invest in HR decision making. Pearson, Summers, and Mills (2005) discuss some of the issues addressed in this study, though they limit the generalizability of their findings to the region of the Texas Panhandle.

Organizationally, this paper is divided into four sections. The first presents a review of the literature

on the four research questions articulated above. The second section provides a detailed description of the methodology used to collect the survey data, which will provide a basis for answering the four questions posed. The third section presents the results of a simple analysis of the data. The last section discusses the basic findings and implications of the study.

## **Review of the Literature**

### **HRM Activities Performed In-House or Outsourced by Very Small Business Enterprises**

In very small firms, owner-managers perform most business activities themselves, or directly supervise the performance of these activities (Timmons, 1999 as cited in Kotey, 2005, p. 19). Thus, small firms take direct responsibility for employee training and teach their preferred methods of doing things (Kotey, 2005, p. 19). Training conducted by small to medium sized enterprises has been described as informal and on the job, with little or no provision for management development (Kotey, 2005, p. 18).

Outsourcing is the practice of using outside firms to handle work normally conducted within the company (<http://www.allbusiness.com/human-resources/workforce-management-hiring/1084-1.html>). It has been a vital feature in many organizations. Increasingly, it is playing a larger role within small business enterprises as well. Various HRM functions have been outsourced in large organizations in areas such as payroll, benefits, recruitment, and selection. It appears that VSEs outsource because of necessity, whereas large companies do so to lower costs and thereby achieve a competitive advantage. When a VSE owner or operator is not skilled in handling an HRM activity, it is likely that it will be outsourced.

Frequently the VSE owner is engaged in all of the functions of HRM. The employment of HRM professionals would be atypical for a VSE. Hornsby and Kuratko state that small business owners with 50 or less employees assume the role of the HRM professional (2003, p. 75). This leads to conducting day-to-day operations of the business. The close relationship between the owners and employees in VSEs reduces the need for controls, documentation, and accountability. In addition, the unwillingness of an owner to trust subordinates with HRM functions

may also be part of the reason (Kotey & Slade, 2005, p. 75).

In most cases, small firms show an indifference to HRM. Most small companies consider HRM less important than marketing, finance, and operations functions (Deshpande & Golhar, 1994, p. 49). HRM is examined only when there is a problem. It is rarely used for contingency plans to resolve potential problems. This attitude stems from the view that cooperation is expected and the owner is always right and not to be countered (Wilkinson, 1999, p. 209).

Although informal HRM practices and procedures lead to inconsistencies in HRM practices, they afford the owner some advantages. These advantages include the ability to quickly change policies and procedures to adapt to a new or changing business environment. The informal relationship between the owner and employee gives the owner the advantage of quickly correcting substandard performance. Informal HRM practices such as on-the-job-training and recruitment can be cheaper and more controlled by the owner. Vague job descriptions allow employees to create their own jobs and to become multi-skilled (Kotey & Slade, 2005, pp. 20-30).

Unfortunately, there is a disadvantage to informal HRM practices. What the owner may see as flexibility, the employees may see as unfair treatment. VSEs are also more likely to lose cases for unfair dismissal claims compared to firms that have formal HRM practices and procedures, due to the lack of supporting documentation (Wilkinson, 1999, p. 211). Unclear job descriptions can lead to employee conflicts and the loss of employee accountability. There is also a positive relationship between formal HRM functions and the company's performance. Although most VSEs are characterized as having informal HRM functions, there is a growing amount of research that suggests that formal HRM functions are necessary to support the growth of small companies (Kotey & Slade, 2005, p. 37). Informal HRM practices within small companies can lead to dissatisfaction and turnover among employees. Some studies have shown that inefficient HRM practices cause small companies to fail (Deshpande & Golhar, 1994, p. 49). Two VSEs stated that lack of HRM education and practice has been costly and time-consuming (personal interviews, May 2005). Both gave examples where

casual policies and documentation contributed to legal action regarding employee termination. Other VSEs admit they need HRM training to reduce future liability.

It has been argued that the limits of informality are reached when a company grows to the size of 20 or more employees. At this size, the owner becomes over-stretched and HRM functions need to be delegated to an HRM professional (Kotey & Slade, 2005, p. 17) or outsourced. The first of these functions that are delegated are ones that take the most time and are perceived as procedurally difficult. These include maintaining employee records, processing new hire paperwork, and assigning benefits. Many of these activities are clerical in nature and require filing and data entry (Arthur, 1987, p. 9).

### **VSE Owners' Perceptions of HRM Expertise**

In 1987, the National Federation of Independent Businesses found that 40 percent of entrepreneurs had no more education than a high school diploma and eight percent did not have a high school diploma. In 1989, a survey of 40,000 business owners in Ohio found similar results; almost half had a college degree and a third had only a high school education (Fernald & Solomon, 1991, p. 26). In May 2005, a small sample of local VSEs found slightly different results; about one third had a high school education, whereas two thirds had a college degree (personal interviews, May 2005). It is difficult to assess the nature of this finding. Does lack of formal education beyond high school result in greater creativity and drive leading to the establishment of a new enterprise? Or, does the lack of that same education hold back a VSE from growth? Regardless, this finding supports the hypothesis that explicit expertise in HRM functions is limited.

The very small firm owner may not see any gain in management development through education, and therefore, not pursue any training or education. This is in contrast to a professional manager of a larger enterprise who may be able to propel a career forward with continuing education. An owner's time and resources are consumed by the daily operation of the business, in which the owner usually works along side the employees. Small business owners do not

feel that educators fully understand their training needs (Ryan & O'Dwyer, 2000, p. 347).

Most owners take a reactive approach to training and development. Many owners are executing the primary business functions by themselves. They are running the business with a "fire fighter" mentality: constantly putting out crises in the organization. Training and development practices are more of a reaction from customer feedback or a management crisis than they are planned and preventatively exercised (Ryan & O'Dwyer, 2000, p. 351).

Credibility is one of the characteristics VSE owners look for in a developer/trainer. They want training from someone who has experience in their type of business. Owners have a hard time relating to an educator who only provides expert advice on large companies, and not on the realities of the VSE owner (Ryan & O'Dwyer, 2000, p. 348). An interesting result of interviewing several local VSEs was the request for HRM training from a college instructor (Personal interviews, May 2005). This is in direct contrast with the findings of Ryan and O'Dwyer (2000, p. 348).

### **Source of VSE Owners' Knowledge of HRM**

It has been suggested that the best way to involve owners of VSEs in management education is to provide a forum where experienced and successful entrepreneurs can share small business advice with less experienced entrepreneurs. VSE owners are more likely to listen to someone who has small business experience rather than a developer who has large company experience or a consultant who voices concepts important to large organizations (Ryan & O'Dwyer, 2000, p. 348).

The idea of obtaining HR information from other VSE owners is not a trend found by Pearson, Summers, and Mills (2005). In their study of very small enterprises in the Texas Panhandle, they found that 65 percent of the owners surveyed taught themselves the basic principles of HRM. They noted that very few owners obtained their knowledge of HRM from college degree programs or formal HR certification.

### **Percentage of Time Invested on HRM Activities**

While it is clear that the owners of VSEs recruit, hire, train, and compensate their employees, information on how much time they and their employees invested in these HRM activities is nonexistent. Hornsby and Kuratko (2003) indicate that small businesses having fewer than 50 employees assume the role of the human resource manager. In fact, the likelihood that companies having less than 50 employees will have an HR department is significantly diminished as compared to companies having between 50 and 99 employees (Heneman & Berkeley, 1999). The question of how much time VSE owners and their employees invest in HR matters is taken up in this study. This finding will make a significant contribution to the literature in small business and human resource management.

Overall, there is considerable uncertainty about whether VSEs perform the functions of HRM in-house or whether they outsource them. There is also uncertainty about the perception of expertise of the person responsible for HRM activities and how they learned the technical aspects of HRM. Lastly, there is an absence of information on how much time VSE owners invest in HRM activities and decision making. As such, this study is designed to provide answers to these four questions. In the process it will provide further insights and advance the external generalizability of the research by Pearson, Summers, and Mills (2005).

### **Methodology**

#### **Sample**

Several mailing lists consisting of the names and addresses of the small businesses in the Northwest Indiana region were obtained from the local Chambers of Commerce. It included members and non-members. The mailing lists contained the names of 951 businesses situated in Lake County, Indiana and southern Cook County, Illinois. Not all of the small businesses satisfied the two principle criteria of this study in having ten or less employees and not being part of a larger firm. The final sample consisted of 323 firms known in this study as very small business enterprises (VSEs). This represents a response rate of 34 percent.

## Questionnaire

The questionnaire consisted of five major sections. The sections contained questions related to (1) firm and HRM employee demographic data, (2) human resource management functions, (3) perceptions of expertise of the VSE owner or operator, (4) sources for owners to obtain HRM knowledge, and (5) percentage of time invested in human resource management activities. The demographic data included firm size as measured by number of employees, type of employees, number of years in business, and approximate dollar volume of business.

## Procedure

The respondents were contacted by telephone or in person by a trained interviewer. When interviewed, the respondents were asked to indicate whether 17 traditional HRM activities were performed by his/her firm, outsourced, or not performed by the VSE. If the activity was outsourced, the respondent was asked to estimate the percentage of the activity outsourced. The 17 activities were clustered around four major HRM categories. They included (1) staffing, (2) job specifications, evaluation, and compensation, (3) training and development, and (4) administrative matters.

The respondents were also asked to rate their levels of expertise in various HRM activities. There were 15 listed activities such as employee training, employee communication, selection, performance evaluation, compensation, and strategic HR planning. The respondents rated their perceived level of expertise using a five point Likert scale where 1 corresponded to having very little expertise and 5 corresponded to having extensive expertise.

In another portion of the questionnaire respondents were asked to indicate the source for their knowledge of HRM. There were seven sources listed and respondents were allowed to select more than one.

Finally, the respondents were asked to provide a quantitative estimate of the percentage of time that they and their employees' spent in human resource management activities and decision making.

## Results

### Survey Characteristics

The characteristics of the Northwest Indiana region VSEs participating in this study are summarized below. A total of 323 VSEs responded to the survey, representing a 34 percent response rate. The mean number of full-time employees was 3.14 (SD = 2.42) and the mean number of part-time employees was 1.83 (SD = 2.03). The VSEs surveyed were in business an average of 15.2 years (SD = 16.5). Their median number of years in business was 10 (N = 307, Range = 1 month to 103 years). Their mean number of years of HR experience was 13.49 (SD = 10.90). Their median number of years of HR experience was 10.00 (N = 313, Range = 1 year to 57 years). The VSE owners had a median approximate yearly dollar volume of business of \$300,000 (N = 154, Range = \$10,000 to \$42,000,000).

### Type of HR Activities and Method of Practice

Results to the question of whether VSEs perform 17 HRM activities in-house or outsource them are summarized in Table 1. As mentioned earlier, the activities are organized around four traditional functions.

**Table 1**  
**Type of HR Activities and Method of Practice**

	Frequency In-house *	Frequency Outsourced *	Percent Outsourced	Not Per- formed *
<b>Staffing</b>				
Who determines number and type of persons hired	309 (95.7%)	2 (0.6%)	30%	11 (3.4%)
Who identifies or recruits potential job applicants	301 (93.2%)	7 (2.2%)	67%	12 (3.7%)
Who makes the final employment decision	313 (96.9%)	2 (0.6%)	50%	6 (1.9%)

**Table 1 (Continued)**  
**Type of HR Activities and Method of Practice**

	<b>Frequency In-house*</b>	<b>Frequency Outsourced *</b>	<b>Percent Outsourced</b>	<b>Not Per- formed *</b>
<b>Job specifications, performance evaluation and compensation</b>				
Who decides on the knowledge, skills, and abilities for each job	309 (95.7%)	3 (0.9%)	25%	11 (3.4%)
Who evaluates the performance of each employee	303 (93.8%)	1 (0.3%)	na	17 (5.3%)
Who determines the hourly rates for hourly employees	297 (92.0%)	3 (0.9%)	100%	21 (6.5%)
Who determines the salary for salaried employees	278 (86.1%)	5 (1.5%)	55%	37 (11.5%)
Who determine the benefits for employees	246 (76.2%)	10 (3.1%)	69%	63 (19.5%)
Who administers the benefits program for your firm	214 (66.3%)	22 (6.8%)	85%	80 (24.8%)
<b>Training and development</b>				
Who conducts the orientation for new employees	270 (83.6%)	7 (2.2%)	43%	42 (13%)
Who conducts the training for new employees	291 (90.1%)	10 (3.1%)	57%	17 (5.3%)
Who conducts the training for current employees	271 (83.9%)	25 (7.7%)	53%	26 (8.0%)
Who mentors employees about advancement opportunities	243 (75.2%)	4 (1.2%)	18%	70 (21.7%)
Who helps employees develop their knowledge, skills, and abilities	267 (82.7%)	23 (7.1%)	41%	32 (9.9%)
<b>Administrative HR matters</b>				
Who communicates HR information to employees	286 (88.5%)	6 (1.9%)	52%	28 (8.7%)
Who maintains the employee records at your firm	289 (89.5%)	16 (5.0%)	57%	16 (5.0%)
Who ensures employee health and safety	274 (84.8%)	10 (3.1%)	42%	38 (12%)

\* Percentages shown in parentheses  
na Data not available

The data summarized in Table 1 reveal that most firms perform the 17 HRM activities analyzed in this paper as an in-house pursuit. Conducting training for current employees (7.7 percent), facilitating employee development (7.1 percent), and administering the benefits program (6.8 percent) were

the activities most outsourced by VSEs. Eight HR activities were performed in-house by more than 90 percent of the respondent VSEs. The remaining six HR activities were performed in-house by 75-89 percent of the respondent VSEs. The data also reveal that 24.8 percent of the VSEs did not administer

benefit programs; 21.7 percent did not mentor employees about advancement; and 19.5 percent did not determine benefits for employees.

The VSEs did not typically outsource any of the 17 HRM activities analyzed in this study. The small number of VSEs that did outsource HRM activities indicated that between 18 and 100 percent of those activities were outsourced. The greatest amount of outsourcing was for determining salaries for hourly employees (100 percent), administering benefit programs (85 percent), determining employee benefits (69 percent), and recruiting job applicants (67 percent).

### VSE Owners' Perceptions of HRM Expertise

Results to the question as to how VSE owners perceived the extent of their HRM expertise are summarized in Table 2.

The data in Table 2 reveal that VSE owners perceived that their expertise was greatest in the areas of employee communication ( $X = 3.91$ ), employee training ( $X = 3.85$ ), safety and health ( $X = 3.76$ ), and employee relations ( $X = 3.75$ ). VSE owners' perceived level of expertise was significantly below the average level of 3 for strategic HR planning ( $X = 2.38$ ), career development ( $X = 2.90$ ), and employee benefits ( $X = 2.84$ ).

Overall, the VSE owners perceived that they had an above average amount of expertise in almost all of the traditional areas of HRM.

**Table 2**

### VSE Owners' Perception of HRM Expertise

HRM Knowledge Area	Mean Rating *	N	Standard Deviation
Employee communication	3.91	318	1.13
Employee training	3.85	315	1.20
Safety and health	3.76	318	1.23
Employee relations	3.75	315	1.18
Selection	3.70	316	1.15
Employee record keeping	3.62	318	1.24
Compensation	3.57	318	1.20
Performance evaluation	3.56	317	1.28
Employee orientation	3.48	317	1.29
Job design	3.47	316	1.31
Employee development	3.45	318	1.20
Recruitment	3.30	316	1.31
Career development	2.90	316	1.30
Employee benefits	2.84	316	1.41
Strategic HR planning	2.38	316	1.28

- **Mean rating based on a 1-5 Likert scale where 1 = "very little knowledge" and 5 = "extensive knowledge" of the respective HRM area**

The data in Table 3 reveal that VSE owners had low perceptions of their expertise in certain areas of human resource management. Low perceptions of expertise means those areas where the respondent indicated that s/he had very little (Likert rating of 1) or little (Likert rating of 2) knowledge in a particular

area. The three areas of HRM where VSEs had low perceptions of expertise are strategic human resource planning (54.1 percent of the respondents), employee benefits (38.6 percent), and career development (35.4 percent).

**Table 3**

**Percentage of Respondents Having Low Perceptions of Expertise by HRM Area**

<b>HRM Knowledge Area</b>	<b>Percentage of Respondents*</b>	<b>N</b>
Strategic HR planning	54.1	171
Employee benefits	38.6	122
Career development	35.4	112
Recruitment	25.6	81
Job design	22.2	70
Employee orientation	21.5	68
Employee development	20.4	65
Performance evaluation	19.6	62
Compensation	17.3	55
Employee record keeping	17.0	54
Safety and health	15.7	50
Employee relations	14.9	47
Employee training	13.0	41
Selection	13.0	41
Employee communication	10.7	34

- **Percentage of respondents perceiving that they had little (rating of 2) or very little (rating of 1) expertise in the specified area of HRM.**

**Source of VSE Owners' Knowledge of HRM**

Results to the question as to how VSE owners obtained their knowledge of HRM are summarized in Table 4.

The data in Table 4 reveal that VSE owners are primarily self-taught when it comes to their knowledge of human resource management (76.9

percent). The data also reveal that small percentages of the VSE owners obtained their knowledge of HRM from seminars (24.3 percent) or continuing education courses (19 percent). An even smaller percentage of VSE owners obtained their knowledge of HRM from college degrees, college courses, or HR certification programs.

**Table 4**

**Source of VSE Owners' Knowledge of HRM**

<b>Sources of Knowledge</b>	<b>Frequency</b>	<b>Percent *</b>
Self-taught	247	76.9
Seminars	78	24.3
Continuing education	61	19.0
Company training	56	17.4
College degree	54	16.8
College course	40	12.5



(Table 4 cont.)

HR certification 5 1.6

N = 321

\* Percentages sum to more than 100 percent because VSE owners answered affirmatively in more than one response category.

Percentage of Time Invested on HRM Activities

Results to the question as to how much time VSE owners and their employees invested in human resource management activities and decision making are summarized in Table 5.

The data in Table 5 reveal that VSE owners invest an average of 15 percent of their work hours in human resource management concerns. For employees, the percentage of work time invested in HRM activities and decision making is somewhat smaller. Employees of VSEs invest an average of 11.1 percent of their work time.

Table 5

Mean Percentage of Work Time Spent on HRM Activities

Table with 4 columns: Type of Individual, Percentage of Time Spent, S.D., N. Rows include VSE owner and Employees.

Discussion

This paper examined some aspects of the practice of HRM in very small business enterprises having 10 or less employees situated in the Northwest Indiana region. Four questions were posed. They were (1) do VSEs perform traditional HRM activities in-house, outsource them, or not perform them at all; (2) how do VSE owners perceive their level of expertise in various technical areas of HRM; (3) how do VSE owners obtain their knowledge of HRM; and (4) how much time do VSE owners invest in HRM activities?

The data collected from 323 respondents indicate that all the traditional HRM activities corresponding to staffing, job specification, performance evaluation, compensation, training, development, and administrative matters are performed by very small business enterprises. A small percentage of VSEs did not did not administer benefit programs (24.8 percent); did not mentor employees about advancement (21.7 percent); and did not determine benefits for employees (19.5 percent). It could be

that these were business having too small a number of employees to warrant engaging in those activities. An alternative explanation related to the finding on

benefits might be that these VSEs chose not to provide benefits as a component of their employees' total compensation package. In general, VSEs performed most of their HRM activities in-house.

The data also indicate that a very small number of businesses (in the range of 0.3 percent to 7.7 percent) chose to outsource their HRM activities. It could be that VSEs do not have the resources necessary to outsource HRM activities that they feel they could perform in-house, even if less than optimally. It could also be that VSE owners are not completely aware of the importance of managing HRM functions strategically. Nor are they aware of how this impacts their business success. The most outsourced activities deal with conducting training for current employees (7.7 percent), engaging in employee development (7.1 percent), and administering benefits (6.8

percent). The few VSEs that outsourced their HRM activities typically had outside firms perform between 18 percent and 100 percent of those activities. Perhaps the reason underlying the outsourcing of certain HRM activities is that VSE owners lacked the in-house ability to perform those activities.

The major finding is that most VSEs perform the traditional HRM activities in-house. They feel that all of the activities are important for their firms and choose to perform them within their respective organizations. They feel that they have the expertise to perform the major HRM activities. Perhaps this is related to the fact that the respondents in the current study have been in business an average of 15.2 years and have accumulated the knowledge and experience to perform most of the traditional HRM activities themselves. This would corroborate the idea of Hornsby and Kuratko (2003) who indicate that very small business owners typically assume the role of the HRM professional. Overall, the findings of this study are consistent with those of Pearson, Summers, and Mills (2005) whose sample was limited to businesses in the Texas Panhandle.

The second question posed in this study relates to how the owners of VSEs perceived their expertise in various areas of HRM. The data indicate that the respondents feel that they have an above-average level of expertise in most areas of HRM. The respondents had scores above the average of 3 (on a five point scale) in 12 of the 15 areas queried. There were four areas where the respondents felt that they had an exceptionally high level of expertise. In descending order, those were employee communication with a mean rating of 3.91, employee training at 3.85, safety and health at 3.76, and employee relations at 3.75. It could be that a family-like environment at many VSEs would account for the high ratings of expertise in employee relations and employee communication. The high rating for training may be related to the fact that the job skills required for success at the VSEs are easily learned. The general tendency for VSE owners to highly rate their level of HRM expertise could be related to the fact that they perceive the practice of human resource management as a simple function. They probably do not realize that it is a dynamic and complex area involving 17 distinct activities.

The data collected in this study also indicate that a large percentage of VSEs have low perceptions of expertise in the areas of strategic HR planning, employee benefits, and career development. This is consistent with the work of Jain and Murray (1990) who found that HR planning is rarely integrated into the strategic planning of a company. In commenting on this study, Hornsby and Kuratko (2005) maintain that HR functions should take on a "more strategic position within the firm so that its activities will be taken seriously." These latter authors believe that there is a lack of concern among the owners of small business ventures over important human resource management issues.

The overall findings on the question of HRM expertise in the current study run contrary to those obtained in the Texas-based work by Pearson, Summers, and Mills (2005) who noted that respondents "did not rate themselves above average on any activity." VSEs from the Northwest Indiana region generally felt that they had an above average level of expertise in most areas of HRM and an exceptionally high level of expertise in the four areas highlighted above.

The third question posed in this study relates to how the owners of VSEs obtained their knowledge of HRM. The data indicate that most VSE owners are self-taught in the area of human resource management. A large percentage of respondents (76.9 percent) learned principles of HR on their own, while much smaller percentages of VSE owners learned these principles from technical seminars (24.3 percent), continuing education courses (19 percent) or company sponsored training programs (17.4 percent). It is likely that the respondents obtained their knowledge from several sources. The low percentages of VSE owners that obtained their HRM knowledge from established sources of information are somewhat troubling because the legal aspects of HR practice can be complicated and technical. Heavy reliance on self-learning to obtain HR knowledge can lead to suboptimal decision making. The reason is that self-learning does not provide veridical feedback from knowledgeable instructors and peers that enhances a learner's understanding of technical material. The low percentages are also troubling because VSE owners may assume that HRM knowledge is related directly to the number of years one has supervised employees.

This assumption may explain why many VSE owners highly rate their expertise in HRM, even though they did not obtain their knowledge from established sources of information.

The fourth question posed in this study relates to how much time VSE owners and their employees invested in human resource management activities and decision making. The data show that VSE owners (15 percent) and employees (11.1 percent) spend a moderate percentage of their work time in HRM related concerns. Having employees spend a moderate amount of their work time on HRM concerns is advantageous because it frees up time for owners to do more strategic value-added work (Coudron, 1999). It also helps those employees to develop their careers. According to Stevens (2003), the more employees are educated to take responsibility for their career development, "the more likely they are to develop self-resilient employees who embrace, rather than fear, change in their work world." Training employees in HR functions creates a situation beneficial to both employees and VSEs.

This study examined the HRM activities of very small business enterprises situated in the Northwest Indiana region. It complements earlier work that focused on businesses in the Texas Panhandle and provides a greater understanding of how VSEs generally practice human resource management. A limitation of this study is that the sample is confined to firms located in a region comprised of two states. Future research should be designed to include businesses randomly distributed across the U.S. Alternatively, a state-based approach involving several geographically separated locations in the northern, southern, eastern, and western sections of the U.S. would provide results that would enhance the generalizability of the current findings. Additional research should focus on the correlation between the outsourcing of HRM activities and VSE owners' perceptions of human resource management expertise.

## **Conclusion**

Based on the findings of this study, there may be a need to provide VSE owners with a different platform on which to enhance their knowledge of human resource management. Awareness of the importance of HRM appears to be limited. As such,

there may also be a need to show VSE owners how the principles of human resource management affect the bottom line of their businesses. The finding that most VSE owners are self-taught in the area of HRM could mean a number of different things, including (1) a questionable belief that HRM knowledge is obtained from on-the-job dealings with employees, (2) a limited understanding of the distinctions between the various activities related to HRM, or (3) a reluctance to disclose a lack of HRM knowledge and/or training.

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