

The Belief of Human Capital Services by Small and Medium Enterprises

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Abstract: The aim of the study, while lack of scale economies have traditionally limited to use of human capital scheme among Small and Medium Enterprises (SMEs), outsourcing models have recently come out to provide cost-effective access to this scheme. Illustration on the diffusion of reorganization literature, we apply the reasonable descriptions model and organized theory to examine why SMEs differ in their desire to use available human capital scheme. We examine the impact of SME size on the belief of human capital reorganizations. Using examines and recorded data from over 160 SMEs, we found broad support for the integrated approach we propose.

Keywords: Human capital scheme, Iran, small and medium enterprises

INTRODUCTION

Human capital scheme have been found, within a number of different establishing, to positively affect organizational performance (Datta *et al.*, 2005; Youndt *et al.*, 1996; Benson *et al.*, 2006). Within the small business sector, human capital scheme have traditionally been perspective as cost-injunction (Klaas *et al.*, 2005a). Thus, regardless of the significant human resource challenges faced by many firms in this sector, use of such scheme has been limited (Kerr *et al.*, 2007). The small and medium enterprise classification includes firms that range from those with a very small number of employees to those with as many as 300. It includes firms where the entire workforce falls within the leader's span of control as well as larger SMEs where there would be a need for hierarchical and coordination mechanisms (Borch *et al.*, 1999). Procedures suggested by the diffusion of reorganization literature may operate differently in these different types of small and medium enterprises. For leaders very small SMEs, forces created by the firm's strategy or environment may not be considered as affecting the need for employee skill and motivation. Instead, these forces may be considered as affecting what is needed in terms of the leader's personal behavior and activities. Because the leader within very small firms typically is personally involved in many organizational procedures and directly influences employees throughout the firm (Baron *et al.*, 1996), leaders may consider changes in personal behavior as a sufficient answer. As a result, leaders consider changes in organizational procedures and systems, including human capital scheme (Burton, 2001). Because of these differences between small and large SMEs, SME size is accepting the impact of factors suggested by the reasonable descriptions

attitude. Increased attention is being given to outsourcing models designed to make it more cost-effective for SMEs to employ human capital scheme (Cook, 1999; Heneman *et al.*, 2000; Klaas, 2003). While use of such models is currently sporadic, some SMEs are innovating by relying on outsourced human capital services (Klaas *et al.*, 2005a). Because achieving human capital scheme via outsourcing remains within the small business sector (Hirschman, 2000; Klaas, 2003), the literature on the diffusion of reorganization offers a useful framework for understanding why SMEs differ in their desire to use these scheme. One attitude within this literature, the reasonable descriptions model, highlights that the spread of reorganization is influenced by modified reaction by firms to environmental forces and restrictions (Kraatz and Zajac, 1996; Wejnert, 2002). Constant with this model, SME desire to use human capital services may be influenced by firm traits or environmental forces that affect the need to modify employee skill, motivation and responsibility. Another prominent attitude, organized theory, highlights that the desire to innovate may be affected by the degree to which decision-makers have obeyed other prominent or visible firms doing the same (Haunschild and Miner, 1997; Williamson and Cable, 2003; Milkovich and Barringer, 1998). Within the diffusion of reorganization literature, there is support for both the reasonable descriptions attitude and organized theory (Wejnert, 2002). Further, both attitudes have effectively been used to explain the use of human resource practices and policies within large firms (Osterman, 1994; Batt, 2000). One might expect that both attitudes would be applicable in explaining the belief of reorganization in the form of human capital scheme by small and medium enterprises. But how does the conditions of the small

and medium enterprise affect how firm leaders react to forces and demands created by the firm's strategy and environment or to information about previous belief by other firms? In this research, we examine the reasonable description factors of strategic significance on differentiation, environmental uncertainty and strategic significance on growth and the organized theory factor of SME leader disclosure to HR services. We use examine and recorded data on human capital services belief by over 160 SMEs. We find support for the reasonable descriptions attitude that human capital service belief differs according to the size of the SME, with smaller SMEs modifying to environmental forces and restrictions differently than larger SMEs. We also find support for the organized theory attitude that previous disclosure to HR scheme is positively related to use of human capital services and average the relationship between reasonable description factors and human capital services. The impact of factors suggested by the reasonable descriptions attitude is also depending on factors suggested by organized theory. As is often the case with reorganizations in management practice, considerable causal ambiguity exists regarding the procedure by which human capital reorganizations affect outcomes (Baron *et al.*, 1999; Abrahamson and Fairchild, 1999). Because of this, the effect of variables suggested by the reasonable descriptions attitude is depending on whether the reorganization has been authorized through previous belief by firm's to the decision-maker. This reasonable effect is expected because previous belief by other firms is likely to mitigate the impact of uncertainty regarding causal procedures on reorganization belief. The desire to invest in human capital within the small business sector has considerable implications both for the individual organization and society at large (Heneman *et al.*, 2000). By examining why this desire varies across SMEs, we contribute to our understanding of factors that may make possible or inhibit investment in human capital in the small business sector. This research extends the literature in the following ways. First, to our knowledge, this is the first study to examine how SME size affects how firms respond to strategic or environmental pressures to invest in human capital. Second, we draw upon and integrate the rational accounts perspective and institutional theory to examine the adoption of innovation relating to human capital. In doing so, we build on the innovation literature by examining whether the impact associated with variables suggested by the rational accounts literature depends on processes associated with institutional theory.

THEORY AND HISTORY

In this study, we examine the desire of small firms to innovate by following HR scheme and services

recently made available by third-party sales. Specifically, we examine reorganization belief among customers of a Professional Employer Organization (PEO) that is in the procedure of changing its business model. Whereas it traditionally focused on providing arrangement services the PEO is transitioning to a model where it makes available both arrangement and human capital services. Unlike arrangement services, which are required as part of the employment relationship, human capital scheme are discretionary and are designed to affect the skill, motivation and performance of human resources within a firm (Huselid *et al.*, 1997). Because the PEO had provided all customers with information about the availability of human capital services, the focus here is how small business leaders answer to and follow newly available scheme and services. Human capital scheme are not regularly used within the small business sector (Cook, 1999) because smaller firms lack the scale required to internally develop them (Hirschman, 2000). Increasingly, however, outsourcing firms are offering organizations within this sector service packages that allow access to professional HR services (Klaas, 2003).

The reasonable descriptions attitude on the diffusion of reorganization: Reorganizations arise to address organizational or technological challenges and reorganization belief is thought to happen first among those firms facing the greatest pressure to address those challenges (Kraatz and Zajac, 1996). This pressure can arise from current business conditions or it can arise from forces that are anticipated in light of strategic choices made by the firm. Sociologists have been interested in why firms differ in their desire to follow reorganizations. Working within the reasonable descriptions tradition, scholars have argued that firms learn to modify to the forces and challenges created by their environment (Miller and Droge, 1986; Wejnert, 2002). This attitude does not suggest that reorganization belief is necessarily a superior strategy-as not all reorganizations are effective in addressing a given technological or organizational challenge (Strang and Macy, 2001; Abrahamson and Fairchild, 1999). It does suggest, however, that decisions about whether to follow reorganization will be affected by modified reaction within organizations, meaning that reorganization is more likely where firms face greater pressure to answer to the applicable technological or organizational challenge (Osterman, 1994). It should also be noted that even where belief of the reorganization produces limited results among early followers, rapid increases may still be obeyed among other firms facing similar pressure. However, under such conditions, declines in the utilization of the reorganization also happen rapidly as firms continue to make modified reaction (Strang and Macy, 2001). With

regard to SME desire to follow human capital services, it should be noted that much significance has been given to how environmental and organizational factors affect the need for employee responsibility, motivation and skill (Wright *et al.*, 1995; Sung-Choon *et al.*, 2007). Research suggests that within large, complex organizations, there are likely to be significant differences across the production procedure in the firm's need to invest in human capital. Where the work requires knowledge and skills that are extraordinary to the firm and also generates significant value, considerable investment in developing and retaining human capital is likely. Under such conditions, clear specification of tasks and close supervision are thought to be effective management strategies. Because of the complexity of production procedures within large organizations, such firms are likely to use very different HR configurations for different parts of the firm (Lepak and Snell, 1999a). SMEs are characterized by less organizational complexity and also by the controlling role played by the SME leader (Burton, 2001). As a result, trust on different HR configurations within the same firm is less than within large, complex organizations (Baron *et al.*, 1996; Heneman *et al.*, 2000). As a result, because few employees are engaged in activities that are high in terms of both value and extraordinariness, there is less likely to be a need for HR configurations that highlight investment in human capital. By contrast, such a strategy may often be less practical when the firm is focused on reorganization or on answering rapidly to customer demands and preferences. In such establishing, it is often critical for the small business leader to make possible knowledge development, information sharing and collaboration and coordination. Within the strategic management literature, the distinction between firms that follow differentiation and those that follow cost leadership has been given much attention (Porter, 1980). We argue SMEs that follow cost leadership are more likely to restrict most employees to activities that require limited investment in human capital, with SME leaders assuming greater responsibility for activities that would be classified as valuable and extraordinary within the HR architecture framework (Lepak and Snell, 1999b). Cost leadership oriented firms highlight controlling costs in order to compete on the basis of price, a strategy typically followed through managerial controls, observing and incremental procedure improvement (Sinclair *et al.*, 2000; Cohen and Klepper, 1996; Dess and Davis, 1984). Further, within SMEs focused on cost leadership, controls, observing and incremental procedure improvement can often be accomplished through hierarchical mechanisms that revolve around the SME leader, clearly specified tasks and limits on employee discretion. Thus, such an approach is likely to require less in the form of employee skill level and also

less in the form of responsibility to organizational goals. Further, such an approach is likely to be practical for both SMEs that are very small as well as those that are at the larger end of the SME size distribution (Batt, 2000; Fabo *et al.*, 2007). In contrast, SMEs that focus on differentiation are more likely to highlight finding ways to distinguish their firm via superior customer service or rapid reorganization in design or service. Such an approach may well place extraordinary forces and demands upon the firm's human capital (Delery and Doty, 1996; Lepak and Snell, 1999a). Where the business leader is not in a position to personally ensure that those needs are met, a strategy that depends on superior service is likely to require that employees be motivated and able to operate with discretion and answer without the benefit of specific instructions by the supervisor. Under such conditions, there is likely to be greater need for employee skill, motivation and responsibility (Batt, 2000). Differentiation through significant reorganization in products and services may also affect the need for human capital investment. Further, where significant changes are made to products or services, there will be less capacity to rely on careful specification of tasks.

H1: There will be a positive relationship between a strategic significance on differentiation and SME available through a third-party seller.

The relationship between firm strategy and the use of human capital services is to be affected by the size of the SME. When much of the firm falls within the small business leader's spans of control, leaders may attempt to answer to the demands created by differentiation by personally focusing on the new procedures and trust on on-going and managerial direction to ensure employees adjust to new procedures. Such an approach may create high levels of dependence upon the small business leader and limit contributions of others within the workforce. But where much of the workforce falls into the leader's span of control, leaders are considered high levels of personal control and influence regarding organizational procedures, thus increasing the possibility of their answering to forces created by a differentiation strategy via personal enterprise. However, as SME size increases, hierarchical mechanisms make dependence on human capital throughout the firm more obvious (Burton, 2001). Under such conditions, where significance is given to a differentiation strategy, leaders will use of human capital scheme and services in order to address the needs created by this strategy.

H2: The relationship between strategic significance on differentiation and through a seller will be positively acceptable by SME size, with the relationship being poorer among smaller SMEs.

Where the environment is relatively stable, tasks and work procedures can be carefully specified by the SME leader and objectives can be established based on past experience. As a result, hierarchical mechanisms and bureaucratic control procedures are to be an effective mechanism by which to manage employee performance. Unstable may increase the need for employees to operate with autonomy—thus increasing the need for skills and training within the workforce and the need for ensuring employee responsibility to organizational goals (Batt, 2000; Knox and Walsh, 2005). By contrast, where there is environmental unstable (Miller and Droge, 1986), such control mechanisms are less likely to be effective. Because of the need for repeated adjustment to job content and work flow, it becomes more difficult to provide regarding work procedures and requirements (Delery and Doty, 1996; Osterman, 1994). Under such conditions, observing is less effective because it is more difficult to specify objectives and metrics in advance. SMEs facing more uncertain environments are likely to find it more difficult to rely on hierarchical mechanisms and bureaucratic control (Baron *et al.*, 1999). This difficulty is likely to move SME leaders to consider alternative approaches to managing their staff. Constant with the reasonable descriptions attitude, modified reaction by SMEs facing an unstable environment are likely to lead firms to employ reorganization in the form of formal human capital scheme.

H3: There will be a positive relationship between environmental uncertainty and SME use of human capital services available through a third-party seller.

Where most of the workforce falls within the leader's span of control, the SME leader is likely to considered direct control and influence over employees throughout the organization (Baron *et al.*, 1999). Direct control and influence is considered as a practical mechanism for answering to uncertainty when the span of control permits regular personal contact with the entire workforce. Thus, the leader of the very small firm may answer to environmental uncertainty by attempting to personally address the need for adjustments in work procedure and work flow, using on-going and often spontaneous feedback to employee behavior in answer to changing conditions. By contrast, where the leader's influence must be transmitted through other staff members as well organizational procedures, the leader is more likely to recognize limits on his/her ability to personally affect outcomes throughout the firm (Baron *et al.*, 1999).

H4: The relationship between environmental uncertainty and the use of human capital services available through a seller will be positively acceptable by SME size, with the relationship being poorer among smaller SMEs.

Firms striving for growth often lack the capacity to predict the nature and pattern of growth that is likely to happen (Baron *et al.*, 1996). Because of this inability to plan for growth, rapid expansion is likely to create significant challenges for a firm's existing human resources. Job duties and areas of responsibility are likely to change more rapidly in a SME pursuing rapid growth (Kerr *et al.*, 2007; Baron *et al.*, 1999). Because of rapid change in tasks and responsibilities, growing firms are less likely to be able to rely on careful specification of tasks to ensure effective performance (Lepak and Snell, 1999b) and, further, employees must be willing and able to expert new areas of responsibility. Because of this, followed reaction is likely to lead growing SMEs to employ reorganizations in the form of human capital services and scheme.

H5: There will be a positive relationship between SME growth position and SME use of human capital services available through a third-party seller.

Organized theory and the belief of human capital scheme: Traditionally, lack of scale economies have discouraged small and medium enterprises from investing in formal HR scheme and services (Cook, 1999). Because of this, within the small business conditions, firms that follow seller models for human capital scheme should be perspective as following reorganization. Further, it is well established that diffusion of reorganization is limited by the considered risks that belief imposes upon the firm (Strang and Macy, 2001; Singh, 2005; Erickson and Jacoby, 2003). Organized theory argues that because of these risks, factors that authorize the reorganization are likely to play an important role in affecting a firm's desire to follow it. Acceptance of reorganization by other firms is thought to obey a legitimizing function and, as a result, can lead to organized informally and contagion procedures (Deroian, 2002; Wejnert, 2002). It should be noted that organized informally can result from different types of reproduction. Frequency-based reproduction happens when firms modify practices used by large numbers of other firms. Trait-based reproduction happens when firms informal practices used by larger, more visible organizations. Outcome-based reproduction happens when practices are followed after observing other firms achieve success through the use of those practices. In all cases, however, reproduction helps to authorize the modification of new practices (Williamson and Cable, 2003). Further, research on entrepreneurial professions suggests that most SME leaders first accumulate considerable amounts of experience in other organizations (Politis, 2005). However, considerable variation has been noted in the nature of this

experience. In some cases, entrepreneurial activity follows a profession in larger firms-firms which may have placed considerable significance on formal HR scheme and policies. In other cases, the SME leader is a serial entrepreneur with little experience outside of the small business sector (Robinson and Sexton, 1994; Burton *et al.*, 2002). Given the singular influence of the SME leader (Burton, 2001), it is this experience that is affecting organized informally regarding human capital scheme. Human capital scheme are likely to be seen as more legitimate where, in previous organizations, the SME leader had considerable disclosure to formal HR scheme and services.

H6: The SME leader's disclosure to HR services in previous organizations will be positively related with use of human capital services available through third-party sales.

The reasonable impact of organized procedures:

While previous research has shown the value of both the reasonable descriptions attitude and organized theory in explaining the desire of firms to follow reorganization, research has not addressed how these attitudes operate in combination to affect the belief of reorganization (Wejnert, 2002). The reasonable descriptions attitude suggests that firms will consider reorganization as a modified answer to performance forces or environmental restrictions faced by their firm (Kraatz and Zajac, 1996). In some establishing, ambiguity exists regarding the causal mechanism by which the reorganization is likely to address problems or challenges (Abrahamson and Fairchild, 1999). Such causal ambiguity is affecting the expected utility related with the reorganization and, thus, the desire to follow the reorganization in answer to performance forces or environmental restrictions. As a result, in establishing where there is causal ambiguity regarding reorganization, the impact of variables related with the reasonable descriptions attitude may be more unassuming than would otherwise be expected. However, it should be noted that even where such causal ambiguity exists, the belief of the reorganization by other firms is affecting conceptions regarding the legitimacy of the reorganization (Williamson and Cable, 2003; Strang and Macy, 2001; Haunschild and Miner, 1997). Arguably, because the behavior of other firms has the potential to affect the considered legitimacy of reorganization, it also has the potential to balance the impact of causal ambiguity regarding the reorganization. Where reorganization is seen as more legitimate because of belief by other firms, it is likely that it will receive greater consideration when firms engage in modified reaction to forces and restrictions. As a result, in establishing where there is causal ambiguity regarding the reorganization, the behavior of

other firms with regard to reorganization belief has the potential to affect the weight given to variables suggested by the reasonable descriptions attitude. Moreover, the impact of this scheme depends on a complex set of factors relating to their implementation and also to organizational and industry conditions (Datta *et al.*, 2005; Huselid *et al.*, 1997). SME leaders considering implementation of human capital scheme are often unlikely to fully understand the exact mechanism by which change will be produced in organizational outcomes. Thus, even where firms face forces and challenges that potentially could be addressed via human capital scheme, questions are likely to exist regarding how this scheme will produce benefits. However, because considered legitimacy can exist even where there is causal ambiguity, where the SME leader had disclosure in previous employment to the use of HR services, human capital scheme are more likely to be considered as legitimate. Further, considered legitimacy has the potential to partly balance the effect of causal ambiguity, thus allowing for the variables suggested by the reasonable descriptions attitude to affect the use of human capital scheme. As such, disclosure to HR services in previous employment is likely to acceptable the impact related with strategic significance on differentiation, environmental uncertainty and growth position.

H7: An interaction effect will be obeyed between disclosure to HR services in previous employment and:

- Strategic significance on differentiation
- Environmental uncertainty
- Growth position

Where there was disclosure to HR services in previous employment, the effect of differentiation strategy, environmental uncertainty and growth position will be greater.

METHODOLOGY

In this study Data was achieved through examine of SME customers of a large Professional Employer Organization (PEO) and information achieved from human resource within the PEO about the customers that participated in this study. The PEO works with nearly 400 customer organizations located within the Iran. We interview 600 customers as a random sampling, which is based on customer size. Random sampling was used because the PEO works disproportionately with customers that have fewer than 3 employees and we needed our sample to contain a sufficient number of SMEs at all points of the size distribution for small and medium sized firms. A random sample of 160 SMEs was achieved from the

PEO's customer list for each of the following size categories:

- Less than 10 employees
- 10-19 employees
- 20-29 employees
- 30 employees and above

Among them 60 firms information was incomplete resulting in a final sample of 600. For each customer in the sample, a question was sent to the owner of the SME by the researchers. Given the small size of these firms, the owner is likely to be best positioned to obey as key information regarding customer traits as well traits of their relationship with the PEO. Customers were informed that while aggregate results would be provided to the PEO, their individual reaction would remain sensitive. Information on customer size was available through recorded records maintained by the PEO. The largest number of firms were from the service sector (25% of the sample), followed by firms in professional services (23%), retail and wholesale trade (15%), finance, insurance and real estate (11%), durable goods manufacturing (6%), non-durable goods manufacturing (8%), construction and mining (7%) and agriculture (5%). No significant differences were obeyed between answered and non-answered on number of full-time equivalent employees ($p = 0.52$), start date with PEO ($p = 0.21$).

Measures: The human capital services was measured by a six item scale ($\alpha = 0.82$). SME leaders were asked how much they were currently making of human capital services from the PEO in different areas. Reaction was services that had been classified as arrangement in made on a five point answer scale ranging from "weak" to "strong." We keep out from this scale any HR previous research (Klaas, 2003). Differentiation was measured by a 3 item scale ($\alpha = 0.71$) developed by Dess and Davis (1984). Reaction was made on a five point answer scale, ranging from weak to strong. Environmental uncertainty was measured by a five item scale ($\alpha = 0.72$) developed by Miller and Droge (1986). SME leaders were asked to indicate on a five point answer scale. Growth position was measured by a four item scale ($\alpha = 0.78$) developed by Brown *et al.* (2001). SME leaders were asked to indicate on a five point reaction scale. Previous disclosure to HR was measured by a three item scale ($\alpha = 0.87$) developed for this study that was designed to catch the degree to which the SME leader was lay open to formal HR scheme and policies in positions held in other organizations previous to joining the SME. We used the log transformation of the number of FTEs (Fulltime Equivalents) within the SME at the time of examine. One control variables were measured using data achieved from recorded records

achieved from the PEO such as industry classification. Therefore we used single key information to measure key variables. Previous research raises important questions about the reliability of single key information's in providing information on human resource practices in large, complex organizations (Gerhart *et al.*, 2000). However, in this study, because key information's were asked to provide information about practices within relatively small organizations, rating correctness is more likely. Inter-rater acceptance for use of human capital services, differentiation, environmental uncertainty and growth position was evaluated using rwg. Mean levels of rwg were all above 0.82, showing acceptance between the human resource and the SME leader in the evaluation of the level of usage of human capital services and firm-level traits. Finally, we tested for common method variance (Podsakoff *et al.*, 2003) and found it not to affect our analyses.

RESULTS

Table 1 reported descriptive statistics and correlations among the variables. The level of inter-correlation among the independent variables was relatively unassuming, with the highest correlations being obeyed between the use of human capital services and log of total employees ($r = 0.32$), previous disclosure to HR ($r = 0.31$), differentiation ($r = 0.30$), environmental uncertainty ($r = 0.30$) and growth position ($r = 0.25$). In addition, differentiation was significantly related to growth position ($r = 0.27$), environmental uncertainty was significantly related to growth position ($r = 0.25$) and previous HR history was significantly related to log of total employees ($r = 0.25$). Table 2 and 3 tested the proposal on six models. H.1 argues that there will be a positive relationship between a strategic significance on differentiation and SME use of human capital services available through a third-party seller. This is tested in Model 1 of Table 2, where the effective for Differentiation is positive and significant ($\beta = 1.81$, $p < 0.001$), providing strong support for this hypothesis. H.2 argues the relationship between strategic significance on differentiation and the use of human capital services available through a seller will be positively acceptable by SME size, with the relationship being weaker among smaller SMEs. We test this in Model 2 of Table 2, where the effective of the interaction of Differentiation and Log of Total Employees is positive and significant ($\beta = 1.33$, $p < 0.001$), strongly supporting Hypothesis 2. Hypothesis 3 argues that there will be a positive relationship between environmental uncertainty and SME use of human capital services available through a third-party

Table 1: Means, standard deviations and correlations

Variable	M	SD	1	2	3	4	5
Human capital services	16.68	10.40					
Differentiation	3.55	1.24	0.30***				
Environmental uncertainty	2.67	1.27	0.30***	0.20***			
Growth position	2.76	1.39	0.25***	0.27***	0.25***		
Previous HR history	3.32	1.39	0.31***	0.11*	0.12*	0.06	
Log of total employees	3.23	0.89	0.32***	0.15**	0.24***	0.20***	0.25***

*: p<0.05; **: p<0.01; ***: p<0.001

Table 2: Regression analysis results predicting use of human capital services

Variable	Model 1		Model 2		Model 3	
	B	S.E.	B	S.E.	B	S.E.
Constant	-5.98	3.06	-6.46*	3.11	-6.32*	3.11
Differentiation	1.81***	0.33	1.83***	0.34	1.64***	0.35
Environmental uncertainty	1.42***	0.32	1.29***	0.32	1.31***	0.34
Growth position	0.69*	0.32	0.70*	0.30	1.05**	0.36
Previous HR history	1.68***	0.33	1.76***	0.34	1.88***	0.36
Log of total employees	1.96***	0.50	2.20***	0.55	1.65**	0.55
Industry figure 1	-0.74	3.01	-1.06	2.99	-0.17	2.98
Industry figure 2	-3.98	2.71	-4.25	2.59	-3.67	2.60
Industry figure 3	3.08	3.07	2.34	3.05	3.44	3.04
Industry figure 4	-0.08	2.46	0.08	2.45	0.49	2.40
Industry figure 5	-1.46	2.57	-1.66	2.54	-0.76	2.56
Industry figure 6	-2.16	2.46	-2.15	2.44	-1.68	2.44
Employees*differentiation			1.33***	0.36		
Employees*environmental uncertainty					1.39***	0.34
Employees*growth position					0.84*	0.35
R2	0.31		0.34		0.33	
F	13.15		13.38		13.55	
df	13.00		14.00		14.00	

†: p<0.10; *: p<0.05; **: p<0.01; ***: p<0.001

Table 3: Regression analysis results predicting use of human capital services

Variable	Model 1		Model 2		Model 3	
	B	SE	B	SE	B	SE
Constant	-5.96	2.99	-6.75*	2.98	-5.96	3.13
Differentiation	1.70***	0.29	1.68***	0.28	1.75***	0.30
Environmental uncertainty	1.31***	0.31	1.33***	0.31	1.45***	0.32
growth position	0.61†	0.32	0.71*	0.32	0.72*	0.34
Previous HR history	1.70***	0.31	1.74***	0.30	1.70***	0.30
Log of total employees	2.10***	0.49	2.11***	0.50	1.96***	0.51
Industry figure 1	-0.49	2.88	-0.54	2.89	-0.83	2.97
Industry figure 2	-3.86	2.55	-3.69	2.54	-3.98	2.63
Industry figure 3	2.55	2.98	3.13	2.96	2.86	3.01
Industry figure 4	-0.04	2.29	0.02	2.25	-0.05	2.35
Industry figure 5	-1.24	2.35	-1.17	2.36	-1.40	2.44
Industry figure 6	-1.92	2.36	-2.12	2.34	-2.15	2.40
HR history* differentiation	1.12***	0.22				
HR history* environmental uncertainty			0.98***	0.20		
HR history* growth position					0.06	0.20
R2	0.32		0.31		0.29	
F	13.93		13.91		12.20	
df	13.00		13.00		13.00	

†: p<0.10; *: p<0.05; **: p<0.01; ***p<0.001

seller and this is tested in Model 1 of Table 2, where Environmental Uncertainty is positive and significant ($\beta = 1.42$, $p<0.001$). Thus, this hypothesis receives powerful support. Hypothesis 4 argues the relationship

between environmental uncertainty and the use of human capital services available through a seller will be positively acceptable by SME size, with the relationship being weaker among smaller SMEs. This is tested in

Model 3 of Table 2, where the interaction between Environmental Uncertainty and Log of Total Employees is positive and significant ($\beta = 1.39$, $p < 0.001$), strongly supporting our hypothesis. Hypothesis 5 states there will be a positive relationship between SME growth objectives and SME use of human capital services available through a third-party seller and this is tested in Model 1 of Table 2, where Growth Position is positive and significant ($\beta = 0.69$, $p < 0.05$), providing support for this hypothesis. Hypothesis 6 argues the SME leader's disclosure to HR services in previous organizations will be positively related with use of human capital services available through third-party sales and this is tested in Model 1 of Table 2, where Previous HR History is positive and significant ($\beta = 1.68$, $p < 0.001$), providing strong support for the hypothesized relationship. Finally, Hypothesis 7 proposes that an interaction effect will be obeyed between disclosure to HR services in previous employment and:

- Strategic significance on differentiation
- Environmental uncertainty
- Growth objectives

where, there was disclosure to HR services in previous employment, the effect of differentiation strategy, environmental uncertainty and growth position will be greater. This is tested in Models 1-3 of Table 3, where Previous HR History is interacted with Differentiation, Environmental Uncertainty and Growth Position, respectively. The interactions with Differentiation and Environmental Uncertainty were both significant ($\beta = 1.12$, $p < 0.001$ and $\beta = 0.98$, $p < 0.001$, respectively).

DISCUSSION AND CONCLUSION

As we stated that important differences will be obeyed across SMEs that differ in terms of size. Constant with the reasonable descriptions attitude, where, SMEs face forces that demand more responsiveness to the customer to quickly adjust work procedures, they are engage in modified reaction.

However, these modified reactions are likely to differ with the size of the SME. In smaller SMEs, the entire SME workforce is likely to fall within the SME leader's immediate span of control and leaders are likely to be personally involved with procedures throughout the firm. Such conditions are likely to affect conceptions regarding dependence upon human capital within the firm. Within the conditions of the small business sector, human capital scheme should reasonably be perspective as reorganization. These schemes have not traditionally been used by SMEs and sellers have only recently begun to make such scheme

available through use of a PEO model (Klaas *et al.*, 2005b). However, as availability has now grown, questions exist about why variation exists across SMEs in their desire to use human capital scheme. Leaders are more likely to see themselves as able to personally answer to forces for customer responsiveness or the need to change work procedures. Further, because much of the firm's workforce falls within the leader's immediate span of control, the leader is more likely to consider the ability to modify employee behavior through on-going direction and feedback. As such, while modified reaction to the factors suggested by the reasonable descriptions attitude may be obeyed in both small and large SMEs, the nature of that reaction may differ with firm size. Leaders within larger SMEs may be more aware of their dependence upon human capital and may be more willing to follow human capital reorganizations in answer to forces created by the environment or strategy. By contrast, leaders within smaller firms may consider greater control over procedures within their firm. Thus, they are more likely to attempt to answer to forces rated by environment or strategy via personal activity and direct control over work procedures. The findings achieved here support the Hypothesis that factors suggested by the reasonable descriptions attitude would affect use of human capital scheme at least among larger SMEs. We also found that significance on growth was related with greater use of human capital scheme, with this relationship being stronger among larger SMEs. Because of the difficulty of anticipating the effects of expansion, growth is likely to make it difficult to manage a workforce through careful specification of tasks and careful observing of employee behavior. Where growth is highlighted, SMEs are likely to face increased pressure to find ways to manage employees that are constant with increased employee autonomy and that encourage both flexibility and responsibility to organizational goals. This pressure is lead to an increased desire to follow human capital scheme, at least among larger SMEs. We stated that both strategic significance on differentiation and environmental uncertainty would create a greater need for employees who could operate with discretion, who could answer to changing demands and who were more carry out to organizational goals. In firms where there is little uncertainty and little significance on differentiation, trust on relatively simple observing and control mechanisms may often be effective. And where such mechanisms are effective, there is likely to be less need for trust on human capital scheme. We found that use of human capital scheme was higher among SMEs that placed greater significance on differentiation and that faced more uncertainty, with this likelihood being stronger among larger SMEs. As results shows that significant interaction effects are constant with the idea that leaders within smaller SMEs react to forces created

by strategy or the environment differently than leaders within larger SMEs. Within larger SMEs, dependence on human capital is clear. However, within smaller SMEs, leaders may consider themselves as having the capacity to personally ensure responsiveness to customer needs and to personally ensure rapid adjustment to change and uncertainty. Constant with organized theory, we suggested that previous disclosure to human resource activities would affect belief of human capital scheme. Factors suggested by organized theory are likely to be applicable because they increase the considered legitimacy of human capital scheme and reduce the considered risks related with reorganization belief. We argued that previous disclosure to HR services would be applicable because it would make use of human capital scheme from a seller seem less risky, more legitimate and more constant with professional modes of operation. Our findings support what was proposed in that previous disclosure to HR services affected use of human capital scheme from a seller. While little research has examined how the reasonable descriptions attitude and organized theory combine to explain reorganization belief, we proposed that previous disclosure to HR services will accept the impact of variables suggested by the reasonable descriptions attitude. Therefore, support was found for this proposal. This support suggests that the effect of forces within or external to the firm to follow reorganization depends in part on whether that reorganization was authorized by the behavior of other firms. Where there is causal ambiguity regarding how the reorganization affects outcomes, there is likely to be uncertainty regarding the utility of reorganization belief. Where the behavior of other firms helps to authorize the reorganization, it is likely to affect the considered risk of reorganization belief and, in turn, the expected outcomes (Wejnert, 2002). Thus, factors suggested by the reasonable descriptions attitude are more likely to affect reorganization belief where firms to the decision maker have already made use of the reorganization. The finding of this research raises important questions with regard to the use of human capital scheme within the small business sector. Constant with the reasonable descriptions attitude, it appears that—at least among larger SMEs—leaders answer to forces and challenges created by their strategy and environment in a manner similar to how large, complex firms answer (Batt, 2000). Therefore the desire to use human capital scheme is obeyed when forces and challenges increase the need for a workforce that is flexible, highly skilled and able to operate with discretion. However, it also appears that among smaller SMEs, the use of human capital scheme is less affected by forces and challenges created by the firm's strategy or environment. This is because leaders of these firms answer to forces and challenges through personal

enterprise and efforts to direct employee behavior in an on-going and often ad-hoc manner. It is unclear, whether this is an effective answer to these forces and challenges. Questions might be raised about whether answering with personal enterprise and action creates undue dependence on the SME leader. Additionally, questions might be raised about whether such an approach affects the degree to which talents of employees are effectively employed as well as the firm's capacity to attract employees that would function effectively in an environment demanding flexibility, skill and the capacity to operate with autonomy. In turn, questions are raised about whether such an approach affects the firm's capacity to expand and grow. The impact related with previous disclosure to HR services also raises important issues for firms in the small business sector. Within this sector, following reorganization in the form of human capital scheme is likely to be considered as involving some risk. This suggests that where SMEs will be opposed to make use of human capital scheme even though they face conditions that call for the use of such scheme. This conclusion is supported by the reasonable effect related with previous disclosure to HR services. This finding suggests that there may be SMEs with significant need for human capital scheme that will be opposed to use this scheme because of the leader's history and experience. Our findings suggest that—at least among larger SMEs—use of services tends to be greater among firms that might be expected to have the greatest need for those services (Ordiz-Fuertes and Fernandez-Sanchez, 2003). However, our findings also suggest that barriers may exist that limit use of services among firms that otherwise would be predicted to make use of human capital services. Our finding suggests that there may well be SMEs with significant need for human capital scheme that will be opposed to use this scheme because they have not been exposed to other firms taking similar action. Our findings also suggest that small SMEs do not answer to pressure and challenges in the same way as larger SMEs. While this pattern may sometimes be an effective answer to firm conditions, it may also reflect biases created by the ability of the leader within such SMEs to be involved in procedures and operations throughout the workforce. We believe that our findings have implications both for our understanding of the diffusion of innovations in managerial practice and also for our understanding of the use of human resource practices within the small business sector. With regard to our understanding of the diffusion of innovation, our findings highlight the importance of integrating the rational accounts perspective and institutional theory. Within settings where there is substantial causal ambiguity, it appears that whether firms' response to pressures and challenges is likely to affect the need for innovation adoption will

partly depend on whether the behavior of firm's salient to the decision-maker legitimizes the adoption of innovation. With regard to our understanding of the diffusion of reorganization, our findings highlight the importance of integrating the reasonable descriptions attitude and organized theory. Within establishing where there is considerable causal ambiguity, it appears that whether firms' answer to forces and challenges is likely to affect the need for reorganization belief will partly depend on whether the behavior of firms to the decision-maker authorize is the belief of reorganization. With regard to our understanding of why small businesses differ in their desire to employ human capital scheme, it should be noted that because human capital scheme are often cost-injunction for SMEs, outsourcing models are increasingly being used to make it easier to achieve such services.

In interpreting the results of this study, it is important to consider the reproductions related with the design and methodology used here. First, a cross-sectional design was employed, which may limit our ability to draw causal inferences. For example, while we argue that a focus on differentiation leads to the use of human capital services, it is possible that use of human capital services enabled firms to follow a focus on differentiation. While the possibility of reverse causation should be recognized, we should also point out that the risks of this are lower in this setting because the human capital practices have been available for a short period of time. Second, all of the firms studied here have an established relationship with a third-party seller. While in many cases that established relationship was limited to arrangement services, it remains that the firms studied here have more experience interacting with third-party sellers than other firms within the small business sector. Thus, the results achieved may not necessarily generalize to firms that are not currently working with a seller to achieve either arrangement or human capital services. Firms that do not currently work with a third-party seller may consider greater risks related with achieving human capital services from a PEO. Where such risks are considered, the effect of variables suggested by organized theory may actually be greater than what was obeyed here because they would obey to mitigate considered risk. Third, while data was achieved from different sources, we relied on the SME leader as key information. As such, the dependent measure and key independent variables were achieved from the same source, raising questions about whether our results were affected by percept bias. However, it should be noted that the validity of the ratings provided by the SME leaders is supported by the level of acceptance with a sub-sample of the human resource consultants and by the results of the common method variance tests we performed. Fourth, the results are based on a sample of SMEs who are customers of

the same PEO. As such, all SMEs studied here have been stated to the same business model and service delivery mechanisms, potentially affecting the results. Finally, measurement issues disobey attention as well. For example, we used disclosure to HR scheme in previous positions in other firms to catch information available to the SME leader about the behavior of the firms. While past employers are likely to be the SME leader, it is important to note that we did not catch the behavior of other SMEs in terms of the use of human capital scheme.

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