Master’s thesis:

Developing HRM-practices in growing Finnish SME’s:

A strategic view

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ABSTRACT:

Key words: Small and medium-sized enterprises (SMEs), Human resource management (HRM), growth management, crisis management.

- The aim of this research is to describe the development of HRM processes in growing Finnish hi-tech manufacturing SMEs, especially in relation to the growth and actions of the companies. The research question is: “How does HRM develop in a growing hi-tech Finnish SME?” The research problem is also being addressed with the additional questions: “What kind of demands does the growth of the company present for the HRM functions?” and “How does the evolution of HRM affect the SME?”.
- There is very little previous research available with the definitions made for this research. HRM in SMEs have mostly been studied in Asia and Australia. The view of this research is the growth theory of an SME from the view of HRM fortified with the view of organizational culture.
- This research is a qualitative case study. The research material consists of the semi-structured theme interviews of three company managers and an entrepreneur association specialist, that are being analyzed through narrative analysis.
- The HRM of the research companies started to indicate problems along growth, that lead into managerial reform consisting of decentralization and redefinition of responsibilities. The purpose of the research is to examine through the understanding of dominant growth problems what changes when the company evolves and what challenges the company encounters in each phase that they have to consider HRM to cope.
ABSTRAKTI:
Avainsanat: Pk-yritykset, henkilöstöjohtaminen, kasvun johtaminen, kriisijohtaminen.

- Tämän tutkimuksen tarkoituksena on kuvata henkilöstöjohtamisen kehittymistä kasvavissa suomalaisissa korkean teknologian metallialan pk-yrityksissä. Tavoitteena on erityisesti selvittää henkilöstöjohtamisen kehitysprosessit suhteessa yritysten kasvuun ja toimintaan. Tutkimuskysymys on ”Miten henkilöstöjohtaminen kehittyy kasvavassa metallialan pk-yrityksessä?”
- Aikaisempana tutkimusta määrittelemillä rajauksilla on saatavilla hyvin vähän. Pk-yritysten henkilöstöjohtamisen kehittymistä on aiemmin tutkittu pääasiassa Aasiassa ja Australiassa. Oman tutkimukseni näkökulma on pk-yritysten kasvuteoria henkilöstöjohtamisen näkökulmasta vahvistettuna organisaatiokulttuurin näkökulmalla.
- Tämä tutkimus on kvalitaatiivinen tapaustutkimus, aineistona käytän case-yritysten johdon ja yrittäjäjärjestön asiantuntijan puolistuotuvalu teemahaastatteluihin perustuvaa materiaalia jonka analysoin narratiivisen analyysin avulla.
- Tutkittavien yritysten henkilöstöjohtamisessa alkoi kasvun myötä ilmetä suuria vaikeuksia, josta seurasi johtajien tehtävien hajauttaminen ja uudelleen määrittely. Tutkimuksen tarkoituksena on tarkastella dominant kasvun problemien ymmärryksen kautta teoreettisesti mikä muuttuu, kun yritys kehittyy. Mitä haasteita yrityksellä on kussakin vaiheessa, joidenka yli pääsemiseksi HRM täytyy huomioida.
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1. Introduction

“Human Resource Management (HRM) has been defined as the “process of attracting, developing and maintaining a talented and energetic workforce to support organizational mission, objectives and strategies” (Schermerhorn 2001, 2400)

1.1. Background and viewpoint of the research

The subject of this study is human resource management (later HRM) in growing Finnish small and medium-sized enterprises (later SME) especially the development of HRM processes in relation to the growth phases of the company. Dessler (2003, 2) defines HRM as the policies and practices involved in carrying out the “people” or human resource aspects of a management position, including recruiting, screening, training, rewarding, and appraising. Bratton et.al. (2007, 446) portray HRM as an approach to managing employment relations that emphasizes that leveraging people’s capabilities is important to achieving competitive advantages. The realization of the significant role of SME’s in the economy of Finland is one of the key motivators for this research. Referring to the Finnish Statistics Center a substantial amount of 99,8 percent of Finnish companies are categorized as SME’s employing a total of 61,9 percent of the whole working population (Fin Stat 2006).

The importance of SMEs has been growing since China opened it’s economy for globalization and managed to attract a great deal of large Finnish manufacturing companies such as UPM paper mills, Perlos medical equipment and Nokia mobile phones to relocate majority of their production facilities into the lower cost and more logistically centered Asia causing thousands of people lose their jobs. Small and medium-sized enterprises have taken a vital role for Finland to hold it’s ground in the globalizing world providing new jobs for a great deal of people and generating fresh innovation that create competitive value in the turmoil of the global market (Wilkinson 1999).

Due to the high standard of living competing with low price has not been a strong possibility for many North-European companies in decades emphasizing the meaning of high quality, fresh innovations and specialized products or services. Although the importance of SMEs has been publically recognized, the academic researchers have continued to keep their focus mainly on large corporations until very recent years. Especially the research of human resource management in SMEs has been left almost completely without attention in comparison to marketing, finances and production planning (Beaver & Hutchings 2004, Nguyen & Bryant 2004, Mazzarol 2003).
Katz et al. (2000) state that small businesses and HRM have been researched broadly as separate concepts, but the relation and mutual dependence of these two fields has gotten very little attention in the scientific literature (Katz, Aldrich, Welbourne & Williams, 2000).

One of the key reasons for the conciseness of the previous research and weak academic status of HRM in SME’s context might be found in the difficulty of defining mutual characteristics. The nature of small and medium-sized enterprises vary from one-person small business owners to 200 employee medium-sized factories with a turnover as large as €50 million making it rather challenging to find mutual principles and structures that would apply generally throughout the context of an SME. Reliable quantitative information from SMEs is not largely available making it even more challenging to study them. SMEs are not small versions of large corporations, but entirely individual entities, whose policies and cultures are not easily defined due to the vast variation inside the definition (Curran & Blackburn, 2001).

Mazzarol (2003) argued in his study of HRM that the previous research has been focusing almost entirely around large corporations leaving SME’s without significant attention. He also states that the research of SMEs is very challenging due to the large variation of the nature and size of the companies and especially due to the lack of one globally excepted definition of a small and medium-sized enterprise. Although the interest towards studying HRM in the context of SMEs has started to show beginning interest there are still many unresolved fundamental principles and gaps in the previous research. These gaps in the previous research present a possibility of a very interesting case study with growing Finnish SMEs. Another interesting deficiency of previous research is stated by Katz, Aldrich, Welbourne and Williams (2000) who point out that entrepreneurship and HRM have both been studied broadly on their own, while combining these two fields as a study has gotten very little attention. These shortages offer a rich possibility for an interesting case study in the context of Finnish growing SME’s.

The empirical part of this paper will consist of a study about two Finnish manufacturing metal industry companies Hyrdoline Ltd and Junttan Ltd. Both companies started out as family owned enterprises. They currently operate internationally employing more than 150 people. The development solutions of the companies HRM policies will be studied along with the views and opinions of the people involved in the process. Both companies have undergone accelerating growth and recession periods in the past decades making their HRM operations more challenging and demanding. The research will view how the culture and policies of the companies HRM have changed and evolved while the companies has grown to its current size, and how the managers view and justify the decisions they have made over the years. Later the views and solutions of the
companies will be reflected against the expertise and knowledge of an experienced influencer Tuomo Kauppinen, who is a current and a long-time member of the board at the Federation of Finnish Entrepreneurs (Fin. Suomen Yrittäjät).

The current European economic downturn forces companies to cut down their expenses and improve their profitability also with a variety of HRM solutions. This trend is underlining the importance and urgency of the development of an adequately proportioned HRM culture.

The most important contexts of this research are human resource management and growing SME’s. These contexts are supported with sub-contexts such as management of change, management of growth and culture. With the help of these tools the paper will portray the HRM process in a growing SME from the view of the company management.

Previous HRM research often addresses the concept of Bleak House phenomenon in relation to SME’s. The phenomenon refers to variety of defective HRM policies such as poor working conditions, faulty contracts, excessive managerial control, insufficient training and high turnover rate of the workforce. Bleak House is argued to stem from managerial perception of seeing the employees merely as a necessary production cost that causes the decision makers to be unable to discover the potential and importance of the staff in the development of the company. (Bacon, Acres, Story & Coates 1996, 82-83; Wilkinson 1999, 53) Bleak House phenomenon is a good example how the managerial paradigm may effect on the HRM in a company. SME’s have a tendency to pursue cost efficiency in their HR-functions. This is consequential due to the fact that the training and hiring costs per unit are relatively higher in respect of the total cost in a small company. However, HRM should always serve the needs of the company, thus investments should be targeted into the staff regardless of the incremental cost if they are necessary for the operations and growth of the company.

Nevertheless, the ideas portrayed by Bleak House theorists have been challenged. E.g. Hornsby and Kuratko (1990; 2003) argue that the negative conception about the state of HRM in SME’s is over emphasized. Their studies on SME’s in the USA showed that HR practices applied in the companies were more evolved than the preconception suggested. They stated that the companies had applied new HR-management practices that were previously rare in SME’s, such as systematic and integrated recruiting, the harmonization of working terms and conditions and performance – related rewarding. However, despite of the positive results the HRM practices of SME’s are often perceived as informal and undeveloped. This is substantiated by the tendency to associate the Bleak House phenomenon typically with the SME’s. (Kotey & Slade 2005, 16-17)
Hornsby and Kuratko (2003) conducted a repetitive study to compare the results of their earlier study in 1990. Interestingly the results showed only moderate change in the companies HRM practices and HRM-related problems. Both studies also construed the owner-managers perception of the five most important aspects regarding HRM at both occasions. Although there is more than a decade in between the two studies, the availability of sterling employees and employee benefits remained as the two main concerns regardless of the number of staff in the company. The study showed that the ability to recruit competent staff remains as one of the most critical success factors. Additionally, the ability to sustain the skilled workforce had become growingly important.

Discussion regarding the Bleak House phenomenon presents a generalization problem as the theory was born in the UK and therefore might not be imported into Finnish context with certain validity. Although the interest towards SME research has been growing in the past years, the focus of the Finnish HRM studies remains with the large international companies. The importance of HRM has been stated in various studies creating importance to study SME’s in the Finnish context.

The interest towards the subject is originated from my professional background. Three years ago I was one of the four people founding Skill Concept Ltd, a consulting company specialized in assisting customer companies in their efforts to recruit and coach successful sales people and furthermore to teach and motivate those recruits to their jobs in order to achieve sustainable results. Skill Concept’s services are best suited for companies seeking growth due to the mutual interests of developing new HRM policies, organizational culture and selling techniques. From Skill Concept’s point of view it was very interesting to find a research about development needs of the Finnish SME’s by the Federation of Finnish Enterprises as the study showed that companies stated the need to develop their sales and marketing as the single most important goal for their future. Facilitating new policies to educate and develop the skills of their personnel was seen as the 2nd most important future challenge among the business owners and company managers giving this research a much more deeper purpose and meaning. In the same research company managers stated the availability and obtainability of competent staff as the single most difficult obstacle regarding the company’s growing efforts. Many managers see the competition to allure competent staff to work for their company fully motivated as even more difficult and important challenge than getting the attention of their customers. Human resource management and planning are vital to the company’s possibilities to grow - and furthermore with suitable advanced HRM –policies it is possible to obtain a committed personnel who can make company’s vision, mission and strategy be transmitted correctly to the customer creating true competitive advantage. (Federation of Finnish Enterprises, 2007)
Although growing can be seen as one of the fundamental means of competition and way for a company to survive, not nearly all companies choose to seek growth. This is due to a fact that seeking growth can very often be defined as a way that requires a certain amount of taking risks. As SME’s vary substantially by size and nature, so do their limitations towards risk-taking. Some people might start their own company just to be able to dictate their own schedules and to enjoy the feeling of having something to be proud of. A company can also be successful to some extent without trying to seek growth providing the entrepreneur livelihood with a risk level felt suitable. The skills and motivation of the business owner defines the aims and strategies of the company (Brown & Walker 2004).

This research focuses on studying the HRM-policies of growing SME’s. Studying growing SME’s is particularly interesting given that they often live in constant change and face substantial challenges of being able to answer to their customers demand varying by the fluctuating market situation. One of the preferred goals of this study is to be interesting from the academic point of view for the scholars and students who are interested in the problematic of business studies and social psychology. Especially when the conciseness and the large corporation oriented focus of the previous research is taken under consideration.

1.2 Goals and definitions

The aim of this research is to portray a growth process of a SME that creates managerial pressure to develop the HRM processes in the organization. Case study is conducted as a method to compare the previous studies against the policies and visions of two Finnish hi-tech manufacturing companies and an entrepreneur association specialist.

This research will contribute to the knowledge of the prevailing motives and growth phases to develop the HRM policies of a growing SME by e.g. establishing a position of a HR-manager and which improvements the companies have experienced trough this evolution.

The reviewing of the previous research will be limited to the context of SME’s to match the size of the companies studied in the empirical section. The empirical section will be limited to view growing SME’s employing circa 200 people operating in the field of hi-tech manufacturing. This exclusion can be justified by the effort to view how the cultures of companies in nearly similar operational environments can differ from each other in practice.
The research question of this study is: “1. How does HRM develop in a growing Finnish hi-tech SME?”. The research question will be accompanied by supporting questions such as: “2. What kind of demands does the growth of the company present for the HRM functions?”, and “3. How does the evolution of HRM affect the SME?”.

This research will review the previous research of HRM and approach the research questions by viewing peer reviewed publications, scientific articles, magazines and books in order to map out the frame of reference around the subject. By comparing the previous research to the empirical findings presented later in this paper the study will outline some definitions and demands for the growth process of a SME from the view point of HRM. The empirical section will be carried out trough the analysis of the interviews conducted with the managers of the case-companies and an entrepreneurship specialist.

1.3. Theoretical concepts and the frame of reference

The founding concepts of this research are small and medium-sized enterprises (SME), human resource management (HRM), strategic human resource management (SHRM), management of growth, growing phases, and the effect of HRM on the performance of a growing SME.

Previously the subject has been addressed e.g. by Mazzarol (2003) from the University of West-Australia (UWA). Mazzarol states in his research, that previous research has mainly focused on the context of large corporations and argues that there is a growing need for the research of HRM processes in SME context. Basing on four case studies, he claims that often one of the most critical bottlenecks regarding the growth of an SME is the ability to recruit, motivate and commit competent staff. Mazzarol presents a theoretical model of HRM designed especially for growing SME’s that will provide the guidelines for developing the frame of reference in this study.

Gabrielsson & Gabrielsson (2013) released a dynamic model to explain the growth phases through which international new ventures (INV’s) pass as they mature in the high-technology business-to-business field. Their research was based on the understanding of dominant growth problems of technology based new ventures studied by Kajanzian (1988). They have also limited their studies into Finnish companies operating in the field of hi-tech manufacturing. Additionally majority of their case companies consisted of SME’s. Thus the research of Gabrielsson & Gabrielsson provides an interesting opportunity to scrutinize the development of HRM in SME’s through growth phases.
Thus, this study applies Mazzarol’s (2003) theoretical model for growing SME’s and Gabrielsson & Gabrielsson’s (2013) model of growth phases to create a theoretical framework for analyzing the HRM in particular SME’s researched in this paper.

TABLE 1: The growth phases of a SME

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>SME creation</td>
<td>Commercialization and new business entries</td>
</tr>
<tr>
<td>Rapid growth and expansion</td>
<td>Rationalization and maturity</td>
</tr>
</tbody>
</table>

SOURCES: Gabrielsson & Gabrielsson (2013), Mazzaroll (2003), modified by Samuel Kuutti

1.4. Previous research

Bratton et.al. (2007, 446) state that in recent years, the practices used for managing people in the workplace have assumed new prominence as concerns about global competition persist. It is argued that the market imperatives require managers to change the way they manage the employment relationship to enable the most effective utilization of people in the organization. Bratton et.al argue that the New Perspectives on Human Resource Management, a book edited by John Storey in 1989 generated the “first wave” of debate on the nature and ideological significance of “progressive” HRM culminating the early debates of human resource management originated from the US business schools at the beginning of the 1980s. They further claim that the late 1990s brought the “second wave” of HRM that consisted of four distinct themes: the significance of economical and social context in shaping and reshaping the HRM arena, the links between HRM and performance, new organizational forms and relationships, and the importance of “knowledge” management and learning in the workplace.
According to Bratton et al. (2007, 446) the “third wave” of HRM debate explored an approach to HRM labeled strategic human resource management or SHRM. They define strategic human resource management as the process of linking the human resource function with the strategic objectives of the organization in order to improve performance. They also point out that both terms HRM and SHRM have been contested. For some HRM is simply a grander term for “personnel management”, representing old wine in new bottles”. Others argue that HRM is quite distinct in theory and practice, and that it reflects a paradigm shift in the management of the employment relationship. Dessler (2003, 2) defines HRM as “The policies and practices involved in carrying out the ‘people’ or human resource aspects of a management position, including recruiting, screening, training, rewarding and appraising”.

HRM has been previously studied also by Fraza (1998), who states that it is very important for a manager of a SME to be able to develop and implement new HRM practices along with the growth of the company. Fraza argues that the probability of HRM-related problems are likely to escalate as the growth speed of the company accelerates.

The connection between HRM and the long-term success of developing SME’s has also been studied by Rocha and Khan (1985), who’s empirical studies show that there is a visible positive connection between the development of HRM–functions and long-term success of SME’s.

Their addition to the HRM–research was made also by Hornsby and Kuratko (1990), who conducted a questionnaire survey in 247 companies employing less than 150 people. They found some clear indications of a connection between the amount of company staff and the development stage of its HRM–functions.

Rowden (1995) studied three industrial companies employing less than 200 people. His findings showed that both official and unofficial conventions of HRM had a direct impact on the performance of the company.

Duberley and Walley (1995) studied the initialization of HRM–functions in English manufacturing companies. They conducted case studies in sixteen companies and saw that SME’s were often keen to use HRM–approach typical for a small company, rather than try proactively to study and implement more sophisticated functions into their company.

Vanhala (2013) argues that for the past two decades the field of HRM studies has been dominated by a performance paradigm that has mainly focused on describing the correlation between innovative HRM processes and financial profitability. Vanhala introduces an emerging research orientation that aspires to widen the concept of profitability to entail aspects of
organizational profitability such as customer service quality, production quality and productivity and a variety of HRM productivity indicators such as organizational commitment, reduced absence, sustainability, satisfaction and decreased desire of retirement.

Scanning through previous research has shown that Mazzarol’s findings still hold a large validity. There are loads of articles about HRM in the scientific databases, however very few of them are applicable to SME’s. The next challenge emerges from the focus of the applicable researches mainly revolving around companies that are located in the service sector making it rather challenging to adapt those findings to the manufacturing sector and technology industry. Therefore the analysis of validity of the previous research will be somewhat challenging.

Most researches discussing about the SME –size companies can be found from Asia and Australia. The difference between cultural contexts has to be taken into account and the results of those papers need to be viewed with discretion, despite the resemblance of the studies.

As a SME starts to grow resources are often aimed to investments on appliances and research and development functions. Regarding Fraza (1998) a growing SME’s likelihood to experience problems in its HRM elevates along with the growth speed of the company. Increase on the number of employees also causes pressure for the demands and complexity of HRM to grow. Therefore it’s reasonable and interesting to study growing SMEs particularly from the HRM viewpoint.

Management literature has proposed several multistage models portraying predictable patterns in the growth of organizations. Gabrielsson & Gabrielsson (2013) state that several of these models have been criticized for being too sequential and linear. They contributed by developing a model that includes a more in-depth understanding of the dynamism related to the state and change aspects of growth and to the survival of a company than that of earlier literature. Their study contributed to discussion on the role of resources and capabilities in solving growth problems and managing survival crises, thereby enabling transition to the next state. Viewing HRM development through the looking glass of Gabrielsson & Gabrielsson’s model enables this research to analyze HRM in relation to growth phases. Thus, their study provides an important framework for this paper.

HRM always involves people. Thus it is also important to address culture. Culture is generated within people. Culture creates continuity and identity for a group, balances contradictions by nature and contains means to pass information enhancing the possibility of consensus. Simultaneously organizational culture portrays the presumptions of customers, employees, mission, products, operations and convictions that have worked well in the past, and that are translated as behavioral standards (Hampden-Turner 1991). Schein (1985) defines organizational culture through six different
entities that exist in the background of functionalities and actions arguing that organizational culture is:

1. Regular behavior perceptible in the interaction between people.
2. Norms developed within functional groups.
3. Dominant manifested values.
4. Basic philosophy that guides functional politics regarding employees or customers.
5. Rules to survive in the organization that a newcomer has to adopt in order to be approved as a member of the group.
6. Ambiance or atmospheres that reflect from the physical layout of the organization, or the way its members interact with customers and other stakeholders.

The previous research sees communality and teamwork as important factors to HRM that feed the birth of innovative organizational culture and improve performance of the company. Jamrog, Vikers and Bear (2006) argue that formal solutions in e.g. team creation are not sufficient on their own but the managers should develop their managerial models into direction that encourages personnel into goal-oriented actions in the creation of communal atmosphere.

Development of organizational culture is a very important and essential way to affect the performance of the company. Regarding Salin (2009) giving and receiving feedback is often even more affective way to motivate employees in long-term period than a wage increase. Therefore the development of HRM is relevant and substantive to study with regard on the organizational culture.
2. Human resource management as a strategic decision

Some of the essential elements of HRM are presented in this chapter. The basic functions of a company HRM are then linked with the strategic decision-making and the overall performance of the company laying out a picture of what are the basic determinations of HRM, and what kind of role they play to the company’s value creation process and ability to compete.

“Compared to all other company resources employees withhold the overbearing challenge of consisting from people who posses’ feelings and free will.” (Strömmer 1999, 11)

2.1. Strategic management of human resources

People design, create and develop products and services. People make the difference: only people have the capacity to generate value. Therefore it is dependent on them how economically and profitably the company functions can be arranged. In almost every company proclamation it is stated that the staff is the single most vital resource of the company. That isn’t actually enough. It needs to be remembered that the whole existence of a company is dependent on the staff. However personnel as an asset is simultaneously extremely fragile. If the company staff would become replaced completely at once, it would very likely end the company’s business altogether. It follows from this premise that human knowledge and skills are a strategic resource that needs to be adroitly managed, and in the process, HRM plays a pivotal role in a sophisticated organization (Strömmer 1999, 10; Bratton et.al 2007, 449).

A part of staff responsibilities and the related competencies could be effortlessly transferred on to new recruits when facing a crisis situation. However, that is becoming more and more rare these days due to the value of experienced staff and the complexity of an average job description. Humans tend to make the difference, they are the precondition for innovation, practicing experimental learn etc. Therefore simultaneous quitting of even a small group of employees can result in significant problems and interruptions that lead easily to deterioration of customer trust and financial losses. (Strömmer 1999, 10, Andersen 2003)

If a company aims to develop the quality of their processes to high standards and present themselves as trustworthy supplier or manufacturer to the customers or investors, it has no other option but to make sure their employees act with high standards and commit to the company
Although staff-related problems in the quality of products or services are a problem for all companies they contain a significant meaning in the SME context due to the relatively small size of their business. The lack of vast financial resources and large scale of background support in comparison to large corporations makes loosing even one customer create a massive threat to the very existence of a SME.

Typically a company has a vision, a goal for their aspirations and a strategy where it is defined what kind of resources, methods etc. are needed for the vision to be achieved. Today it is also becoming more and more common for a company to have a separate human resource strategy where the quantitative and qualitative objectives are defined for long-term periods. The aim of such strategy is to make sure that the company possesses the necessary amount and variety of people and skills in a given moment to enable the success of the company strategy (Strömmer 1999, 13; Beawer & Hutchings 2004, 81).

The company HR-strategy should always be perfectly aligned with the company strategy. Strömmer (1999, 11) argues that business strategy, HR-strategy and the execution of the both are like twines of the same rope. Human resources enable the execution of the company strategy whereas the strategy itself sets the framework where successful HRM is possible to be carried out.

The conventions of HR-strategy appear in the everyday working environment of a company trough their HRM policies. HRM policies act as a general guideline for decision-making creating a frame for what is acceptable and what can be viewed as unorthodox. HRM policies help the managers to be consistent with their decisions avoiding inter alia the effects of personal interest in the management behavior. When the principals of an organization are common knowledge the company is less dependent on the discretion of individual people (Strömmer 1999, 13; Torrington & Hall 1991, 34-38). According to Bratton et.al. (2007, 450) HRM policies and practices shape the nature of work and regulate the behavior between the employer and employee, the employment relationship. Divisions of HRM policies consist of inter alia recruiting-, development-, and rewarding policies. In some occasions they can be formed as written documents just as the HRM-strategy, but especially in the context of SME’s they are often molded trough conventions as silently approved models of operation (Strömmer 1999, 13).

The concept of Human Resource Management (HRM) does not have one consistent definition that would unambiguously explain what the term consists of. Bratton et.al (2007, 446) define HRM as “An approach to managing employment relations that emphasizes that leveraging people’s
capabilities is important to achieving competitive advantages. Therefore HRM can also be characterized as all actions and functions in the organization that involves people (Ivancevich 1996, 4). HRM managers strive to plan, organize and control the staff-related matters, as well as aim to respond to arising challenges through the means of staff development, evaluation, recruiting and rewarding (Dessler 2003, 2).

Bratton et.al (2007, 450) presented eight key HRM functions identified from employment relation surveys. These are policies and practices designed in response to organizational goals and contingencies, and managed to achieve goals. Each function contains alternatives from which managers can choose:

1. Strategic planning
2. Staffing
3. Training and development
4. Motivation (includes rewarding)
5. Maintenance
6. Managing relationship
7. Managing change
8. Evaluation

In conclusion the human resource management can also be defined as a bundle of different HRM-functions that are born and developed partly through the challenges emerging from managing the company personnel (Rutherford et.al 2003, 323; Ivancevich 1995, 4, 7).

HRM can also be seen as a strategic approach that emphasizes human competence in the pursuit of competitive advantage and integrates HRM-functions as a part of managing and developing the employees (Bratton & Gold 2007, 7; Nguyen & Bryant 2004, 600). The strategic approach is based on the idea that the unique entity of people influenced by the characteristics of a certain organization is a significant element in the process of creating and maintaining competitive advantage. Advantage like this is extremely challenging to achieve and it is nearly impossible to transfer or replicate it from a company to another (Rutherford et.al 2003, 324). This competitive advantage can be achieved in practice by integrating HRM and all the related functions as a part of the holistic activity of the company at which time they will form a coherent entity with the other business divisions helping to support the company strategy (Beawer & Hutchings 2004, 78; Bratton & Gold 2007, 198). Thus the concept of Strategic Human Resource Management (SHRM) has been
established in the literature of economic sciences and mentioned often in the same context with HRM. It is based upon the idea that a given competitive strategy can only materialize through adequate, competent and motivated staff. A person or a group of people regardless of the size or the industry of the company always carries out the processes. It is dependent on those people, how well, how fast and in what form the chosen strategy will actualize in the framework of the company’s business environment (Strömmer 1999, 10)

Dessler (2003, 11) describes SHRM as the linking of HRM with the strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility. Bratton et.al (2007, 446) confirm the definition by characterizing SHRM as the process of linking the human resource function with the strategic objectives of the organization in order to improve performance.

In recent years HRM theorists have tried to measure the connection between HRM and performance. The question ‘does HRM work?’ is more than a debating point. Evidence that better HR practices can indeed contribute to the organization’s performance or ‘the bottom line’ has fundamental implications for whether or not an organization should invest in HR interventions (Bratton et.al 2007, 459). Although the research has been criticized about the congruence of the methods and subsequent diversity of the results, there have been some generalizations made about the benefits of adapting the high road of HRM. High road of HRM refers to a HR-strategy that emphasizes the quantity and quality of education, participation and rewarding that promotes commitment to quality. Where as the ‘low road’ of HRM is associated with low wages, poor work safety and work centrism e.g. Bleak House phenomenon. Successful development of a high road HRM-strategy demands that management believes the staff to be the key to achieving competitive advantage, with the help of the right positioning of the price and quality of the product or service (Bratton & Gold 2007, 206-207; de Kok, J., Uhlamer, L. & Thurik A.R., 2006; Chi, Wu & Yeh-Yun Lin 2008; Leopold, Harris & Watson, 2005).

Majority of the previous HRM-related research has been designed to discuss and explain the context of large corporations making it challenging to form a unified HRM theory that would help the decision making of SME managers. SME’s are not ‘smaller versions’ of large corporations, thus the knowledge HRM-functions cannot be directly transferred into a SME. However the literature of HRM contains various tools that can be adapted into SME context with certain modifications or to be used to form more adequate theories. (Andersen 2003)
Also Rutherford et al. (2003, 324) defined HRM through a concise specification of three categories:

1. Recruiting
2. HR development (education, commitment, evaluating)
3. Motivating (financial and non-financial compensations, work environmental stimuli)

The foundation of this research will also be based on this specification of HRM functions. This specification is justifiable due to the universal nature of these concepts: recruiting, HR-development and motivating are critical functions that have to be carried out in some way to ensure success regardless the size of the company. Planning of HR-resources and strategies are also studied in this research thus they are considered to have a vital role in all HRM contexts.

2.2. HR planning

According to Strömmer (1999) all companies practice some level of HR planning. At the very least planning happens in a form of thoughts about the upcoming changes in the mind of the entrepreneur or manager. Time span of this sort of planning is often very short, which elevates the risk of contradictions stemming from swiftly made decisions. Large corporations have people who are specialized in forecasting both long-term and short-term of changes in personnel structure, quota, cost and who provide information for people in charge of recruiting and training the staff. In the best case the HR planning is based on the company strategies intertwining perfectly with all the other corporate planning. In SME’s HR planning has a tendency to be less formal and it often takes place in discussions between decision makers. However, formal HR planning enables the company to utilize their human resources more efficiently. Ivancevich (1995) argues that formal HR planning helps the company to ensure equal opportunities to all employees having a positive effect on the skill-level and work satisfaction. The operative and HR management of the company should cooperate to ensure that the HR planning is effective and aligned with the company strategies (Strömmer 1999, 233-234, Ivancevich 1995, 134-135; De Kok et al. 2006).
Strömmer (1999, 233) states that the key objectives of HR planning are:

- Taking care of sufficient amount and quality of workforce
- Sustaining level of competence sufficient for achieving desired goals
- Anticipating development needs (inter alia training programs and training cost)
- Anticipating HR cost

HR planning pursues to ensure that the company is committed to right structures of HRM enabling the company to maintain right number of staff in both long- and short-term periods. Well designed HR planning helps managers to make sure that the company is equipped with the right people in right positions and guides them to develop recruiting and selection processes suitable for the company needs. To protect the company success factors the managers need to anticipate the hurdles the company is likely to encounter in the future in order to be able to make adjustments in their strategies. Thus forecasting the needs of HR development and HR cost are some of the most important aspects of HR planning. The process of HR planning is strongly linked with the company strategy including the decisions of what positions the company needs to fill and how they will be filled. Inter alia the decisions about weather a position should be filled internally or externally and which channels will be used in the process are constitutive elements of HR planning (Ivancevich 1995, 133; Dessler 2003, 90; Beaver & Hutchings 2004, 81; Bratton & Gold 2007, 201).

Expansion and contraction of a company business has direct effects on the required number of employees. Therefore HR planning usually interacts closely with rest of the company planning. Often the long-term planning outlines a preliminary sketch about the potential of future increase or contraction in the personnel needs and more specific plans are made in cooperation with the company annual planning. Inter alia budget planning includes anticipating possible expenses or savings resulting from future changes in the number of employees. Usually managers are in charge of the HR planning of the department they are responsible of. Managers tend to have the best knowledge about the situations and plans of their staff as well as the first-hand insights about productional development of their department. Managers pass on the information to the people coordinating the HR planning. Top management clarifies the company strategic policies and frames to the managers and the people in charge of the operative functions who evaluate the effect of the planned changes will create in the staff. In SME’s this process usually takes place flexibly in managerial conversations (Strömmer 1999, 233-234).
HR planning is strongly linked with the recruiting, rewarding and developing functions of a company. Dessler (2003) argues that people creating HR plans need to forecast three things: personnel needs, supply of inside candidates and supply of outside candidates. Understanding personnel needs will help the managers to forecast inter alia projected turnover of employees as a result of resignations or terminations enabling them to consider ways to motivate desired employees to commit to the company. The nature of appearing need of competences define weather the company can fill the projected openings by training the existing staff or does the situation create pressure to recruit new employees (Dessler, 2003, 90).

The following three chapters will depict and evaluate different methods of recruiting, developing and rewarding that offer tools for solving problems recognized in the process of HR planning.

2.3. Recruiting process

This chapter describes the recruiting process as a concept through a variety of possible strategies, channels and methods of selection.

2.3.1. Recruiting strategies

Recruiting is a concept that constitutes from all efforts company is taking to obtain required employees. Dessler (2003) states that effective recruiting is increasingly important today, for several reasons. First, the ease of recruiting tends to ebb and flow with economic and unemployment levels. Therefore the people responsible of the recruiting process need to be aware of the surrounding world and business climate just as much as the people in marketing and sales. High average turnover rates for some occupations are also a problem due to the scale of the applicant pool the situation requires. Finding suitable people for a turbulent position can prove challenging due to the limitations in the number of applicants. Just as companies have ‘the corporate image’ or ‘service image’ in the minds of the customers they also have ‘employer image’ at the employment market that affects their ability to hire desired people. Foremost employer image originates from the corporate image that is created by marketing messages, customer experiences and public news about the company. Additionally employer image is influenced by the externally visible recruiting policies, inter alia the content and density of recruiting messages. Finding the right inducements for attracting and hiring skilled people can be substantially harder for a company
that has not fostered their employer image as a well-known desired employer. Additionally employer image is affected by the ways the company treats their employees as well as the applicants. Level of wages, orientation period and HR development and management of a company are all discussion topics that word of mouth spreads effectively around the employment market. In fact, Strömmer (1999) argues that the knowledge and opinions received from friends has stronger effect to the creation of the employer image than the official marketing messages. The largest challenge occurs when the marketing messages and the word of mouth have a strong contradiction (Dessler 2003, 97; Strömmer 1999, 245).

Previously the company recruiting process was typically launched as a consequence of departing employee or the company expanding beyond the capacity of their work force. In addition, emerging need for new type of competence in the organization appears more and more frequently as the trigger for the recruiting process, especially if training the existing staff for new positions proves to be too slow or too expensive (Torrington & Hall 1991, 264; Strömmer 1999, 243). Hiring a new employee is one of the most far-reaching decisions for an organization. Possible structural flaws and mistakes made in the recruiting process create potential threat equally for the organization and the recruited employee. The significance of a successful recruit can be compared to a long-term investment. Also the temporary and fixed-period recruits contain notable economic variables in the form of costs originating from recruiting, orientation period and the mistakes likely made by the unexperienced employee. However, successful recruits equip a company with fresh insights and new assets. A new employee often brings a new set of education, experience and skills to the organization along with a fresh view of the company processes. Occasionally the new employee even has valuable information about the competitors that can be used to create competitive advantage. Although the prevailing organization often create barriers for the new knowledge in a form of older employees contesting the opinions of a new employees based on their lack of experience about the organization itself (Strömmer 1999, 243-245).

A company recruiting process is a repeating short-term process that should always be guided and supported by a recruiting strategy. Recruiting strategy outlines the preliminary guidelines for the recruiting process and the people making the decisions. Recruiting strategy defines inter alia what kind of work force should be obtained as employees and which processes could be outsourced or subcontracted. Principals for choosing between different recruiting channels in different situations are also defined in the recruiting strategy. The company also needs to define weather they want potentially expensive people who already posses the desired competences, or people who are eager to learn and would work for less money. HR managers could inter alia focus on hiring freshly
graduated people and train them from the start or prefer iron clad professionals who are less likely to make mistakes, but who’s commitment to the company could be less profound. Recruiting strategy is most likely to be successful when it is consistent with the company business strategy. However, every recruiting situation is unique, thus the recruiting strategy should never be too restraining and strict to be unable to adapt to a certain situation. The size of the company determines the significance of the decisions made: the smaller the company, the larger the comparative economical significance. Thus it is imperative for an SME to ensure that the recruiting strategy and the related definitions are aligned with the company goals. (Bratton et. al, 2007, 450)

2.3.2. Recruiting channels

“Recruiting may bring to mind employment agencies and classified ads, but current employees are often the best source of candidates” (Dessler, 2003, 98).

Recruiting can be carried out externally from the employment market or internally from the existing staff. Both contexts have their rationale and arguments that the HR management needs to evaluate initially when designing the recruiting policies and decide between in every individual recruitment situation. Some of the most definitive advantages in the context of internal recruiting are speed and reliability. Existing knowledge about the strengths and weaknesses of the applicants saves time and increases reliability. Internal recruiting is also a strong motivation factor for the company personnel. Career opportunities created from internal recruiting encourage people to develop themselves and make a commitment to the company, which naturally is also desirable for the organization. Morale may rise, to the extent that employees see promotions as rewards for loyalty and competence. Inside candidates may also require less orientation and training than outsiders. Internal recruiting can occur inter alia in the form of promotions or re-hiring the people who have been temporarily laid off (Ivancevich 1995, 200; Schuler & Jackson 1995, 220-225; Strömmer 1999, 249; Dessler 2003, 98-99).

Essentially the HR-manager has two paramount alternatives to launch an internal recruiting process: the position can either be declared open for applications or a specific people can be chosen based on their skills. Despite the way of execution the orientation period of internal recruiting tends to be significantly shorter in comparison to external as the employee is already familiar with the company and the organizational culture. In addition to shorter orientation, resources are saved and costs cut down, as there is no need for advertising the position or using any purchased services for
acquiring the desired know-how. However, internal recruiting entails a risk of being unable to obtain fresh influences through new employees. Being too introverted can hinder the company’s ability to innovate causing potential threat of falling behind of their competition. Employees competing for the same position can also lead to deterioration of morale as their interests start to collide with each other. Internal recruiting can also cause a chain reaction in recruits when employees shift from a position to another. Filling the open positions caused by this chain reaction has the potential of creating even larger challenges and cost as the external recruiting (Ivancevich 1995, 200; Schuler & Jackson 1995, 220-225; Strömmer 1999, 249; Dessler 2003, 98-99; Beaver & Hutchings 2004, 83).

When a need for competence emerges, the HR-managers initially evaluate whether that position needs to be filled by a person, or if the problem can be solved through internal processes. If recruiting is chosen as the course of action, a thorough analysis including the nature of the position and required qualities of the employee should be conducted. Carroll et.al (1999, 237) describe job analysis as the definition of the mental and physical abilities required from the employee based on the job description, responsibilities and working environment. Following the job analysis, more detailed requirements for the educational background, personal experience and abilities for the position can be planned and laid out. External recruiting process is often launched subsequently as a result of the internal recruiting failing to find the required number of qualified people (Carroll et.al 1999, 237; Megginson et.al 2000, 227).

Schuler & Jackson (1995) argue that majority of large corporations typically utilize both internal and external recruiting processes whereas SME’s often have to settle exclusively into external recruiting due to the conciseness of their existing resources. According to Schuler & Jackson using external recruiting as the primary process is also typical for companies experiencing fast growth or constant need of high-level expertise. Using external recruiting requires the managers to make several decisions regarding recruiting channels, recruiting procedures and methods of selection (Schuler & Jackson 1995, 225; Carroll et al.1999, 237).

A company can execute their recruiting process with in-house resources or buy a service partially or entirely from an external specialist. HR-managers can also utilize different public and private employment agencies, trade unions, student organizations and academies. Obtaining people with fresh ideas and views for the company is a particular benefit of using external recruiting. External recruiting can also prove to be easier, faster and cheaper alternative especially when the
internal recruiting would require re-educating the employees to meet the requirements of the position (Schuler & Jackson 1996, Megginson et.al 2000, 223-224; Dessler 2003, 101-115).

Buying a service from external specialist may also refer to outsourcing the recruiting to consultants specialized in headhunting, when the searching, interviewing and selecting the employees is partly or entirely given as a responsibility of a consulting company. Consultants have more effective and appropriate routines and concepts to find skilled employees. Consultants are often perceived as skilled professionals, thus information presented by them can be perceived as easy and reliable. Especially in SME’s the lack of time, professionalism, and people specialized in recruiting easily leads into a situation where the backgrounds of the candidates are not checked out thorough enough. Thus using consulting services gives a more reliable opportunity to evaluate the suitability of the applicant for the position. Consultants tend to evaluate the people skills, managerial-, subordinate- and peer relationships, and personal pros and cons with more diverse ways than the managers of a SME. Consultants often support their interviews and tests with recommendations and opinions of the candidate’s previous employers, peers or other people. However, using consultants may not necessarily be the guaranteed way to succeed in the recruiting process. In addition to the obvious fact that there are differences between the skillsets of the consultants, the desires and instructions given by the customer along with the assignment can be misconstrued or misinterpret, that will ultimately lead to failure in the recruiting process. Additionally, in small companies where the recruited persons adaptability to the company culture is seen as an important factor, the consultants know-how based solution might not be the best choice for the company. However, often the usage of consulting services will save time for the company and their diverse skills lead to decreased risk of failed recruits.

In addition to consulting services, the most common recruiting channels are:

1. Adds in newspapers, television, radio and internet
2. Customers, subcontractors, suppliers, competitors, other stakeholders
3. Mergers and fusions
4. Employment agencies, and companies that offer intermediary services
5. Recruiting fairs, schools, and recruiting services of schools
6. “People banks” of trade unions
7. Personal networks of the members of the organization
8. Posters in public or the company facilities
9. Spontaneous job applicants
Dessler (2003) argues that the distinct differences between the recruiting channels create complexity for the decision-making. Although using consultants or recruiting agencies saves time and effort bringing in expertise the company doesn’t likely posses it can also create substantial cost compared to other recruiting channels. The Finnish national employment agency has an important role in the process of recruiting labor force for the employee level, whereas private employing agencies tend to concentrate on the special skills and management segments. Both public and private employment agencies are justifiable associates especially when the company doesn’t have their own HRM -department, the company has experienced difficulties in their recruiting process or has not been able to recruit people with desired competencies. Cooperating with consultants and private employment agencies is also justifiable when the open position needs to be filled quickly, or if the company executives lack the resources to interview a large number of applicants. The choice of recruiting channel is based on the recruiting strategy and the available resources of the company and the nature of the sought position. (Dessler 2003, 103; Pell, 1969; Saulney, 2001; Doherty & Sims, 1998)

Although the process of seeking a new employee has consumed a considerable amount of time and resources so far, the most important phase is possibly yet to come. Best candidate is to be found among the applicants and employment contract satisfying both parties needs to be agreed upon. Methods supporting the final selection vary diversely and the selection process is dependent on the company culture.

2.3.3. Employee testing and selection

After the company has received a potential number of job applications, the people in charge of the HR process pursue to sort out the candidates best suitable for the position and the company’s organizational culture using various methods of testing and decision-making. Dessler (2003) describes the selection process as an endeavor to collect information about the candidates and to predict how they would perform in the position by the means of different selection procedures. The criteria for the selection can be premised inter alia on different cognitive, motoric, physical, or people skills. The ability to acquire the right people for the right jobs is one of the most vital success factors for a company. Competent people add value for the company whereas failure in the
recruiting process can create substantial cost. In addition to the deprivation of the investment in the recruiting process a failed selection can also lead into costs derived from the incompetence or even criminal malpractice of the employee. Strömmer (1999) argues that the chance of unsuccessful selection decreases if the applications and CV’s are analyzed carefully and the explanations for possible inconsistencies are derived. Additionally, confirming all of the information, such as letters of recommendation, given by the candidates will help the decision-makers to find out untruthful claims and to discard the applicant in an early stage of the process. However, all the processes and decisions in the recruiting process must be based on the legal requirements, such as fair and equal treatment. (Dessler 2003, 127,144; Strömmer 1999, 255-257; Bratton & Gold 2007, 257; Nicholson, 2000; Schofield, 1993)

Typically the selection process starts from the screening of the applications. Dessler (2003) states that with the obtained pool of applicants, the next step is to select the best candidates for the job. This usually means whittling down the applicant pool by using screening tools such as tests, assessment centers, and background and reference checks. Subsequently the prospective supervisor can interview the likely candidates, evaluate their skills and personalities, and make the decision about who to hire (Dessler 2003, 127, Bratton & Gold 2007, 257). The interview is typically a version of structured, semi-structured or unstructured interview chosen and designed based on the needs of the company. Managers use interviews for several purposes. For example, there are selection appraisals, and exit interviews. An appraisal interview is a discussion, following a performance appraisal, in which supervisor and employee discuss the employee’s rating and possible remedial actions. When an employee leaves a firm for any reason, HR often conducts an exit interview. This interview aims at eliciting information about the job or related matters that might give the employer some insight into what’s right or wrong about the firm (Dessler 2007, 161; Hutcuff et al. 1996, McDaniel et al. 1994). In addition to the interviews the HR managers also evaluate the education and experience of the applicant to support the decision-making in the selection process. Previous experience works as a good indicator of competences and attitudes providing also a reference of the future potential (Strömmer 1999, 255-257; Dessler 2003, 136-139). If the perceived information about the applicant’s abilities doesn’t seem clear enough, or the company experiences any problems in their recruiting process, they may want to replenish their view with the help of consultant services. Evaluation of a specialist can reveal additional information about the applicants that has not become clear as the result of the interviews. A specialist evaluation can be based on inter alia psychological testing, personality testing, abilities testing, additional interviews or graphology. Different tests provide information about the
applicant’s motivation, ability to endure stress, self-esteem, empathy, creativity, and social behavior that all have a direct effect on their performance expectations. Dessler recommends, that the tests used in specialist evaluations should have a role where they provide additional information supporting the decision-making, but they should never be the definition (Dessler 2003, 136-139; Bratton & Gold 2007, 262-263; Siegel & Lane, 1982).

The applicants can also be put through tests where they are to perform job-related tasks in a controlled environment such as a simulation or an audition. The most significant difference between this type of testing and the others is the ability to evaluate the actual job performance instead of merely estimating the capabilities. One of the benefits of simulating methods is the reliability. It is far more exaggerate or lie in an interview, than in an actual performance simulation. Dessler (2003) names auditioning as the single most reliable method of forecasting the future job performance. Auditioning or simulating can also prove to be the fairest way of testing the applicants from the aspect of discrimination. Auditioning or performing a simulation may be more reasonable to a representative of a minority than e.g. psychological testing, due to their tendency to underline middle-class values and concepts. (Dessler 2003, 141, Weekley & Jones 1997, 25, Nicholson 2000)

2.4. Training and development

“To remain viable in an environment characterized by uncertainty and change, organizations and individuals alike depend upon an ability to learn” – Edmonson & Moingeon (1998, p.9)

In addition to recruiting companies are able to reinforce their competences by training and developing their staff. HR development is an all-round entirety that requires the managers to possess understanding of the needs of the organization and every individual employee along with skills to customize the development process to meet the needs of the organization.

2.4.1. Organizational learning and HRD

Majority of the successful multinational corporations have declared fortifying the learning abilities of their organization into their strategy. Discussion about organizational learning and learning organization has become more and more public in both academic and pragmatic fields of business. Torrington et.al (2008) state that the interest in learning organizations has been stimulated
by the need to be competitive as learning is considered to be the only way of obtaining and keeping a competitive edge. The field of management has also adapted the concept of knowledge management. In addition to the management of information the concept withholds the aspects of gaining and sustaining skills and competences for achieving the organizational goals (Strömmer 1999, 175, Torrington et.al 2008, 273).

Organizations are often perceived as individual entities instead of considering them to be a sum of their members. However, organization learns through its members making the overall ability to learn dependent on the combined abilities of the employees. Therefore enabling the possibility for individual learning is a critical factor in the organizational development (Crossan et al. 1991, Strömmer, 1999, Torrington et al. 2008). Continuous technological and economical change accelerated by globalization and development of the information society along with the growing importance of innovating and flexibility in fulfilling customer needs have raised the learning abilities of an organization as one of the key success factors. Learning refers to action or function that an individual uses to acquire and adopt skills and knowledge in a manner that leads into relatively permanent changes in behavior (Torrington et al. 2008). Strömmer (1999) refers to Woolner’s (1991) arguments about the possibility to recognize learning separately in individual, team and organizational levels. Individuals are able to master and develop new skills and attitudes while acting simultaneously as the critic of their own performance. Team level examination addresses a much more complex level of learning as the team’s ability to learn is dependent individually on its each member (Strömmer 1999, 183, Woolner, 1991). In learning-based organizations learning is seen as a continuous process where learning through experience and spontaneous learning have a substantial role along with educating (Strömmer, 1999, Crossan et al. 1991).

The outcomes of learning in both individual and team levels reflect an impact into the organizational level. They can be recognized from the culture, systems and practices as they either further or impair the learning and organizational development. Thus it can be stated that the organization acts as the environment for all learning (Strömmer 1999, 183) A learning organization is a result of consistent and carefully planned decisions, attitudes, managerial processes and commitment. Successful development of a learning organization requires determination, patience and paying attention to the organization as an entity. Competent staff, learning organization and learning on all organizational levels are considered as vital elements of competitive advantage and key factors in the long-term success (Schuler & Jackson 1999, 153; Bratton & Gold 2007, 307).
Human resource development (HRD) is a vital part of organizational learning and according to Dessler (2003, 118) an entire learning process ipso facto. Accordingly HRD can be characterized as an ongoing process that aims to enhance the execution of work assignments, to achieve the set goals and objectives, and to the improvement of individual abilities by offering the people and groups within the organization possibilities to develop their skills and competencies. HRD can include training, organizational development and career-related improvement (Strömmer 1999, 194-195; Beawer & Hutchings 2004, 85; Bratton & Gold 2007, 306). HRD is based on the underlying thought of the company decision makers seeing the employees as factors of production worth investing on and that providing learning-enabling circumstances benefits not only the organization and it’s employees, but also the economy and the whole society (Bratton & Gold 2007, 313). However the short-term and the long-term goals of HRD are not always necessarily compatible as a given. Actions that could seem reasonable and effective on short time frame might have poor potential of creating results on a longer period of time. Most sustainable results in HRD can be achieved when the education and training is also able to create capabilities for responding to future challenges. This requires certain meta-skills, such as learning to learn and ability to revise to be developed alongside with the actual assignment-related development and learning (Strömmer 1999, 194-195; Leopold et al. 2005, 352).

Bratton & Gold (2007) state that in the recent years the field of HRD has started to undergo a paradigm shift from a narrow training and development perspective towards a more holistic perception that emphasizes learning in all organizational levels. It has become increasingly intentional to integrate HRD as a part of all functions of an organization instead of traditional training departments. Thus the preoccupation to integrate learning to work and to create learning organizations has grown distinctly (Bratton & Gold 2007, 307). Also Strömmer (1999) states that there is also a trend of transition in the Finnish HRD practices towards broad and long-term development programs and processes. However, short and unattached trainings primarily capable of updating trivial assignment-related routines still seem to remain as one of the most common methods of HRD practices among Finnish companies. Strömmer (1999) argues that one of the largest obstacles for the development of HRD methods relies in the traditions of a didactic model that contains a premise of the student as a passive receiver of information.

Learning in an organization can occur by the means of either official or unofficial training. Official training refers to education provided by training organizations that usually leads into a certificate or diploma. Thus unofficial training refers into education that does not lead into an official certificate. Unofficial training can be arranged on behalf of the company itself, or an
outsourced partner and it can consist of e.g. quality training or interaction coaching. Unofficial training also includes
the learning created by work experience. Usually learning like this occurs unorganized without systematic planning and
it is fostered by e.g. innovation-friendly organizational culture. Learning can also occur spontaneously or by accident through an emerging challenge or a problem. It could be an important asset for companies if they are able to see unofficial learning as a part of planned organizational activities (Strömmer 1999, 195-196, Torrington et al. 2008, 273-274).

Dessler (2003) argues that training used to focus mostly on teaching technical skills. Today, such technical training is no longer enough. Employers today have to adapt to technological change, improve product and service quality, and boost productivity to stay competitive. Doing so often requires remedial education. Torrington et al (2008) state that the line manager’s role in learning and development has increased with the devolution of HR tasks. Coaching is an informal approach to individual development based on a close relationship between the individual and one other person either internal or external to the organization. The coach is often the immediate manager, or specially trained internal coach, who is experienced in the task. However, there is also increasing use of external coaches, especially for more senior managers. Also ‘coaching’ has become very much a professional occupation with its own code of ethical practice. Strömmer (1999) suggests that although unofficial learning happening in practice should be fostered in the companies as much as possible, external training programs also remain important for their ability to create value through new information and competences. (Strömmer, 1999, 194-195; Dessler 2003, 187; Torrington, Hall & Taylor 2008, 422-423)

The responsibility of creating and enabling a learning organization lies equally in the hands of the management, HR-department and the employees. Also the middle management has a key role in the process of defining the development needs for the staff and contributing to the creation of an atmosphere that supports learning.

2.4.2. The Training process

Why do firms train workers? To answer that question Baron & Kreps (1999) refer to an approach economists call Human Capital Theory. Firms train workers (and pay for the training) if doing so enhances the firm’s profits. The firm in deciding whether to invest in the human capital of an employee, computes three (expected) net present values: the cost of the training, the gross benefits
that will accrue to the employer if the employee gets this training and the increase in salary that
must be paid to the employee by this employer because of this training (Baron & Kreps 1999, 372,
Booth & Bryan, 2005).

Training refers to the methods used to give new or present employees the skills to perform their
jobs. Training can consist of inter alia showing a new Web designer the intricacies of your site, a
new salesperson how to sell your firm’s product, or a new supervisor how to interview and evaluate
employees. Dessler (2003) argues, that training is a hallmark of good management, and a task that
managers overlook at their peril. Having high-potential employees doesn’t guarantee they will
succeed. Instead, the employees have to know what the company wants them to know and how they
want them to do it. If they lack the proper training, they’ll do the jobs their way, improvise or even
do nothing productive at all (Dessler 2003, 187).

Training also refers to developing the current staff in the ways they are currently working in
order to reinforce knowledge, improve performance and modify undesired behavior to enhance the
company overall performance and ability to compete. Dessler (2003) states that “training” is much
more inclusive than it used to be. Training used to focus mostly on teaching technical skills, such as
training assemblers to solder wires or teachers to write lesson plans. Today such technical training
is no longer enough. Employees today have to adapt to technological change, improve product and
service quality, and boost productivity to stay competitive. Doing so often requires remedial
education. For example, quality improvement programs require employees who can produce charts
and graphs and analyze data. Similarly, today’s employees need skills (and thus training) in team
building, decision-making, and communication, as well as technological skills. And as competition
demands better service, employees increasingly require customer service training. For instance,
McDonalds swung into action with a new training program in 2001, when they found that many of
its in-store customers complained of poor service (Dessler 2003, 187; Wiley 1993, 80; Fraziz et al.,
1995; Ellis & Gale, 2001).

Torrington et.al (2008) state that there seems to be general agreement that training and
development is a good thing, and that it increases productivity, but the question is “how much”? The
variation between how seriously managers seem to emphasize the significance of training lies in the challenges to specify and measure the results of the input. It is difficult to show a causal link
between HR development and organizational performance, partly because such terms are difficult to
define precisely, and partly because the may be challenging to see the payoff from development in
the short term. It is also difficult to tie down performance improvements to the development itself
and to understand the nature of the link (Torrington, Hall & Taylor 2008, 379; Kaplan & Norton 1992).

Before planning the contents of the training the company needs to evaluate the situation and decide how the training should be organized. The success of training is always dependent on who is carrying it out. Therefore, it is important to give a thorough attention for the selection of the trainer. Training and development also calls for analyzing and choosing the type of training required to ensure that employees posses the knowledge and skills to perform satisfactorily in their jobs or to advance and develop in the organization. The solutions can range from informal on-the-job learning to sending people in an MBA program. In many large organizations the training and development is seen as part of a strategy involving long-term planning and individual professional development. Although performance appraisal is a contentious issue and sometimes resisted by trade unions, it can help to identify employee key skills and ‘competencies’ and plan for individual career development (Bratton et al. 2007, 450; Desssler 2003, 188; Ellis & Gale, 2001; Schuler & Jackson 1995, 314).

Strömmer (1999) defines three possible ways of organizing the training:

1. Training can be planned and executed by an external service provider. The possible downsides of this approach can rise from poor suitability of the training program to the company needs. The tailoring of the training can be indifferent or challenging. However external and fresh views, expertise and economic efficiency can offer great advantages and benefits for the company.

2. The organization may have in-house training department that designs the sufficient training. Challenges can occur from excessive bureaucracy and internal power relationships. Benefits come from thorough knowledge of the organizations needs.

3. Training can be arranged fixedly (on-the-job) at the workplace where the training is supervised by e.g. skilled peers or managers. Benefits of this approach present themselves inter alia in the form of the possibility of the trainer to receive answer for every single question and the possibility of the trainer to learn in the process as well.
Training is always an aspiration for a change of something. Therefore the nature of the most suitable training and trainer is also dependent on the background ideals of the managers. Inter alia weather they aspire to maximize passing of information with reasoning or invest in long-term development of company culture and processes. Supervisors or peers often carry out minor training of technical skills required on the job, whereas conceptual training involving interpersonal communication and adapting is usually passed on to the responsibility of trained professionals such as consultants or university researchers. HRM specialists or consultants can also take part in the mapping of the training needs with or on behalf of the company management (Bratton et al. 2007, 450; Strömmer 1999, 205).

Dessler (2003) suggests a five-step framework for the company decision makers planning the training process. The first, or need analysis step, identifies the specific job performance skills needed, analyzes the skills and needs of the prospective trainees, and develops specific, measurable knowledge and performance objectives. In the second step, instructional design, you decide on, compile and produce the training program content, including workbooks, exercises, and activities. There may be a third, validation step, in which the bugs are worked out of the training program by presenting it to a small representative audience. The fourth step is to implement the program, by actually training the targeted employee group. Fifth is an evaluation and follow-up step, in which management assesses the program’s successes or failures. The actual definitive nature of the training depends on the target of the training. E.g. if the purpose is merely to train a few people, it probably makes sense to apply on-the-job training already because of the cost alone. Accordingly training a large group in a short time usually requires a separate training program organized by specialized people (Bratton & Gold 2007, 450; Dessler, 2003, 188; Schuler & Jackson 1995, 314).

Forms of training can be roughly divided into two categories: on-the-job training and off-the-job training. On-the-job training refers to both learning from observing experienced workers and working personally in the actual working process while under supervision. Peers or superiors teach the trainee required skills and techniques in the actual working environment and in real situations. Various hands-on concepts such as work cycles, daily instructions of the supervisors and mentoring are also considered as on-the-job training (Wexley & Latham 1981, Dessler 2003, 192).

On-the-job training has several advantages. It is relatively inexpensive; trainees learn while producing; and there is no need for expensive off-site facilities like classrooms or programmed learning devices. The popularity of on-the-job training may well be based on its simplicity and cost efficiency. Furthermore, on-the-job training, along with all the other forms of organizations internal
training, entails few additional advantages. Training designed and executed internally by an organization often correlates well with the company needs and enables the possibility of precise tailoring of the training. As on-the-job training is often carried out fixedly at the workplace by in-house people it also ends up creating a learning experience for the trainers as well in addition to the transition of knowledge (Dessler, 2003, 192; Strömmer 1999, 204-205). However, the method naturally has its quintessential challenges. If on-the-job training is not planned and executed with the proper caution and piety, the cost of broken machines, unhappy customers and poorly trained staff may evidently grow to be substantial. Managers should emphasize the importance of selecting suitable people for the training position to enable and foster on-the-job learning and to avoid risk of failure (Dessler 2003, 192). Internally organized training also entails a risk of limiting the learning exclusively into everyday experiences and possibly preventing the most valuable knowledge and understanding from being created in the training. Additionally, internal power relations, hierarchy and bureaucracy contain a potential of creating friction and problems (Strömmer 1999, 204-205). On-the-job training aims to update and evolve the employee’s skills and competences without detaching them from their job responsibilities and thus without creating extra cost from increased workload. A manager or an experienced peer as a coach can share “inside” information with the individual they are coaching to help them understand the culture and the political context in which they are working. For example, they are able to explain who will have most influence on a decision that will be made, or future plans for restructuring within a department (Torrington et al. 2008, 423).

Off-the-job training may be recommended as a chosen training method inter alia if failing at the job entails dramatic consequences, if the training involves learning of complex and demanding skills, or if the training consists of learning skills that are not distinct at the work place (Schuler & Jackson 1996, 324). Off-the-job training may consist of e.g. different types of training courses, role-playing and simulation, where job performance is being practiced in simulated circumstances that mimic the real situation without any risks. Torrington et al. (2008) state that educational courses undertaken during a career are frequently done on apart-time basis leading to a diploma or master’s degree with a management or business label, and/or qualification for a professional body. Reportedly it is considered that such courses provide value for both the employer and the participant – and MBA study is a popular route. In addition there are consultancy courses. Varying from a half-day to several weeks in length, they are run by consultants or professional bodies for all comers. They have an advantage that they bring together people from varying occupational backgrounds and are not, therefore, as introspective as in-house courses and are popular for topical
issues. However, Torrington et al. criticize them to be often relatively expensive and superficial, despite their value as sources of industrial folklore, which means swapping of experience among course members. They consider most valuable courses of this type to be those that concentrate on specific skills or knowledge, such as developing time management, interviewing or disciplinary skills, or being introduced to a new national initiative. In-house courses are often similar to consultancy courses, and are some-times run with the benefit of some external expertise. In-house courses can be particularly useful if the training needs to relate to specific organizational procedures and structures, or if it is geared to encouraging employees to work more effectively together in the organizational environment. The drawbacks of in-house courses are that they suffer from a lack of breadth of content, and there is no possibility of learning from people outside the organization (Torrington et al. 2008). Simulation is suggested to be a suitable tool for developing conceptual and problem-solving skills. Simulation also enables the trainees to reflect their behavior and effectiveness without the consequences that in real situation could pose a serious problem for the organization, e.g. plane crash during the pilot training. In turn, role-playing is often applied especially to pursue the development of process and human relationship skills (Schuler & Jackson 1995, 324-326; Ivancevich 1995, 439; Torrington & Hall 1991, 456-457).

There is no uniform agreement how scholars define and divide all training methods into different categories. E.g. Ivancevich (1995, 439) includes simulation in his definition as a method of on-the-job training in addition to the traditional training on the job, whereas Dessler (2003) defines it as training employees on special off-the-job equipment, as in airplane pilot training, so training costs and hazards can be reduced. This research utilizes Dessler’s argument of the definition. Indenture is an exception that is defined as a combination of both off-the-job and on-the-job training. Indenture is a combination of on-the-job training and school, that strives to provide the individual with the skills and competences that are required by a certain job or profession. In most cases indenture also leads into a vocational examination (Ivancevich 1995, 435; Schuler & Jackson, 1995, 321; Dessler 2003, 193; Torrington et al. 2008, 420-421).

Orientation of a new employee is one of the most important parts of training. The goal of orientation is to support the new employees as long as it takes for them to be able to take full responsibility of their position. It is an orienting process to the new organization and new assignments. Orientation serves the interests of both the newcomer and the organization as it aims to help the new employee to adapt to the organization without lowering the standards of the company. Strömmer (1999) recommends orientation to concern all new positions, including interns, sand-ins, thesis writers and people moving to new positions inside the organization. Introduction
and orientation of the entire organization is emphasized in the case of training a new employee, whereas the training of a person shifting positions inside the organization focuses mostly on the details of the new position. It is recommendable that companies would plan a systematic orientation system including the definitions of the methods and responsibilities of the process (Strömmer 1999, 259).

Large corporations have often planned orientation functions into their HR-strategy. The responsibility of training and orientation is usually on the responsibility of the new employees closest manager. However, it is not unusual for experienced colleagues to participate into the orientation of a new employee due to their expertise. Challenges in the SME –context occur when the limitations in resources and time guides the people in charge of the orientation focus the training exclusively on the job description. Thus it might take a long time until the new employee feels as welcome into the group, creating challenges for the group dynamics and commitment (Strömmer 1999, 259-260).

Successful orientation has the potential to improve employee’s commitment, input, productivity and quality of their work. Well-executed orientation allows the new employees to succeed in their jobs creating motivation and sustaining the overall quality of the organization. Thus orientation should be carried out in a way that creates positive attitudes in all people involved, creates good grounds for interaction and teamwork, and enables the new employee to become a permanent part of the community as fast as possible (Strömmer 1999, 259-263).

From the corporate point of view it is most efficient when the functions of HRM support each other. Inter alia the effectiveness of new training and developing functions elevates when they are attached into rewarding systems instead of presenting them to the staff as separate entities (Bratton & Gold 2007, 206-207).

2.5. Performance evaluation and compensation

Rewarding is clearly a central concept to the employment relationship. While there are plenty of people who enjoy working and who claim the they would not stop working even if they were to win a large sum in a lottery, most of us work in large part because it is our only means of earning the money we need to sustain us and our families in the lifestyle which we are accustomed. How much we are paid and in what form is therefore an issue, which matters greatly to us. Tayloristic and
Smithsonian thinking suggests that people work primarily for money and that money is also the soul factor affecting employee productivity and commitment. However, nowadays the monopolistic position of money as the source of motivation has deteriorated in the minds of employees and it has become growingly important for managers to be able to create complementary ways to motivate and commit people to the company with different incentives. But what is motivating? What makes the employee commit to the company? And how to balance the expenses? These questions are central for the human resource management function because money spent on salaries, benefits and other forms of reward typically accounts for well over half an organization’s total costs. For commercial organizations it is thus a major determinant of both profitability and competitive advantage. In the public sector the cost of rewarding staff is determined by and, in turn helps determine, the level of taxes we pay (Dessler 2003, 334; Torrington, Hall & Taylor 2008, 632).

For these reasons, to a greater extent than is the case in other areas of HR practice, the management of rewards is heavily constrained by the financial position of the organization. The aim is thus to design competitive reward packages which serve to attract, retain and motivate staff, while at the same time keeping a lid on the costs so as to ensure the organization’s commercial and financial viability. Rewarding systems effect on the company’s ability to recruit and retain their employees. The ability to achieve competent staff is vital for the company’s ability to achieve their goals. Therefore companies should have a rewarding system that is consistent with their competitive strategy and culture and the predominant situation on the labor market. The ability to create effective rewarding system requires thorough understanding of factors effecting human behavior and motivation. Additionally, the design must consider the corporate culture and the existing employees and skills in addition to the ones they would like to attract. Labor laws, collective labor agreements and taxes also constrain the possibilities to plan the rewarding system. The ability for the management to create an effective rewarding system requires clear guidelines of what is expected from the employees, and how they are rewarded. In order to avoid contradictions and deterioration of motivation, the rewarding systems should be as fair, transparent and easily interpreted as possible. The rewarding criteria should be public knowledge for everyone involved and the system should concern entire staff. Employees should primarily be rewarded by accomplishments and performances that are desired and important to the company strategy. Rewarding system can either encourage employees into better performance or deteriorate their motivation depending on how the staff perceives the system (Dessler 2003, 302-317; Leopold, Harris & Watson 2005, 209-222; Storey & Sisson 2005, 180; Strömmer 1999, 269-272; Torrington, Hall & Taylor, 2008, 632).
Competition, shareholder value, and turbulence characterize business today, and they’ve produced renaissance for financial incentive/pay-for-performance plans. Studies have shown that installing rewarding plans enables a company to attract more customers from its competitors especially when the competition is intense. The relative correlation of money and motivation is also affected by the personal needs, hierarchical position and personal performance tendencies. Individuals who work exclusively to fulfill their basic needs experience money as a very important factor. However, perhaps quite surprisingly, the importance of money deteriorates when the salary increases. Also the will to achieve and the possibility to rise in the company hierarchy decrease the meaning of money as a motivational factor. However, when the work is considerably simple or physically demanding manual labor and/or unpleasant, the economical reward might be one of the most important motivational factors. Thus the motivation varies along with the nature of the assignment, time, and individuals (Dessler 2003, 334; Storey & Sisson 2005, 180; Strömmer 1999, 287-288).

Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components: direct financial payments, and indirect payments. Direct financial payments consist of wages, salaries, incentives, bonuses, commissions and financial benefits such as cars, apartments, expense accounts, free health services and staff discounts. Parts of the direct financial payments and benefits are obligatory by law and some are dependent on managerial decisions. E.g. social security payments are obligatory by law in Finland, whereas staff discounts are purely volunteer incentives to commit the staff. There are basically two popular ways to make direct financial payments to performance-level employees: on increments of time and on performance. Piecework is an example; it ties compensation to the amount of production (or number of “pieces”) the worker produces, and is popular as an incentive plan. Sales commissions are another example of performance based (in this case, sales-based) compensation. Indirect payments consist of received appreciation, respect and responsibilities. Freedom to use creativity, possibility to develop personal skills, flexibility on working hours, methods and places are also important methods of indirect payments (Dessler 2003, 302; Leopold, Harris & Watson 2005, 211-214; Strömmer 1999, 269-272).

Storey and Sisson (2005) suggest some managers still have a profound believe that pay is the prime motivator of performance. Those managers seem to be convinced that not only is managing trough the payment system the most effective means of managing HR and IR (industrial relations), but that it is also sufficient for doing so. Thus utilizing of indirect payments may receive less attention in managing the company HR. However, excessive focusing on direct financial payments
may deteriorate the employee’s intrinsic motivation, e.g. pride of doing a good job. (Storey & Sisson 2005, 178-179.) Rewarding for a good job performance or development is a strong but simultaneously sensitive incentive, because it tends to have a direct affect on people’s behavior. Voluntary rewarding systems also have a potential of snowballing and becoming expensive for the company. Therefore it is important to consider what kind benefits are those incentives able to create and how significant they actually are. (Strömmer 1999, 269-272.)

In order to be able to create a uniform and equal rewarding system the decision makers are required to define the basis and justification for the rewarding. Rewarding is often based on either job evaluating or employee performance evaluating. Job evaluation is based on the relative internal value of the job. Relative internal value illustrates the importance of each assignment to the functions and efficiency of the organization. Torrington et.al (2008) state that job evaluation is one of the most common method used to compare the relative value of different jobs in order to provide the basis for a rational pay structure. They argue that the value of a job should always be determined rationally and systematically instead of being determined intuitively. Performance-based rewarding can be divided into two segments: individual objectives, such as sales or production rate, and desired behavior or features, such as cooperation, reliability or innovation based rewarding. (Torrington et al. 2008, 661-663; Storey & Sisson 2005, 177.)

Storey & Sisson (2005) argue that there is no dispute about the overall significance of the reward system in performance management. It motivates the employees to aspire to achieve their goals and the organization to improve their communication and norms of operations. Performance rewarding system also helps the company to evaluate their employees and to emphasize the investments in order to commit the most valuable employees to the company. (Storey & Sisson 2005, 178.) However, despite the name, the aspiration to create a unified rewarding system does not mean that people in all positions would receive the same reward. Torrington et.al (2008) argue that whatever methods are used to determine pay levels and to decide what elements form an individual pay package, it is absolutely imperative that the managers make sure they are perceived by the employees to operate equitably. It has long been established that perceived inequity in payment matters can be highly damaging to an organization (Torrington, Hall & Taylor 2008, 649).

Experience has traditionally been a commonly approved premise for pay rises in many industries. Companies have been accustomed to apply annual payment increases to reward people for their working years and their loyalty in addition to the collective labor agreements. However, many companies have instead decided to choose a performance-based rewarding system that
integrates the wage development with performance evaluation (Storey & Sisson 2005, 177). The ability to create and conduct objective evaluations of job performance in contrast with the set goals is imperative for the appliance of performance-based rewarding system to be justifiable. The goals set for individual employees should be as precise and simple as possible to avoid misinterpretations and loose of focus. Additionally, the goals should be challenging enough to create effort, but also possible to achieve to create sustainable motivation and avoid dismissal from the employees (Clark 2005). Additionally, well-executed performance evaluations provide the managers with valuable information supporting all HR-decisions e.g. rewarding, promotions, lay-offs, transfers and training.

There are several alternative ways to monitor, measure and analyze the employee performance. Storey & Sisson (2005) state that analyzes are based on two main types of individual PRP (performance-related pay) schemes, either performance as measured by the results and achievements of an employees efforts, or in terms of certain behavioral traits - sometimes known as merit rating. The measured attributes may consist of inter alia quality or quantity of work, ability to co-operate and build team spirit or create innovations, personal competences and attitudes, or reliability and diligence. Evaluations may be based on one attribute, or different combinations, depending on which viewpoint best suits the purpose. Evaluations and analysis have traditionally been conducted and managed by superiors. However, peer-evaluations, subordinate-evaluations, specialist-analysis and personal evaluations have also become increasingly popular due to their ability to create different views and thus add value to the manager’s decision making. (Storey & Sisson 2005, 177.)

Performance evaluations aim to enhance and develop the performance of both the employees and the entire organization. However, the performance evaluation is not exclusively designed for the companies applying PRP, but is also a valuable tool for all HRM-functions. Performance evaluation has the potential to provide valuable information about the employees. It provides managers information about who should be promoted and what kind of HR-planning is needed, but it also gives employees information of how they have succeeded in their work and creates feedback discussions between managers and employees possibly strengthening the company culture and professional discourse. Performance evaluation has traditionally been an important part of performance management. Houldsworth (2004) states that managing performance in organizations has classically centered on evaluating performance and allocating reward, with effective performance seen as the result of the combination of individual competence and motivation. (Beawer & Hutchings 2004, 88; Clark 2005, 318-319; Houldsworth 2004; Megginson et.al 2000, 263; Torrington, Hall & Taylor 2008, 294.)
However, there are also challenges in managing PRP successfully. Problems may occur if the objectives are not clear enough, they have been explained poorly to the staff, or they create conflict of interest between an individual employee and the team. Storey & Sisson (2005) suggest that excessive concentration on PRP is likely to draw attention from other important features of performance management or even leave them completely unconsidered. Furthermore, they argue that single-minded determination to install individual PRP may cause contradictions with teamwork and collectivism. Thus, individual PRP may not be suitable for an organization that emphasizes the meaning of teamwork, due to the disruptive effect of personal goals conflicting with common objectives and team spirit. However, applying individual PRP systems has become increasingly popular without proper analysis of their true suitability for the organization. Although Storey & Sisson (2005) admit that it is difficult to debate with the overall objective of performance pay, companies should at the very least be careful to analyze whether to introduce an individual or a group PRP. (Storey & Sisson 2005, 177-179).

Collective incentives present a reasonable alternative to an individual PRP for those companies that are willing to manage their performance but consider team spirit to be a valuable asset. A collective incentive, such as a group PRP, can be based on e.g. production yield, reduced cost or increase in sales. Many problems of individual PRP may well be avoided by introducing a group PRP instead. Additionally, the discussion regarding key business elements such as profitability, expenses and quality becomes natural between managers and employees building the implementation of strategy into action in the process. However, collective incentives may not function as intended if they comprise too large group, such as a production facility or an entire company. Thorough analysis of suitability is vital regarding the implementation of a group PRP as well. A company emphasizing quality could suffer from misguided efforts if their employees would receive a reward from quantity. Torrington et.al (2008) argue that proportion of manual workers receiving PRP payments steadily declined between 1983 and 2003, and that there is every reason to believe that the decline has continued in the last years since. They state, that the trend can be explained partly by changing technologies and changes in working practices. It is also clear, that the popularity of PRP systems has declined through a number of disadvantages uncovered over time. (Storey & Sisson 2005, 182; Torrington, Hall & Taylor 2008, 677-684.)

As described in this chapter, companies have a variety of means at their disposal when they need to acquire, train, motivate or to reward their staff. The best way of conducting these HRM – functions is often determined by the nature of business the company is in and the vision of their top management. However, it is undeniable that even the smallest companies have to manage their
human resources, regardless of what terms are being used to describe those functions. As the company evolves, the demands for the HRM change as well. Especially the growing SME’s that continue to undergo change in their size, shape and market position should analyze their HRM needs constantly. As the description of an SME is ample, varying from 1 to circa 250 people, there are also a vast variety of suitable HRM –functions, making studying them challenging, yet very interesting.
3. Development factors of HRM practices in Finnish SME’s

“Responses of the barometer indicate thoroughly that challenges in recruiting are further increasing – especially as a barrier for growth” – SME barometer 2007, Finnish Federation of Enterprises

This chapter takes a step closer to the research problem of this research by addressing the aspects of HRM in the SME context and linking the comparison to the Finnish environment and it’s typical features. Differences of HRM demands between small and large companies are discussed to create understanding between the different types of SME’s. Scrutiny of the special features of HRM in SME’s will build understanding in the interpretation of the results of this research.

3.1. Starting point

Managing human resources in a large corporation or in an SME are very likely two totally different jobs. HR managers and HRM departments of listed companies have a specific job description, whereas a person managing human resources in a SME may very well be in charge of multiple tasks, such as financial administration and salaries, or production management. Often the HR managers of SME’s are the entrepreneurs themselves. (Beawer & Hutchings 2004, 74; Katz et al. 2000; Strömmer 1999, 17.) In a small company separate HRM department is not essential, however as the company grows and the number of employees increase, the demands for managing HRM have a tendency to change and progress. Thus it is reasonable to adapt the concepts of HRM to meet the needs of the company. (Strömmer 1999, 17.)

De Kok et al. (2006) argue that the link between firm size and professional HRM practices is well established. Firm size is often used as a general indicator for the lack of resources, e.g. financial, organizational and/or human resources. Most professional HRM practices require considerable development costs and time. (De Kok, Uhlaner & Thurak, 2006, 445; see also Nguyen & Bryant 2004, 595.) Andersson (2003) states that owners and managers of SME’s have often ignored personnel- or HR-issues like training and development, performance management, employee counseling etc. The disinclination originates from a view, that HRM is unresponsive, or not tailored enough to their needs, and it is considered too costly an activity to carry, especially for a small organization. (Andersson, 2003, 2.) This results in a cost advantage for larger firms, which is strengthened by the limited supply of financial resources of many small companies. De Kok et al.
(2006) argue that it is the lack of specific knowledge - particularly the recognition of the importance of HRM issues – that leads to less use of professional HRM practices in small businesses. In other words, it is not the small number of employees that explains the lack of professional HRM practices, but the lack of specific organizational and human resources. (De Kok et al. 2006, 445; Andersson 2003; see also Beawer & Hutchings 2004.)

In addition to resources, internal factors, such as relationships and interaction culture, channel the way the HRM practices are being formed. Kotey & Slade (2005) argue that one of the major differences between small and large companies is not in fact what HRM practices are used, but how they are applied. The diversity of SME’s and differences in size and management styles create an overwhelming obstacle in forming a unified model for typical SME needs. Thus HRM could be better described as dynamic and variable instead of aspiring to form a standardized model, as some of the previous research has done. (Kotey & Slade 2005, 16-17; Bacon, Ackers, Storey & Coates 1996.)

De Kok et al. (2006) state that company growth theories point towards the positive correlations between firm size, complexity and professional HRM practices. Dominant growth problems presented by Kajanzian (1988) and further discussed by Gabrielsson & Gabrielsson (2013) also support this view. As firms increase in size and complexity, they typically develop more layers of management and more formalized and/or systematized procedures and policies in order to process information more effectively within the organization. There are various explanations for this finding. For example, larger companies have a greater demand for human resources, and therefore a greater demand for specific HRM practices such as recruitment, selection, and performance appraisal. De Kok et al. (2006) argue that this stimulates more professional development of these practices. However, the more dependent the company is from its employees, the more they tend to emphasize on the development of HRM practices. Bacon & Hoque (2005) argue that companies that consider the ability to recruit, develop and maintain competent staff as a critical success factor are more likely to adapt and apply formal HRM practices. “Formal” in this context refers to practices generally approved and recommended by previous research. However, as De Kok et al. (2006) consider using the term “formal” problematic due to its multiple meanings in literature, this research will accordingly apply the term “professional”. (De Kok et al. 2006; Bacon & Hoque 2005; Gabrielsson & Gabrielsson 2013; Kajanzian 1988.)

The professionalism of HRM practices can be defined by the extent which they have been documented, how systematically they are carried out and how institutionalized they are.
Professional HRM practices entail generally recognizable procedures, rules and conventions that have been integrated into the corporate strategy. The presence of the position of HRM manager, or other specialist in charge of HRM, along with written guidelines and criteria for recruiting, redundancy, training and performance appraisals are also considered as an indicator for professional HRM practices. (Nguyen & Bryant 2004, 601; Strömmer 1999, 17.)

Although the size and business strategy of a company determine how fundamentally important the role of the staff will become and how the HRM practices will develop, it is eventually the paradigm and philosophy of the company managers that determines the direction of the development. (Strömmer 1999) The smaller the company is in size, and the more the managerial power is concentrated around the top management, the larger the effect of manager’s perceptions in the company operations (Bacon et al. 1996). However, the development of HRM can miss out on sufficient attention in all companies regardless of the size if the management sees the employees merely as a necessary production cost, or they are is missing essential competence. Also the financial resources and managerial paradigm have a strong connection. The financial situation of SME ‘s is not often as stable as in large corporations, which is apt to have a negative effect on the ability and willingness to make investments on HRM. (Bacon, et al. 1996, 96; Strömmer 1999, 17.)

The effect of financial resources can also be seen in large corporations. Companies are willing to invest on training, recruiting, rewarding and innovating during financially secure times. However, HRM practices are typically first targets of retrenchment when recession or economic stagnation occurs. HRM practices have been in constant defensive battle for its position and justification in companies, especially in the SME sector. The financially charged fluctuation in the appraising of HRM practices continue to indicate that staff is ever more largely perceived as a secondary resource (Wright, Dunford & Snell 2005, 17). Financial uncertainty and shortages in education can be seen as fundamental reasons for the management of human resources being overrun by marketing and finances in many SME’s. Scarce resources and vulnerability for market fluctuation and changes in demand force many SME’s stress their focus on other areas of their business. However, the informality of HRM and absence of rigid structures may also be a benefit, as will be discussed later. Also the accelerating competition of talented workforce has forced many SME’s to seek competitive advantages from new areas of management, such as developing their HRM practices.
3.2. The Polarized perspectives

The previous research of human resource management has been creating strongly polarized stereotypes of the social relationships in SME’s. The positive view seems to describe the HRM of SME’s with the definition “small is beautiful”. This presumption assumes that social relationships in SME’s form automatically as warm and close making it easier to cooperate and manage the company. This discipline perceives people working in SME’s as one happy family. The opposing presumption is that SME’s are most likely to commit the most aggravated injustices to the workers. This view on the contrary describes SME’s to be controlling, patriarchal and autocratic. (Kotey & Sheridan, 2004; Wilkinson 1999.)

The positive approach is supported by various researches that argue communication be less problematic than in large corporations with the premise that the alleged family-like atmosphere brings flexibility to the organization while reducing the potential of conflicts. Kotey & Sheridan (2004) argue that the informality typical for SME’s enables the personnel to create strong peer relationships and furthers the teamwork between staff and management thus improving motivation. In fact small size has several benefits, especially from the employers point of view. Close relationship between employees and management and direct control obviates professional control methods, which releases resources such as time for the managers to invest to the other areas of their value creation process. However, although family-like relationships improve the communication in a company, it also entails problems. Especially the growth of a SME increases demand for documentation and standardization of processes, whereas informal benefits could be outweighed by the disadvantages. (Kotey & Sheridan 2004; Kotey & Slade 2005.)

The negative approach suggests that dictator-like leadership, defective HRM practices and poor working conditions together with other defects related to the Bleak House phenomenon are seen as a risk for employee well being. In a Bleak House environment does typically not welcome employees whose opinions different from the management’s views. The manager’s interest towards improving HRM is generally either very low or non-existent. Duberley & Walley (1995) confirmed the premise of the Bleak House phenomenon in their research consisting of 16 companies. Majority of the managers related to leading with rather a controlling than a developing attitude. Very few managers saw themselves as protean or trans-formal leaders, let alone shared their views with the personell. (Kotey & Sheridan 2004; Duberley & Walley 1995.)
However, both approaches share the premise that HRM practices in SME’s are often informal and unofficial in comparison to large corporations. Kotey & Slade (2005) argue that very few managers have professional HRM practices regarding e.g. appraisals, incentives, promotions or discipline at their disposal. The differences of arguments between the two schools are derived from the consequences of the informality. Bleak House –theorists associate the lack of professional HRM practices with poor management. (Kotey & Slade 2005, 16-20.) In fact, the lacking of professional HRM practices reduces the possibilities for equal opportunities for both job applicants and employees and raises questions for equal treatment of employees. (Bacon & Hoque 2005, Kotey & Slade 2005.) Equal treatment is an essential aspect for HRM, thus Wilkinson (1999) argues that the employees perception of equal treatment is an essential component in the creation of organizational motivation and commitment. Also Mazzarol (2003, 28) and Kotey & Sheridan (2004, 474) state that ability to develop HRM practices is a critical factor in enabling an organizations long-term success.

The scholars supporting the Small is Beautiful –approach and the majority of SME managers have a tendency to believe that family orientation creates a guarantee of equal treatment for everyone and helps to achieve loyalty and commitment of the employees. Consequently, this is one of the reasons why deployment of new HRM functions may seem unnecessary - regardless of various studies that have shown a positive correlation between professional HRM practices decreased work-related stress and improved commitment. (Kotey & Slade 2005, 19-20.) Small is Beautiful approach suggests that small companies experience less internal conflicts due to their close social relationships and low hierarchy of communication. Whereas Bleak House approach explains the situation by arguing that excessive work-related stress generally transpires in the form of personal disorientation, increased sick leaves and growing turnover rate of employees rather than in the form of explicit conflicts. (Kotey & Slade 2005, Bacon et al. 1996, 82; Carroll et al. 1999, 237-238; Wilkinson 1999, 207-208.)

A company struggling with Bleak House phenomenon could seek the origins of their situation from various places. The person in charge of the HRM processes might lack the sufficient competence, or there might even be nobody in charge of HRM. Additionally, they could be missing external networks along with internal professionalism. Katz et al. (2000) argue that SME’s are able to create, exchange and receive HRM-related information and expertise by cooperating trough their networks. This could indicate that SME’s that operate or interact regularly with one or more networks would have more sophisticated and advanced HRM practices at their disposal than companies operating with more exclusive approach. (Bacon & Hoque 2005, 1980; Katz et al. 2000, 9.)
De Kok et al. (2006) support the hypothesis by stating that a research stream is emerging that generally confirms a negative relationship between family firm governance and the use of professional HRM practices. They argue that companies that are family owned may rely excessively on their concise experience and the managers might lack experience from any external company. Thus, companies that have not undergone enough growth to be forced to hire professional managers have a tendency to suffer from Bleak House phenomenon. Also Bacon et al. (1996) argued that companies managed continuously either by same person or by same family are the most likely to be resistant to change in managerial practices. These companies normally respond to implications concerning hiring an outside manager with reservations and avoidance. (De Kok et al. 2006, Bacon et al. 1996.)

Katz et al. (2000) argue that poor knowledge and understanding of management theories hinder development of HRM practices in SMEs. Also the traditional structural and financial features of SME’s slow down the evolution in the HRM conventions. The limitations of financial resources and the slow accumulation of equity also limit the possibilities of transition. Also the possible inability of the managers to create or participate in networks prevents the company culture from reforming and limits innovations to be based exclusively on in-house experience. (Katz et al. 2000, 9; De Kok et al. 2006.)

These two partially contradict views have on their part managed to generate discussion around HRM in SMEs. Although previous research has created a premise that HRM is notably less professional and more accumulated around the owner-manager in SMEs than in large corporations, there has been no consistent proof of the Bleak House phenomenon typically appear in the SME context. Thus, a proposition for Bleak House being any sort of norm exclusively for SMEs is not accurate. (Kotey & Sheridan 2004, 474.) Andersen (2003) argues that HRM practices and challenges in SME’s have developed away from what have been assumed by previous research. SMEs have e.g. implemented practices that have traditionally been associated only with large corporations and the workforce has changed in the direction of increased diversity. The growing diversity of organizations implies, that individual sub-groups will increase in numbers and have different and occasionally conflicting demands, which could make it necessary to design more focused and diverse HR-policies. Andersen (2003) argues that this could challenge the common wisdom, that on the policy level, employees should be treated equal. However, it is clear that SME’s have more limited resources for implementing new HRM practices. (De Kok et al. 2006). Thus it is reasonable to ask weather SMEs are exposed to Bleak House phenomenon?
Previous research emphasizes the intricacy of SME’s. According to De Kok et al. (2006) family discourse typically found in SME’s can simultaneously be seen as an asset increasing flexibility in the company and as a restriction against rational decision-making. Also the internal relationships of SME’s can be stated as complex, unofficial and contradictory rather than clearly harmonic or autocratic. (Martin 2012, De Kok et al. 2006.)

Despite of the prominent difference between management styles and conventions the reluctance to adapt professional HRM practices or even to consider HRM as an important part of their value creation remains prevalent among majority of SME’s. E.g. (De Kok et al. 2006; Martin 2012.) Duberley & Walley (1995) argued that strategic aspects of HRM were one of the least considered aspects in industrial manufacturing companies and HRM was rarely seen as a relevant question for business planning. De Kok et al. (2006) concur with this notion by stating that firm size is often used as a general indicator for the lack of specific resources and that the lack of e.g. financial and knowledge resources hinders the managers ability to consider the importance of HRM. However, they elaborate by arguing that family-owned and managed firms tend to use fewer professional HRM model than other SMEs. (De Kok et al. 2006; Duberley & Walley 1995; Martin 2012.)

Recently the global markets have offered more cross-border opportunities for SMEs and they now have an increasingly important role in international markets. According to OECD, SMEs make up 25 to 35% of world export manufacturers, and about one-fifth of manufacturing SMEs earn 10 to 40% of their sales from cross-border activities. Further, SMEs have become significantly internationalized and actively pursue international strategies such as foreign direct investment (FDI). A number of scholars have suggested that this growing internationalization has also provoked SMEs to develop their international capabilities and human resources through effective training programs. (Chi et al. 2008.) This type of development has a tendency to spread trough cooperative partners, affiliates and networks. Scholars have argued for a while, that SMEs need to develop their management skills in order to survive the global competition. For example Gabrielsson & Gabrielsson (2013) argue that constant improvements in management practices are important enablers as the company matures trough various growth phases. Increased interest for development of training programs inevitably leads to increased focus on HRM practices. This emerging paradigm of training and developing human resources could also indicate growing demand for development of HRM practices among SME managers. (Chi et al. 2008; Gabrielsson & Gabrielsson 2013.)
3.3. HRM policies in SMEs

“We recruit for attitude, and train for skill” – Atul Gawande

3.3.1. Recruiting culture and practices

Previous research shows that the ability to recruit and sustain qualified employees is one of the key success factors enabling or hampering growth. (Finnish Federation of Enterprises 2007; Heneman et al. 2000, 11.) However, the phenomenon is not recent, as successful recruiting and sustaining qualified employees has been one of the greatest challenges to most companies regardless of the size or industry for ages. (Torrington et al. 2008, 146; Beawer & Hutchings 2004, 11.) Recruiting places special challenges for a company seeking to grow and therefore needs to recruit new employees relatively quickly and also possibly in large numbers. However, the study of Rutherford et al. (2003, 330) showed, that companies that were not undergoing any growth were the ones experiencing the most problems with their recruiting process. Rutherford et al. argue that although the recruiting needs of the struggling companies weren’t great in numbers, they had been struggling with their recruiting process since the very beginning and hadn’t been able to attract competent employees. Whereas the companies undergoing moderate growth were the ones encountering least problems in they’re recruiting. (Rutherford et al. 2003, 330.)

Numerous scholars suggest that recruiting problems in small companies could originate from the challenge of being able to sustain internal employee markets and consequently, the inability to maintain their staff. Therefore SMEs are more dependent on the external employee markets and more vulnerable to the changes in market situation. The limitations of in-house career opportunities are also having a negative effect on the SMEs ability to attract competent employees. (Nguyen & Bryant 2004; Carroll et al. 1999.) However, as around many HRM research problems, the academic community is not agreeing unanimously about this either. Inter alia Torrington et al. (2008) argue that many SMEs prefer internal recruiting. In comparison to external recruiting, the internal recruiting process often saves considerable amount of resources such as time and money. It is also likely to improve moral and commitment of the employees, when they have a possibility to advance on their career on the basis of their performance in their current job. Also, some positions are simply easier to fill internally due to the existing knowledge and competence. (Torrington, Hall &
Taylor 2008, 149-150.) However, as a downside of the internal recruiting process, the best possible talent is not always there to be found in the company. For the company to be able to produce all the desired new skills internally, the level of training should be reformed into a level that is not common for SMEs. Thus, focusing exclusively to in-house recruiting creates a risk of failed recruiting, as the most suitable candidate could possibly be found from the external markets. It also creates narrow-mindedness, as it prevents the company from obtaining new skills and fresh ideas. (Beawer & Hutchings 2004, 83; Torrington et al. 2008, 149; Dessler 2003, 98-99.)

Beaver & Hutchings (2004) state that the possible employee shortages experienced by SMEs can also originate from their underdog position regarding compensation and benefits in comparison to large corporations. However, the financial compensation is often not nearly as important motivator for an employee seeking to become employed in an SME as the possibility to improve their skills and to express them through work. Also the organizational culture emphasizing commitment and loyalty typical for SMEs is attractive for job applicants as it serves the people’s essential need of belonging into a community. (Beawer & Hutchings 2004, 90.) However, the significance of compensation should never be overlooked. It is clear that large the vast resources of large companies hinder the SMEs competitive performance in the labor market. Therefore several SMEs have invested in their attractiveness e.g. by acquiring new technologies, adapting fresh operating models and refreshing their organizational cultures. Also benefits and other incentives have received a growing interest in the process of improving the workplace desirability and sustaining the employees. (Megginson et al. 2000, 220-221.)

On the other hand SMEs have to consider risk management regarding recruiting decisions, especially during the prevalent European economic downturn. Finland has a very tight labor legislation that regulates layoffs and the associated procedures, called the collaboration law. Collaboration law is applied to companies employing more than 20 employees and additionally to strict employment policies it obligates the employer to arrange substantial planning and announcement procedures regarding layoffs. (Law of collaborating in the companies 2007, 1. Chapt, §2.)

HR planning is often less professional in SMEs when compared to large corporations. In addition to internal recruiting the companies have a tendency to recruit new employees from their inner circle or based on recommendations of peers and employees. (De Kok et al. 2006; Kotey & Sheridan 2004, 475.) At certain point of the company growth period the traditional recruiting methods will no longer suffice. Word of mouth and internal recruiting are often reinforced with
wanted ads in papers and online as well as cooperation with government agencies, schools and recruiting consultants. Recruiting channels become more diverse and professional when the traditional methods can no longer supply the company with the new skills and competences required to create added value. Also the sheer increase in the number of recruits creates pressure for the company to develop their recruiting processes. Especially emerging recruits in the managerial positions create demand for more sophisticated processes due to higher risk of problems propelled by a failed recruit. (Beawer & Hutchings 2004, 83; Carroll et al. 1999; Kotey & Slade 2005, 26.)

Kotey & Slade (2005) argue that although correlation between the utilization of professional HRM and company size has been established in the previous research, a large number of SMEs appear to favor unofficial networks in their recruiting process. Along with cost efficiency, the popularity of unofficial channels, such as word-of-mouth, can be explained through the manager’s preference to hire people they have some previous affiliation with. Word-of-mouth approach also has an advantage of providing the job applicant with preliminary information about the company and the job description along with motivating the recommender to make sure the person is able to perform well as it’s their reputation on the line as well. (Kotey & Slade 2005, 26; Kotey & Sheridan 2004, 478.)

Organizational culture plays a substantial role in an SME. In fact, Beaver & Hutchings (2004) argue that the significance of organizational culture correlates negatively with the size of the company, which is why SME managers often emphasize the applicant’s suitability and adaptability to the organization over the existing technical skills. (Beaver & Hutchings 2004, 83; Carroll 1999, 239; Marlow & Patton 2002, 530.) Also the method of employee selection tends to reflect the emphasis of the organizational culture. In SMEs the selection is often based on the personal evaluation of the manager, thus the personality of said manager and his/her perception of the organizational culture reflects into the decision instead of following exact selection criteria. (Kotey & Slade 2005, 18; Heneman 2000, 21.) Also Megginson et al. (2000) argue that SMEs tend to rely on subjective evaluations in their recruiting processes without specific job descriptions or skill requirements. Thus, they suggest that even the smallest companies should have at least some level of planning and an agreement on their recruiting process.

Kotey & Sheridan (2004) argue that one of the most substantial risks in the subjective recruiting method is that the person best suited for the job might not be selected if they conflict with the managers ego, status or way of conducting business. Megginson et al. (2000) suggest that one of the most effective ways of diminish the risk of failed recruit is to widen the managers perspective by
utilizing the insights of peers and employees into the decision-making process. This is very important and useful especially if the consulting employee is experienced and is able to reflect the applicant against the specific demands of the job description. In today’s fast pacing world companies also tend to rely on the flexibility of their staff as companies need to be agile in reacting to changes in the market situation. Heneman et al. (2000) suggest that by evaluating both applicants flexibility and suitability to the organization decision-makers would be able to reduce risk of failed recruiting and to manage to select employees that would serve the company also in the future when their needs are likely to change. (Kotey & Sheridan 2004, 475; Megginson et al. 2000, 225; Heneman et al. 2000, 21-22.)

According to Beawer & Hutchings (2004) interview is still considered as the most popular method of selecting employees among managers in both large and small companies. The popularity of the method is largely based on cost efficiency. However, the method is not able to evaluate the applicant’s competence reliably and is therefore creating a potential risk of failed recruit when used independently without a supporting method. Also the cost efficiency of interview can be disputed especially if the number of applicants it large and the interviews are carried out by more than one person. Nevertheless, Dessler (2000) argues that structural interview is able to produce far more reliable information about the future performance of an applicant. However, Kotey & Slade (2005) point out that open interview seems to be precisely popular among SME managers due to their tendency to emphasize the evaluation on weather the applicant is suitable for the company in the sense of fitting in to the organizational culture. Professional methods, such as the 360 analysis and verified recommendations become more common as the size of the company grows. Thus, larger SMEs have a tendency to use more objective and even several methods simultaneously. (Beawer & Hutchings 2004, 82-84; Dessler 2000, 169; Kotey & Slade 2005, 18.)

Thus, it is not recommended to use exclusively the subjective evaluation by e.g. the HR manager as the foundation for the argument to hire a person, as it does not guarantee successful recruiting decision on its own. As stated previously, the applicant can give false impression in an interview, especially if there are no supporting evaluation methods in place and this can possibly obstruct the company from acquiring the skills and competences they need to build their competitive advantage. (Marlow & Patton 2002, 536.) In fact, relying exclusively on unprofessional recruiting methods is often the preliminary reason for emerging problems in the company HR management. Carroll et al. (1999) argue that companies relying on professional recruiting methods, processes and partners capitalize on better work quality and less defects. Successful recruiting also leads into smaller numbers of employee replacement, as there are fewer reasons for people to be let go or to resign
e.g. due to poor skills or circumstances, which is a prominent way of saving money and building the company reputation as a good employer. (Carroll et al. 1999, 249.) Despite of all the benefits potentially enabled by the professional recruiting methods most SMEs consider their recruiting needs primarily on short-term view keeping them from developing their processes based on the paradigm of restraining cost.

Beawer & Hutchings (2004) state that the best outcomes in recruiting reviewed against employer sustainability and adequate skills are most likely to be achieved by combining multiple methods of selection. Unfortunately, SMEs rarely possess the required skills, knowledge or resources to introduce methods that are tested to be reliable and valid to predict employee’s skills and behavior. Thus, the cooperation with both public and private sector employment agencies may rise into a valuable role, as they provide services that help the companies to find the required skills with lesser risk. Employment agencies utilize a variety of professional methods to analyze the skills and competences of job applicants and to make sure that both employer and employee meet each other’s criteria. This is particularly useful for SMEs that are lacking the sufficient resources to carry out successful recruiting processes independently. From the resource point of view it can be reasonable for a small company to rely substantially on the help of employment agencies on their recruiting process. However, when HRM is examined from a long-term view, with the aspires to widen the concept of profitability to entail aspects of organizational profitability and HRM productivity, such as customer service quality, production quality, productivity, organizational commitment, reduced absence, sustainability, satisfaction and decreased desire of retirement it becomes evident that all SMEs should consider developing their recruiting process. (Beawer & Hutchings 2004, 84; Vanhala & von Bondsorff 2013, 113-114.)

Successful recruiting is vital for competitive advantage, growth and survival especially in an SME. A successful recruit has the potential to enrich the company with diversifying skills and knowledge, fresh views and rising moral. On the other hand, a failed recruit contains a relatively high risk of damaging the company, which should motivate the SME managers to further develop their recruiting process and consider the reliability and validity of their employee selection methods. Companies relying exclusively on subjective methods such as interviews should consider introducing at least some level of objective evaluation into their process to be able to reflect the candidate’s competence and attributes reliably against the job description. SMEs are relatively more vulnerable to employee turnover and the following consequences due to their limited resources, which emphasizes the meaning of successful recruiting also as way to increase the employee commitment. Thus, also the correct depicting of the job description to the applicant should be
emphasized to avoid disappointments. Employer motivation and commitment are also effected by how they perceive the working conditions and level of correlation between the level of demand and their skills. The prevailing subjective way of evaluating the job applicants in the SMEs entails a risk of future HRM challenges.

3.3.2. Development versus restraining cost

Viitala (2009) argues that the company’s ability to compete is most dependent on which skills and competences the organization possesses, how these abilities are managed and how fast they are able to learn. Gamage & Sadoi (2008) state that it is also believed that training is and should be a powerful agent to facilitate the firm’s expansion. Thus, enabling training and developing new skills to the organization can be described as one of the most vital responsibilities for the HRM professionals additionally to recruiting. However, the OECD (2013) study on skills development and training in SMEs suggests that it is very difficult for an SME to engage their staff in education and training in order to update and upgrade their skills within the continuous or life-long learning approach. Even in the 21st century there is still an enormous difference between large and small companies considering workforce development. OECD (2013) states that small businesses can’t do it alone – they need to engage in partnerships with local training providers and authorities. The supply and demand of local labor market should be matched with the required skills and training from within the neighboring areas, but in many countries the provision of training for SMEs is overly centralized and supply driven. SMEs encounter problems in organizing training for both managers and employees. Few SMEs actually invest in development although training needs are generally recognized among managers. Companies experience challenges in their development and training functions especially during powerful growth spurs, when communicating tends to become more complex. The company should deploy more professional training methods at the latest when the manager or entrepreneur no longer has time to personally train the employees. The transition from apprentice type orientation into professional orientation training is rarely neither effortless nor swift. (Beawer & Hutchings 2004, 85; Gamage & Sadoi 2008, 49; OECD 2013, 3; Kotey & Sheridan 2004, 18; Rutherford et al. 2003, 329-330; Viitala 2009, 172.)

Jameson (2000) states that two indicators of a systematic approach to training are the existence of a training plan or policy and a specific budget for training. SMEs rarely have those in place mainly due to the scarcity of their resources (both financial and employee’s time) and the
uncertainty of future along with rapidly changing business environment. OECD (2013) states that company size is an important determinant of the participation in workforce development, specifically of labor force training and skills upgrading activities. Data across OECD countries shows that SMEs participate 50% less in training activities than larger firms. SMEs are also less willing to invest in training because of the possibilities to collect profit from those investments are less plausible due to their shorter life expectancy. Instead, SMEs are more inclined to participate in knowledge intensive as a way of learning new techniques or new ways of operating. This type of learning includes interacting with consultants, suppliers and clients; participating in conferences, meetings or internal activities, such as quality control activities. However, these sorts of activities do not entail formal qualifications or standard training certificates and tends to rather benefit managers, business owners and the higher educated staff members than the majority of employees. (OECD 2013, 28; Jameson 2000, 44; Beawer & Hutchings 2004, 85.)

Also a major deficiency in SMEs is that they typically lack a well-planned orientation and basic training process entirely. Due to busy schedule and limited resources there is often no time to orientate a new employee in more thorough way than just the basic details of his/her job description. This may result as lack of commitment and motivation as the new employee may feel as an outsider. Also without sufficient information on company rules and policies may result as time-consuming or even dangerous errors. (Dessler 2003, 185; Strömmer 1999, 259-263.)

Mazzaroll (2003) argues that SME managers could even be described as reluctant to invest in training. Managers justify the paucity of training with arguing that time is money and that they need all the company resources in action and that training produces rather far specialized experts than flexible professionals that they would prefer due to the flexible nature of SMEs. However, training does not impede flexibility in the company, but has potential to increase it, as the employees are able to take care of tasks outside their job description with the help of more diverse skills.

Jameson (2000) studied 4331 tourism and hospitality SMEs in the United Kingdom. She stated that the level of training in those companies was very low. Only 12% had a training budget and only 32% had organized external training courses on work time. Most popular method of training was on the job training that was practiced by 57% of the companies. The study stated that informal recruitment practices and inappropriate selection might lead to high labor turnover. Jameson further suggests that high levels of recruitment can affect the level of training in the firm, as some managers may prefer to recruit new people rather than train the existing workforce. This could be a result of SMEs limited resources and managers tendency to emphasize the meaning of the core
business functions over training especially in the small companies. In fact, Gamage & Sadoi (2008) studied 326 SMEs in Japan, and found a significant impact on the size of the company on the training and development intensity. Spearman rank correlation identified significant relation between the size, measured by the number of employees of the SME, and training intensity both positive and significant ($r = .36, p<0.01$). In other words, the SMEs seem to develop interest towards training and development as they mature and pass through certain growth phases as determined by Gabrielsson & Gabrielsson (2013). Also OECD (2013) found clear evidence that workforce size is an important determinant of company’s behavior in relation to its participation in training and skills development. They state that The Continuous Vocational Training Survey 3 (Eurostat 2005) conducted by the European Commission, showed that only 50% of the small firms participated in formal CVET, whereas the level of participation was exceeding 90% among large firms. They further suggest that these numbers have been unchanged since the previous survey in 1999. (Jameson 2000, 48; Gamage & Sadoi 2008, 54-57; Gabrielsson & Gabrielsson 2013, 1537; OECD 2013, 39.)

High level of training and development is usually a characteristic that makes successful companies stand out from their competitors. Beawer & Hutchings (2004) emphasize the importance of enabling a positive environment for training, developing and innovating. They state that such circumstances are essential in order to the company to harness full potential of their employees. They also suggest that training decisions and processes should be integrated to the core business practices rather than reviewed periodically as separate entities in order to ensure organizational flexibility and to have a positive effect on the organizational culture. Committing employees to the organization by enabling possibilities for development personal skills and career opportunities is a powerful tool especially in the SMEs, as the people usually know each other personally. Feeling of appreciation and trust towards the employer can be enhanced by giving employee more responsibilities and possibilities in the organization. This kind of successful improvement on the organizational culture and team spirit is likely to reduce negative attitudes, absences and employee turnover. (Beawer & Hutchings 2004, 92-93.)

Bacon & Hoque (2005) studied the effect of both internal and external factors to the workplace, and how they are able to predict the extent to which HRM practices have been adopted in European SMEs. They stated that the scope of training and development functions is firstly affected by the nature of the company’s business. Industries with high demand for expertise tend to invest more in continuous training and development procedures. Furthermore, they discovered that the combined expertise of the employees was also an important determinant for the establishment of professional training and development methods. Companies with a high percentage of skilled employees are
likely to see employees as an asset, and are often willing to invest in them by enabling training and development. On the other hand, companies with less demand of expertise and more incompetent employees are likely to prefer recruiting over training depending on the situation of the employee market. In addition to size, the level of professionalism in the training and development methods of a company are also affected by the maturity, ownership background, organizational structure and quite simply the manager’s fear of loosing good employees. (Bacon & Hoque 2005, 1990; DeKok et al. 2006, 453; Taylor et al. 2004, 27.)

On-the-job training is the most popular method of training in SMEs. The popularity of the method can be explained through cost efficiency and low consumption of resources, as the SME managers typically aspire to restrain cost and manage their resources efficiently. (Beawer & Hutchings 2004; Kotey & Sheridan 2004) The role of the company owner-manager is often more multilateral in an SME than in a large company. If the manager is not in charge of the training and development personally, he is at the very least overseeing it. Kotey & Slade (2005) argue that the high level of manager’s miscellaneous involvement has a strong affect on the organizational culture and the habits of the employees. Thus, on the job training is exposed for problems, especially in an overly hierarchical culture as the high involvement of the manager could suppress innovations and reassert unhealthy aspects of organizational culture if there is no room for different views.

De Kok et al. (2006) studied approximately 700 SMEs in order to examine the determinants of professional HRM practices. They argued that additionally to the fact that SMEs provide less training they are also less likely to encourage their employees to engage in spontaneous or self-imposed training. In other words, even though a company would benefit substantially from training and educating, very few SMEs seem to endorse such aspiration. Beawer & Hutchings (2004) suggest that the manager’s reluctance towards training could also originate from negligence in their own training. They are likely to be unable to see the benefits of training if they don’t have subjective experience from training and education. Especially small companies reflect the attitudes and competences of their owners and managers. (Beawer & Hutchings 2004, 87; De Kok et al. 2006, 442.)
3.3.3 Salaries, rewarding and motivation

Viitala (2009) states that it is the responsibility of a company to pay a reasonable compensation for the labor input contributed by their employees. Thus the salaries are rather the price of labor contribution than ways to reward or build motivation per say. However, the concept of rewarding has become established to entail both wages and additional financial benefits. Salary is the equivalent of a completed job assignment that may consist of parts and add-ons based inter alia on performance, time, quality and output. (Viitala 2009, 138; Strömmer 1999, 269.)

According to the classical stakeholder theory all the stakeholders contribute to the company if they believe they are being compensated accordingly. Strömmer (1999) states that the employees give their input, competences and ideas into the use of the company if they feel they are able to receive a sufficient financial or psychological reward in return. Thus, one of the most fundamental challenges of a company is the ability to create a working environment, job descriptions and rewarding system that will reassure the employees that their input and yield are fair and in balance. (Strömmer 1999, 269; Viitala 2009, 138.)

Finland has a strong representation of trade unions that have a significant impact on the labor markets. According to Böckerman & Uusitalo (2006), the unions not only negotiate the wages of their own members, but the union contracts also largely determine the wage increases of some 95 per cent of the workforce, because of the extension of the union contracts to the non-members. Most unemployment insurance funds that pay out earnings-related unemployment benefits are also run by trade unions. Even the Finnish pension system is strongly affected by the unions, which have their representation in the boards of all pension insurance institutions. Also most Finnish labor market reforms have been implemented as a result of tripartite negotiations between the unions, employer organizations and the government. Rigid trade union contracts restrain the fluctuation of wages in the labor market and therefore reduce the meaning of salary as a method of competing for competent staff among the SMEs. (Böckerman & Uusitalo 2006, 284.)

Böckerman & Uusitalo (2006) argue that the density of trade union membership has traditionally been very high in the Nordic countries (See table 1). Union density in Finland increased every year from the 1960s until it peaked in 1996 as the share of union members reached 83% of the working population. One of the largest reasons for the popularity of trade unions is that eligibility for earnings-related unemployment benefits have been de facto tied to the union memberships in all Nordic countries except Norway. However, the union density has been declining in the recent years.
In addition to the rigid union regulations, as stated before, the limited resources of SMEs dilute their willingness and possibilities to compete for talented employees with the large companies by the means of financial incentives. However, SMEs may possess other valuable inducements to attract employees. Inter alia position with status and responsibility, independent job description, possibility to travel, flexible working hours and sense of pride, satisfaction and safety may have a stronger effect on the employee’s decision making than the salary (Beawer & Hutchings 2004, 91; Marlow & Patton 2002, 528). Rewarding-related problems are especially rare in fast growing SMEs, which is explained by the feature that fast growing companies have a tendency to attract people who enjoy fast paced and dynamic working environment and may therefore even settle for a lower level of income (Rutherford et al. 2003, 330).
Bersin (2013) argues that Maslow’s hierarchy of needs still holds up in describing the composing of motivation in people. When employees feel that the basic elements of their job description are aligned they start to seek meaning. Rauramo (2012) has revised the terms of Maslow’s hierarchy of needs to better describe the motivational factors of a workplace.

TABLE 3: The 5 steps of workplace motivation, Rauramo (2012). Modified by Samuel Kuutti

Health, the first level of the revised hierarchy table, is reached when the employee has a suitable job that enables reasonable amount of free time. Also possibilities for coffee and lunch breaks with healthy food and a comprehensive healthcare plan are considered as basic level needs in Finnish SMEs. (Rauramo 2012.) Suitability of work is an essential motivational factor. If the employees feel they can’t perform in their job, they will become frustrated and exhausted. On the other hand, if the job description doesn’t provide enough challenge, they are likely to start to look for new challenges (Bersin 2013).
Safety level is achieved when the employees feel their job has permanence, they are able to provide for their family, their job circumstances are safe and they are a part of an equal and fair working community. Communality level is enabled by good leadership practices, investments in motivation and both internal and external cooperation. Appreciation level may be achieved through the establishment of ethical values; through a vision, mission and a strategy that expedites wellbeing; through justified and fair rewarding system; and through operational evaluation and development. The Skills level may be reached by learning organizations that foster innovation and allow their employees to develop and utilize their abilities.

Discussion revolving around rewarding and motivation in SMEs is not consistent. Economic incentives have very different roles in different companies especially in different countries and managers don’t seem to agree about their motivational effect. Thus, as the Finnish labor union contracts determine largely the level of salaries and increments, it is interesting to find out whether the managers of Finnish SMEs studied in this research consider salary as a motivational tool and to what extent. It is also interesting to learn how they justify their approach and which means they prefer in rewarding and building motivation.

### 3.4. HRM development in a growing SME

Kajanzian & Drazin (1989) presented a stage of growth model for technology based new ventures (TBNVs). Later Gabrielsson & Gabrielsson (2013) revised the model in their research of international new ventures (INVs) in a small and open economy, particularly Finland. As both researches scrutinize technology-based companies and the study of Gabrielsson & Gabrielsson is placed in similar circumstances, their multistage model is interesting and relevant for this research.

Gabrielsson & Gabrielsson (2013) stated that their firm-level analysis shows that INVs had developed through four specific phases; each company had distinctive management and foreign business problems that had to be solved before advancing to the following phase. Gabrielsson & Gabrielsson (2013, 1361) used the dominant problem logic identified by Kajanzian & Drazin (1989) to determine the growth phases and problems of an INV based in Finland as the INV creation, Commercialization and foreign entries, Rapid growth and foreign expansion, and Rationalization and foreign maturity. (Gabrielsson & Gabrielsson 2013, 1561-1562.)
Kajanzian & Drazin (1989) state that the logic of progression of this theory of stage of growth revolves around the concept of dominant problems. They argue that TBNVs are faced with a series of problems that are successive in nature. In other words, solving of one set of problems leads to the emergence of a new set of problems. Any given stage of growth is characterized by a subset of problems, which are dominant at that point in the firm’s history. These problems pose organizational learning demands on the firm and require organizational structures and processes to be put into place to respond to these demands. As one set of problems is resolved by introducing appropriate organizational forms, another set becomes dominant and requires yet additional organizational changes. The companies studied in this paper are also technology-based companies in a small open economy, making the previous research of dominant problems relevant and applicable for this research due to similar circumstances. Thus the growth phases determined by Gabrielsson & Gabrielsson (2013) will be modified to address growing Finnish SMEs operating in the business of hi-tech manufacturing for the purpose of this research. (Kajanzian & Drazin 1989, 1489-1492; Gabrielsson & Gabrielsson 2013, 1357-1363.)

The growth phases that the SME development will be viewed through are:

1. The SME conception and development
2. Commercialization
3. Rapid growth
4. Rationalization and maturity

In the early years of a company most managers are also owners of the company and as entrepreneurs they take part in carrying out the daily routines in addition to managing the company. The survival of an SME relies heavily on the entrepreneurs personal labor input during the first years. Moore (2014) describes the leap from the uncertain early years of a company to the early stages of maturity as “crossing the chasm” that defines weather the company will strive to success by achieving long-term profitability and stability or fail in the process. Operational maturing often brings along growth, which inevitably creates pressure for hiring new managers and developing new practices. As the company grows the manager needs to learn how to delegate and to develop teamwork and HRM practices to secure company’s possibilities for effective operating. Delegating usually transfers a part of HRM functions such as training and evaluating to the mid-level
managers. (Kotey & Slade 2005, 19-36; Marlow & Patton 2002, 538; Mazzarol 2003, 28; Moore, 2014.)

Change in management practices appears especially in the nature of control as the direct monitoring of the manager is decreased and partially replaced by more professional policies e.g. timecards, electronic access keys and written reports. Thus, the success of development of the company HRM practices in a small company is considerably dependent of the manager’s abilities to step back, delegate, form teams and to pass on responsibilities to competent managers. (Mazzarol 2003, 38-46.)

Successful team building and delegating stipulates clear defining and communicating of long-term vision and strategy for the entire staff. A company HRM doesn’t only resemble its executor but is also strongly dependent on the environment it occurs in and the goals it tries to achieve. The manager’s vision works as a guideline for the foremen in their everyday managing and helps to create commitment among employees through understanding. (Mazzarol 2003, 40; Strömmer 1999, 104.) According to Mazzarol (2003) these goals should be supported by a HRM plan that defines training and development, job descriptions, responsibilities and expectations for each position. Establishing the basic principals for the HRM processes throughout the company decreases the owner-managers necessity to handle everything and the company is able to develop as a team. Evidently, hiring a specialized HR manager becomes reasonable as the number of staff exceeds a certain limit. The exact critical point for the need of a HR manager or a HR department is highly dependent on the nature of the company’s business and the employee market it is operating in. (Mazzarol 2003, 27-29.)

The implementation and documentation of professional HRM practices increases dramatically as the company grows. The transition from unofficial to professional practices is visible already in a very early stage of the growth process. (Kotey & Slade 2005, 25.) However, Kotey & Sheridan (2004, 484) state that pace of change in the HRM practices is fastest in the early stage of growth and evens out as the growth moderates. On the other hand Mazzarol (2003, 27-28) argues that professional HRM practices become imperative in a company as late as when the company exceeds the limit of 100 employees. Rutherford et al. (2003, 235) specified that problems related to HRM development to be rather related to the nature of growth than the age of the company. Defining the moment of change to professional HRM practices is challenging due to the fact that different professional practices become important in different phases of growth and maturity. (Kotey & Sheridan 2004, 474.)
Growth is one of the most significant reasons to develop new practices and policies, although it is not able to unambiguously explain the differences between different SMEs. Although growth challenges most companies to develop their practices, the level of urgency varies greatly even between seemingly similar SMEs. It will be interesting to learn whether the development needs inflicted by growth are seen as positive in the studied companies and how committed the company managers are to developing their practices.

3.5. Implementing new policies

Implementing new policies or management practices is seldom effortless. The success of transition depends on the personality and leadership style of the manager that is especially emphasized in a smaller company, along with the organizational culture. (Mazzarol 2003, 29.) A part of SME managers find it difficult to let go of the responsibilities and to delegate, as they are accustomed to be in charge of the everyday work. This type of behavior inevitably leads to disruption of leadership, as the manager’s resources alone no longer suffice for the organizations needs. This managerial constraint on the rate of growth is known as the Penrose effect. The risk of this type of micro management is that the managers may not have enough time to concentrate on some of the most important parts of their responsibilities e.g. planning the future and developing their business. The manager’s ability and willingness to delegate responsibilities to employees and possibly to a management team and the commitment to changing practices and structures are imperative requirements for a successful implementation of new HRM policies. (Mazzarol 2003, 47.) However, these requirements alone do not guarantee a successful development process. What is often problematic about the development and implementation of HRM-practices is that the managerial consulting and training related to HRM-development is often designed for large corporations that operate with completely different resources in a totally different business environment. Managers, as well as consultants, are often keen on applying those doctrines directly without familiarizing themselves with the current state of the company’s HRM especially in relation to their ability to compete. (Kotey & Slade 2005, 16.) The disadvantage of this type of shortcut is the potential threat of consuming resources into something that might prove to be useless or even complicate the company’s operations. Thus, Strömmer states that HRM practices should always be suitable for the company’s current needs and to be able to improve the company’s flexibility in the swift market fluctuation (Strömmer 1999, 43).
However, scholars point out that HR-development is ideal in many ways in SMEs as well. Bacon et al. (1996) state that implementation of new HR-policies have potential to be executed with less effort in smaller companies due to the lower hierarchy and more direct communication culture. Smaller scale and less complexity of the company also turns out into results faster and clearer than in a large corporation. Planning of successful implementation is also made easier by the relatively larger effect of an individual employee to the organization. Thus, implementation programs of new HR-policies entail the potential to be more meaningful for an SME than a large corporation. HR-development programs in SMEs happen often in smaller scale and with less complexity, but the goals are equally set for creating professional practices while maintaining the unique elements of an SME. According to Wilkinson (1999), the SMEs implementation efforts are often less official, more organic and depict a more authentic approach to HR-development than the bureaucratic programs. Thus the lacking of professional and large-scale development and implementation programs can also be seen as a positive factor for competitive advantage instead of the traditional view of seeing informality as a weakness (Bacon et al. 1996, 98; Wilkinson 1999, 213).

Although new policies are usually planned and executed based on the potential benefit of solving a challenging problem or fulfilling an important need, they also entail substantial risk. Implementing all HR-development programs should be executed with caution, as changes in the organization and especially in the working conditions may generate both positive and negative effects in employee’s productivity, commitment and turnover rate. During the implementation managers should consider the integration of HR-policies into other areas of their business to facilitate, create synergy and added value for the entire company. Mazzaroll (2003) argues that if there is no clear benefit potential from the planned changes, they company should refrain from executing them. Reformation of HRM practices should never originate exclusively from a desire to adopt so called best practices. Kotev & Slade (2005) state that impractical adapting of professional HRM practices may in fact turn against its purpose by reducing the flexibility and resources of the company by obstructing their ability to react to changes in their business environment. Before new HRM practices have been successfully implemented the company has very likely gone through several challenging stages of learning. To be able to find the best possible practice, the managers are likely to try out different alternatives and strategies, which leads into the best possible practices through trial and error. (Kotev & Slade 2005, 36; Mazaroll 2003, 45-46.)

The decisions regarding implementations of new HRM practices should always be evaluated against context. Implementation of professional HRM practices is not necessarily reasonable or profitable in all SMEs. However, appropriate implementation of professional HRM practices may
result in e.g. statistics to support decision-making, equal and fair treatment of employees and incremented efficiency. The result of finding the right balance between professional HRM practices and informal organizational culture is largely bound by the size and strategy of the company. Thus, the greatest challenge for SMEs is in fact to manage the implementation of professional HRM practices to match their goals while maintaining the organizational freedom typical for an SME. (Kotey & Slade 2005, 36-37; Bacon 1996, 90.)

Further researching of theories regarding the implementation of new HRM practices is not relevant for this study, because this study mainly focuses to describe and compare the HRM processes in Finnish SMEs and to interpret their differences. Issues regarding implementation were addressed to create understanding to the logic behind the SME managers decision-making.
4. Methodology, research material and principals of analysis

“While studying people, why would we not use the advantage of letting the people tell about things that consider them personally?” – (Robson 1995, 227)

In this chapter the methodological decisions and solutions of the research are explained along with the gathering and processing of research material. Finally the narrative analysis of the research material is explained step by step.

4.1. Principals of qualitative research

Traditional research strategy of this paper is qualitative case study. Hirsišärvi, Remes and Sajavaara (2002) define it as detailed intensive knowledge about an individual case or small group of cases related to each other. Typical characteristics: a single case, situation or group of cases is chosen; individual, group or community is targeted; point of interest often lies in processes, individual cases are viewed in context with their natural environment (in natural situations); material is often collected using scientific methods e.g. observing, interviews, and studying documents. The main objective of a qualitative case study is often a description of a phenomenon.

Term research strategy stands for the methodological entity of a research. Research method has to be divided from it as a more concise concept (Hirsijärvi et al. 2002). Robson (1995) describes the difference of these concepts with a river-crossing problem: the research strategy defines weather one walks across a bridge, flies over, sails, or swims across the river whereas the research method defines what type of plain, boat etc. is being used.

Narrative approach is chosen as the method of this study that enables the results to be presented in an easily adoptable form of a story. A narrative approach fits perfectly for the processing of the research question presented in the paper due to the ability of a narrative to present problems and perceptions in a concrete form.

4.2. Research material

The empirical material of this research was gathered from the case companies by interviewing the managers close to the HRM processes and reinforced by a specialist interview of Tuomo Kauppinen, a member of the board of Finnish Entrepreneurship Society. The case companies
Hydroline Ltd. and Junttan Ltd. are both Finnish hi-tech manufacturing companies who operate internationally and employ over 150 people. Shared industry, roughly similar size of the companies and presumably similar phase of the company life cycle creates ideal circumstances to compare the decisions the managers have made in their efforts to develop their companies HRM.

After thorough consideration, theme interview was selected as the research method. Theme interview is a form of interview in between a survey and an open interview. In a theme interview the questions are based on themes essential for the research problem, although the precise form and order of the questions may vary between the interviews. The objective of a theme interview is to allow the subjects of the interview to create their own description about each theme. Theme interview is used broadly in the research of pedagogics and social sciences as it matches well to many settings of qualitative research. However, theme interview is not exclusively a method of qualitative research. The material can be molded suitable for quantitative analysis inter alia by studying frequencies. (Hirsijärvi et al. 2002, 192-196; Vilkka 2005, 101-102.) One of the key advantages of a theme interview is in the flexibility of gathering the material. Direct verbal interaction with the interviewees enables the possibility to focus the data acquisition and influence to the course of the interview by presenting clarifying questions. It also creates a possibility to elicit some of the motives behind the answers, as the interview setting also allows the researcher to interpret expressions and gestures in addition to the actual answers. Also, the interviewees are often easy to contact afterwards if additional questions or a follow-up research is needed. Interview is often chosen as a research method inter alia when a person is emphasized in the research as a subject, who actively creates meaning or when there is a preliminary assumption that the topic may produce multilateral answers. Although interviews and especially the transcribing are time consuming tasks, they are often able to produce more in-depth information about the research problem than e.g. a survey or a poll. (Hirsijärvi et al. 2002, 192-196; Vilkka 101-105.)

In addition to the advantages, there are also several challenges regarding an interview to be considered. Hirsijärvi et al. (2002) state that an interview is like a two-sided coin. For instance, the interview is time consuming and demands thorough preparation. Additionally Hirsijärvi et al. (2002) state that there are several sources of mistake that are originated from both the interview and the interviewee and from the situation itself. E.g. the interviewee may see the situation as stressful or even threatening in many ways. The reliability of the interview may be weakened by the fact that people tend to give socially acceptable answers. Interviewee may also be interested to discuss about matters irrelevant for the research, which may mislead the focus of the interview. Thus, the real experiences and opinions may not always be revealed, which may distort the interpretation of the
results of the research. Interview is also a contextual situation, this means that the interviewees may speak in a different manner than they normally would. Thus Hirsijärvi et al. (2002) instruct that the results should never be over generalized. (Hirsijärvi et al. 2002, 192-193.)

The managers were contacted via telephone prior to the interview on a preliminary planning session to map out the topics of conversation and outlines relevant to the subject. Kimmo Korhonen, the HR-manager of Hydroline stated that he would prefer to address the matters of the interview due to his relevantly short history in the company accompanied with their CEO Jukka Laakkonen who has the best overall picture about the company. Also Satu Ruotsalainen, the HR-manager of Junttan and Tuomo Kauppinen, the entrepreneur specialist agreed to the interview after a short briefing on the topic.

Hydroline is Finland’s largest designer and manufacturer hydraulic cylinders for demanding conditions. The company was founded in 1962 by Helge Laakkonen in Kuopio, and is owned by Laakkonen family. Their annual turnover is circa 30M€ and they currently employ 200 people in three countries; Finland, Poland and China. The interview of the managers at Hydroline was conducted at the company headquarters in Vuorela, eastern Finland in a single session. Questions were prepared for a semi-structured interview, but the discussion between the two managers started to flow so naturally after the introduction, that the situation needed very little directing. The location was probably able to set the mood into thorough presentation of the company processes and problematic. The managers of Hydroline were positively inclined to address the challenges and points of improvement in a very direct and versatile fashion. The managers had both had the chance to familiarize themselves with the research plan before the interview that probably made it easier for them to lay the groundwork for the topic. Both Laakkonen and Korhonen were actually so well prepared for the topic that very few questions needed to be presented after the introduction, and the interview advanced on its natural course as a discussion between the two managers.

Junttan is a company specialized in designing, manufacturing, selling and maintaining hydraulic piling equipment, such as pile drivers and drilling units. It was founded in 1976 by Pentti Heinonen, and owned by Heinonen family until 2010, when Ilkka Brotherus bought the majority of the company and attached Junttan to be a part of Sinituote group. Junttan’s production facilities are in Kuopio, Finland, where they employ 130 people. Junttan exports their products and services into over 40 different countries and 95% of their annual 38M€ turnover is generated by export. HR manager Satu Ruotsalainen was interviewed in the Junttan office in a single session. Ruotsalainen was both well prepared and professionally interested on the topic, which created beneficial circumstances for the interview.
The Federation of Finnish Enterprises (later FFE) has the largest membership of all business-related federations in Finland. Currently the organization's membership consists of 116,000 enterprises of all sizes, from all corners of the country, and encompasses the entire business spectrum. The membership structure provides a good reflection of the structure of Finnish business as a whole. Tuomo Kauppinen is a member of the board of FFE and has an entrepreneurial experience from 4 companies for circa 30 years time. Kauppinen was interviewed in the lounge of a local hotel in Kuopio, as he was passing through in one of his business trips. Kauppinen was able to contribute on the understanding of the state of Finnish enterprises, and to the frequency of the type of developments and decisions made in the case companies.

The interviews were recorded with two separate devices to ensure successful recording and preservation of the material. The idea proved to be really important, for the quality of the tape recorder was so poor, that the analog recording could not be used. The material from the digital recorder was then transferred into a computer, and mixed with sound processing software to suppress the background noise.

The interviews were conducted between 2013 and 2014 in Finnish, extracted from the recording by transcription, which stands for writing it down almost literally, and then translated into English. Few expletive words e.g. “like”, “well” and “err” were omitted to improve the readability of the material. The recordings consisted of three hours of interviews (1 hour each) and the transcripts consisted of 44 pages of text all together.

4.3. Methods of Analysis

The analysis, interpretation and the conclusions are the most important goals of the research. Hirsijärvi et al. (2002) state that it is imperative to choose the method of analysis that is best to describe the research problem. They argue that the superiority of the method is contextual and that the methods can be roughly divided into two categories by their goals:

- Quantitative methods that pursue an explanation: often based on statistic analysis and conclusions
- Methods that strive to an understanding: often based on qualitative analysis and conclusions

These two types of methods may also be used in a research to support each other. This research material was analyzed using narrative as the method of analysis. In a narrative (also story) analysis the elements of the material is used to form a storyline that gathers the parts of the material together

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and gives them a meaning. Hänninen (1999) states that narrative analysis is a research where the concept of story of narrative is being used as an instrument of understanding. Hyvärinen (1998) has also addressed narrative analysis by arguing that the researcher presents theoretical questions to the material, where one needs to be aware of the nature of the questions they are presenting and how they are being interpreted.

Previous research states that the goal of narrative analysis is to transmit the original story precisely as possible to enable the reader to evaluate the reliability of the interpretations made in the analysis (Hänninen 1999).

The interview material was analyzed by dividing the transcribed texts into themes categorized by the research question. Under the categories the interviews were further divided into subcategories regarding their topic, in order to enable narrative description of the research problem.

After the analysis, the results and conclusions of the empirical analysis are compared against the findings of the previous research.
5. Empirical analysis and results

5.1. Strategic management of human resources

Both companies studied in this research have gone through radical changes in the past decades as they both have experienced success that has been followed with both exterior and interior challenges as the market situation has fluctuated and the growing competition has created new set of demands for their organizations.

In the larger picture, both Hydroline and Junttan were at the beginning of the first stage of growth (Gabrielsson & Gabrielsson, 2013) in the early 70’s. They had developed to the second phase, ‘commercialization and foreign entries’ by the 80’s, and experienced the third phase, ‘rapid growth and foreign expansion’ in the late 90’s or the beginning of the new millennium after the economic downturn had turned around in Finland. By the time we were conducting the interviews, both companies were experiencing the last growth stage ‘rationalization and foreign maturity’, which made it ideal to analyze them through their growth-stories.

During the past two decades the family owned company Hydroline Ltd. has nearly quadrupled it’s size measurer in the number of staff. Jukka Laakkonen, the CEO of the company in 3rd generation, sees that the growth and change of their operational environment has created pressure for their organizational culture to change and evolve as well. Laakkonen characterizes the situation in the beginning of the interview as follows: “Probably that old-fashion management style is pretty much vanishing, where leather-boot / leather-whip mentality was the thing. We strive to build a little more responsible team thinking, where middle-management takes a larger role in there at the field, and the idea to make their education match to those goals is a big thing. That has been started in a better way at the moment. Many of the middle-management supervisors have risen from the production, so they are professionals production-wise, but skills of that mental side are not necessarily there, and that is what we aim to develop.”

The Finnish pile driver manufacturer Junttan was also in a strong growth streak up until the last few years, when their business environment started to dramatically change and create pressure for development of HR-functions. The HR manager Satu Nurminen outlines the interview: “When I came to the company in 2006, things were going really fast. People were hired all the time and at some point our staff was nearly 200 people strong. And well... in 2009 when the depression hit, it
hit us really bad. For few consecutive years our turnover was decreased in half. So that the turnover in 2008 was 65M€ and at some point we went even down to 19M€. Now we are... Well, things are still not as brilliant as they used to, but we are currently operating approximately with a 40M€ annual turnover. And we currently employ 125 people. So overall we have had to let go a lot of our people and the past five years have been a lots of ups and downs.

Globalization has accelerated the fluctuation of both companies business cycle that has further created new demands on the roles of the company top management. Hydroline has never been forced to fire their employees due to economic reasons. However, the recent economic downturn has forced even systematically grown company to learn crisis management and resort radical budget cuts, such as temporary lay-offs.

The CEO describes the situation: “Well, it has been for ages that there comes climbs and descends. On the other hand the situation with us has been that managers and personnel in all are very young – middle age is around 34-35 year – so lets say that many managers remember vaguely the bend of the 90’s from some school bench. It didn’t affect us other than perhaps in some level from our parent’s scheme, but we haven’t concretely done it. And it’s pretty much the same with our management level, that everyone doesn’t have that experience / view about how things have been done, and we are all in a way like “‘greenhorns” in the way that we have had to learn this situation from the start, that what it means to run the HRM of a company in a crisis situation, when the previous years went by learning how to manage personnel in a strong economic climb. If we think about the situation of change in the world for the past two years, I would doubt that that an old patron-time manager has gone those ups and downs in a 10 to 15 years cycle, when we have learned to lets say in two year time to see the outer limits - and because of that, in a way, developing and educating with us is also that kind of fast cycle thing that teaches you continuously.”

Along their growth Hydroline has recognized needs for some organizational changes. The assignments of managers and officials needed to be decentralized and redefined as the responsibilities started to build up too much on the shoulders of individual managers. Hydroline’s Laakkonen states that in order to grow a company must evolve and learn continuously. He emphasizes the meaning of competent people and working level of decentralization of responsibilities for the success of the company by stating: “There is no way in a house this size one person could do rational decisions.”
The HR-manager Kimmo Korhonen quickly joins the conversation by stating: “When the company reached a certain size, then at the time the current CEO took the wheel and the organization was re-evaluated and the responsibilities were decentralized. He delegated divisions - that has been a very important thing for the sake of developing operations. Not one or two people have time to notice or develop every thing. That has been one of the biggest changes in our working day field that it started to run and develop faster than before. That responsibility has been divided and delegated, and also the CEO has trusted the own gang by giving that responsibility. Thus we have had a working plot that we have had a certain amount of people that try to develop the job. If you leave all the sectors under the fingers of one person - then somewhere things just stay undone. Now we have done things this way for few years, and let’s say that it has started to go into the right direction.”

The growing company and a faster changing business environment have also lead into a management reform in Junttan, also from what seems to be a similar starting point. The HR-manager Nurminen elaborates: “Back in the day we had a strong manager – who told people what to do and how to do it. Today’s objective is that people would think more individually and with their attitude… that they would think and do – with motivation, so that they wouldn’t need anyone to order them. In other words: team thinking. It has been a major cultural change that there is no one, like there was in the beginning of the 21st century, to order you and saying “you do this”. Change in managerial thinking has also created major development in managerial processes and responsibilities, as the position of HR-manager has not existed for long, but the financial manager was also in charge of the HR-matters up until 2011: “I was hired in 2006 as a sales and marketing assistant. Back then I had a BBA degree and I continued to study a graduate degree while working here. So, I started in marketing, and along with the downturn my responsibilities started to entail more HR-assistants responsibilities. In 2011 I was transferred to be in charge of HRM. Ergo three years come to pass now in these responsibilities. I have been studying continuously – and it has been rewarding.

During the past decades, the organizations of both companies started to show different challenges and needs for change along the growth. The CEO of Hydroline characterized recognition of those challenges and the actions that followed: “Before the company management made decisions hierarchically at the top. They handled the financial things and didn’t interfere with the operational environment per se, because in their own mind they trusted that the network underneath handles it. On the other hand in the lower network there were kind of people in between that did not trust people and wanted to do everything personally – wanted to hold the reins strictly in their
hands. We had middle managers that the higher level manager thought were acting as superiors, but those people didn’t know they were in managerial position and didn’t know that responsibility.

According to the CEO the assignments of their foremen were so poorly defined that they perceived themselves rather as a part of the production staff than supervisors. There was almost no sign of any kind of managerial culture that caused the company to suffer from operational inefficiency and failure in implementing their strategies. “That was our first aspect when we started to grow, that we need to discuss what is a manager, what is the managers role, and what does this assignment include. Not until after that those mates realized, that: ‘Wait a minute, we have been supervisors, but nobody has given us the responsibility.’ We started to unwind that thing that there are managers of certain organizations and they have their subordinates and the managers divide that responsibility within their own organization. Earlier there used to be one manager who tried to manage all the divisions – and there is nothing coming out of that. We only realized that ourselves after we tried something else.”

Managers at Junttan have also seen the HRM-development as a new way of managing their fast changing business environment. HR manager Nurminen summarizes the motives behind the development scheme: “Well the purpose definitely is that the made developments in our HRM affects our competitiveness, that we would have more competitive advantage, that we would be able to develop our products better – that is the goal... ...to be able to stay updated and develop ourselves and thus develop our competitive edge and to create value for our customers.

CEO Laakkonen sees inefficiency and distortion of communication as one of the biggest problems of recognizing the problems in the organization. “Members of the board and owner-managers at the time that were not directly at the field anymore – because they managed things of other sides – could not even perceive it because the next level told them that everything is going well and is handled and there was always an explanation.” The lack of organizational transparency and high hierarchy of communication obstructed the top management from seeing how the middle management was actually working. Their position was based on trust that was misused.

As both companies drifted into economic distress along with the global economic downturn the company managers were forced to focus into developing efficiency of their organizations in all sectors raising hidden problems on the table. CEO Laakkonen talks about encountering the problems at Hydrolime: “After we started to unravel things the growing pains and problems came to our attention and we noticed that ‘wait a minute... NOW it is time to make some radical changes.’
And I don’t know whether those radical changes we started to discuss about lead into departure of one middle-management level person, that lead into a great possibility of starting to develop things in that level that we discussed that ‘You take that thing to take care of, and you take that, and you take that’ – and we created a new form of an organizational chart for the situation at hand. I think it has succeeded really well. We have nevertheless an open base to discuss in the team.”

Nurminen describes the development of hierarchy at Junttan: “Nowadays the workers approach with ideas. Although the goal is that they would primarily bring these ideas to designers through their foremen, that the designers wouldn’t be annoyed and so... that... Well, we do have a low-hierarchy organization, however we also prefer that the information would be channeled through the foremen, but the workers do go and talk to the designers direct as well, and the designers go to the factory to talk to the workers – although that should happen more often. But we do have a low-hierarchy organization in a way that we don’t have any... Although we do get some feedback that the organization is stiff, so maybe when the organization was built during the growth years it became a little more categorized or boxed... ...and our goal is to become more compact as a team. So maybe it got a bit out of hand during the growth, regarding this categorizing, when we were supposed to grow large... So in some sense our goal now is to go a bit back, become more open and so on... Our next step is to make everyone think more how to make the customer happy, because it depends on all of us – but everyone does not understand that yet... ...that we should be able to bring the customer orientation into everyone. That is one of our future challenges. HR-Manager Nurminen describes Junttan’s endeavors to lower the hierarchy of discussion to foster innovation and create appreciation in the company.

Managers of both companies agree that relieving the discussion culture and separating it from the hierarchical decision-making has created operational efficiency and expedited the decision-making. The CEO Laakkonen is very pleased with the new trend at Hydroline: “We have a functioning management team that can discuss good and bad things and make quick decisions. There is no company or community in the world that wouldn’t have contradictions and problems. That’s exactly why we all are in the team that we can dissolve those everyday challenges.

5.2. Development of HRM-policies

Hydroline and Junttan have an equal demand for highly skilled employees and they both have a reputation of a good employer. In addition to technological development typical for the industry the
companies have learned new ways to create competitive advantage through their committed employees by developing inter alia training programs, organizational conversation, management culture, innovation and employee commitment.

A skilled employee is a valuable asset for any company, especially for a company in high-tech manufacturing industry. The CEO of Hydroline Ltd, Jukka Laakkonen states that employees have in fact been in a central role since the very beginning of the company. To emphasize this he told how the founder of the company, his grandfather Helge Laakkonen had given him his last advice on his deathbed: “Damned. Remember the thing, that it is the guys that do the job for you. Never let pride get into your head.” The CEO admits to agreeing with his grandfather: He also thinks that the workers are the most important asset of the company and in growing competition the development of that asset needs to be more determined than ever.

Also Satu Nurminen, the HR-manager of Junttan Ltd states that they emphasize the meaning of skilled employees and a good team. The longest careers in Junttan are longer than 30 years, which is considerable with any standards. However Junttan has unfortunately been faced with the situation where they have had to let some people go, but are fortunately been able to correct the situation. Nurminen describes the situation: “It has been quite a turmoil for the past few years. Especially when I came in to the company in 2006, things were going really fast – people were hired all the time and at one point we had almost a staff of 200 people. And then... when the downturn came it hit us really bad... ...in 2006 our turnover was 65M€ and in between it went as low as 19M€. It is not going particularly well at the moment either, but we have managed to come back to the turnover of 40M€. Currently we have 125 employees, so we have had to let go some people, but we have also managed to reinstate some of them. So there have been ups and especially for the past 5 years there have been downs.

Finland has a relatively short industrial history and the managerial culture has been based on military leadership for a long time. However, lately it has been starting to change. Tuomo Kauppinen, a member of the board of Finnish Entrepreneurs Union describes the situation: “If we look back to the 90’s, we can say that the Finnish entrepreneurial background is fairly slim. It is because we have been transferred into an industrial society in such a short time. If we compare to our neighbor country Sweden, they are at least 40 years a head of us because they have not been in war for a long time. Our managerial culture has started to develop from the army mentality just during the recent decades.”
Cases of the companies of this research concur with Kauppinen. They both operated without a HR manager for circa 40 years. Hydrolin Ltd established the position in 2007 and Junttan Ltd in 2011.

After founding the position of a HR manager the HRM of both companies has achieved more orderliness and theoretical methods e.g. a documented HR-strategy. According to the HR manager Kimmo Korhonen Hydrolin has introduced several operational models of HRM: “One thing that is bound to come up in a company that has tripled/quadrupled its amount of staff in a 8 to 9 years period is the changing of basic policies. That means the shift from kingpin management to a more conversational and open direction – in other words things like feedback and performance appraisals are on the table. Educational matters increase clearly – and goal orientation, more goals are set on the individual level.” Staff manager argues that fostering conversational culture has developed the company’s internal communication very positively to all directions. With the help of improved communication work-related innovations are easier to recognize and utilize, also problems are easier to solve when they are detected in an earlier stage.

Junttan has also invested in HRM development during the past decade, before and after founding the HR manager’s position. On the one hand they have created professional HRM functions e.g. a formal recruiting process and strategic training alliance with the local vocational school in 2008, while on the other hand they have strived to lower the hierarchy of discussion to foster innovation. Satu Nurminen describes one of their latest developments: “Our systems improved again in last year, when we got a new work time monitoring system... ...we are able to look at the unit costs of a project far more accurately. Also last year it became possible – when this new system made it possible – to use flextime and a work time bank also for the production workers. That has been one of the most significant factors of motivation increase, when it became possible.”

5.2.1. Conversational organization

Both companies stated the development of communication through the organization as one of the most important objectives in their HRM development. The managers see enhanced communication as a possibility to build competitive advantage through innovations and as a way to develop their management through transparency and trust.
Satu Nurminen states that Junttan has started to include the ideas of their workers into their product development more systematically: “We have started to develop a new innovation system with the production manager, that would encourage people further to present productive ideas and that they would be rewarded for it. But not so that it would produce “all sorts of ideas”, but more those that will improve our competitiveness and create added value for our customers.”

Also Hydroline has implemented several new HRM processes as a part of their objective to create a conversational organization. E.g. performance appraisals facilitated by the foremen in small groups and a monthly briefing where all staff are informed about the overall market, economies and course of the company with an intention to give everyone facts about the situation and prevent rumors. According to CEO Laakkonen the administration of Hydroline recognizes listening to the staff and development of communication as one of the most valuable lessons that the current economic downturn has granted them.

The HR manager Kimmo Korhonen states that development of communication is one of the important factors that have eventually allowed the crisis management to succeed at Hydroline. He agrees that the temporary layoffs have naturally been an enormous shock to a part of the employees even though open communication has opened doors for understanding and helped people to accept it as an imperative course of action. He adds that smoothly working communication has also made the implementation of the company vision and strategy more effective: “We want that this company is transparent to every direction in a way that everyone understands our vision, why we do things in certain way, and what he needs to do in order to make it all work out.”

HR manager Nurminen further describes the direction of development in Junttan: “We have a relatively low hierarchy, although we still get feedback from some workers that the organization is too stiff… Maybe the organization became a little bit too formal and compartmentalized when it was created during the years of aggressive growth. So maybe it got a bit out of hand with the compartmentalizing during the growth when we were supposed to grow large. I guess it could be said that now we are aiming to turn the clock a bit back into the times when we more open and transparent.”

Tuomo Kauppinen links the development of conversational organization in the two companies into a national trend: “In the past few years the so-called “master and servant” -model has changed in Finland. In those companies that have succeeded in developing better communication practices it can be said that things have evolved so that they have taken employees even as “partners” so to
say, that the employers are able to contribute more with their own skills, possibly things that the entrepreneurs/managers would not be able to contribute.”

5.2.2. Recruiting process

The nature of Finnish employment market and recruiting channels have evolved and changed over the recent years. Entrepreneur society specialist Tuomo Kauppinen states that in many industries rival companies have to seriously compete for good employees, while the available means would need some improving: “It can be said that e.g. transport industry didn’t have any recruiting problems in the past – now they do. Today the companies have to seriously compete for good employees. More South you go, more serious the problem gets. Kauppinen asserts part of the blame to the recruiting channels; he criticizes the public employment agencies for insufficiency and private agencies for their prices: “In the recruiting channels the situation is a bit like... those so called traditional recruiting channels, employment agencies etc. seem really seldom to be able to provide good work force. It seems like they have become almost as some sort of placement locations. Today it could be said that recruiting channels what are used are these electronic ones. Web services, social media, Facebook etc. Those entities have clearly come into the recruiting game, and also peer networking – asking from friends that does anyone know a good employee. Also those good employees tend to be working already, and they would need to be dag out from their places. There are of course people who have taken this as a business, but we must realize that if recruiting starts to cost thousands of euros, small companies won’t go along with it. Developing a cost-effective and efficient recruiting channel would be a really good thing all together.

However, Hydroline and Junttan seem to operate in an industry that does not have large challenges regarding available work force. Neither of the companies has started to apply any major development on their recruiting channels, but they continue to rely mainly on public employment agencies and classified ads to attract new employees. Satu Nurminen describes the recruiting channels of Junttan: “Mainly we have used the services of public employment agencies. E.g. last time we had 40 applications trough them when we had an opening. Sometimes we also post classified ads in local papers. In another words the recruiting channels are fairly traditional. We have also tried cooperating with an external recruiting partner, but we were not that satisfied with the results. Nowadays we have done it completely ourselves. Except for the case of the new CEO - he was recruited by an external partner. In other cases we have felt that we didn’t get our moneys
worth by outsourcing. We felt that we could’ve done the exact same job our selves. We might have to reconsider in the sense of resources if the recruiting need would suddenly be larger and we would no longer have the needed resources to manage the process, but for now we have done it ourselves.”

Both Junttan and Hydroline invest and rely on their good reputation as employers regarding recruiting issues. Satu Nurminen clarifies: “Junttan has a good reputation as an employer and we definitely want to sustain it. We have good benefits and we are – although we have had some layoffs – a steady employer. We advertise ourselves by inter alia hosting student visitations and showing them what kind of company we are. We support and participate into our future employees education and we believe that that is one important way of spreading the information and keeping up appearances.”

The faster changing market situations have also had an effect on the companies recruiting and employing schemes. Both companies have undergone temporary layoffs on occasion, and both have had the opportunity of re-hiring their staff back during the next economic climb. However, it has not always sufficed to fill the demand.

Staff manager Korhonen utters that during the strongest growth, Hydroline had to resort into foreign guest workers but the strategy was not seen to be in line with the company’s principles of sustainable development and remained temporary. In 2007 Hydroline launched a recruit education program where 44 people willing to change their trade were educated and trained to meet the needs and criteria of the company. Korhonen argues that this demand based labor-education brought clarity and sustainability to the company’s HR-strategy and remains still as one of the most considerable ways to recruit new employees when the next period of strong growth emerges.

5.2.3. Training and development

Training and education have a central role in the recruiting process in the hi-tech manufacturing industry. Competent staff is in a key position of the value creation process of any company in the business. Poorly skilled workers may result in accidents, delays, mistakes, elevated cost and unsatisfied customers. Thus both companies of this study have seen various forms of cooperating with the education establishments as an important asset in the process of maintaining high quality and developing competitive advantage.
Along with progress and procreation of knowledge the demanded level of skill of the staff has elevated drastically on the hi-technology manufacturing industry. HR manager Kimmo Korhonen unfolds that Hydroline has started to invest on continuous training and education of the staff and started to create possibilities for self-improvement. Hydroline has e.g. started to carry out a 10-day training program partly financed by the ministry of employment and economy where the staff has an opportunity to educate themselves with the emphasis on topics related to their assignment. Korhonen argues that employer, as the goal-setter, also possesses the responsibility of providing the employees with adequate competences and abilities to carry out their responsibilities.

Korhonen defines the goals of the education in the context of the supervisors: “We as the employers have a vision, that these learning outcomes lead to better results, staff will be more committed and their well-being will improve. There is also that side, that when the relationship between staff and supervisors improve, problems can be detected earlier. The main objective would be, that things could be made right in time for real.”

The Hydroline CEO Jukka Laakkonen continues by supplementing: “We also pursue to create the same model on the production level, which means that all the employees of the company go through the same ten-day education with different emphasis. We hope that it motivates also the workers to take on challenges and especially to get to know their own chain of superiors and teach them to intervene and talk about things to their superiors. We try to gather the team around as a little bit closer package as an entity.”

According to Satu Nurminen Junttan also relies heavily on the positive effects of training and education. She states that Junttan is very keen to support their staff in their personal education endeavors, and engages in a continuous cooperation with the local schools: “We are in a very intense training cooperation – we used to even have a department of local vocational school integrated into our factory. They have later rented their own facilities from the next building, but we still maintain a very tight cooperation. E.g. we have a lot of interns, we take them whenever possible. Sometimes we are able to hire those people permanently to work with us. And then there are these... For example I have commissioned three bachelors thesis projects with Savonia University of Applied Sciences business department.”

The cooperation between Junttan and the educational establishments has grown multilateral during the recent years. Nurminen describes the development: “We started to develop our own training programs with SAKKY (North Savonia Vocational School) after we moved into our current
facilities in 2008. We have had teachers from SAKKY to give e.g. English lessons for our staff at our plant. And for the managers... We had a joint manager coaching with SAKKY – that was a long-term project. We consider these training programs and cooperating with educational establishments a valuable asset for our company.”

The entrepreneur society specialist Tuomo Kauppinen states that the prevalence of training conventions is not conterminous between different industries. He argues that the most significant differences can be found between private and public sectors: “There are industries that have undergone training constantly, and who consider it quite natural – as a matter of a fact if they would have to give up training they would probably raise a loud racket... E.g. cities and municipalities train their workers all the time... And when we start to look at companies, especially SMEs, well... There are people who have done their jobs 20 years without a single day of training - and it is a pity that they have not had the opportunity to train themselves - and when you start to train those people, you come across quite of a resistance. ‘Damned, I have done my job for 20 years, I can do it without any training, as a matter of a fact I can come and give you some training’, is a quite common reaction from a person that is undergoing a training session for the first time in a long career.”

However, Kauppinen states that the studies of Finnish Entrepreneur Society show that even the reluctant people have been surprisingly satisfied in the outcomes and offering of training sessions and programs. “Yes indeed... It can be said that the appreciation of training is continuously improving due to peoples... maybe this culture of ours is changing here in a way that the careers are no longer so that we work continuously in a same place for the same company. We move more often and we have to change more often. We move more frequently physically from a town to another. We also have to change because our job descriptions change and evolve. And because of that we also have to move. We have to learn new crafts and industries. And we have to learn how to learn.”

Hydroline seeks guidelines for future developments also from their entire staff in addition to the work of their top management team. Hyrdoline conducted a research on the workplace wellbeing in cooperation with pension insurance company Etera that was designed to generate information about the success of the changes made and also to bring even the most concealed innovations to the attention of the decision makers. HR manager Korhonen describes the timing and execution of the research: “Our approach on the idea of the program was that although someone might think that there’s no point of conducting this kind of research during bad times, it is completely healthy and
normal that there are different times in life and at work. Ergo, does the research have to be made in the best possible time? I think that would not tell the whole truth.” The CEO concurred by stating that there are possible positive outcomes in a challenging economic situation if you are able to change difficulties into a learning process. He argues that the ideas and comments of the staff have a vital role in that equation.

5.2.4. Performance evaluation and compensation

As stated before, Finland is a country with one of the highest levels of political regulation of wages. Annual wage increases are agreed between labor unions, employee unions and the government. Many industries rely on the wage agreements with very little interest on competing for the good employees with money. The situation seems to be similar in the high-tech manufacturing industry. Both companies in this research are keen to compete for competent labor force by their benefits, working conditions and their reputation as an employer. They also use performance related pay to motivate their staff, but are willing to base their basic wages on the general agreements.

Satu Nurminen from Junttan describes their payment preferences: “For production workers we have this metal industry wage agreement PARAKE. That defines the demand of the task and then there is the personal addition on top of that. For managers we have nothing official yet, but that is also being considered for the future. All in all everything is being defined on the basis of the demand of the job and personal performance on the job. There on the factory floor everything is strictly defined that how much you need training and then there are the personal additions on top of that.” The topic of wages and wage increases as a motivational tool was then approached. Nurminen argues sense of security to be one of the most powerful motivational factors, and describes money as a short-term motivator: “I have an understanding from previous research that if a person receives a wage increase, it motivates them for a week or so. But of course wage is a part of motivation... If a person feels that he/she is not paid what they should, it is bound to decrease their motivation. But no... Salary is not the definitive factor of motivation - although it needs to be in line... ...then, the relationship to the nearest supervisor is really important, it needs to be in order. Then, at least in our company it matters a lot weather the staff has the knowledge that the job will continue, especially for the production workers. So if it seems that ‘there are no more orders’ the processes seem to slow down and guys start to slow down, so it needs to be clearly visible that there is more work to come.”
Both Hydroline and Junttan have previously used a subsidy salary, which has been a general performance addition in everyone’s wages, but they have given it up during the economic depression.

The entrepreneur society specialist Tuomo Kauppinen agrees with Satu Nurminen on her statement that salary is not a definitive factor in motivating the employees: “Well, the money does not cut it for a very long time. And lets state, that we are talking about a reasonable wage – not an underpayment. If we are talking about a reasonable wage, then it does not matter for long. If a mate gets a 100€ or 300€ more in a month, then there is that thing that he won’t remember that 300€ extra pay for a very long time. If he/she does not like their job, if the job itself does not motivate them, if the cooperation is not a kind what they like, that few extra hundreds does not cut it today. However, Kauppinen sees money as a possibility to indent good workers to the company, although the possibility to obtain some of the tools he refers to has changed for SMEs in recent years: “From 3 to 4 years ago commitment packages used to be available also for SMEs, like there were these insurances that had pension benefits that were relatively inexpensive. These days those are hard to come by and hard to get into the SME sector.”

Kauppinen then argues that one of the most powerful committing people to a company is a good team spirit. He regrets that an encouraging and cheering culture as in sports clubs is rarely seen in Finnish companies: “I wonder if people are scared if it makes them look bad if they point out that someone else did a good job… …or if the boss is afraid that the guys will ask more money if he talks them up. However, that “WE”-spirit, the harder aspiration to create that - we regretfully still lack of.” Kauppinen claims that Finnish companies would benefit greatly if people would learn how to praise good performances and point out that they have a good team. He argues that it would have a direct effect on the companies’ competitive abilities.

5.3. Evaluation of the adjustments made

Over the past decade, both Hydroline and Junttan have made significant changes in their HRM. They have inter alia developed their recruiting methods, skills and training possibilities of their personnel, their rewarding systems and the ways they manage information, each in their own way. But most of all, they have changed the way they think. Both companies stated that their managerial approach has changed from hierarchical management towards modern leadership and more innovation-friendly discussion culture.
All interviewed managers believe that developing their HRM has far-reaching effects on their company. The HR manager Korhonen from Hydroline summarizes the effects of cautious reorganization and training projects: “Well, we also want to see this as an image thing, that the right decisions will also serve in the future: Hydroline is considered to be a good employer – that’s a very important thing.” Nurminen concurred with the statement on Junttan’s part almost literally.

The CEO Laakkonen agrees and adds that the benefit perceived by their staff is one of the most important objects of influence besides the external image: “Company management has made a decision to invest in this training and education with the entire staff in mind - although it costs something and other jobs need to be adjusted every day during this kind of teaching – because it’s a thing that motivates and increases the feeling of cohesion. For us the staff is the most important thing that brings the profit under the line for our house and without personnel we can’t make do. If you follow the front of competitors and many of our main suppliers you notice, that their strategy is ‘instant freeze’. When the situation looks like it; out with the people, and if the growth starts again, the folks are sought after with bells and whistles. We have started our thinking with the vision, that this education package and time will repair the situation and that we will have a competent team ready when the need comes. And some day the need will come – this is not the end of the world. And when you think about it – we have got to take almost 50 guys back to work since the first smash – I think that is one of the only ways of telling the guy that the employer cares about him and believes in future.”

The attitude towards education has presented itself in two different ways. Satu Nurminen states that Junttan seems to have people who are enthusiastic about training, where as there are people who would prefer to concentrate exclusively on their job: “A part of the people like to be trained, and the others don’t. We have had good feedback from the training programs, although some people feel that they are busy enough as it is – and they would prefer to get their job done.” Jukka Laakkonen tells that he participated in the first training session at Hydroline and was very curious to see the reactions and willingness to participate among the workers. “I think it was exiting to realize the situation where the younger crowd, the around 30yrs guys were talking to the teacher seriously and with enthusiasm about the subject. Then when you go around the slightly older bunch over 45yrs – the comments were different. They seemed to embrace the situation in that it was ‘pointless drivel arranged by the employer’. Those guys, shall we say +40 to +50 years of age seem to be more used to that old kingpin-style leadership. Like in army terms ‘do what you are told to’. That kind of own thinking, personal development in their own workstation is left out. They wont bother when they don’t get any thanks. Today it’s visible, that there has been a change in the
younger generation. That when you give a guy some steam, a little bit responsibility to develop their own workstation or assignment, give a permission to open up both in good and bad things, open up yourself as a manager, give thanks, give feedback, then there is an enormous possibility to develop that thing.”

In spite of coincidental resistance to change both managers relate to the offering of the educational package with profound confidence. They believe that especially the skills of the middle managers and the over-all efficiency of the organization have enhanced by the training and will eventually bring long-term benefits for their companies.

Changes in the management of human resources have also had a pivotal impact on the culture of Hydroline. Jukka Laakkonen has had the unique opportunity to work in every level of the company from production worker to engineer before becoming the company CEO. That has opened multiple different chances to view the organization from different perspectives. In his experience lowering unnecessarily high hierarchy and building conversational team culture are in a very important role in order to foster motivating, commitment and creation of innovation. He describes some of the problems of the old culture: “If you think the old days, for example the lunch and coffee breaks: we had divided the officials and employees. Now we have common facilities with this new diner entrepreneur where people get to mix and create team spirit in a whole another level. Before we used to be like two different departments and cliques.

According to the HR manager the way of the new CEO is communicating personally with every single person of the organization is apt to create positive spirit and intrapreneurship throughout the company. He states that the CEO often sits at the same table with e.g. the guys from the storage to catch up and change opinions and argues that being an easy way to show everyone’s importance to the organization concretely. Staff manager notes that trough his actions, the CEO is creating “a face” to the company that he believes to be a very important factor for motivating and committing the staff.

The managers of both companies are very pleased about the effects created by the open communication and lowering of their discussion hierarchy. The communication has improved throughout the companies helping to bring more innovations forward as the employees feel their ideas are welcome. The managers also state that the improved communication has been able to reduce rumors and raise team spirit as people feel they are being trusted with the company’s information and are considered to be a part of the team.
At the end of the interview the CEO Jukka Laakkonen summarizes his thoughts on the changing process of the Hydrolane’s HRM: “I have to say I’m genuinely proud of this group and foremost the effort of our executive team. On everyone’s part there is a little filing, polishing and learning to do. Sometimes we have also made wrong decisions – but from that you have to learn. I will continue to lead this house towards that culture that we have open and collective spirit with every guy in every department, and that everybody knows roughly about the same amount of the matters of the company as I do: what I can assume and what has been accomplished.”
6. Discussion and Conclusions

In this chapter the most pivotal results are being discussed against the previous research. The significance of the research will be concluded to produce implications for the future research.

6.1. Summary of main research results

The results of the research supported many arguments about the SMEs stated by the previous research. According to the results it can be said that the culture and processes of Human Resource Management in the research companies were fairly congruent with the previous research, although there were some differences.

The first research question “How does the HRM develop in a growing Finnish hi-tech SME?” created few different observations. The results indicate that some of the HRM processes develop in an earlier stage of growth than the others. In the very beginning of both companies, the main concern was the product. As they both started relatively small, the ‘SME creation’ phase consisted of little more. When the companies entered the ‘commercialization and new business entries’ phase, they had grown in numbers, and started to develop new processes. Recruiting processes, especially recruiting channels developed first. Both companies had defined their official recruiting channels decades before they even had a HR manager. The first crisis to lead towards this development in both companies was the first fast phase of growth that created pressure to ensure access to competent employees.

However, the growth of the companies was more stable than today, and the demands of the HRM planning were not as complex as today. In other words, the first HRM applications were most likely adopted from the industry norms and over time as the companies grew larger, the complexity of their business environment expanded the companies started to develop their HRM in order to manage crises and to create competitive advantage.

Previous to the first crises HRM was not the primary responsibility for anyone in either company. The people in charge of HRM took care of the responsibilities in addition to their primary job description. Thus, as the result of growth both companies started to experience problems in their HRM, as Mazzarol (2003) argues will happen more likely the faster the speed of the growth is (Mazzarol 2003, 27-28).
The second research question “What kind of demands does the growth of the company present for the HRM functions?” created additional views and results. In fact, the second crisis that pushed the companies to the phase of ‘rapid growth and expansion’ defined by Gabrielsson & Gabrielsson (2013) occurred when the companies grew too large and their market grew too complex and the demand too fast-changing to be managed by one or two people. Both companies went through a total managerial reform between 2006 and 2011 to decentralize the workload of their managers and to obtain more skills on their management team. Hydroline established the position of HR manager in 2007 and Junttan in 2011. Both companies decentralized the responsibilities of their managers so that each manager had the sufficient competences and resources to manage their positions effectively. Hydroline and Junttan have also assumed a proactive way of developing their HRM processes, which is not typical for an SME, and which according to Salazar et.al (2012) shows a high level of consciousness.

Both Hydroline and Junttan are known for the high quality of their products. Both companies have consistently been looking for ways to improve themselves and their products. As one of the most unprecedented ways to do so in the metal-industry, the companies have been aspiring to reduce the hierarchy in their conversation culture in order to foster innovations. In fact, as the both companies have now entered the final growth phase defined by Gabrielsson & Gabrielsson (2013) ‘rationalization and maturity’ they have started to emphasize SHRM in their overall strategy.

The CEO of Hydroline, Jukka Laakkonen stated that he believes unnecessary hierarchy hinders the development of the organization, suppresses innovations and reduces employees’ motivation. According to Laakkonen Hydroline has systematically strived to reduce the hierarchy of internal communication in order to enable every employee to reach their full potential. Sharing a mutual lunch quarters and open communication is a significant indication of a lower hierarchy, that Bartel & Garud (2009) define as one of the perquisites for innovations.

Lowering of the organizational hierarchy also enables the creation of social relationships, which Granovetter (2005) see as a vital opportunity for an SME to combine the skills of their professionals. This, on the other hand, enables the emergence of diverse views, which he argues to be crucial for the company’s ability to tackle challenges to solve problems and to improve their economic outcomes.

Junttan and Hydroline equally believe in the ability of building mutual trust to develop team spirit and productivity. Also Mazzaroll (2003) states that it is very important for the managers to
show that they believe in their skills and competences of their staff and that they sincerely show their trust in their personal actions.

All the interviewed managers agreed that they prefer to give their employees some liberties in developing their working stations and their jobs. The liberation of innovating from the exclusive rights of the engineers to a common commodity can be seen as a significant breaking of a barrier in a high tech manufacturing industry, that Catmull (2009) defines as an imperative phase in creating an innovative organizational culture and developing the organizational efficiency.

In order to insure that all employees receive feedback for their work and are able to speak their minds both companies have started performance appraisals, which are being carried out with their closest supervisors and in small focus groups. Ramlall (2004) argues that this enables the company to combine the internal motives of a person to the common motives and goals of the company. At best this may lead to the combination of employees’ work life and life’s work so that they are fully aware of the meaning and possibilities of their job, which is one of the most important factors regarding commitment and the implementation of the company strategy (Ramlall, 2004).

Nurminen and Laakkonen both underlined the importance of shared information within the company. Nurminen stated that if the employees of Junttan do not have information about the upcoming orders, the motivation is immediately effected negatively. Laakkonen stated that along with the new HR strategy, Hydroline has started to arrange monthly briefings for the whole staff, in order to keep everyone in the loop, build trust within the company and to prevent rumors that could have a negative effect on their team spirit. Bartel & Garud (2009) argue that stories may symbolize the boundaries of approved behavior in an organization, act as dispensers of information and to generate new ideas. If there is no sufficient amount of official information in the organization, rumors will act as a secondary source of information.

The recruiting methods were considerably more correspondent with the size of the both companies than e.g. the training methods. Both companies used primarily employment agencies, company web pages and public newspapers as their recruiting channels, which is very common among their size SMEs. Additionally, Junttan had occasionally used private sector employment agencies in their manager recruits and Hydroline had used a training program to educate career changers to meet their requirements, which are not very common procedures in the SME sector. However, both companies were relatively reliable on the traditional recruiting methods, which is explained by their success in recruiting. Neither company had experienced any severe problems in
their recruiting processes. Thus, the premise of the SMEs problems to recruit competent staff presented by the previous research is inconsistent with the results of this research. However, this can be largely explained by their good reputation as employers, and the result could have been different with less reputable companies - especially due the high skill demand on the industry.

Both companies had started to invest on training and development as a part of their new personnel strategy. Junttan had organized e.g. language lessons for everyone, and emphasized that they also subsidize personal studying endeavors, such as master’s degree programs etc. Hydroline’s staff had the opportunity to take a 10-day training period with the emphasis on their individual task. Neither company was willing to make the training mandatory or eligible for any rewards. As a matter a fact, Granovetter (2005) states, that voluntarily is one of the key elements of linking learning outcomes successfully into practice.

It is very significant that the managers of both companies have understood to invest on the development of both official processes and the things that have an effect on the unofficial culture, for i.e. Rowden (1995) states that there is strong significance between the both official and unofficial HR processes for the company’s performance.

HR manager Kimmo Korhonen defines creation of a positive working environment and community one of the most important long-term goals of their HRM. The same importance is underlined also by Catmull (2008), who in spite of totally different industry, lines the animation studio Pixar’s HR strategy almost literally the same as the management of the Finnish metal companies. According to Catmull the successful establishment of positive working conditions and positive working environment enhances productivity, atmosphere, profitability and fosters innovation (Catmull, 2008).

In addition to the views already presented in this chapter the HR managers defined their job to have more official demands. Inter alia Satu Nurminen stated that Junttan has established new work time monitoring systems to be more well equipped to calculate specific unit costs in a large plant and to create extended motivation for the workers trough the possibility of flextime working. Also the growing complexity of the job description of the HR manager has motivated her to continue her studies while working. Kimmo Korhonen also defined constant personal development as one of the most important ways to be able to stay ahead of the challenges.

The third research question “How does the evolution of HRM affect the SME?” needs to be defined as more of a subjective question, as there is no exact possibility to measure the effects
CEO Jukka Laakkonen from Hydroline stated that with more responsible HRM the company is far more competitive due to committed and motivated workers. HR Manager Satu Ruotsalainen Junttan is concurrent adding that the evolution of HRM has an important role on developing their products better for their customer as the innovations are easier to come by in an open communicational hierarchy.

Both companies in this research have the advantage of a good company image both due to their high quality products and their reputation as a modern “state of the art” company and a good employer. However, although they possibly have fewer problems in their recruiting processes than their average competitor, they hold their employees in high value. Bacon & Hoque (2005) have argued, that companies with challenges in either recruiting, developing or maintaining their staff are likely to emphasize more on their HRM development. In the case of Hydroline and Junttan the companies are not willing to let the special competence and knowledge of their employees go to the rivals. CEO Laakkonen defined the employees many times as the most valuable asset of his company.

Neither company was keen on attracting or committing employees with money. Both the managers of the companies and the Entrepreneur Association specialist Tuomo Kauppinen agreed that money is an ineffective short-term motivator. They underlined good working conditions, appreciation and good team spirit as the most important factors creating commitment. Also the strong image of the companies and the rigid union-regulated wages deteriorate salary’s significance in the recruiting process.

Finally, as both of the companies have reached the fourth phase “rationalization and foreign maturity” in model of Gabrielsson & Gabrielsson (2013) the companies have started to prepare themselves for the elevating fluctuation of the international market by developing their HRM processes not only as a way of crisis management, but also as a strategic decision for the future.

6.2. Theoretical contribution

The material of this research is relatively narrow. It would be unwise to make too general assumptions on the basis of three interviews. The results describe large hi-tech manufacturing SMEs with around 200 employees. Considering the complex variety of SMEs it is impossible to draw general conclusions.
However, the research manages to describe the evolution process of two similar companies and draw conclusions that both companies have managed to overcome some of their obstacles and create competitive advantage by developing more sophisticated ways of managing their HRM.

Studying the development process of these two companies through the looking glass of the theoretical framework based on the studies of Gabrielsson & Gabrielsson (2013) and Mazzaroll (2003) was able to confirm that the companies had done similar decisions with similar results as they passed through the different stages of growth.

Thus, this research contributes to these previous researches by confirming the results of Gabrielsson & Gabrielsson (2013) and Mazzaroll (2003) in a context of Finnish manufacturing SMEs employing circa 200 people.

6.3. Managerial implications

The managers of both Hydroline and Junttan showed exceptional ability to reform their ways of managing the companies and their personnel with very little prejudice. They were also very committed on continuously developing themselves, dividing responsibilities and building their companies team spirit and employee commitment. The interview with entrepreneur society specialist Tuomo Kauppinen along with the scope trough the previous research suggested that not many SME-managers today are either accustomed to, or have time to do so.

Thus, it could be very productive if SME-managers would be able to analyze their own workload more efficiently, to see weather they could gain advantages by dividing their workload and decentralizing the responsibilities in their company. This would reduce the number of companies suffering from the Bleak House –effect mentioned earlier in the paper.

Also it seems that strategic human resource management is not very familiar concept in the SMEs. Hydroline has gained substantial competitive advantage by addressing HRM as a strategic element as they are more flexible to the market fluctuations and are able to react faster than majority of their competitors.

Therefore, it could be reasonable for SME-managers to study SHRM and analyze weather their company could benefit from considering SHRM as a strategic tool of managing the company.
6.4. Future research suggestions

The research of HRM in the SME context remains scarce. Due to the relatively large number of SMEs in Finland it would be nationally significant to know more about the strategic management of human resources. Especially since the gap between entrepreneurs and academic research seems to remain relatively wide.

Thus, it would be fruitful for students and scholars to continue studying the SMEs in this type of researches to widen our understanding about the decisions and success factors related to HRM decisions.

The benefit of qualitative research is that it gives a subjective understanding and insight to the research object. However, the results can rarely be confirmed without substantial repetition, or quantitative research. It would be interesting to conduct a broader research on the subject with statistically significant sampling. That would help generalize the assumptions and implications made in this research. More importantly, it would prove the validity and reliability of the results. However, the size of such research is beyond the resources of a Master’s thesis and should therefore be conducted e.g. as a doctoral thesis.
7. Summary

This research was based on the familiarization of the previous research of SMEs, HRM and organizational culture. The most pivotal critique presented by the previous research has been the insufficient consideration of HRM regarding the SMEs growth management and the effect of HRM on the organizational culture. The research of Mazzarol (2003) seemed as an interesting guideline, as he had studied companies of similar size and circumstances with Hydroline and Junttan. It was also very important to discover the research of Gabrielsson & Gabrielsson (2013) that contributed into the creation of the frame of reference by confirming in the INV context most of what Mazzarol stated previously.

Although SMEs form 99.8 percent of the population of Finnish companies and their role in employment and economic growth is widely understood, the research and literature has so far been very slim. This can be partly due to the large variety in sizes and diversity makes it really challenging to make universal conclusions about them. Even the very definition of an SME might differ vastly between different researches. Another reason might be, that due to the potentially unstable and uncertain nature of the SMEs, marketing and finance have considered to be more important subjects of research. However, the research of HRM produces valuable information about SMEs and provides the SME managers some new views to support the development of their management strategies.

Employees are an imperative resource for any business. Thus, every company should have an individual HR strategy to support their business plan and strategy. The HR strategy should describe the quantitative and qualitative goals for the HRM in a long-term period. HR strategy works as a guideline for the managers in their everyday decision-making. All HR related matters, such as planning, organizing, motivating and managing form together the HRM of the company that actualizes through various HRM processes, e.g. recruiting processes, rewarding systems and training programs.

SMEs are often very different from the large international corporations, all though there are almost always some similarities. The very smallest micro companies are managed and often exclusively operated by the owner-manager, where as large SMEs, such as Hydroline and Junttan can have their own HR manager, or even entire HR department. The limitations of the resources and the motives of the managers are powerful influences in the everyday operations of SMEs. E.g. only a fraction of Finnish SMEs aspires to grow. The motivation for running a small company is often the possibility for independent working, self-actualization or even simply to have a job.
However, those companies who aspire to grow should have a growing interest on developing their HRM in order to attract, develop, commit and maintain the skilled and motivated personnel they need to be competitive in the future, and tackle the various challenges that the globalization is constantly changing.

The goal of this research was to evaluate how important tool the managers of the researched companies considered HR development to be, and what stages of growth the companies had passed and which challenges they had encountered in order to launch the different decisions and development programs they had gone trough. The research was conducted by interviewing the HR managers of both companies and the CEO of Hydroline to get the insight of their visions and aspirations regarding HR development. An Entrepreneur Association specialist, who has also been an entrepreneur all of his working life was also interviewed to gain the ability to make some general assumptions about the visions and decisions of the interviewed managers. HR planning, recruiting, training and rewarding were chosen as the subjects of examination, because they are areas of HRM that have to be considered at least on some level in every company. Qualitative research was a natural approach to the research questions, as the goal was to deepen the understanding of the HRM processes used in SMEs and the factors influencing them. The companies were employing 120-200 people at the time of the interviews and they operate in the hi-tech manufacturing industry, making heavy-duty machines and parts of high quality for international markets. Both Hydroline and Junttan are to be considered as growth companies, although they both have undergone some challenges over the past decade, due the global economic downturn. The economic situation has been more difficult for Junttan, as the sales of their products are bound to the economic trends of the construction industry.

Hydroline and Junttan have both been dramatically developing their HRM and their HR processes recently. They also seemed to be on the crest of development in various other aspects, e.g. production processes, technical solutions and product quality, as well. However, even these two companies considered visionary among their peers have started to understand the scale of possibilities of HR development just recently. They both went the first 40 years of their existence with the bare minimum of HRM, because they were smaller, and because that was the trend in the SME business – management by hierarchy.
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Mazzarol, T. (2003) “A model of small business HR growth management”, Graduate School of
Management, University of Western Australia, Crawley, Australia


ATTACHMENT:

The questionnaire form for the interviews (in Finnish)

Haastatteluteemat

**Taustatiedot**
1. Yrityksen historia?
2. Markkinat?
3. Omat vaiheesi yrityksessä?
4. Tulevaisuuden johtaminen ja tavoitteet?
5. Suurimmat ja oleelliset muutokset yrityksessä?

**Rekryointi**
6. Henkilöstömäärien kehitys ja henkilöstön vaihtuvuus?
7. Tyytyväisyys henkilöstön laatuun / rekryointitarpeet?
8. Rekryointikanavat?
9. Kanavien valintaan vaikuttavat tekijät?
10. Kanavia poissulkevat tekijät?
11. Tärkeimmät uuden työntekijän valintaan vaikuttavat kriteerit?
12. Rekryointikustannukset ja niiden kehitys?
13. Suurimmat haasteet rekrytoinnissa?
14. Miten rekryointiprosessi on muuttunut yrityksen kasvaessa?
15. Tärkeimmät etapit?

**Palkkaus ja työvoimamarkkinat**
16. Osaamisen riittävyys markkinoilla?
17. Tärkeimmät keinot houkutella osaamista yritykseen?
18. Kumppanuksiä?
19. Vahvuudet työnantajana työmarkkinoilla?
20. Palkanmaksuperusteet?
21. Motivointikeinot?
22. Palkan merkitys motivaatioinona?
23. Miten palkanmaksuperusteet ovat muuttuneet yrityksen kasvaessa?
24. Tärkeimmät etapit?
Kouluttaminen ja kehittäminen

25. Työntekijöiltä vaadittava koulutustausta?
26. Perehdyttäminen?
27. Jatkokouluus?
28. Koulutuksen vapaaehtoisuus?
29. Keinot motivooida työntekijöitä kouluttautumaan / sitoutumaan?
30. Koulutuspäivät per työntekijä vuodessa?
31. Koulutuksen vaikutus kilpailukykyyn?
32. Henkilöstöjohtamisen vaikutus kilpailukykyyn?
33. Miten suhtautuminen kouluttamiseen on muuttunut?
34. Miten henkilöstöjohtamisen käytännöt ovat muuttuneet?
35. Haasteet?
36. Innovaatioiden hyödyntäminen?
37. Keskustelukulttuuri vs. Hierarkia?
38. Tärkeimmät etapit?