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18 The effect of small firms' recruitment practice portfolio composition on recruitment success

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Introduction

One of the most difficult but important goals for many small firms is to locate and hire new employees. A recent Conference Board survey of leaders of small and mid-size US firms found the scarcity of qualified employees to be the most often cited threat to business growth, and this was identified by almost 50 per cent of those surveyed (Muson, 2001). Consistent with these findings a UK Chartered Institute of Personnel and Development survey found over 40 per cent of small firms did not receive any applications for some vacancies (Anon, 2005). Yet, despite the importance of employee recruitment to the growth and success of small firms, there are still many questions about how small firms can effectively recruit a high-quality workforce. To date, the vast majority of the recruitment research has focused on large organizations (Barber et al., 1999; Williamson, 2000). However, because of their greater financial resources, social standing, and formalization of recruitment practices, large firms are likely to use different recruit methods than small firms (Barber et al., 1999). Thus, there are reasons why prior recruitment research based on large firms may not generalize to the case of small firms.

Past research examining small firm employee recruitment has often only focused on describing the types of practices used by small firms to hire employees (for example Barber, 1998; Barber et al., 1999; Marsden, 1994). In general extant research has found that small firms are likely to use different types of recruitment practices compared to large firms (Barber et al., 1999; Carroll et al., 1999; Carroll and Teo, 1996; Kotey and Sheridan, 2004; Saari et al., 1988; Tarnova, 2003; Wilkinson, 1999). There is also evidence of significant differences between how small firms of various sizes recruit employees. For example in their examination of the HRM practices utilized by Australian firms, Kotey and Sheridan (2004) reported that only 7 per cent of micro-sized small firms with fewer than five employees used newspaper advertisements to recruit for managerial or supervisory positions, compared to 28 per cent of firms with 5–19 employees and 55 per cent of firms with 20–199 employees. However, while there is evidence on the types of practices utilized by small firms, very few studies examine the outcomes associated with using different types of practices (see for example, Heneman and Berkley, 1999). Thus, there is a need for research to examine the relationship between small firms' recruitment practices and their recruitment outcomes. In particular, given the evidence that firm size influences what types of practices firms use, it is important to understand whether certain types of recruitment practices are more or less effective for small firms of different sizes.

The purpose of this chapter is to advance our knowledge of small firm recruitment by examining the relationship between their recruitment practices and recruitment performance. In particular, we focus on the use of three categories of recruitment practices: informal practices (employee referrals); formal practices (newspaper advertisements); and brokers (use of temporary agencies). We examine how the simultaneous use of informal practices, formal practices and brokers, which we refer to as recruitment practice portfolios, influence two immediate recruitment outcomes: number of job applicants and time to fill positions. Our focus on immediate recruitment outcomes, as opposed to distal outcomes (such as post-hire performance, turnover or job satisfaction) is motivated by two factors. First, immediate recruitment outcomes can have large effects on the pay-off firms derive from their selection systems (Williams et al., 1993). For example the implementation of a sophisticated selection process is only likely to increase the quality of a firm's workforce if a large and talented pool of applicants can be attracted to go through the selection process. Second, several scholars have questioned the appropriateness of using data on firm recruitment practices to study post-hire outcomes (Barber et al., 1999; Werbel et al., 2001; Williams et al., 1993). Specifically, they point out that this approach ignores the important role that other HRM practices, such as compensation, training and performance management, have on employee behavior. Theoretically it is probable that recruitment practices will have stronger effects on proximal, as opposed to distal performance outcomes. Thus, our examination of immediate recruitment outcomes seems more likely to provide useful information about the consequences of firms' recruitment actions.

In this chapter, we define small firms as those employing 500 or fewer employees, which is consistent with the most common standard used by the US Small Business Administration (SBA) in most industries (SBA, 2007). This definition encompasses small firms without regard to their growth orientation or age. We do this, as effective recruitment is important to the performance and survival of all small businesses. In using this definition we acknowledge that there may be several significant structural and resource differences between micro-sized small firms and small firms with several

hundred employees. As such, the use of HRM practices may vary greatly across small firms of various sizes (Kotey and Sheridan, 2004). Thus, in addition to examining how firm recruitment portfolios influence recruitment outcomes, our second goal is to explore how the size of small firms moderates this relationship. We believe that an examination of these issues has the potential to provide important insights for managers and owners of various types of small firms in their attempt to develop effective recruitment strategies.

Firm recruitment practice portfolio

Extant recruitment research has largely focused on three categories of recruitment practices used by firms to attract applicants: informal practices, formal practices and brokers. Informal practices refer to those based on the use of social ties to attract job applicants. This can include the referral of prospective applicants by family, friends or trusted employees (Taylor, 1994). Informal recruitment practices are widely used by organizations. For example, the National Organizations Study, a nationally representative sample of US employers, shows that 36.7 per cent frequently use employee referrals as a recruitment method (Kalleberg et al., 1996). The use of informal recruitment practices could enhance firm recruitment outcomes through at least two mechanisms. First, informal recruitment practices can increase the number of individuals who apply for jobs because referrals may expand firms' recruiting horizons and allow them to tap into pools of applicants that they would not otherwise identify (Breaugh and Mann, 1984; Fernandez and Weinberg, 1997). Second, informal practices may improve the quality of applicants, which decreases the time to fill vacant positions. Individuals tend to refer people like themselves and since the referring individual tends to have intimate knowledge of the organization and/or has survived prior screening processes, such homophily is likely to result in the referred applicants being a better fit than non-referred applicants (Fernandez et al., 2000). Furthermore, to the extent that an individual believes their reputation with other members of the firm will be affected by the quality of the people they refer, they will be motivated to refer only suitable applicants (Rees, 1966).

There has been consistent empirical evidence that informal practices are the primary means by which small firms recruit job applicants (Aldrich and Auster, 1986; Baker and Aldrich, 1994; Barber et al., 1999; Carroll and Teo, 1996; Kotey and Sheridan, 2004; Ram, 1999; Saari et al., 1988; Tanova, 2003; Wilkinson, 1999). One explanation for this finding is that informal recruitment practices tend to be inexpensive to implement, an important consideration for small firms that tend to have limited resources. Informal recruitment practices rely on the use of word-of-mouth to advertise job vacancies, thus they require minimal financial cost. Informal practices can also be implemented very quickly because they use existing channels and contacts and do not require specialized expertise in HRM to undertake (Carroll and Teo, 1996).

While there are several advantages to the use of informal practices by small firms, there are also potential shortcomings. The tendency for individuals to refer people who are similar to themselves means that there is a likelihood that informal practices will not reach prospective applicants who have different or novel skill sets (Tanova, 2003). This may be especially important if a position requires a unique set of qualifications or skills. The tendency for homophily in referrals also increases the potential for informal practices to reinforce existing race, gender or other demographic group imbalances within organizations, potentially reducing firm diversity and leaving firms open to accusations of indirect discrimination against disadvantaged groups (Carroll et al., 1999; Burton et al., 2002).

Formal recruitment practices refer to the use of asocial means to attract job applicants. This can include such things as help-wanted postings, newspaper advertisements, web-based recruitment or the use of recruitment brochures (Taylor, 1994). An advantage of formal practices is that the social network ties of entrepreneurs, managers or employees do not bound them. Thus, the use of formal recruitment practices is theorized to enhance firm recruitment outcomes by expanding the number and diversity of applicants for job vacancies. Tapping into a broader applicant pool may be particularly important for organizations attempting to grow or branch out into new domains (Williamson et al., 2002). However, while the use of formal practices may increase the diversity of a firm's applicant pool, one limitation of these types of practices is that, compared to informal practices, they can be more expensive to implement. For example, the cost of using formal recruitment and selection procedures (such as job ads, screen tests and so on) has been estimated to be 67 per cent higher than the use of employee-referral programs (Fernandez et al., 2000). The higher cost of formal practices may reduce small firms' adoption of these practices (Kotey and Sheridan, 2004), thus reducing the potential for small firms to realize the theorized benefits of formal practices.

The use of brokers refers to the practice of employers engaging third parties in the recruitment process. These parties may be institutions (such as schools, training institutes) or organizations (such as community or private sector temporary agencies) who assist managers by identifying potential employees. Broker-based methods allow employers to leverage the knowledge and social ties of others to enhance the breadth and depth of their information about the job market. First, broker methods expand the pool of potential job applicants beyond the employer's own personal

social base (Burt, 1992). Second, broker ties provide 'reputation protection', as referrers will tend to pass on references for applicants that will not damage their own reputations (Fernandez et al., 2000). Third, if a prospective employer respects the broker, they can take greater confidence in the assumption that the candidate referred by the broker will be appropriate for their workplace. Fourth, brokers can give both the potential applicant and the employer information that might not be revealed through other screening processes. These points of leverage are similar to those offered by individual referrers; however, the type and scope of the contacts and the legitimacy passed on to potential applicants from the broker organizations make these methods qualitatively different from the informal methods described above.

There are some limitations to the use of brokers in the recruitment process. While employers can infer from the broker's screening methods or certification procedures the types of employees a broker is likely to recommend, brokers generally provide less intimate information about a potential candidate than the informal methods we describe above. Thus, this practice sacrifices depth of information for breadth of base. Secondly, it may not be that all brokers are appropriate for all firms. Brokers may specialize in sourcing employees for certain types of employment (for example, casual versus permanent employment), industries or occupations. Therefore, the use of a broker may depend on the nature of the job to be filled, the industry where the job is being filled or the specific occupation. Third, employers may spend significant amounts of time and/or money to establish and maintain an effective relationship with the brokers. For example, temporary employment agencies charge employers a premium for the employees they provide. Schools may not charge for referrals but there may be some expectation of employers participating in events promoted or hosted by the school.

In summary, while informal practices, formal practices and brokers each have shortcomings, there is evidence to suggest that their use may enhance small firms' recruitment outcomes. However, there is very little research examining how the use of these practices may actually influence immediate recruitment outcomes (Barber, 1998). What effect, if any, their use may have on the immediate recruitment outcomes of small firms is also unclear. Furthermore, we are unaware of research examining the simultaneous effect of these practices, as a set, on recruitment outcomes. Thus, the relative effectiveness for small firm recruitment of one type of practice compared to the other two is unknown. In order to shed light on these issues the first research question to be examined is: what is the effect of small firms' portfolio of recruitment practices on immediate recruitment outcomes?

Firm size and effectiveness of recruitment practices

Based on prior literature it is logical to predict that informal, formal and broker recruitment practices have the potential to enhance the recruitment outcomes of small firms. However, as stated above, small firms may vary considerably in their needs and capabilities. In particular, the size of a small firm may have an impact on their access to financial, human and social capital, which in turn may influence the ability of a small firm to effectively implement HRM practices. Thus the size of a small firm may play an important role in determining how effectively informal, formal or broker recruitment practices enhance firm recruitment outcomes.

In the case of informal recruitment practices, it is likely that these practices may be less effective for micro-sized small firms compared to small firms with several hundred employees. The effectiveness of an informal recruitment practice is linked to the nature and extent of a firm's manager and employee network ties. To the extent that a broad and diverse set of actors can be accessed through the firm's members' networks then this increases the probability that individuals with the desired skills can be recruited to the firm (Leung, 2001). The owners of micro-sized firms often utilize family or friendship ties to hire employees (Baker and Aldrich, 1994; Ram, 1999). As a result, the members of micro-sized small firms tend to have a high level of overlap in their network ties. The extensive use of referral practices in this type of setting may restrict micro-sized small firms' ability to access diverse sets of applicants, thus making it difficult to develop a large pool of applicants. This constraint may not be as severe for small firms with several hundred employees where there is a greater likelihood that organizational members come from different backgrounds, and as a result, do not share similar network ties outside the organization.

The benefits of formal recruitment practices may also increase as the size of a small firm increases. Individuals are not blank slates when they begin the recruitment process (Barber, 1998). In many situations prospective applicants already have pre-existing information about prospective employers. It is likely that this pre-existing information will anchor job seekers' reactions to small firms' formal recruitment advertisements, such that the more information individuals have about a firm the more likely they will respond favorably towards that firm's advertisements (Williamson et al., 2002). However, the smaller a firm, the less likely it is that prospective applicants will have information about that organization. This is because very small firms tend to lack the financial resources to invest in broad-scale marketing. In addition, the smaller the firm, the less likely it is to be part of a prospective job seeker's everyday experience because of lower media coverage, having a smaller customer base, and having smaller product and service distribution networks (Aldrich and Auster, 1986). Thus, due to lower levels of pre-existing information, prospective applicants may be less likely to respond to the formal job ads posted by micro-sized firms compared to small firms with several hundred employees (see also Cardon and Tarique, Chapter 17 this handbook). There are two exceptions to this: family-owned businesses and popular community firms. Both examples represent circumstances where the familiarity would attract prospective applicants via informal methods.

Finally, the size of a small firm may also play a role in shaping the effectiveness of brokers at increasing recruitment performance. Micro-sized firms may be less able to develop effective partnerships with brokers. Due to financial constraints it may be difficult for micro-sized firms to develop and retain ties with brokers for long periods of time. Furthermore, because very small firms tend to hire very few individuals it may be difficult for them to develop effective network ties with brokers that are high-volume sources of employees (Williamson et al., 2002). For example, micro-sized small firms may be less likely to form ongoing relationships with professors, university career office advisors or managers at temporary agencies due to the infrequency that they hire. As a result, brokers may be less able to identify prospective applicants who will fit with very small firms. This may lead to micro-sized firms receiving fewer applicants from brokers and applicants with a poor fit with the firm's needs.

In summary, there are several arguments suggesting that the effectiveness of small firms' recruitment practice portfolio will vary by their size. However, to date, we are unaware of any research examining this issue. Thus, based on the logic presented above we will explore the following research question: how does firm size affect the relationship between the use of informal, formal and broker recruitment practices and the immediate recruitment outcomes of small firms?

Design, methodology and approach

We examine these questions by utilizing data from the US Multi-City Study of Urban Inequality (MCSUI). The MCSUI contains telephone survey data from representatives of over 2500 small firms, defined as firms with fewer than 500 employees, in four United States metropolitan areas (Holzer et al., 2000). Survey respondents were firm owners, supervisors or personnel managers with the requirement that the respondent was responsible for hiring within the firm. Using this dataset we examined the relationship between the portfolio of informal, formal and brokered recruitment practices used by firms and two types of recruitment outcomes: total number of applicants for a job opening and time it took firms to fill a job opening. In addition, we examined how firm characteristics, such as size, shape the effectiveness of recruitment practice portfolios. We conducted our analysis on all of the firms in the MCSUI database with 500 or fewer employees (according to the SBA definition). We eliminated 16 cases with missing data and were left with 2521 valid cases to analyze.

Independent variables: hiring methods and firm size

For our analyses we were interested in the hiring methods used by employers. To determine the type of hiring methods used by employers in the MCSUI, respondents were asked to 'Indicate if you used any of the following referral or recruiting methods to fill this position (the last position for which a firm hired)?' Responses were coded according to the type of method used. We used the recruitment strategies of newspaper advertisement and employee referrals as proxies for formal and informal methods, respectively. We then used school referrals and temporary agency referrals as the proxies for brokered recruitment strategies. We recoded the original variable to create four dummy variables representing informal, formal, school-broker and temporary agency-broker. We used the number of permanent employees as the indicator of the firm size.

Dependent variables

We used two different measures of recruitment effectiveness as dependent variables in our analysis. Both the number of applicants and the recruit time variables are common measures in HRM research (Barber, 1998). The 'time needed to hire last employee' was measured in weeks. We viewed any strategies associated with decreasing the time needed to fill a position as more effective than methods, which increased the time required to hire a new employee. The number of applicants is also a measure of the effectiveness of recruitment strategies because more applicants increase the chances that good candidates will be found (Barber, 1998; Taylor, 1994). The MCSUI asked respondents to reveal the number of applicants for the last hired job and we used this data to operationalize our variable.

Control variables

We used four control variables: industry, city, difficulty in finding qualified workers and the type of job.

For industry we used two-digit SIC designations provided in the MCSUI and we coded each of the firms in the dataset as manufacturing/construction, retail or service. We found that most of the firms in these data were categorized as service (49 per cent), followed by retail (27 per cent), manufacturing (22 per cent) and construction (2 per cent).

There are four cities in the MCSUI database: Boston, Detroit, Los Angeles and Atlanta. The original variable was a categorical variable. We created dummy variables for each of the cities in the dataset. When conducting analysis, Atlanta was the base category.

In terms of the difficulty finding qualified workers, MCSUI respondents were asked if it was easier, the same or more difficult to find qualified workers for the last hired position than five or ten years ago. While it may have been difficult for all respondents to accurately evaluate recruitment difficulty in the past, we believe this question provides important insight into managers' perceptions of the labor market within which they compete. This was a categorical variable that was coded 1 = easier, 2 = the same and 3 = difficult. The mean was 2.1, indicating that many of the respondents thought it was difficult.

The MCSUI was particularly concerned with jobs that did not require a college education. These are entry-level jobs that ostensibly anybody can get and that would mostly likely be sought locally. Jobs requiring college-level education can be sourced regionally and nationally. Only 8 per cent of the jobs in our dataset required college degrees.

Findings

In this study we were primarily concerned with examining two questions: (1) what is the effect of small firms' portfolio of recruitment practices on immediate recruitment outcomes? and (2) how does firm size affect the relationship between the use of informal, formal and broker recruitment practices and the immediate recruitment outcomes of small firms? To examine these issues we conducted two regression analyses. First we regressed the control variables, the main effects for the recruitment practice variables, and the firm size by recruitment practice interaction variables on the dependent variable which was number of job applicants. Second, we regressed the same set of predictors on the dependent variable time to fill position. Table 18.1 provides the means, standard deviations and correlations between the variables in the analyses.

Table 18.2 contains the results of the regression analyses. In it Model 1 shows the results for the number of job applicants variable. In terms of the control variables, industry, geographic location, perceived difficulty in finding employees, and the requirement of a college degree did not have significant effects on the number of applicants firms received for their last job posting. In addition, firm size did not have a significant main effect on the number of applicants. The results of Model 1 show that firm recruitment practices had both main and interactive effects on number of applicants. In terms of the main effects, informal recruitment practices had an insignificant main effect on the number of applicants. However, the use of formal recruitment practices had a significant positive effect on number of applicants. In the case of the broker variables, the use of school referrals

Table 18.1 *Descriptive statistics and Pearson correlation co-efficients*[a]

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Construction	.02	.15														
2. Retail	.27	.44	−.10													
3. Service	.49	.50	−.16	−.60												
4. Los Angeles	.29	.46	−.02	−.04	.00											
5. Boston	.26	.44	−.02	−.05	.03	−.38										
6. Detroit	.21	.41	.03	.06	−.01	−.33	−.31									
7. Difficulty finding qualified workers	2.10	.81	.04	.05	−.04	−.02	−.15	.12								
8. College degree required	.08	.27	.00	−.09	.14	−.03	.01	.05	−.05							
9. Firm size[b]	85.06	109.91	−.05	−.08	−.04	.06	−.02	−.01	−.08	.03						
10. Informal practices	.82	.38	−.03	.01	.01	−.02	.00	.02	.04	−.03	.18					
11. Formal practices	.47	.50	−.01	−.07	.07	−.06	.05	.13	.03	.03	.08	.10				
12. Use of school referrals	.20	.40	.00	−.03	−.03	.00	−.03	.06	.04	.04	.04	.05	.03			
13. Use of temporary agencies	.34	.47	.00	.00	.06	−.02	−.10	.15	.04	.06	.06	.14	.15	.12		
14. Time to fill position	2.96	5.08	−.02	−.09	.10	.00	.01	−.01	.05	.19	.01	.00	.08	.06	.04	
15. Number of job applicants	25.02	53.63	−.02	.01	−.03	.01	−.01	.02	−.04	.01	.16	.05	.22	.00	.08	0.07

Notes:
[a] The results are based on 2521 observations. All correlations above the absolute value of .03 are significant at the p<.05 level.
[b] Correlations calculated using natural log of firm size.

Table 18.2 *Regression analyses predicting number of job applicants and time to fill the position*

Predictors	Model 1[a] Number of job applicants[b]	Model 2[a] Time to fill position[c]
Control variables		
Construction	−0.01	−0.02
Retail	0.00	−0.05
Service	−0.05	0.04
Los Angeles	−0.01	−0.01
Boston	−0.03	0.00
Detroit	−0.02	−0.04
Difficulty finding qualified workers	−0.04	0.07*
College degree required	0.02	0.18*
Main effects		
Firm size	0.06	0.08
Informal practices	0.00	−0.02
Formal practices	0.20*	0.06*
Use of school referrals	0.05*	0.02
Use of temporary agencies	−0.02	0.05*
Interactive effects		
Size × Informal	0.03	−0.10*
Size × Formal	0.07*	0.03
Size × School	0.06*	−0.01
Size × Temporary agencies	−0.09*	0.00
Model R^2	.08*	.06*

Notes:
* $p<.05$.
[a] Standardized coefficients (Beta) are shown.
[b] N=2553.
[c] N=2521.

had a significant positive main effect on number of applicants. However, the main effect for use of temporary services was not significant.

Our analyses also revealed several significant interactions between size and recruitment practice. First, there was a significant firm size by formal recruitment practice interaction. In order to interpret this result we plotted this interaction on number of applicants (see Figure 18.1). Consistent with the recommendations of Aiken and West (1991) we used the value of one standard deviation above and below the sample mean to represent high and low firm size, while use of formal recruitment practices was represented by a dichotomous variable (1 = firms used this practice or 0 = firms did not use this

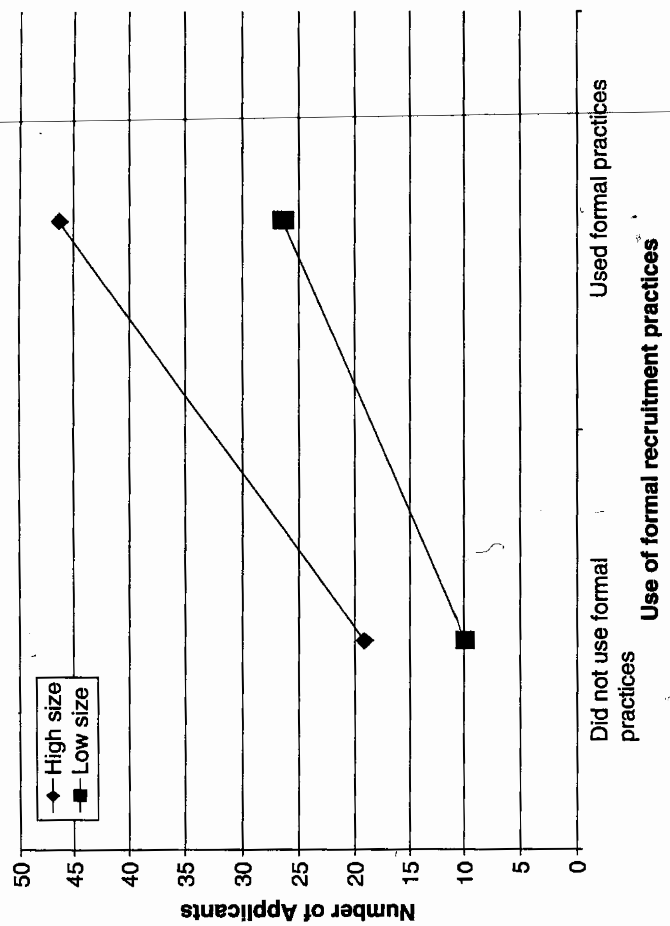

Figure 18.1 *Interactive effect of firm size and use of formal recruitment practices on number of applicants*

practice). As illustrated in Figure 18.1, the use of formal recruitment practices had a positive effect on the number of applicants for small and micro-sized small firms; however, this effect became stronger as firm size increased.

We also found a significant interaction between firm size and both the broker variables. Consistent with the procedures described above we used the value of one standard deviation above and below the sample mean to represent high and low firm size, while the use of each broker practice was represented by a dichotomous variable (1 = firms used this practice or 0 = firms did not use this practice).

As illustrated in Figure 18.2, the use of school referrals had no meaningful effect on the number of applicants for micro-sized firms. However, school referrals had a strong positive effect on number of applicants for small firms with several hundred employees. Interestingly we found the opposite outcome for the temporary agency interaction.

As illustrated in Figure 18.3, the use of temporary agencies had a positive effect on number of applicants for micro-sized small firms but a negative effect on the number of applicants for larger small firms. Taken together, the findings for the use of school and temporary agency brokers suggested that different types of brokers may be more or less effective at increasing applicant pool size for certain small firms.

In Table 18.2, Model 2 shows the results for the time to fill the position variable. In terms of the control variables, perceived difficulty in finding employees and the requirement of a college degree both had a significant positive effect on how long it took small firms to fill a position. Industry and geographic location were not significant predictors. In addition, firm size did not have a significant main effect on the time it took to fill the position. The results of Model 2 show that firm recruitment practices had both main and interactive effects on time to fill the position. In terms of the main effect, informal recruitment practices had an insignificant main effect on time to fill the position. However, the use of formal recruitment practices had a significant positive effect on time to fill, suggesting that it took small firms longer to fill job vacancies when they used formal recruitment practices. In the case of the broker variables, the use of school referrals had an insignificant main effect on time to fill the position. However, the use of temporary services had a positive significant effect on time to fill, such that using this practice increased the amount of time it took small firms to fill a job opening.

Our analyses also revealed one significant interactive effect. There was a significant interaction between firm size and informal recruitment practice. Following the procedures described above we plotted this interaction in order to interpret the finding. As illustrated in Figure 18.4, the use of informal recruitment practices had a positive effect on the time to fill a position

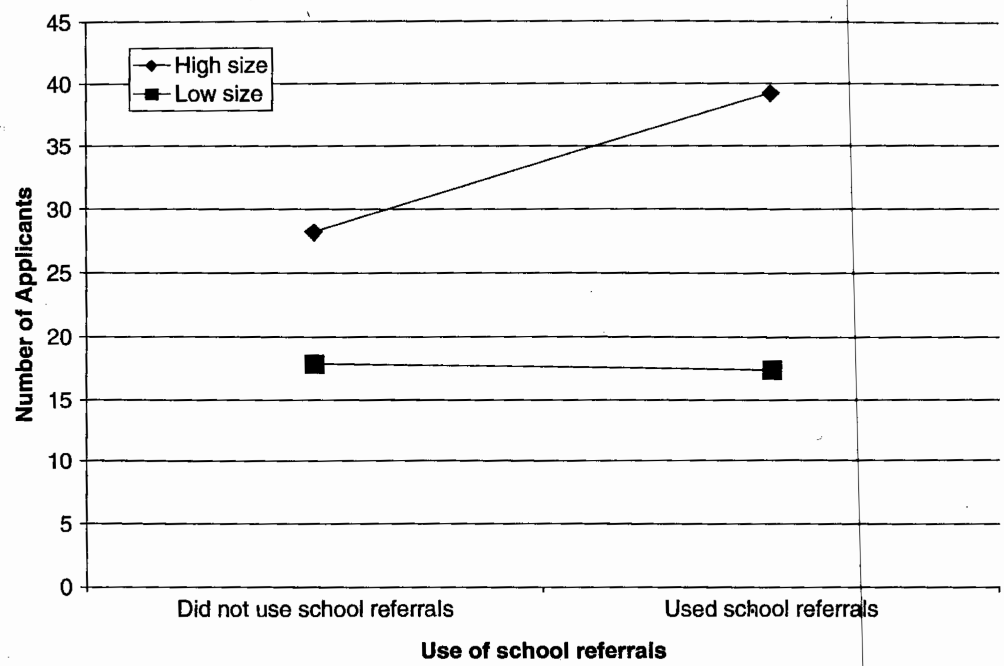

Figure 18.2 *Interactive effect of firm size and use of school referrals on number of applicants*

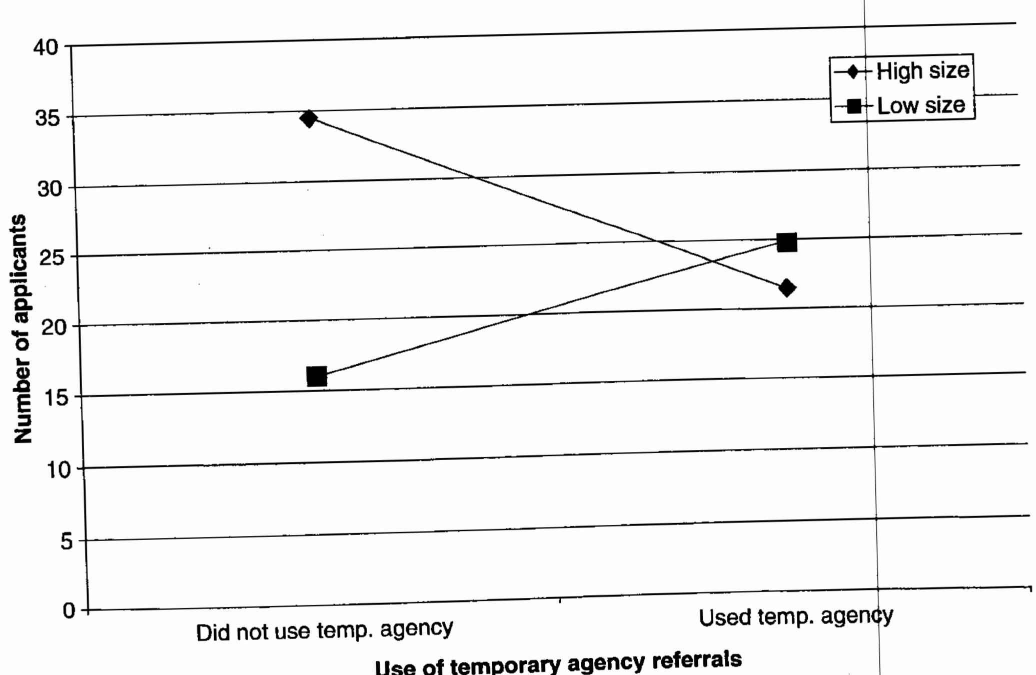

Figure 18.3 *Interactive effect of firm size and use of temporary agency referrals on number of applicants*

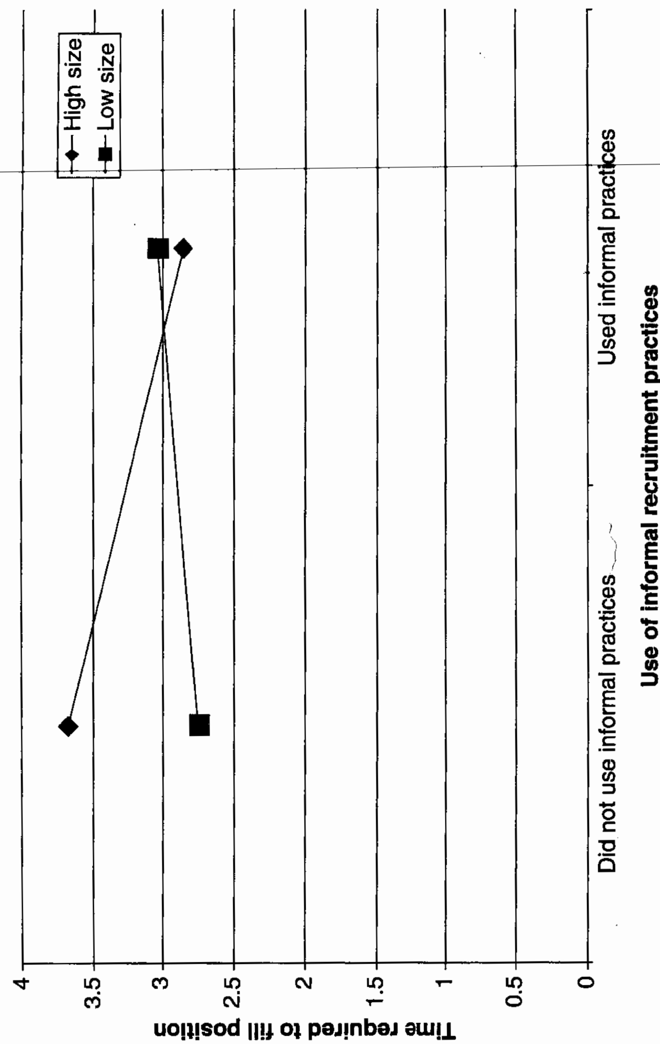

Figure 18.4 *Interactive effect of firm size and use of informal recruitment sources on time required to fill position*

for very small firms; however, this effect was negative for small firms with larger numbers of employees. This finding suggests that the use of informal recruitment practices was able to reduce the time it took small firms with several hundred employees to fill job openings, while the use of this practice actually increased the amount of time it took micro-sized firms to fill job vacancies.

Implications

Finding the appropriate workforce is one of the most difficult challenges for small businesses and this is an issue on which HRM researchers have been silent (Cardon and Stevens, 2004). Furthermore, there is little research on the effectiveness of various recruitment strategies for small firms. For this study, we went one step further toward understanding the dynamics of effective recruitment for small firms. We found that there were qualitative differences between the effectiveness of recruitment practices for micro-sized firms compared to small firms with several hundred employees. Our findings clearly illustrate that not all small firms are the same and that HRM in small firms is dynamic and cannot be portrayed by standardized descriptions. The effectiveness of recruitment methods is contingent on the size of the firm. With the variety of methods that can be used, which methods are the most effective and why? It is clear that the portfolio of methods – informal, formal and brokered – matter. By analyzing the use of these methods simultaneously we can see the relative effectiveness of one type of practice for small firm recruitment compared to the other two. Our findings indicate that a method may be effective for different reasons.

Formal recruitment methods

For the firms in our study, formal practices played a significant role in the recruitment portfolio. Our analysis demonstrated that the use of formal practices increased the number of job applicants for both small and micro-sized firms. This benefits employers in small firms because having more applicants raises the probability of better hires. Small firms with several hundred employees, however, seemed to benefit more from these methods than micro-sized. Why? One possible explanation for these findings is a legitimacy story. Firm size tends to influence the level of legitimacy firms receive, such that smaller firms tend to have lower levels of legitimacy, relative to large organizations (Williamson et al., 2002). Small firms with a number of employees will benefit from their reputation. Using formal methods reinforces their legitimacy in the labor market with potential employees. Micro-sized firms may be using formal methods to gain legitimacy in the labor market. Potential employees may be reluctant to apply for these jobs because they do not recognize these micro-sized firms. It should be noted that the standardized coefficient for the main effect indicates that these formal practices have the largest effect within the portfolio of methods.

While formal methods increased the number of job applicants, the results were mixed for the time required to fill the position. In fact, formal methods increased the time to hire an employee. This finding makes some sense in the context of the timing of advertisement placement. Interestingly, size of the firm does not matter for formal methods.

Informal recruitment methods

The use of informal recruitment methods, such as employee referrals, was found to have no effect on the number of job applicants. However, we found that the use of these practices decreased the time required to fill a position for small firms with several hundred employees, while they increased the time required for micro-sized firms. Why does this work for larger small firms and not for the micro-sized firms? We believe the answer lies in the level of social capital present in the firm. Specifically, small firms with several hundred employees may have greater amounts of social capital than micro-sized firms. This may be due primarily to the larger number of employees and the greater diversity of their potential contacts. Some firms may also have provided incentives to their employees for good referrals and this could have led to quicker referral times. With all of the emphasis in the research on informal recruitment methods, why do micro-sized firms not see the same benefit? Micro-sized firms may have already used up their social capital to identify their current employees. Thus, it might have taken micro-sized firms longer to identify potential employees as current employees draw down on their social capital on behalf of the firm. While we believe that there is a social capital explanation, this is certainly an area that requires more research.

The use of brokered recruitment methods

The use of brokered recruitment methods, such as school and temporary agency referrals, also has mixed implications. The use of schools as brokers increased the number of job applicants for small firms with several hundred employees but did not have an effect on the applicant pool size of micro-sized small firms. One explanation for this finding could be that as small firms grow in size they may be better equipped to develop ongoing relationships with large providers of applicants, such as schools. In particular, as small firms grow they may have the resources to appoint an employee to act in a formal liaison role with the school. This may increase the likelihood that school administrators understand the needs of the firm, thus increasing the likelihood that administrators will channel prospective applicants towards the small firm. Furthermore, school counselors may view small firms with several hundred employees as more legitimate employers than micro-sized firms, which in turn may decrease their motivation to steer potential applicants to micro-sized firms.

Conversely, we found that the use of temporary agencies increased the pool of applicants for micro-sized small firms but decreased it for larger small firms. Micro-sized firms may have benefited from the use of temporary agencies because these brokers expanded the social capital of the company. As discussed above, micro-sized small firms may have limited network connections. As such, contracting with a temporary agency may have allowed micro-sized firms to leverage the connections of temporary agencies in order to expand the range of individuals that were aware of their job vacancies. Social capital may also explain why temporary agencies did not benefit larger small firms. It is possible that there was an overlap between the types of applicants temporary agencies could identify and the job seekers that larger small firms could identify using formal or informal practices. However, while our findings indicated that temporary services did not increase applicant pool size for larger small firms, we wonder if this practice resulted in firms hiring better employees. That is an empirical question for future research.

Taken together, these results suggest that in order to maximize applicant pool size, the composition of the small firm's recruitment practice portfolio should vary by its size. Interactions between size and the use of formal and both brokered methods were important indicators of the number of job applicants. These findings point us toward future areas for research. For example, why does the use of brokers play such different roles for the micro-sized firms versus small firms? Under what conditions might the role of brokers be enhanced for micro-sized firms? This is especially important when policy makers are seeking ways to assist small firms. Understanding the role and the effectiveness of brokers for these firms could be a means of supporting small firms.

Practical implications

Our findings point toward strategic implications for small firms. Since recruitment method can have a great influence on recruitment outcomes it is important for owners and managers of small firms to be deliberate in their choice of recruitment practices. When small firms with several hundred employees are trying to increase the size of their applicant pool the use of formal (such as newspaper ads) and school referrals can be very effective. Owners and managers of larger small firms should also be aware of the ability of employee referral programs to decrease the time it takes to fill a position. Thus, creating incentives for current employees to refer good potential employees may be a wise recruitment strategy.

The findings of our study suggest that the temporary agency may be a promising recruitment tool for micro-sized small firms when they want to increase the number of applicants. Micro-sized small firms that are entering a growth period may find this type of broker to be especially useful. However, it is important to note that managers should consider the cost associated with this strategy when determining the overall benefits of using temporary agencies.

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