

HRM Practices in Micro Enterprises Focusing on Employees' Satisfaction and Commitment

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This study examines the extent of informality of HRM practices among micro enterprises and their affect on employees' satisfaction and commitment. It involved 857 employees working in micro enterprises in Kuala Lumpur. The results revealed that HRM practices in micro enterprises are formal, employees are satisfied and committed. Employees' commitment variance is 68.0 percent explained by the predictors and it is significant. The results of the study are meaningful to the SME literature since not much research has been conducted in the area of human resource management of micro enterprises as compared to the research about small or large companies.

Keywords: HRM practices, micro enterprises, employees' satisfaction, employees' commitment

Many studies show that small and medium enterprises (SMEs) play a central role as the driving engine of growth, job creation and competitiveness in both domestic and global markets (Blackburn & Athayde, 2000; Ndubishi & Jantan 2003; O'Regan & Ghobadian 2002; Siu, 2000; Stonehouse & Pemberton, 2002). Small businesses are the most common form of business in the world and they play an important role in the economic growth of every country. Micro businesses are part of SME, however they differ from larger SMEs in many aspects. One of them is human resource management. However, not much research has been conducted in the area of human resource management of micro enterprises as compared to the research about small or large companies. Most of the previous research in the area of HRM for small businesses focus on the comparison of HRM practices between small and large companies (Rutherford, Buller and McMullen, 2003; Tocher and Rutherford, 2009) and relationship between HRM practices with firms' growth (Altinay, Altinay & Gannon, 2008; Barrett & Mayson, 2007; Kotey and Slade, 2005).

Many researchers reported the informality of HRM practices in small enterprises (Barrett, *et al.*, 2007; Cameron *et al.*, 2006; Kaman, *et al.*, 2001). Although these informalities decrease as the firms grow in size; they are in many instances violate the employment laws. Employment laws in many countries require formal systems and written documentation to support decision made about applicants and employees. For instance, in Malaysia, employers need to document and communicate expectations as well as establish systems that ensure consistency and compliance with employment laws regardless of the size of the enterprises. Specifically, Malaysian labour law requires employer to the use of letter of appointment, the use of job description, the issuance of pay slip, the contribution to Employees Provident Fund (EPF), and to document the entitlement to annual leave and legally required benefits. As a result of informality of HRM practices, most of the employees working for micro enterprises are not getting all of these legally required documents. Some of the employees are not even aware of the existence such requirements by the government. The problem will arise once the working relationship with particular employers is no longer amicable. When employees lodge a report to labour office, then only, the employees realized that they are actually been taken for a ride by their employers. Hence, the present study aims to address this issue. Do micro enterprises practice formal HRM practices? Are the employees happy and satisfied with the HRM practices of their micro enterprise employers? Do such HRM practices affect the employees' satisfaction and commitment?

Researchers have only recently initiated the examination of HRM in SMEs. Such exploration is severely lacking when directed toward micro enterprises exclusively (Pearson *et al.*, 2006; Skinner, *et al.*, 2003). This study aims to reduce the gap in the literature as there is no such study has examined the HRM practices of micro enterprises in relation to employees' satisfaction and commitment. The deficiency of information concerning HRM in micro enterprises is problematic for theory, research, and practice (Heneman *et al.*, 2000). By understanding the use of HRM practices in micro firms, HRM practitioners and micro business owners not only can make a difference in managing their human resources as HRM can provide the competitive edge to a firm (Storey, 2007), but also to ensure harmonious working relationship, and to protect them from any legal litigation. The ability to perceive and overcome HRM problems is a key in which micro firms can gain competitive advantage. The enforcement agency

can take necessary efforts and action to improve the HRM practices of micro firms and provide better protection to the employees.

Micro Enterprises in Malaysia

The National Small Medium Enterprise (SME) Development Council, Malaysia has, on 9 June 2005, approved the common definitions of SMEs across economic sectors, for adoption by all government ministries and agencies involved in SME development, as well as financial institutions. For wider coverage and applicability, definitions of SMEs will be based on two criteria, namely: number of employees; or annual sales turnover. Therefore, an enterprise will be classified as an SME if it meets either the specified number of employees or annual sales turnover definition. The definitions will apply for four sectors: primary agriculture; manufacturing (including agro-based); manufacturing-related Services (MRS); and services (including Information and Communications Technology).

A micro enterprise in primary agriculture is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200, 000. A micro enterprise in manufacturing (including agro-based) and MRS is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM250,000. A micro enterprise in services is an enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000. Based on the Census of Establishments & Enterprises 2005 by the Department of Statistics Malaysia, out of the 548,267 SMEs established in Malaysia, 435,324 (78.7%) business establishments were contributed by the Micro Enterprises (MEs). The MEs involved in all three main sectors in Malaysia, namely: services – 381, 585 MEs (87.7%); agriculture – 31, 838 MEs (7.3%); and, manufacturing – 21, 516 MEs (4.9%) (<http://www.smeCorp.gov/node/33>).

At the time of this study, statistics on employment in micro enterprises is not available. However, employment generated by SMEs as a whole was approximately 3.0 million workers (65.1percent) of the total employment of 4.6 million engaged in the three main sectors. The services sector employed the largest number, 2.2 million, followed by the manufacturing sector, 740,438 and agriculture sector, 131,130. Full-time employees totalled 2.3 million workers (76.5 percent) while self-employed workers made up 16.7 percent and part-time workers, the remainder (6.8 percent) (http://www.undp.org.my/uploads/UNDP_SME_Publication.pdf).

Conceptual Framework

HRM Practices in SMEs

While the distinction of small and micro enterprises is not always clearly addressed by previous researches, we consider small enterprise to have included micro enterprise as well. Most of the literature discussed about HRM practices in small rather than micro enterprises; although some of these researches actually studied on firms with less than 100 or fewer employees. Fewer than 100 might also include one or two employees. Previous studies confirm that HRM in small firms is characterised by informality (Barrett, *et al.*, 2007; Cameron *et al.*, 2006; Cardon & Stevens, 2004; Tocher & Rutherford, 2009). What this means is that the practices used to recruit, select, manage and appraise employees' performance are not written down. An informal recruitment practice might therefore be the use of "word-of-mouth" advertising. Generally informal recruitment and selection methods are associated with small firms. According to Barrett and Mayson (2007), informal recruitment methods is preferred by small firms because they would attract recruits from acquaintances of present employees; this enables applicants to make informed choices about joining the workforce and they tend to perform (Henry & Temtime, 2009). However, Barrett and Mayson (2007) argued that by only using referrals, only a small pool of potential employees will be created and some very suitable candidates will never be reached. As regards to job description, Tanova (2003) found that in small firms, management would only need to determine an employee's main tasks, and that a detailed job analysis, job description and job specification process may not be needed. Training is identified as an important HRM issue for small firms; however, research shows formal training is less likely to be provided in these firms. Small firms rarely carry out formal training needs analysis and have no systematic approach to training (Kotey & Slade, 2005; Storey, 2004). Several authors (Barrett & Mayson, 2007; Cassell *et al.*, 2002; Kotey & Slade, 2005) reported that performance appraisal practices in small firms tend to be informal and continuous and often used for monitoring and control rather than development purposes. Small firms' owners usually lack the skills necessary to carry out effective performance reviews and may perceive formal performance appraisal systems as time consuming. The owners of small firms are not prepared to give high salaries and incentives to their employees (Altinay *et al.*, 2008).

Mazzarol (2003) highlighted that the SMEs owner-manager is usually burdened with a variety of HR functions such as recruitment and selection, staff promotion and retention, wages and salary for which he or she is generally poorly equipped. In fact, Tocher and Rutherford (2009) commented that SME owners do not tend to focus on administrative issues such as HRM, until they perceive that such issues are critically important to the firms. Not only the SMEs owners tend to focus on more critical issues but also they perceived formalized HRM practices are relatively costly and time consuming to implement in small firms with their limited resources. However, according to Tocher and Rutherford (2009) empirical research indicates that SMEs do engage in HRM (Cardon & Stevens, 2004; Kotey & Slade, 2005). Specifically, while SMEs do not generally have an HRM department and do not use HRM practices to the same extent as large firms, SMEs do typically rely on a mix of HRM practices in a variety of areas such as training, compensation, recruiting, and selection.

With less than five employees the firm can probably operate successfully without full-time HR personnel. But that does not mean, the micro enterprises owners can neglect the use of formal HRM practices. Formal HRM practices refer to the use of formal selection, written job descriptions, orientation, and performance evaluations, progressive discipline procedures, as well as the use pay slip. Smaller firms have been described as experiencing the benefits of informal communication, direct supervision, and more broadly defined jobs. In addition small firms have the ability to capitalize on individual employee strengths and are dependent on individual employees for success; formalization can also reduce employee role stress and facilitate employee commitment. Richbell *et al.* (2010) in examining the HRM in the Hungarian SME sector found that employee morale was high despite the HRM is flexible, informal approach to management, and lack of training is documented. However, Barrett *et al.* (2007) argued that small firms HRM informality and the flexibilities can lead to diminishing returns. Wrong employment decisions can be costly for a small firm where each person's efforts are important. On the other hand, formal HRM may reduce flexibility, increase organizational inertia, and detract from performance (Kaman *et al.*, 2001). Barrett *et al.* (2007), however, found in their study that firms who had formalized HRM practices, which linked directly to their strategy, employers were more able to sell their vision for their business to potential employees. In addition, Altinay *et al.* (2008) agreed that employee training and recruitment through formal channels contribute to the sales growth of small firms. Furthermore, Mazzarol(2003) asserted that the need for more formalized HR policies is likely to increase as the size of the firm grows because small firms sustainability in periods of growth can be more problematic. In addition, Barret and Mayson (2007) asserted that the formalization of HRM is dependent on the small firm owners' awareness of legislation and legal requirements on HRM and employment matters.

Social Exchange Theory, HRM Practices, Employees Satisfaction and Commitment

Social exchange is the most basic form of exchange (Blau, 1964) and social exchange is based on the norm of reciprocity i.e. managerial expectations that recognition, empowerment and investment in human assets will be reciprocated. This reliance on the goodwill and obligation of the other actors may create uncertainty and trust. In his review of the development of social exchange theory, Ekeh (1974) notes that social exchange has developed along two distinct traditions in sociology, a collectivistic and an individualistic orientation. Both traditions view this exchange as engendering a high degree of social solidarity and also regard trust as a major attribute of social exchange (Blau, 1964). The view of employment as a strictly economic relationship assumes that individuals do not undertake behaviours outside of those specified by the employment contract (Blau, 1964). Social exchange theory predicts that social exchanges promote feelings of personal obligation, gratitude and trust, which facilitate the acceptance of role requests beyond the employment contract. Employment can be considered a combination of economic and social exchanges. Hence, there is a need to create a climate of trust that binds the organisation and the employee together. There are many studies that suggest that the influence of HRM practices on employee commitment is not direct but indirect through the psychological links of procedural justice, perceived organisational support and trust as suggested by the social exchange theory (Agarwala, 2003; Gould-Williams and Davies, 2005).

Scholars generally agree that appropriately designed HR practices can enhance organisational performance and influence employees' behaviours (Guest, 2002; Ostroff & Bowen, 2000; Witt *et al.*, 2001). Existing research indicates that different facets of HRM practices particularly compensation, career management and training, and greater discretion have relationship with several organisational outcomes such as with employee satisfaction, employee commitment, turnover, and retention (Chew & Chan, 2008; De Vos & Meganck, 2009; Oshagbemi, 2001). For instance, Oshagbemi (2001) found that the level of satisfaction of academic is associated with the behaviour of their line managers.

Numerous empirical investigations evidenced the relationship between HRM practices and organisational commitment (Paul & Anantharaman, 2004). Meyer and Allen (1997) indicated that HRM practices have been considered to be valuable and effective tools for elevating organisational commitment, especially affective

commitment. For instance, Chew and Chan (2008) in examining the human resource practices relationship with organisational commitment and intention to stay found that organisational commitment was positively affected by remuneration, recognition, and challenging work assignment. They also found that intention to stay was related to remuneration, recognition, and training and career development. While, Arocas and Camps (2008), found salary strategies and job enrichment strategies are positively related to job satisfaction and employee commitment, and employee commitment was negatively related to turnover intention. In their study, Petrescu and Simmons (2008) found that several HRM practices raise workers' overall job satisfaction and their satisfaction with pay. A more recent study by Zimmerman and Darnold (2009) also found a correlation between HRM practices with job satisfaction, employee commitment and turnover in an organisation. Collins (2005) in examining the effect of HR practices in small business found that effective HR practices impact employee outcomes significantly.

Based on the literature reviewed, the following hypotheses are proposed:

- H1: HRM practices in micro enterprises are informal.
- H2: Employees in micro enterprises are satisfied.
- H3: Employees in micro enterprises are committed.
- H4: HRM practices are related to employees' satisfaction.
- H5: HRM practices are related to employees' commitment.

Methodology

Measures

This study used a self-developed questionnaire with some adaption to the measurement used by Kaman *et al.* (2001). Respondents were asked the extent to which formal HRM practices were used by their employers. There are 11 constructs tested which included formal HRM practices such the use of job advertisement, formal selection process, written job descriptions, formal performance appraisal, training, pay slip, and provision of basic benefits. Respondents were asked to rate the extent to which their firms currently used each practice on a scale of 1 ("not at all") to 5 ("Extensively"). In addition, we requested demographic information on the respondents and information on their firms. Measurement of satisfaction was adopted from Hackman and Oldham's (1975), whereas that of commitment was adopted from Mowday, Steers and Porter (1979).

The questionnaire was pretested with 30 respondents. The items were all found to be reliable with the alpha coefficient ranging from 0.798 to 0.907. The alpha coefficient for HRM practices construct is 0.798, employee commitment construct is 0.863, and job satisfaction construct is 0.907. The results of pre-test are presented in Table 1. As an initiative, to ensure the respondents who are not proficient in English can still answer the questionnaire accurately, the instrument was prepared in two languages; firstly English and then *Bahasa Malaysia*. The original English questionnaire was subject back-translation. An independent sample t-test was done for these two versions of questionnaire, and it was found that the differences in mean are no significant. More than 47 per cent of the respondents responded to the questionnaire in *Bahasa Malaysia*.

Table 1: Reliability Analysis of the Variables

Variables	Pre Test	Post Test
HRM Practices	0.798	0.875
Job Satisfaction	0.907	0.930
Employee Commitment	0.863	0.924

Data Collection and Sample

The research was based on a survey of 857 employees working in more than 200 types of micro businesses in Kuala Lumpur, Malaysia. SME Corporation (SME Corp) Malaysia maintained a database of small and medium-size firms in the country which is updated frequently. The target population was all for profit business enterprises that had five or fewer employees. The businesses range from accessories shop, apparel shop, bakery, book store, café, clinic, computer shop, event management company, flower shop, jewellery, kindergarten, laundry, pharmacy, printing, salon, tuition centre and many more. Table 2 shows the distribution of the respondents by ethnic group, gender, age, level of education, current position, duration in current position, duration employed by present employer and job function. The respondents come from three main ethnic group which is 71.6 per cent Malays, 10.7 per cent Chinese, 9.9 per cent Indian, and 7.7 per cent from other races. About 57 per cent of the respondents are female. The respondents are quite young. About 64 per cent are below 30 years old and 45 per cent of the

respondents passed secondary high school. These respondents work as supporting staff (55.5 per cent), and 35.7 per cent of them have been in their current position for less than one year. While more than 73 per cent have been employed by the present employer for less than three years and about 27 per cent have been working for the present employer for more than 4 years. In term of job function, 42.8 per cent of the respondents work in sales/marketing.

Findings

The actual data collected was analysed by using SPSS version 16.0. First, a post-test reliability analysis was performed for all the measurements and all of them were found reliable. The alpha coefficient is ranging from 0.875 to 0.930 (As shown in Table 1). The HRM practices was measured by 11 items such as “my company advertises job vacancy through media”, “my company conducts a selection interview before hiring any employees”, “my company gives job description to each employee”.

Table 2: Distribution of Respondents by Background Information

Category	Frequency	Percentage
Ethnic group		
Malay	614	71.6
Chinese	92	10.7
Indian	85	9.9
Others	66	7.7
Total	857	100.0
Gender		
Female	488	56.9
Male	369	43.1
Age		
Up to 30 years old	550	64.2
31-40 years old	200	23.3
41-50 years old	91	10.6
51-60 years old	16	1.9
Level of Education		
Secondary High School	387	45.2
Diploma	208	24.3
Bachelor's degree	225	26.3
Master's degree	34	4.0
Doctoral degree	3	0.4
Current Position		
Supporting staff	476	55.5
Supervisory	143	16.7
Line manager	134	15.6
Others	104	12.1
Duration in Current Position		
Less than 1 year	306	35.7
1 to 2 years	251	29.3
2 to 3 years	148	17.3
3 to 4 years	74	8.6
More than 4 years	78	9.1
Duration Employed by Present Employer		
Less than 3 years	627	73.2
4-5 years	132	15.4
6-10 years	75	8.8
11-15 years	15	1.8
16 and above	8	0.9
Job Function		
Administration	178	20.8
Finance	116	13.5
Production	120	14.0
Sales/Marketing	367	42.8
Others	76	8.9

All the 11 items were computed to produce a total score of HRM practices. Employee commitment construct was measured by nine items, and all these nine items were computed as a total score of employee commitment. Similarly the 14 items measuring job satisfaction was also computed as a total score. Next, a one sample t-test was conducted to test H1, H2, and H3. Based on the scale used in the questionnaire, H1 was tested with a test value of 3, while H2 and H3 were tested with a test of 4. Finally, correlation analysis was performed to verify H4 and H5.

Hypothesis 1 was not supported where the results of t-test revealed that HRM practices in micro enterprise found to be formal (M=3.160; SD=0.65; df=855; t=5.399; p=0.000). Besides, Hypothesis 2 was accepted. It was found that employees in micro enterprises are satisfied with the employers (M=3.673; SD=0.717; df= 854; t=-13.311; p=0.000). In addition, hypothesis 3 was also accepted, i.e. the employees in micro enterprises are found committed (M=3,487; SD=0.829; df=857; t=-18.115; p=0.000). A further analysis revealed that HRM practices are significantly related to job satisfaction (0.546; p=0.000), and also to employee commitment (0.568; p=0.000). Thus, hypothesis 4 and hypothesis 5 are accepted. The details are presented in Table 3. Finally, employees' commitment was predicted based on two predictors; namely HRM practices and job satisfaction. Employees' commitment variance was 68.0 percent explained by the predictors and it is significant (Adjusted R Square = 0.680, df = 851, F= 905.956, p = 0.000).

Table 3: Correlation Analysis of the Studied Variables

Variable	α	Mean	1	2	3
1. HRM practice	0.875	3.160	-		
2. Employee satisfaction 0.930		3.673	0.546**	-	
3. Employee commitment	0.924	3.487	0.568**	0.811**	-

Discussion and Conclusion

This research examines HRM practices in micro enterprises with a special focus on employee commitment and satisfaction. The findings are different with previous studies (Barrett *et al.*, 2007; Cameron *et al.*, 2006; Cardon & Stevens, 2004; Tocher & Rutherford, 2009), as it is revealed that HRM practices in micro enterprise are found to be formal. The employees in micro enterprises are satisfied and committed. Furthermore, the results also supported the previous studies by Chew and Chan (2008), Aricas and Camps (2008), Petrescu and Simmons (2008), and Zimmerman and Darnold (2009) where it was found that HRM practices are positively related to job satisfaction and employee commitment.

This research contributes to a new understanding of the nature of HRM in micro enterprises in Malaysia. This research helps to understand whether more formal HRM practices are more likely to be used (or not) to nurture positive human behaviours in micro enterprises. These findings are meaningful to the SME literature since not much research has been conducted in the area of human resource management of micro enterprises as compared to the research about small or large companies (Rutherford, Buller and McMullen, 2003; Tocher and Rutherford, 2009). The preceding discussion suggests that HRM is important to the success of micro and small firms because it affects satisfaction and employee commitment. Employee satisfaction and commitment are important organisational behaviours. Scholars generally agree that appropriately designed HR practices can enhance organisational performance and influence employees' behaviours (Guest, 2002; Ostroff & Bowen, 2000; Witt *et al.*, 2001). As revealed in this study, the HR practices in micro enterprises are formal, and are related to employees' satisfaction and commitment. The commitment of employees actually can be improved with formality of HRM practices and employees' satisfaction.

We would recommend that micro business owner/managers may well seriously consider increasing the formality of the HR practices in their businesses. By doing so, it is envisaged to increase not only employees' satisfaction and but also employees' commitment. In addition, it will avoid any potential legal action taken by the authority. Perhaps it is timely that micro businesses have personnel designated to be in charge of HR, as the owners are generally poorly equipped with HR knowledge (Mazzarol, 2003), and they need not have to wait until such issues become critical and unbearable to the firms. Even, with less than five employees the firm can probably operate successfully without full-time HR personnel. But that does not mean that owners of the micro enterprises can neglect the use of formal HRM practices. Despite the argument presented by Kotey and Slade (2005), that

formal HRM practices can detract performance, and informal procedures alleviate the personal distance, we feel that HRM practices such as formal recruitment sources, screening, and the issuance of letter of appointment and pay slip are still necessary in micro firms, even though employee numbers are small, and majority are friends. Over time, the owners will lose direct control over activities in the business especially when the business grows. When there is a problem between employees and employers, regardless of whether the employees are friend or not, they will still bring it the authority because they want to fight for the rights. It is always good to formalize the working relationship right from the very beginning. Apart from influencing employee satisfaction and commitment, benefits of formal HRM practices include meeting legal requirements, maintaining records in support of decisions in the event of litigation, treating employees fairly, and increasing efficiency. Many employees will nevertheless need these formal documents such as letter of appointment and pay slip for their personal reasons such to obtain loans from financial institutions.

This study is not without limitations. One of the limitations is that the data for this study was obtained from one primary source; the employees. Cross-check responses from the HR personnel were not possible, as most of the micro enterprises do not have HR personnel. The employees may not fully aware of the existing of particular HR practices if they have not experienced it, for example salary increment. We have no way of knowing for sure whether the information reported by our respondents is accurate. The second limitation of this study is that it was not possible to analyse the data collected according to particular functions of HR such as recruitment, training and compensation. Instead, all the HR functions are taken as total score of HR practices. Therefore, we do not know which HR function in particular is more important than others in influencing employees' behaviours. It would be interesting for future research to examine other aspects of HRM such as retention strategies in micro enterprises.

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