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Changing Management Development Initiatives with Firm Growth: A Comparison of Family and Non-Family Small and Medium-Sized Enterprises

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Abstract: Using data available from Australia's Business Longitudinal Surveys, this study examines how management development initiatives in family and non-family small and medium-sized enterprises change with business growth. The results show the adoption of formal management development initiatives increase with SME growth in family and non-family SMEs. This increased commitment of resources to management development suggests SMEs may be adopting a more 'strategic' approach to management development as they progress through growth development pathways. The study also revealed a greater significant difference between low and moderate than moderate and high growth SMEs, in the proportion of non-family enterprises that implement management development practices, suggesting the transition toward more formal management development begins early in the growth process. In contrast, significant differences between both low and moderate and moderate and high growth family SMEs suggest this transition is more evolutionary in family SMEs.

Keywords: Management Development, Small and Medium-Sized Enterprises, Australia

Introduction

J IN AUSTRALIA, AS elsewhere, family enterprises comprise a significant portion of the Australian economy, accounting for more than two thirds of all Australian companies, and employing over half of the workforce (Featherstone, 2005). The vast majority of businesses are also small, comprising more than 90 per cent of enterprises in the private non-agricultural sector, and providing work for over 3 million people (Australian Bureau of Statistics, (ABS) 2001). Notwithstanding their contribution to the Australian economy, the academic literature has accorded little attention to human resource management (HRM) in general, and management development in particular, in smaller family firms. The extant small business literature has tended to focus on human resource management (HRM) practices in general, and utilise employment size measures of growth (Bartram 2005; Kotey & Sheridan, 2004; Weisner & McDonald, 2001). Furthermore, there exists no comparative study focused exclusively on management development in family and non-family SMEs in Australia. As a result, very limited data exists on how management training and development in small and medium-sized family and non-family enterprises (SMEs) changes with business growth. This dearth of research is surprising given the role of management development in creating a more highly skilled national labour force upon which organizations can draw to increase their competitiveness; and all the more surprising given the recent interest afforded to the field by the business press (e.g., Featherstone, 2005).

This study aims to fill the identified gap by means of a study of management development practices in family and non-family SMEs which have embarked upon different growth de-

velopment pathways. The study, which is based on data from 871 SMEs in the Australian manufacturing sector, seeks to ascertain how management development practices adopted by family and non-family SMEs change with business growth. The focus of this research is SMEs in the manufacturing sector as over 99 per cent of all businesses are SMEs according to generally accepted definitions (ABS, 1996). This fact, together with the key role that manufacturing inevitably plays in economic prosperity, strongly suggests the importance of increasing our understanding of management training and development in manufacturing SMEs in Australia. In the next section, the literature regarding management training and development in growing small business is reviewed. This includes prior comparative international research on management development in family and non-family SMEs. Thereafter, the method used in the study is outlined. The results are then discussed. The paper concludes with implications for future research.

Literature Review

Management Development in Growing SMEs

There exists a substantial theoretical and empirical body of research on the need for management capabilities and practices to change as firms move from a focus on creating a market opportunity to operating as an established business (Boeker & Karichalil, 2002). In the case of HRM, developing the human resource function is reported to be critical to the growth and long-term survival of small businesses (Chandler & McEvoy, 2000; Marlow, 2000; Mazzarol, 2003). However, an area of significant debate is the need for SMEs to adopt formalised management development initiatives, with the performance outcomes of their implementation contentious (Bartram, 2005).

Some research suggests that as small enterprises expand and grow, they need to develop and improve personnel management, since relying on traditional personnel practices may result in an intensification of personnel problems as (small) businesses expand (Gilbert & Jones, 2000; Weisner & McDonald, 2001) with ad hoc responses to personnel issues characteristic of smaller firms problematic (Roberts et al., 1992).

Roberts et al. (1992) notes that when an enterprise employs more than 20 employees the limits of informality become apparent: informal networks of recruitment are exhausted, and informal styles of management communication are stretched. Owner-managers become overextended, and need to delegate responsibility to professional management (Jennings & Beaver, 1997) including the human resource role to specialist managers (Arthur, 1995). But it is not until substantial growth is achieved that small businesses can afford to employ human resource managers (Kotey & Sheridan, 2004). Furthermore, even when a personnel manager is employed, owner-managers tend to retain responsibility for human resource related decisions, including management development with decision-making remaining largely with owner-managers (Matlay, 2002).

Gilbert and Jones (2000) point out that while HRM practices in small business are predominately informal, ad hoc, reactive and opportunistic they are nonetheless effective in the small business context, reflecting the fact that the 'people-management' demands of small business differ from the HRM requirements of large businesses. Although consensus exists on the overall informal nature of HRM, including management development important size-

related differences also exist (Bartram, 2005; Kotey & Sheridan, 2004; Weisner and McDonald, 2001).

In a regional survey of SMEs in Australia, Kotey and Sheridan (2004) report the adoption of formal HRM practices increased with employment size, with the transition beginning early in the growth process at a rapid rate as a significant proportion of firms implement formal practices, and then at a slower pace, as less new firms adopt these practices. Greater emphasis was given to managerial development as employment size increased, with training of operational staff delegated to middle management as firms grew. These findings, together with on-the-job (OTJ) training provided to operational employees by owner-managers decreasing with firm growth, Kotey and Sheridan (2004) argue, are consistent with the need to delegate operational responsibility to middle management as enterprises grow. Kotey and Sheridan (2004) suggest that the increased emphasis on external training provision for managerial staff with firm growth reveals concern for both their training and development, and an awareness of management succession. The shift toward OTJ training for managers as firms grow is also consistent with research that suggests that the role of owner-managers changes from managing operations to managing managers (Kotey & Sheridan, 2004).

However, Kotey and Sheridan (2004) found comparatively little emphasis on management training in micro-firms, noting that extensive training of managers in firms that face a high level of change and uncertainty could be ineffective, if this training produces highly specialized staff incapable of adapting to changed work responsibilities. In a national survey of HR practices in Australian SMEs, Weisner and McDonald (2001) also found a significant positive relationship between the adoption of formal training and development initiatives and organizational size, with medium-sized enterprises significantly more likely than small firms to have formal management development initiatives (e.g., supervisory skills, leadership, etc). However these studies have not examined the influence of family ownership/management characteristics.

Management Development in Family SMEs

In an empirical study comprising over 6,000 small businesses in Great Britain, Matlay (2002) found a number of subtle differences in owner/manager attitudes and approaches to developing family members employed in a business relative to non-family employees. Owner/managers distinguish the development needs of non-family from family employees, with development of family employees perceived as an investment, with possible returns accruing to both the family and the enterprise (Matlay, 2002). Owners adopted a proactive approach to their development, with a positive association between management progression and career development initiatives of family members. Reid and Adams (2001) also found the majority of family businesses with family members in management roles provide for their management development, reflecting the fact that family employees are more likely to receive internal development, as opposed to external experience. In contrast, training and development of non-family employees focused on organizational-specific needs, and was evaluated on a cost-benefit basis (Matlay, 2002). In non-family firms, owner/managers also viewed training and development as an organizational expense, with the decision reactive and narrowly focused again on firm specific issues.

Notwithstanding these differences, significant similarities exist between family and non-family firms. For example, owner-managers retain responsibility for development-related

decisions in almost all micro- and small firms, and in two thirds of medium-sized firms; and personnel managers had responsibility in over a quarter of medium-sized enterprises (Matlay, 2002). Matlay (2002) also noted the overwhelming majority of owner managers implement informal training and development methods in micro- and small family and non-family firms. Although approximately a quarter of medium-sized firms adopt a formal approach to training and development, over half of medium-sized firms employ professional management.

Reid and Harris (2002) report family ownership/management is a significant determinant of training expenditure in SMEs. In a study of SMEs in Northern Ireland, family-owned/managed firms spent larger amounts on employee development although certain subsets (including 'other manufacturers') spent less. However Reid and Adams (2001) found family owned/managed SMEs spent less on development, and are less likely to have employees engaged in learning and development activities relative to their non-family counterparts. Non-family businesses are also significantly more likely to systematically analyze employee development needs. Reid and Adams (2001) conclude family SMEs practice HRM differently than non-family businesses, with the former lagging behind in the adoption of formal HRM policies and practices, including training and development.

As noted above, the nature and extent of similarities or differences in management development initiatives between family and non-family SMEs have not been investigated in Australia. Thus the research question addressed in this paper is how do management development practices of family and non-family SMEs change with business growth?

Methodology

The data employed to address the research question are drawn from the Business Longitudinal Survey (BLS) conducted by the ABS on behalf of the Australian federal government. The BLS was designed to provide information on the growth and performance of Australian employing businesses, and to identify selected economic and structural characteristics of these businesses. Restricted industrial classification detail, no geographical indicators, presentation of enterprise age in ranges, and omission of certain data items obtained in the BLS all help to maintain the confidentiality of unit records. The questionnaires were piloted prior to their first use, and were then progressively refined in the light of experience after each collection. From the second year of the surveys, the BLS included questions related to ownership characteristics. As well as on-going questions, each questionnaire included once-off questions dealing with certain matters of policy interest to the federal government at the time of the collections. In the current study, such questions relate to management development.

Data collection in the BLS was achieved through self-administered, structured questionnaires containing essentially closed questions. Response rates were very high by conventional research standards – typically exceeding 90 per cent. The specific BLS data used in this study involves business units employing fewer than 200 persons – broadly representing SMEs in the Australian context.

Definition of Key Variables

A firm constitutes a family business if it meets three criteria (Westhead, Cowling and Howorth 2001): first the firm is perceived as a family business; second, the firm is perceived to be a

family business because family members are working proprietors or directors; and third, more than 50% of the firm's equity is held by family members.

SME business growth is denoted by McMahon's (2001)¹ three SME growth development pathways - low, moderate and high growth, with SMEs on each of the growth development pathways identified by McMahon (2001) divided into family and non-family firms using the preceding criteria. The size of the final data set identified by McMahon (2001) and used in the current study is 871 firms.

Analysis

Variables used in this research are either categorical in nature or, if metric, have irregular distributional properties (that is, they are non-normally distributed). Transformation of metric variables to produce normal distributions is avoided because of difficulties of interpretation often created by such procedures. Thus, non-parametric/distribution free techniques of statistical analysis are employed exclusively.

Discussion of Results

Sample Characteristics

Table 1 presents the breakdown of the panel's family and non-family enterprises across McMahon's growth development pathways. As can be seen from Table 1, there is a statistically significant decline across the SME growth development pathways in the proportion of SMEs which are family owned with 51, 44 and 18% of low, moderate and high growth SMEs respectively, family owned. Conversely, there is a statistically significant increase in the proportion of SMEs which are non-family enterprises with 49, 56 and 82% of low, moderate and high growth firms respectively, non-family enterprises.

¹ In McMahon's (2001) research, exploratory cluster analysis was used with key enterprise age, size and growth variables to discover if there were any stable development pathways evident in the BLS panel data. Using the clusters as markers or signposts, three relatively stable SME development pathways were discernible in the longitudinal panel results - low, moderate and high growth. Refer to McMahon (2001) for further details.

Table 1: Distribution of Family and Non-family Enterprises across Growth Development Pathways: Chi square test results

SME growth development pathways	Frequency (percentage) of low growth SMEs	Frequency (percentage) of moderate growth SMEs	Frequency (percentage) of high growth SMEs	Total
Family businesses (FB)	322 (51.2%)	90 (44.3%)	7 (17.9%)*	419
Non-family businesses (NFB)	307 (48.8%)	113 (55.7%)	32 (82.1%)*	452
Total	629	203	39	871

Table 1 Notes: *** p<.001, ** p<.01, * p<.05

Of the SMEs which are family owned, there is a significant increase across the SME growth development pathways in the proportion of SMEs with more than one working owner from the same family (Table 2). The majority of family and non-family enterprises on each of the growth development pathways have a managing director. Although they are unlikely to have tertiary qualifications, there is a significant increase in the proportion of low, moderate and high growth non-family businesses with tertiary qualified managing directors. There is also a significant increase across the three identified growth development pathways of non-family SMEs with managing directors with tertiary business management qualifications.

Table 2: SME Growth Development Pathway Differences: Management Demographics

		Percentage of SMEs			
		L	M	H	Sig.
% of family SMEs with more than one working owner from same family		4.2	12.5	28.6**	0.008
% of SMEs with a Managing Director (MD)	FB	69.4	77.5	57.1	0.263
	NFB	68	67.5	81.3	0.286
% of SMEs with MD with tertiary qualifications	FB	10.1	12.5	0	0.543
	NFB	12.4	26	34.4***	0.000
% of SMEs with MD with business management tertiary qualifications	FB	33	33.3	0	0.374
	NFB	43.1	68.8	80***	0.000

Table 2 Notes: L = Low growth SMEs, M = Moderate growth SMEs, H = High growth SMEs; FB = Family Business NFB = Non-family business. *** p<.001, ** p<.01, * p<.05

Table 3 reveals overall, almost all low moderate and high growth family SMEs have working owners present. In non-family businesses, there is a significant decline across the three identified growth development pathways in the proportion of SMEs with working owners.

Working owners are present in the majority of low and moderate growth non-family SMEs only. There are statistically significant positive relationships between other full-time managers and business growth, with an increase in other full-time managers across the growth development pathways in family and non-family SMEs (Table 4).

Table 3: SME Growth Development Pathway Differences: Chi square tests for Working Owners and Other Full-time Managers

		Percentage of SMEs		
		L	M	H
Working owners, directors & partners present in SMEs	FB	93.8	95.0	100.0
	NFB	80.4	58.5	46.9 ^{***}
Other full-time managers present in SMEs	FB	55.4	95.0	100 ^{***}
	NFB	64.0	95.1	96.9 ^{***}

Table 3 Notes: L = Low growth SMEs, M = Moderate growth SMEs, H = High growth SMEs; FB = Family Business NFB = Non-family business. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

An examination of the average number of new managers recruited in low, moderate and high growth family and non-family SMEs reveal more managers are hired amongst family and non-family SMEs that are growing more rapidly (Table 4). Mann Whitney statistics indicate high and moderate growth family SMEs employ significantly more new full-time managers than do their low growth counterparts ($p < 0.001$). High growth non-family SMEs employ significantly more new managers than moderate and low growth SMEs; and moderate growth non-family SMEs employ significantly more new managers than low growth SMEs ($p < 0.001$).

Table 4: SME Growth Development Pathway Differences: Mann Whitney tests for Working Owners, Full-time Managers and New managers.

		Mean		
		L	M	H
Working owners, directors & partners present in SMEs	FB	1.99	2.05	2.71
	Path/Sig	ns	ns	ns
	NFB	1.48	1.41	0.94
	Path/Sig	L/M*	M/H	L/H***
Other full-time managers present in SMEs	FB	1.37	4.790	11.86
	Path/Sig	L/M***	M/H***	L/H***
	NFB	1.66	5.20	9.69
	Path/Sig	L/H***	M/H***	L/H***
New managers	FB	0.12	0.60	1.29
	Path/Sig	L/M***	ns	L/H***
	NFB	0.20	0.52	1.03
	Path/Sig	L/M***	M/H*	L/H***

Table 4 Notes: L = Low growth SMEs, M = Moderate growth SMEs, H = High growth SMEs; FB = Family Business NFB = Non-family business Bolded letters indicate significant differences between groups *** p < 0.001, ** p < 0.01, * p < 0.05

As noted above, once a certain degree of enterprise growth is reached, owner-managers become unable to deal with all managerial matters personally, and need to delegate responsibility to professional management (Jennings & Beavers, 1997). While it is unclear from the literature the level of growth at which this is required (Loan-Clarke et al., 1999; Roberts et al., 1992; Jennings & Beavers, 1997), the current study suggests that the transition may begin as firms progress from low to moderate growth, as almost all moderate and high growth family and non-family enterprises have other full-time managers, compared to just over half of low growth SMEs (Table 3). This transition towards more professional management in family and non-family enterprises appears to begin early in the growth process, as evidenced by a greater significant increase between low and moderate than moderate and high growth firms, in the proportion of SMEs that employ other full-time managers. This tends to suggest the transition is initially quite rapid, and then proceeds at a slower pace, consistent with the management literature which posits that, as firms increase in size, increased division of labour leads to greater horizontal and vertical differentiation that is initially quite rapid, and then proceeds at a reduced rate (Blau, 1970).

Table 5 shows managers with tertiary qualifications and undertaking business management training are significantly more prevalent amongst family and non-family enterprises which are growing more rapidly, with about a third, a half or more and two-thirds or more of low, moderate and high growth family and non-family enterprises respectively with managers with tertiary qualifications and enrolled in business management studies. This increased

commitment of resources to management development suggests SMEs might be adopting a more 'strategic' approach to management development as they progress through development pathways. Central to 'strategic' is the concept of 'commitment,' defined as an organizational tendency to persist with a strategy (Ghemawat, 1991). In this context, a 'strategic' approach to management development is characterized by an increasing degree of commitment of resources to management development initiatives.

Table 5: SME Growth Development Pathway differences: Chi-square Tests for Management Development Initiatives

		Percentage of SMEs			Sig.
		L	M	H	
Managers undertaking training in business management	FB	30.6	55	85.7***	0
	NFB	34.5	65	68.8***	0
Tertiary Qualified Managers	FB	31.9	60	100***	0
	NFB	38.5	76.4	90.6***	0
Table 5 Notes: L = Low growth SMEs, M = Moderate growth SMEs, H = High growth SMEs; FB = Family Business NFB = Non-family business *** p<.001, ** p<.01, * p <.05					

Table 5 also shows managers from moderate and high growth family and non-family firms are almost twice as likely to have tertiary qualifications and undertake business management training as their low growth colleagues. In non-family firms, the biggest significant difference occurs between low and moderate growth SMEs, suggesting attention to management development begins early in the growth process, and then proceeds at a reduced rate, as evidenced by the smaller difference in the proportion of moderate and high growth enterprises with tertiary qualified managers, or undertaking business management training. This reinforces the earlier finding that as growth occurs the transition towards more professional management begins early in the growth process, and suggests the transition is initially quite rapid, and then proceeds at a slower pace paralleling Kotey and colleagues findings. In contrast, in family SMEs, there is a greater significant difference between moderate and high growth than low and moderate growth SMEs, in the proportion of firms that implement management development practices. However, significant differences also exist between low and moderate growth enterprises, suggesting management development may be more evolutionary.

Table 5 indicates a greater proportion of low and moderate growth non-family SMEs implement management development practices compared to their family counterparts, consistent with Reid and Adams (2001) contention that family SMEs lag behind in the adoption of formal management development practices. However Table 4 also shows a greater percentage of high growth family vis-à-vis non-family firms adopt these practices. A possible explanation for these findings is that family members are the recipient of training, as prior studies show family firms are more likely to provide management training for family members (Adams & Reid, 2001; Matlay, 2002). The significantly higher numbers of other managers in high growth family firms compared with non-family SMEs (means of 11.86 and 9.69 respectively,

Table 4) may also explain this finding, as research suggests that organizations with more managers tend to provide more training (Smith & Hayton, 1999).

Differences in relation to the transition process are also evident, with the transition toward management development occurring early in the growth process in non-family SMEs, as evidenced by a greater significant increase between low and moderate than moderate and high growth firms, in the proportion of enterprises which increase their commitment to management development. In contrast, in family SMEs this transition process appears more evolutionary with marked differences between low and moderate, and moderate and high growth SMEs in the proportion of firms that implement management development practices.

Conclusion

This study has considered how management development initiatives in family and non-family SMEs change with business growth, adding to the very few studies published to date. The results of analyzes demonstrate some similarities in management development practices in family and non-family SMEs, with the incidence of tertiary qualified managers and managers undertaking business management training increasing with SME growth. A common theme cutting across these results is that as SMEs progress through business growth development pathways they increase their commitment to formal management development initiatives and therefore might be regarded as adopting a more 'strategic' approach to management development. Central to 'strategic' is the concept of 'commitment,' defined as an organizational tendency to persist with a strategy (Ghemawat, 1991). In this context, a 'strategic' approach to management development is characterized by an increasing degree of commitment of resources to management development initiatives.

Notwithstanding these similarities, differences in the incidence of formal management development practices between family and non-family SMEs exist, with a greater proportion of low and moderate growth non-family SMEs adopting these initiatives. In contrast, more high growth family SMEs vis-à-vis non family enterprises have tertiary qualified managers and managers undertaking business management training. Differences in relation to the transition process are also evident, with the transition toward management development occurring early in the growth process in non-family SMEs. In contrast, in family SMEs this transition process appears more evolutionary with marked differences between low and moderate, and moderate and high growth SMEs in the proportion of firms that implement management development practices.

Limitations and Future Research Direction

This research is not without its limitations. A constraint of the use of a secondary data source such as the BLS employed in this study is the present author was not involved in the collection and organization of the data, and is limited to research choices made by the ABS. In particular, the study is subject to the limitations of this data, and did not allow the investigation of differences in management development between family and non-family employees. Future research should address these gaps given existing studies suggest that there are significant differences between training and development provided to family vis-à-vis non-family employees.

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