

## **Human Resource Policies in Small Firms: Linkages to Employee Satisfaction**

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*This study examined the relationship between human resource policies and job satisfaction for 721 employees in 56 small businesses. While significant differences were observed in the relationship between job satisfaction and several types of policies, results suggest that employees of small firms place little value on a wide variety of costly fringe benefits heretofore thought to positively influence work attitudes. The need for future empirical research on human resource issues in small businesses is discussed.*

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Experts have long contended that deficient human resource practices lead to discontented employees, performance losses, and costly turnover. It is extremely difficult, however, for businesses to identify affordable, effective human resource policies that will foster individual excellence and promote employee satisfaction. Small business owners are faced with an additional challenge because they encounter human resource issues with little sound information to guide their decisions. When they look to academicians and professional experts for assistance, they find meaningful research results generated only in large firms. As a result, they find themselves in a situation reminiscent of Brockhaus's (1987) humorous but meaningful critique of academic research in which he offered a sports analogy of two teams vigorously playing baseball before a huge crowd.

The fans were perplexed, however, because they had come to watch a football game.

Small businesses are not simply "little big businesses" (Welsch & White, 1981) and are at a competitive disadvantage when they attempt to emulate their larger counterparts. First, responding to government mandates inflicts disproportionate costs of compliance on small firms; second, the inability to afford a comprehensive package of benefits and attractive salaries makes it more difficult to recruit and retain qualified employees; and, finally, small companies do not have the bargaining power of larger organizations when negotiating for employee benefits such as health insurance. These difficulties are compounded by the small business owner's lack of competency and experience in the development of sound, legally acceptable human resource management practices designed to foster a satisfied and committed work force.

The study described in this article investigated the under-researched area of human resource policies and employee work attitudes in small firms. Specifically, its purpose was to identify human resource policies used by a sample of small businesses and then to examine the relationships between these policies and the job satisfaction of employees.

### **Human Resource Management**

There is agreement by top executives that changes in human resource management designed to enhance productivity may be necessary to restore the internationally competitive position of the United States (Cascio, 1989; Jackson & Schuler, 1990; Miles & Snow, 1984). With the constantly changing social and economic environment, developing effective personnel functions uniquely suited to firm size, age, and industry that will increase productivity is difficult (Hornsby & Kuratko, 1990; Jackson, Schuler, & Rivero, 1989), and research provides little guidance (Cascio & Awad, 1981; Schuler & MacMillan, 1984).

The issue of proper design of the human resource management function is further complicated by the inability of researchers to operationalize "effective." Cascio (1989) suggests that in the search for effective personnel policies "top management looks to the human resource department...to control costs, to enhance competitiveness, and to add value to the firm in everything it does" (p. 48). Implicit in this responsibility is the development of personnel policies designed to promote employee satisfaction and, thus, ultimately to reduce turnover and absenteeism.

Gerhart (1987) further suggests that, given stability in the relative satisfaction of employees over time, well-designed personnel programs can even increase the overall level of satisfaction.

In one independent survey commissioned by IBM, 785 individuals, presumed to have well-informed perceptions of current human resource practices, indicated traditional "bread and butter" issues (e.g., competitive wages, benefits, working conditions) were less important than a firm's genuine concern for employees (Alper & Mandel, 1984). While the "bread and butter" issues were not of primary importance in the minds of respondents in the IBM study, there is a considerable body of research which indicates these issues are of interest to employees. For example, in a poll commissioned by the Employee Benefit Research Institute, 64% of respondents indicated they would turn down a job offer if there were no benefits. Other studies suggest the jobs most conducive to employee satisfaction are those which "provide high pay, substantial promotional opportunities, considerate and supportive supervision, opportunities to interact with one's peers, varied duties, and a high control over work pace and methods" (Milbourn & Dunn, 1976, p. 35).

Studies indicate satisfaction may be moderated by situational and demographic characteristics of employees. Exogenous factors such as organizational size (Curran & Stanworth, 1981; Harari, Crawford, & Rhode, 1983; Hodson, 1984), geographical location (Stepina, 1985), or type of industry (Brush, Mock, & Pooyan, 1987) are said to influence work attitudes. Research findings also suggest satisfaction has a strong, positive relationship with age (Lee & Wilbur, 1985; Rhodes, 1983; Smith & Hoy, 1990), marital status (Crosby, 1982), position level (Kerber & Campbell, 1987; Stepina, 1985), tenure (Lee & Wilbur, 1985); type of work (Gerhart, 1987), and a negative relationship with education (Mottaz, 1984), while there are mixed views concerning the relationship of satisfaction and gender (Ritzer, 1972; Tait, Padgett, & Baldwin, 1989).

### **Human Resource Management in Small Firms**

Small business owners, like their larger counterparts, readily admit that one of the prime difficulties encountered in maintaining a successful, ongoing enterprise is finding, managing and retaining competent employees (Hess, 1987; Hisrich & Brush, 1987; Hoy & Vaught, 1980; *The Wall Street Journal*, 1980). Hornsby and Kuratko (1990) found that the 247 small businesses in their study use similar types of recruiting strategies

(e.g., employee referrals, newspaper advertisements, employment agencies, walk-ins) and selection techniques (e.g., application blanks, interviews, and reference checks) as do large firms. Hornsby and Kuratko (1990), however, determined that most of the firms in their sample did not use sophisticated performance, personality, and aptitude tests as extensively as Gatewood and Feild (1990) suggest large firms routinely employ.

According to the latest figures available, employees in large companies earn over 30 percent more in wages and receive distinctly better fringe benefits than do their counterparts in small firms (Brown, Hamilton, & Medoff, 1990 ). According to a study conducted by the U. S. Small Business Administration (SBA), all firms with more than 500 employees offered a health insurance plan as compared with 55% of smaller firms; 69% provided long-term disability coverage, 92% sick leave, 94% life insurance as compared with only 9%, 29%, and 36% respectively of smaller firms. Employees with the larger firms in the SBA study also had the opportunity to participate in more bonus and 401-K plans (29% and 79%) than those in smaller firms (11% and 16%).

In addition to providing fewer fringe benefits, management of human resources in smaller firms differs markedly from that in larger firms and typically is "unsophisticated and unstructured" and "lacking professionalism" (Amba-Rao & Pendse, 1985, p. 19). Pragmatic human resource strategies are typically developed not by human resource specialists but by the owners themselves and may be greatly influenced by managerial expertise (Hoy & Vaught, 1980) and training (Amba-Rao & Pendse, 1985). In her study of small firms, Little (1986) found that owners of businesses with less than 50 employees typically handle all of the personnel functions. With their other responsibilities, these small business owners have little time to maintain current knowledge of effective personnel management techniques (Kossek, 1987). Lacking such expertise, the small business owner may draw heavily from observations of other organizations and pattern their human resource policies after larger firms without a sound basis for their decisions.

Kossek (1987), relying on the concepts of DiMaggio and Powell (1983), describes three approaches to changes via such institutional isomorphism: coercive, normative, and mimetic. The coercive approach often involves specific changes in company policies that are mandated by political pressures or legislation. In recent years, organizations have been forced to comply with ever increasing federal and state regulations and constantly

changing directives surrounding equal employment opportunities. The guidelines and judicial interpretations which define legally acceptable employment methods, however, have focused on the operation of larger, more complex organizations (Maurer & Fay, 1986). Compliance with these directives not only imposes disproportionate costs upon small businesses but also restrict the degree of freedom available and create more commonality than might otherwise be the case.

Normative isomorphism results from the cognitive input of academics and professional experts. Business owners look to these specialists for guidance and direction. A review of the research on human resource management, however, shows that, for the most part, research has focused on policies and practices in large firms (Smith, 1990). Hornsby and Kuratko (1990) noted that the few articles addressing human resource issues in small firms are more often conceptual than empirical, and they call for increased research into the effectiveness of personnel practices within specific size categories of small firms.

Mimetic isomorphism occurs when firms are shaped to resemble other organizations perceived to be more successful. With scant empirical data available, small business owners look to larger organizations for guidance, and yet small firms are in reality quite different. Larger firms have traditionally offered more attractive salaries, a vast array of fringe benefits, and greater advancement opportunities than their smaller counterparts (Brown et al., 1990; Schuler & MacMillan, 1984). Small businesses often find themselves economically constrained in their ability to successfully emulate innovative human resource policies. They are, thus, at a disadvantage with large organizations as both compete for the same pool of workers.

The present study was designed to examine human resource policies in small firms. Selection of the sample firms was restricted to include only those organizations employing no fewer than 20 nor more than 100 workers within three industries in a limited geographical area. The design thus provided natural controls to examine the effect of human resource management policies on employee satisfaction which might be obscured in large, complex organizations. Specifically this study addressed the following research questions:

1. Is job satisfaction of employees in small firms moderated by employee demographics or job-related characteristics?
2. Which human resource policies are significantly related to satisfaction of employees in small firms?

## METHOD

### Research Design

The data for this study were collected as part of a larger study of 56 small businesses in three industries (construction, manufacturing, and wholesale distribution) in a southeastern metropolitan area. The larger study focused on gender issues and required equivalent samples of female- and male-owned small businesses. Firms were selected from a segment of the Small Business Data Base (SBDB), a collection of statistical information systematically organized by the U. S. Small Business Administration for research on small businesses.

The entire population of businesses in the three chosen industries meeting the criteria of female ownership and active management of the firm (i.e., 42) were used. Using a computerized random number procedure, 15 male-owned companies were then selected from the remaining firms in each of the three industries. Twenty-seven female-owned companies (64% of the population) and 29 male-owned companies (64% of the 45 randomly selected firms) participated in the study. The use of this convenience sampling technique for female-owned businesses and the random selection of matched numbers of male-owned businesses from a much larger population allowed the researchers to compare similar size businesses within a limited geographic area.

### Instrumentation

Owners of the 56 small businesses completed questionnaires which allowed verification of information obtained from the SBDB on the size (in number of employees) and type of industry (construction, manufacturing, wholesale distribution) of each firm. Where discrepancies occurred, current information furnished by the business owner was used. Information was also obtained about the owner's experience in personnel (five-point scale ranging from no experience to extensive experience) and his/her participation in personnel training programs either before or subsequent to opening the firm (yes or no). The second section elicited detailed information about the types of human resource policies used in the firm. Each owner was asked to indicate which of 101 specific human resource policies were being used by their firms. Except for the amount

of vacation (none, one week, or two weeks) and the number of paid holidays (0 to 3, 4 to 6, 7 to 9, and 10 or more), all variables were recorded as 0 for no and 1 for yes.

Employees of the sample organizations were asked to complete a questionnaire and return it anonymously to the researchers. This instrument was designed to gather demographic and job-related data and to measure employee job satisfaction. Employee demographics included age (six point scale ranging from less than 21 to over 60 years of age), sex, and education (six point scale ranging from less than a twelfth grade education to completion of a four-year degree). Job-related variables of interest included tenure (six point scale ranging from less than six months to more than 10 years), type of work (office or clerical, sales or service, production or warehousing), and position status ("yes" for management or "no" for non-management).

The Job Perception Survey (JPS; Hatfield, Robinson & Huseman, 1985), a 21-item semantic differential instrument, was used to assess individual satisfaction with five dimensions of jobs (work, pay, promotions, co-workers, and supervision). The JPS was selected because of its brevity and simplicity. The industries included in the study employed individuals with a wide range of educational backgrounds making it necessary for the instrument to be easily understood and quickly completed. The format for the JPS is demonstrated by the following item:

MY PRESENT WORK IS  
Dull \_\_\_\_\_ Exciting

The instructions provided a sample response to three related items and then interpreted the meaning for the respondent. The use of the example in the instructions and the simplicity of the scaled items facilitated responses from persons with less than the equivalent of a high school education. The JPS was scored by computing the mean response to the four or five items in a given subscale. This procedure accommodated an occasional missing response to a subscale item and also equated the scores among the subscales for purposes of comparison. The subscales were then summed to provide an overall indicator of job satisfaction.

Hatfield et al. (1985) reported the JPS met all criteria to assess convergent and discriminant validity with the Job Descriptive Index (Smith, Kendall, & Hulin, 1969). Split-half reliability coefficients of internal consistency ranged from 0.67 to 0.88, and test-retest coefficients of stabili-

ty over a three-week period for the five factors ranged from 0.64 to 0.80 (Hatfield et al., 1985). Internal consistency coefficients in the present study for the five JPS scales ranged from 0.89 to 0.99 with a Cronbach alpha of 0.96 for the composite measure of satisfaction.

### **Characteristics of the Sample**

The final sample consisted of 56 businesses (15 construction companies, 20 manufacturing firms, and 21 wholesale distributors). Twenty-four of the firms had fewer than 26 employees, 21 had between 26 and 50 employees and 11 had between 51 and 100 employees. Over 45% of the business owners indicated they had little or no experience in formulating human resource policies prior to starting their firms while 32% reported they had only moderate experience. Forty-four percent of the respondents had participated in some type of formal personnel training programs.

Seven hundred twenty-one employees (296 females and 425 males) returned the employee questionnaire. The response rate ranged from 24% to 72% of the work force within each firm, with an average response rate of 39% across all firms. No fewer than seven employees from each company responded to the survey. Forty percent of the respondents were less than 30 years of age, 25% were between 31 and 40, and 35% were 41 or older. Sixty-two percent were married at the time of the study. Eighty-nine percent had completed high school and 20% had completed at least a four-year college education. Seventy-two percent were classified as non-management. Fifty percent of the respondents had been employed by their present employers more than three years.

### **Human Resource Policies**

Each owner was asked to indicate which of 101 specific human resource policies were being used by their firms. A review of the owners' responses revealed that three of the policies (child care, care for elderly relatives, and outplacement services) were not used by any of the small businesses. These variables were excluded from the analyses. A number of the policies were combined into composites where it seemed appropriate (e.g., holiday gifts and holiday bonuses, company-paid wellness programs and health club memberships). Seventy distinct policies remained.

Seven broad human resource categories were then used to classify these 70 policies: formal structures and communication, human resource



planning, recruiting, selection, compensation, monetary benefits, and nonmonetary benefits. The validity for grouping the policies into these categories was a review of the literature and confirmation by several experts, all recognized authorities in Industrial Relations, Personnel Management, or Industrial/ Organizational Psychology. Table 1 provides the classifications of these policies and frequency of use by the sample firms.

## **ANALYSES AND RESULTS**

### **Moderating Effects of Variables of Interest on Employee Satisfaction**

The summary measure of employee satisfaction was regressed on the seven employee demographic and job-related variables of interest (age, sex, marital status, education, management status, type of work, and tenure), and on the firm's size and type of industry. Results indicate an employee's age ( $p < .01$ ) and management status ( $p < .0001$ ) were significantly and positively related to overall satisfaction.

### **Relationship of Human Resource Policies and Employee Satisfaction**

Next, job satisfaction was categorized as high (20-25,  $n = 243$ ) and low (less than 16,  $n = 237$ ) for the 721 respondents. Stepwise logistic regression analyses were used to examine the relationships of high and low satisfaction with each of the human resource policies within the seven categories. Each analysis was used to construct a model which allowed only those variables with significant levels of .05 or less to enter the model. Eight policies were found to have negative relationships with employee satisfaction (i.e., sexual harassment policies, merit pay, job descriptions, wage surveys, advertisements for recruiting, merit pay, military leave, food subsidies, and educational reimbursements) while eight were found to have positive relationships with satisfaction (long range human resource planning, honesty testing for selection, performance appraisals both for evaluation and developmental purposes, cost-of-living adjustments, incentive pay, transportation subsidies, and career planning). The parameter estimates and chi-square values for the variables which entered the equations for each of the seven classes of policies are shown in Table 2.

**Table 1****Human Resource Policies Used by Sample Firms**

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<b>Human Resource Policy</b>	<b>% Using</b>
<b>Formal Structures and Communication</b>	
Policies in Writing	87.0
Bulletin Boards	62.5
orientation	57.1
Drugs/Alcohol Policy	55.4
Discipline	51.8
Handbooks	51.8
Specific Individual to Communicate Problems	50.0
Affirmative Action Policy	48.2
Smoking Policy	37.4
Complaint System	32.1
Sexual Harassment Policy	26.8
Attitude Surveys	12.5
<b>Employees Informed About Policies:</b>	
Upon joining company	96.4
When changes are made	87.5
At regular intervals	35.7
<b>Human Resource Planning</b>	
Performance Appraisals	82.1
Job Evaluations	66.1
Long Range Planning	46.4
Job Descriptions	32.1
Wage Surveys	19.6
Job Analyses	8.9

<b>Recruiting</b>	
Employee Referrals	89.3
Advertisements	80.4
Walk-ins	62.5
Educational Institutions	44.6
Employment Agencies/Consultants	32.1
Competitors	26.8
<b>Selection</b>	
Interviews	100.0
Applications	89.3
Reference Checks	69.6
Performance Tests	42.9
Personality/Intelligence Tests	17.9
Drug Testing	8.9
Written Honesty Tests	5.4
Medical Exams	5.4
Handwriting Analysis	3.6
<b>Compensation</b>	
Merit Increases	69.6
Incentive Systems	64.3
Seniority Increases	46.4
Cost of Living Allowances	21.4
Monetary Awards for Suggestions	5.4
<b>Nonmonetary Benefits</b>	
Promotion from Within	87.5
Job Related Training	69.6
Company Sponsored Social Events	55.4
Developmental Performance Appraisals	37.5
Flextime	26.8
Seasonal Hours	12.5
Career Planning	10.7
Scheduled Work at Home	3.6

**Monetary Benefits**

Health/Medical Insurance	89.3
Holiday Gifts/Bonuses	83.9
Life Insurance	82.1
Subsidized Food Services/Break Room	66.1
Pay in Lieu of Vacations	62.5
Accident Insurance	60.7
Retirement/401K Plans	35.7
Long Term Disability Insurance	32.1
Dental Insurance	26.8
Educational reimbursement	25.0
Legal/Financial Assistance	8.9
Transportation Subsidy	8.9
Wellness Programs/Health Facilities	7.1
Cafeteria Benefit System	5.4

**Paid Time-off**

Sick Leave	69.6
Voting	46.4
Pregnancy Leave	44.6
Military Leave	28.6
Religious Leave	17.9

**Vacations**

One Week	57.1
Two Weeks	41.1

**Paid Holidays**

0 - 3 days	5.4
4 - 6 days	42.9
7 - 9 days	42.9
10 - 13 days	8.9

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**Table 2****Results of Stepwise Logistic Regression Analyses Showing Significant Relationships of Job Satisfaction and Human Resource Policies**

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Policy	Parameter Estimate	Chi-Square
<b>Formal Structures and Communication</b>		
Sexual Harassment Policies	-1.07	24.97****
<b>Human Resource Planning</b>		
Job Descriptions	-0.73	11.02***
Long Range Planning	0.59	8.59**
Performance Analysis for Evaluation	0.65	7.44**
Wage Surveys	-0.72	6.35**
<b>Recruitment</b>		
Advertisements	-0.95	11.65***
<b>Selection</b>		
Honesty Testing	0.89	3.81*
<b>Compensation</b>		
Merit Increases	-0.87	14.10***
Incentive Systems	0.72	10.94***
Cost-of-Living Allowances	0.73	7.04**
<b>Monetary Benefits</b>		
Transportation/Parking Subsidies	1.84	20.15****
Military Leave	-0.86	14.94****
Food Subsidies/Cafeteria	-0.64	6.97**
Educational Reimbursement	-0.47	4.15*
<b>Nonmonetary Benefits</b>		
Performance Appraisal for Development	0.49	5.33*
Career Planning	0.80	4.11*

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## DISCUSSION

Hornsby and Kuratko (1990) contend that the development of effective human resource policies, particularly in small firms, is a critical issue for the 1990's. If small firms are to compete successfully with their larger counterparts for the same pool of qualified workers, it will be necessary for them to continue to consider innovative human resources policies and practices to maintain and enhance employee job satisfaction. The challenge is how to sort the fads from the sound, affordable changes small firms must adopt if they are to survive. Given our earlier comments regarding the inappropriateness of relying on large firms as models for human resource practices in small firms, small businesses may need to look to academic researchers for answers. Academic researchers and professional experts, therefore, must be sensitive to the unique circumstances existing in small firms.

Findings in the present study were similar to those reported by Hornsby and Kuratko (1990). The sample small business owners rely heavily on applications, interviews, and reference checks as the primary methods for selecting employees, and to a lesser degree on the use of some type of ability or psychological testing. The organizations, however, offer more fringe benefits such as health, life, and long-term disability insurance and sick leave than the small firms included in the U. S. Small Business Administration study.

And yet, findings of this research suggest that the employees surveyed place little value on such expensive company-paid benefits, benefits heretofore thought to be positive influences on work attitudes. This is particularly interesting in view of the current emphasis by human resource professionals on the competitive advantages of a wide variety of fringe benefits (Cascio & Awad, 1981; Schuler & MacMillan, 1984). The findings suggest a less extensive set of employment practices can be developed and used in conjunction with strategic human resource planning to promote an atmosphere conducive to positive employee attitudes.

Employees in the sample responded favorably to cost-of-living adjustments, and to some form of incentive pay. Merit increases, however, were negatively associated with employee satisfaction, suggesting that the link between performance and rewards in the sample firms was weak or perhaps that the range of increases awarded did not make the increases meaningful (Cascio, 1989). The results of the study revealed individuals employed in firms using formal performance appraisals, both for assess-

ment and for developmental purposes, responded favorably to questions about their jobs.

Although findings suggest a positive relationship between employee satisfaction and human resource planning, two mechanisms designed to facilitate that process (job descriptions and wage surveys) were found to have a negative relationship with employee satisfaction. But, irrespective of the influence on work attitudes, it is essential that small business owners utilize a system which includes job analyses and job descriptions as a means of compliance with established regulatory principles and judicial opinions. The vast majority of large companies have in recent years have not only used a stronger system of valid selection techniques, but they have also adopted sexual harassment policies as a defense against charges of sex discrimination. In the present study, however, this gender-related policy was found to be negatively related to employee satisfaction. This finding possibly implies employees in small firms, unlike employees in larger firms, do not see the necessity for these types of policies and react negatively when they are in place.

Results of this study should be viewed with caution for several reasons. First, analyses reported are based solely on cross-sectional data which allow only the identification of associative relationships and preclude definitive causal interpretation. Second, the research was designed to control for industry, geographic location, and size and to include matched samples of female- and male-owned firms. It was, therefore, necessary to use convenience sampling, and the final sample, although randomly selected, is relatively small and may limit the generalizability of the findings. Third, while many of the variables previously found to influence job satisfaction were not significant in this research, this quite possibly is a result of the restricted range employed purposefully to control for size and geographic variances. Fourth, employees in small firms of necessity perform a variety of job functions, possibly explaining why the variable identifying the type work performed had little effect on job satisfaction. Finally, in spite of the rigorous restrictions imposed in the research design and the assurance of confidentiality, self-report data are subject to challenges of their veracity and always involve the risk of response bias.

## CONCLUSIONS

Small business owners face a continuing problem in creating organizational climates designed to encourage individual excellence and to pro-

mote satisfaction. Their challenge is to identify specific practices that will foster the selection and retention of qualified employees while complying with the ever increasing number of federal, state, and local regulations governing equal employment. With scant information available and little practical experience, they have been forced to emulate larger organizations in developing their human resource policies. The results from the present research suggest that such policies are not always necessary nor are they effective in promoting satisfaction of employees in small firms. Clearly the need exists for more intensive empirical research of human resource management at the small firm level.

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