



The effect of high performance work systems on small and medium size enterprises [☆]



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ABSTRACT

This study analyzes the processes that explain high performance work system (HPWS) effect on company performance in small and medium size enterprises (SMEs). This study tests this relationship in SMEs by selecting three high performance work practices (HPWP) and an outcome variable based on the return on investment. A regression model with a sample of 78 companies tests the hypothesis. Results confirm the positive effect of HPWP on the performance of SMEs.

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1. Introduction

Patel and Conklin (2012) report that small and medium size enterprises (SMEs) are relevant worldwide. Nonetheless, SMEs face problems regarding human resources (HR) (Chuang, Chen, & Chuang, 2013; McEvoy, 1984); scholars sustain that small enterprises' difficulty to hire, develop, retain, motivate and even access competent workers is a barrier to success and leads SMEs to big mistakes (i.e., workers selection, retribution) (Deshpande & Golhar, 1994). HR practices are a key factor for success (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011). Research confirms the improvement of organizational performance in companies that implement these practices (Kotey & Slade, 2005), reinforcing the theory that HR effective practices can be a source of sustainable competitive advantage (Hayton, 2003). Researchers in HR related to SMEs also analyze the possible effects of HR practices and possible ways of achieving a sustainable competitive advantage, although, with some exceptions, research has evolved slower in SMEs than in other enterprises (Kim & Gao, 2010).

Kidwell and Fish's (2007) study of small Australian family businesses concludes that the use of HRM (Human Resource Management) practices, like workers' commitment and motivation systems, positively affects effectiveness in HRM function of an enterprise, leadership, strategic alignment and profitability, and organizational size. Kidwell, Hoy, and Ibarreche (2012) propose that formal HRM practices positively affect HRM operations' effectiveness and alignment with the companies'

general strategy, independently of the family business property and the organizations' management.

Camps and Luna-Arocas (2012) posit a bundle of practices, based on companies' consensus, which contribute to companies' growth and success. This study analyzes the use and effect of best practices in SMEs as an instrument to increase performance. The confirmation of a positive relationship would promote the implementation of such practices in companies, improving their performance, and achieving organizational goals.

2. HPWP and SMEs

HR practices' clear effect on performance facilitates the appearance of better results (Lu, Chen, Huang, & Chien, 2015). These practices are the so-called HPWP.

2.1. Definition

After reviewing the literature (Pascual, 2013), this study uses Pfeffer's (1994) definition of HPWP: "those HR practices that are capable of generating an opener and more communicative way of working, causing on supervisors the idea of an employee capable of contributing with ideas and suggestions that are worth taking into account in the decision making process." The study gathers from Pfeffer's (1998) work where he reduces HPWP to seven indicators (stability, recruitment, training, information, compensation, hierarchical status reduction, and teamwork). Camps and Luna-Arocas (2012) also use this model for their work. This study focuses on recruitment and hiring, compensation, and stability (Pfeffer, 1998) because the perception of their greater or lower influence on employees determines the increase of their

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commitment and performance, and their contribution to the organization's success.

2.2. Hiring

Employers in SMEs declare some difficulties for hiring “adequate workers” (Barrett & Mayson, 2005). Therefore, researchers focus on the use of informal and unimaginative practices (McEvoy, 1984). The organization conveniently and directly controls these practices (Hornsby & Kuratko, 2003), but depends on “mouth to mouth” communication (Marchington, Carroll, & Boxall, 2003). Informality conducts to certain practices that are convenient and easily applied, but this fact does not necessarily imply better results in the long term. In fact, in entrepreneurial companies or companies in a fast growing phase, managers may squeeze out their informal contacts to hire employees (e.g., family members and references) and need to develop a strategy to hire employees with the knowledge and abilities to sustain organizational growth (Williamson, 2000). Furthermore, because of informal hiring, employers hold accusations of indirect discrimination when hiring “the selected candidate” instead of the best person for the job (with the adequate abilities, knowledge, and experience), and do not contribute achievement of organizational goals.

2.3. Compensation

Managers should emphasize more intrinsic rewards associated with work (Barrett & Khan, 2004) because of SMEs' incapacity to compete with big companies in the compensation levels. Hornsby and Kuratko (2003) argue that SMEs usually take informal approaches on compensation; Cardon and Stevens (2004) confirm this idea and argue that compensation practices in SMEs are, often, “uncoordinated and ad hoc, which makes even more difficult its consistent implementation and impact on employees behavior”.

Almost every compensation system considers group compensation based on performance as a high performance system (Guthrie, 2001). In this sense, results indicate that compensation based on organizational performance improves job retention and employees' motivation to use their abilities and as a behavior guide in their working duties. This compensation also allows the company to access employees that may generate greater results. A company, therefore, may use the compensation level to increase the quality of the candidates and to select workers with better abilities and with certain behavior patterns.

2.4. Stability

The current generalized increase in labor insecurity and precariousness affects SMEs (Arocena, Núñez, & Villanueva, 2007). Growing insecurity discredits the labor system, which arises from long-term stability (Cuyper, Van der Heijden, & De Witte, 2011). Therefore, in an uncertain environment, employees do not believe promises of stability and, consequently, those policies fail in achieving employee's commitment (Comeche, 2004) and “hard work.” Burchell, Lapido, and Wilkinson (2002) confirm that labor insecurity comes along with fewer efforts, and a reduction of employee's commitment with the organization. SME employees' commitment and consequently, the extra effort employees are willing to make (High Performance) are only possible under stable working conditions. Otherwise, employees will perceive this situation as a threat and will contribute less (Osterman, 2000).

Research in this field reports that companies implement some HPWP not only in medium size enterprises but also in micro and small ones as well. Research also confirms that, generally, informality characterizes HPWP; however, despite informality's consequences, and the flexibility that arises, informality is one of the strengths that SMEs have (Cardon & Stevens, 2004).

In this context, this study explores under which conditions the practices that companies introduce are the best HPWP (based on Pfeffer's model), and HPWP' effect on performance.

3. Performance measure

To measure organizational results, researchers frequently use: (1) profitability and organizational productivity ratios (Regev, 1998), (2) research project performance (McDonough, 2000), (3) commercial success (Moenaert, Souder, Meyer, & Deschoolmeester, 1994), (4) market share, industry share concentration, import intensity and interaction among market share and industry concentration (Geroski, Machin, & Van Reenen, 1993), (5) measures on investment returns, and return on investment (ROI) or return on assets (ROA), or (6) certain ratios that measure global companies' effectiveness compared to competitors, based on efficiency factors and quality services (Damanpuor & Gopalakrishnan, 2001). These factors indicate that no unique global performance measure exists. This study uses ROI to measure the effect that the use of HPWP has on performance results, because that effect is easy to calculate with the data taken from SABI database (Sistema de Análisis de Balances Ibéricos). The use of these indicators is not exempt of criticism; however, these measures have a high correlation with profits and offer an immediate feedback of the external (market) and internal (organization) responses to organizational entrepreneurial actions (Ernst, 2001).

H1. The implementation of HPWP in SMEs has a significant positive effect on organizational performance.

4. Data and method

301 SMEs answered the questionnaire. Performance data for both years was available from only 85 of those companies and finally the study selected 78 SMEs. The study uses a three-item questionnaire for each variable present in Luna-Arocas and Camps (2008), drawing on Pfeffer's concept of HPWP. Performance arise from comparing the 2009 ROI with 2012 ROI and studying companies that apply HPWP and companies that do not.

To prove the hypothesis, this study uses SPSS 19.0 and conducts a regression analysis. This analysis introduces HPWP as the independent variable, ROI (difference between 2009 and 2012) as the dependent variable, and size, business sector and corporate strategy as three control variables, which are the most frequent in the literature.

5. Findings

Table 1 shows the results concerning means, standard deviations, and correlations.

Table 2 shows results on how as ROI increases, HPWP increase 0.145 with $p = .006$ and therefore confirms our hypothesis.

Table 1
Means, standard deviations and correlations.

	N	Mean	S. dev.	Correlations				
				1	2	3	4	5
1. ROI 12_09	78	-0.12	0.4	1				
2. HPWP	78	4.7	1.3	0.27*	1			
3. Size	78	2.4	1.2	-0.13	-0.201	1		
4. Strategy	78	22	16.1	0.07	0.30**	-0.34**	1	
5. Business sector	78	2.9	2.1	0.08	0.33**	-0.15	-.001	1

* 0.10

** 0.05

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