# ‘STEP BACK AND LET GO’ – HUMAN RESOURCE MANAGEMENT EXPERIENCE IN SMALL BUSINESS

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## Abstract

Substantial work has been undertaken in the field of Human Resource Management (HRM) as it applies to large organisations. However, for small business these models frequently do not apply. The small business lacks adequate systems to ensure the efficient management of human resources. Further, most small businesses are the product of their owners whose personality and personal involvement dominate. Drawing upon evidence from case studies of small business owners who have experienced growth the paper examines the point at which these owners became aware of the need for team building and delegation within their companies. All have found finding, motivating and retaining good staff a critical bottleneck in their business growth. Of critical importance appears to be their beliefs, attitudes and values. A shift in these areas was necessary before change could be undertaken. The point of awareness for many came from the managerial training programs but was tempered by their beliefs and the growth cycles of their companies. Prior to change being possible these owner-managers needed to develop skills and competencies in leadership, coaching and management before effective delegation and team building could take place. These findings are linked to the existing body of knowledge relating to HRM. Comparisons are made between the experience of the small business owners and the methodology prescribed in larger organisations. Future, implications for small business management and research are discussed.

## HRM and Small Business Growth

As a small business grows its owners must begin to increase their staff and learn how to develop and implement Human Resource Management (HRM) policies. The faster the growth experienced by the small firm the more likely it will experience HR problems. For many fast growth Small to Medium Enterprises (SMEs) the main problem is finding and retaining high quality employees (Fraza, 1998). Owners of such growth companies must learn to communicate their vision, mission, and values to their employees along with a clear understanding of how the firm is to achieve these goals (Barrier, 1999).

As a firm grows and its employee numbers increase the complexity of its HRM deepens. The owner-manager is usually burdened with a variety of HR functions for which they are generally poorly equipped (Thatcher, 1996). Managing such issues as recruitment

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and selection, staff promotion and retention, wages and salary negotiations, compliance with government employment, tax and insurance regulations, training and development can severely tax the average small business owner. What is required is the development of suitable HR policy and procedure. Ideally this should be flexible and not a mere addition to the bureaucracy (Caudron, 1993).

Developing the firm's HR policies is critical to long term success of the small firm. Empirical research studies of small firms suggest a positive relationship may exist between effective HRM and successful business performance (Roch and Khan, 1985). Rowden (1995) examined three successful manufacturers with under 200 employees and found use of both formal and informal HRM practices had a direct influence on the overall success of the firms. Another study by Hornsby and Kuratko (1990) surveyed 247 firms with less than 150 employees. They found that size of the payroll had an impact on the level of HRM policy sophistication used in the firm. Firms that do not systematically develop suitable HR policy as they grow can find themselves facing higher than average personnel related problems (Amba-Rao and Pendse, 1985).

As the number of staff employed within the firm increases the need for a formal HRM manager or process also becomes more pressing (Little, 1986). With less than 100 employees the firm can probably operate successfully without a full-time personnel or HR manager. However, once the employee base exceeds 150 a professional manager may be required and over 200 a dedicated HR department can be necessary (Oliver, 1997; Caudron, 1993).

## Learning to let go - the risks of micro-management

For most small business owners the initial years of company foundation require them to be 'micro-managers', constantly engaged in the every day minutia of the business. Companies founded by one or two owners are largely dependent on their owners for their survival in the first one to three years of operation. However, as the business grows it becomes necessary for the owner or owners to develop a team and learn to delegate.

Formichelli (1997) describes the problem as 'nanomanagement' and points to the risks of the owner failing to break free from the constant micro-management associated with the early stages of the firm's lifecycle.  These risks include a lack of time for the owner to undertake important planning and business development tasks, failure to get the best out of their people, and owner 'burn-out' under the work pressure.  Smith (1992) has highlighted the need for fast growing companies to develop good teamwork and delegation skills among senior managers.  Baker (1994) also emphasizes the importance for CEOs to empower their team by learning how to 'step back' and let empowerment take effect.  As he explains, to completely abdicate responsibility is a recipe for disaster as control can be lost.  Meddling around with teambuilding frequently fails because subordinates are not permitted to have real authority.  What is needed is coaching.  The successful coach carefully balances between intervention and interference.

## Delegation and the Team-Building

Learning to 'step-back and let-go' requires the owner to identify clearly where they wish the business to move over the longer term, and then develop a blueprint for their business accompanied by staff training and development (Bates, 1999).  This blueprint should identify the job descriptions and duties required for each employee position.  Once such basic HR policy is in place the owner can set about adequately managing growth.  Sharlit and McConnell (1989) point to a staged process of how a small firm grows.  In the first stage of this process - 'Creativity' - communication is informal and jobs roles and functions equally flexible and unstructured.  Owners frequently realise that they lack the skills to effectively manage their HR function and look to build a management team to assist them.  During the second stage - 'Direction' - a newly developed management team changes the company structure and sets more defined job descriptions.  Employee training is implemented and supervisory jobs are created.  Communication becomes less spontaneous and more formal.  A study of 364 small firms examined problems experienced over their life cycle (Dodge and Robbins, 1992).  This found significant differences between the types of problems facing the firm during its lifecycle.  During the growth stage Accounting, inventory control and cash flow issues dominate.

For most small business owners the key challenge is to learn how to delegate while simultaneously creating a team-learning environment within their company. A longitudinal study undertaken with 576 start-up firms in the United States over a ten year period examine the owners' ability to delegate various functions (Ardichvili, et.al, 1998). This found that formal HR programs and policy did not emerge until turn over exceeded US$10 million for manufacturers and US$3 million for service-based firms. Delegation of different business activities commenced first with the Accounting functions and less so with production or information systems. Delegation of HR functions did not take place until much later. The owners largely retained the role of planning. Training was required fairly early among these firms and across a range of different functional areas.

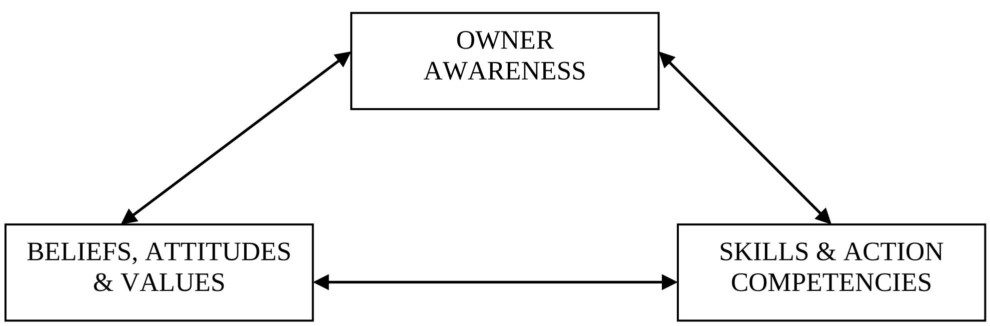
If the owner cannot learn to delegate responsibilities they may risk becoming overextended with detrimental impacts on their capacity to plan and successful develop market opportunities (Cronan, 1991). The ability to delegate is an important step in the owner's transition from a small entrepreneurial business to a larger mature one (Weiner, 1985). According to Baker (1994) the challenge for owner-managers is to create a suitable environment in which their employees can learn to assume responsibilities. Successful team-building requires time and a recognition of individual differences with some need for consideration of the most effective balance between one personality type and another (Darling, 1990).

Effective teams are characterised by a clear set of objectives and a willingness to work together to achieve them. Individual team members appreciate each other's capabilities and are tolerant of their limitations. Power is shared. Management of effective teams requires the skill of coaching members through the formative stages to a level of high performance (Koehler, 1989). A study by Kerr and McDougall (1990) of 130 small business owners found the most important driving force for HR development initiatives was the owner's personal attitudes toward training and development. Further, the main benefit of such HR development activity was the ability to transfer 'core skills' between staff.

## Methodology

The Small Business Unit of the Curtin Business School, Curtin University of Technology has run a series of *Small Business Growth Programs* for owners of growing firms over the past five years. These programs last approximately 18 months and require the owner-manager to examine their management style while developing a business strategy designed to assist their firm's growth process. Graduates from this program join an alumni group - the *Western Growth Forum*. Members of this group meet monthly under the guidance of a facilitator to discuss business problems and assist each other via peer group counselling.

Taking case study material from these successfully growing firms highlights the importance of 'stepping back and letting go' among these owners. All participants are trained in coaching techniques using a *Performance Development Model*. This focuses on getting owner-managers to learn how to successfully counsel each other and their staff. It seeks to create a continuous cycle os performance review, development and feedback within the team. This is illustrated in the following diagram:




Source: (Senge, 1992)

This model recognizes that the ability for a small business owner-manager to 'step-back and let-go' depends upon their becoming aware of the need for change in how they manage their company. With awareness of the need for change the owner-manager must also change their beliefs, attitudes and values to enable a change in behaviour. In turn the owner must also change their skills and how they take action.

Evidence gathered was case studies undertaken with four members from the *Western Growth Forum*. These case studies were used to demonstrate the link between managerial awareness, managerial beliefs and skill action competencies. Selection of the case studies was made on the basis of their all having experienced reasonably significant growth in their companies over the preceding three years. Further, the four were drawn from a variety of different industries. This sample included – 1) a manufacturer of air conditioning equipment, 2) a manufacturer of plastics and fibre glass, 3) a retailer of industrial vehicles and 4) a post-production film and television service provider.

Case study evidence was gathered by a combination of direct observation of the companies over the 18 month long *Small Business Growth Program* as well as direct in-depth interview. These interviews were conducted approximately one year after the completion of the training program during a period when the owner-managers had enjoyed substantial change in their businesses. All interviews were audio taped and transcribed prior to analysis.

## Findings

The experience of the four owners is examined in the sub-sections below. Each has found their business expand in terms of activities and staff. In turn they have been keenly aware of the need for team building as they seek to delegate greater authority to their employees. All have found finding, motivating and retaining good staff a critical bottleneck in their business growth.

### Case Study 1 – Air Conditioning Manufacturer

At time of interview this company had experienced a three-year growth spurt that saw its employee numbers swell from a mere six to over 120 people including casuals. During the early years the owners of the company enjoyed a closely-knit small-team environment with a clear sense of their future direction. However, rapid expansion – including the opening of new factories and offices in two new cities – was beginning to place a pressure on the firm's HR capabilities. A three-tier structure had already emerged involving a senior management level, front line supervisors and the line staff themselves.

The owner of the company viewed his employees as critical to the achievement of his vision particularly in the area of quality assurance. The owner who expressed strong enthusiasm for it actively encouraged employee participation in quality improvement initiatives. Faced with a rapidly expanding business the owner found himself under constant pressure to complete tasks on time and within specification. To cope with this increasing workload he began to promote greater autonomy among his employees. This included encouraging greater contact between the firm's customers and its employees.

To create a positive environment the owner developed a team-based framework for his employees to with categories for high, medium and average performers. High performers were labelled as "heroes". Various experiments were also attempted. For example, one approach was to establish a work team and allow them to set their own wage and salary levels. Teams were also given the responsibility to trial and reject newly hired employees.

A major challenge for the owner was the need – encountered in the fourth year of operation – to establish new offices in other state capitals as well as one overseas. It was the owner's view that these new operations should not be larger than 50 employees, as this would see 4-5 teams in each office. His experience of the growth of his company up to that point had indicated those groups larger than 50 were too difficult to coordinate and control. As he stated:

> *"If we had a thousand people I would like to think of them as being a thousand people divided into twenty companies of fifty…"*

He also expressed a desire to have all his sub-units operating as small, highly dynamic teams. Team leaders would be encouraged to develop strong team *esprit de corps*.

The owner had established basic ground rules for employees. One aspect of these was a requirement for them to competently handle their work. Also of importance to the owner was what he described as 'attitude'. This meant the ability to 'put your heart and sole into the work and don't count every minute of the day'.

Managing his people involved a combination of motivation and reward, coupled with a relentless drive for high commitment. Financial rewards within the company were higher than the average with many employees earning substantial bonuses for enhanced work performance. Sheet metal workers in the company were earning annual salaries of around AUD$50,000 when the industry average was only AUD$24,000. However, for those staff who did not perform there were no financial rewards and what appeared to be a degree of peer group pressure for failure to perform.

In the area of recruitment and selection the owner had a system of taking a person on in the morning following an interview and putting them to work under trial. If they failed to perform adequately they would not be invited to join the team for lunch and would be asked to leave. As the company grew in size the owner was forced to delegate this recruitment and selection responsibility to his managers who were less ruthless. Use was being made of psychometric tests to aid in the selection process but the owner continued to view a three-month probationary period as essential. He expressed a preference for a weeklong probation period.

To encourage team spirit the owner arranged for his employees to go away together to a hotel resort venue for a weekend. He deliberately avoided the creation of bureaucracy and did not have special parking bays for managers and staff. All employees were encouraged to speak their minds and offer suggestions. Managers, owners and employees were all on first name basis. The company was also investing substantially in training with AUD$40,000 per annum spent on staff development during the previous year and plans to increase this over the next year.

## Case Study 2 – Manufacturer of Plastics and Fibre glass

This family operated business had been established in the 1960s and was moving into a second generation of ownership by the time it was examined. The son of the original founders was the principal point of contact for the case study. When the case study was conducted the firm employed around 30 people.

The owner's son described how he attempted to win the support of his workforce through a direct 'hands on' or 'face to face' style of management. Of particular importance to the owner was the need to communicate his vision of where he saw the company going. Although he had initiated a range of employee incentive programs and 'quality circles' the company was faced with staffing problems associated with a high turn over rate on the factory floor. Around three to four employees per month were leaving the firm. The owner examined his rates of pay and concluded that they were benchmarked against the industry. He described the working environment as 'good' and the work 'not particularly difficult' with 'plenty of overtime'. Despite this the high turnover continued.

The owner discussed his employee problems with other owners in manufacturing and discovered that there was a similar attrition rate in most industries. Drug abuse was a major cause of concern – particularly among the younger age groups. The owner decided to introduce a three-month probation period for new hires and developed a set of HR policies relating to drugs and alcohol. He monitored new employees closely and if they had failed to demonstrate adequate ability after three days terminated their employment. Although this initially caused a major increase in his employee turnover levels, the business eventually stabilized around a 'core' of workers the owner felt were committed. This group possesses the necessary skills and abilities the company needs and are rewarded well for their effort and loyalty. These employees are prepared to put in extra overtime when required with little complaint and are generally more flexible. According the owner 'the big thing I have developed is teamwork'.

Another aspect of the owner's approach to HR issues following his initial experiences was to set clear and firm expectations from day one. As he explained:

> *"My HR strategy for a new employee is I'm a tough bastard and I tell them when they are sitting in front of me that I am going to put them on and if they 'squiffy' around and stuff up once in the first three-month period they're gone!"*

The owner also encouraged his employees to interact with the customers. Work teams would get to show their completed products to the customers and were frequently given compliments, which assisted morale. This also tended to create a level of competition among the various work teams that assisted the company culture.

As the owner developed his company's workforce he eventually turned to the preparation of formal job descriptions. From these job descriptions the company then prepared 'workplace agreements' and shifted away from the more traditional industrial Awards. According to the owner this process gave the firm more flexibility in how it deals with its staff. The overall level of professionalism displayed by the company in the HR management area was also noticeable. Formal job interviews were made a standard with carefully prepared questions and application forms. All employees were asked for resumes and required to undertake job interviews, references and referees. Pay is linked to the Workplace Agreement and performance benchmarks are set for the first three and six months. As the owner explained this made things very clear to all employees.:

> *"The people know exactly where they stand from the start. None of this going to the boss and trying to get a pay rise. They know how they can achieve pay rises before they start…so if a guy comes up to us three months ago and says how about that pay rise you can say we said at the start you have to achieve this level of competence before you get it, you are not there yet."*

## Case Study 3 – Retailer of Industrial Vehicles

This business was part of a national network of dealerships supplying industrial trucks and associated equipment. Owner-managed it had 32 employees including professional managers to assist the proprietor. According to the owner the firm's main sources of competitive advantage was its exclusive distribution of a leading brand of Japanese-made industrial trucks and the customer service offered by his employees. The business serviced its products on-site in a wide range of locations, some of which were in regional Western Australia located thousands of kilometres from the capital city of Perth. The firm's employees frequently operating in isolated areas conducting over a thousand service operations each month. Poor service resulted in economic cost to the customer and drew strong complaints.

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