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Australian small and medium sized enterprises (SMEs): A study of high performance management practices

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ABSTRACT

While there is extensive management and academic literature on the topic area of high performance management internationally, research on high performance management practices in the Australian context is limited. Furthermore, research on high performance management practices has focused predominantly on large organisations and is largely a new direction for research in SMEs. This study attempts to fill some of the gaps in existing studies by considering a wide range of high performance management practices in Australian SMEs. Owing to the dearth of national data on high performance management in Australian SMEs, the results of this study are used to determine whether there is any evidence of a 'high performing' scenario in relation to management practices in Australian SMEs. The results, reporting a national study (N = 1435) on employee management in Australian SMEs, reveal a moderate take-up of high performance management practices. The findings by themselves do not support a 'high' performing scenario in relation to management practices in SMEs; however the low application of participative practices in the context of low unionization, and a low incidence of collective relations, indicates that many SMEs need a make-over if they are to meet the demands of competition. It is evident from the findings in this study that high performance practices in SMEs stand to benefit from modernisation and improvement.

Keywords: high performance management practices; high performance management systems; high performance management organizations; small and medium size enterprises; Australian SMEs; organizational change

The SME sector represents a significant large employer group in Australia (Bartram 2005) and are regarded as playing a pivotal role in focusing on the behavioural and interpersonal aspects of leadership and management required by Australian industry to address the challenges

such as globalisation. However, despite the importance of small and medium size businesses to the economy and the growth in human resource management (HRM) practices in Australian organisations (Fisher, Dowling & Garnham 1999; Wiesner 2001), there has been a shortage of data during the past decade concerning the broad nature of the patterns and trends in human resource management and more specifically high performance management practices in SMEs.

Furthermore, even though there has been a growing emphasis upon the role of high performance management practices as a source of competitive advantage (Dessler, Griffiths, Lloyd-Walker & Williams 1999) and evidence of numerous studies that certain HRM practices improve organisational performance (Bartram 2005; Arthur 1992; Ichniowski, Shaw & Prennushi 1994; Delery and Doty 1996), there is little systematic research available concerning the adoption and character of these practices in Australian small and medium size enterprises.

High performance management practices describe a set of management practices that enhance employee relations through employee involvement and participation; and which increase organisational performance and profitability through quality communication and consultation between management and employees (Gollan 2005). The notion of high performance management practices is explored in greater detail in the next section.

We define SMEs as organisations employing between 20 and 200 employees (Baron 1995) with small businesses constituted by 100 or fewer employees, (following the ABS definition of small business in manufacture) and medium sized businesses ranging from 100 to 199 employees. The longitudinal survey of Australian small business found that organisations with more than 20 and up to 200 employees constitute 6.1 percent of all businesses in Australia, and together employ 27.7 percent of the workforce (Morehead, Steele, Alexander, Stephen & Duffin 1997). If data on workplaces is restricted to those with more than

20 employees (the Australian Workplace Industrial Relations Survey 1995), the proportion of workplaces between 20 and 199 employees in size is 92 percent, employing 56 percent of the workforce. SMEs with a workforce within this range will be expected to have a management structure, whereas smaller organisations tend to have less formal organisational structures and informal management practices.

The objective of this article is to attempt to fill some of the gaps in existing studies on high performance management practices by examining the prevalence of a wide range of high performance management practices in Australian SMEs and the impact of certain organisational characteristics on the prevalence of these practices.

In view of this objective, the research questions under examination include:

- RQ1: What is the prevalence of high performance practices in respondent SMEs? This research question ascertains whether there is any evidence of a 'high performing' scenario in relation to high performance management practices in respondent SMEs. 'High performing' suggests that there is a high rate of adoption of management practices which have a high participative element and make a significant contribution to organisational performance according to the literature (Banker, Field, Schroeder & Sinha 1996; Huselid 1995).
- RQ2: What is the impact of organisational size of an SME upon the adoption of high performance practices in respondent SMEs?
- RQ3: What is the impact of the presence of a human resource management specialist upon the adoption of high performance practices in respondent SMEs?
- RQ4: What is the impact of the presence of a strategic plan upon the adoption of high performance practices in respondent SMEs?

RQ5: What is the impact of unionisation upon the adoption of high performance practices in respondent SMEs?

HIGH PERFORMANCE MANAGEMENT PRACTICES WITHIN THE SME CONTEXT

The term 'high performance management practices' may seem to be as much about marketing as about a new conceptual development. One may even associate the term with marketing more recent terminologies such as strategic human resource management. Even so, it is clear from the literature on high performance management that there has been a development in the conceptualisation and emphasis of the term.

Walton (1995) and Lawler (1996; 1992; 1995) propagated the commitment model and high-involvement model respectively. The 1980s scenario was characterised by the combined use of certain personnel practices such as problem-solving groups, job flexibility, team working and minimal status differences. The assumption was that these variables would have a positive impact on organisational performance. According to Walton's commitment model, commitment would impact on competencies of employees and therefore would impact on performance. Lawler's 'high involvement management' (HIM) model was aimed at enhancing employees' skills and knowledge, thus having an impact on intrinsic motivation of employees and other psychological processes such as goal setting (Wood 1999). Other authors endorsing the HIM model include Lawler, Mohrman and Ledford (1995), Levine (1995), Wood and Albanese (1995), Wood and De Menezes (1998), Wood (1998) and Gollan (2005).

Another term which is increasingly used in international studies to investigate human resource management in organisations, is the notion of the 'high performance systems' approach (Delaney, Lewin & Inchniowski 1989; Huselid 1995). Lawler, Mohrman and Ledford (1995) also employed the term to refer to human

resource and operational methods that can guarantee better quality services and products as well as increased productivity. According to them, high performance systems is conceived as an integration between high commitment management and quality improvement practices such as TQM.

The expression 'high performance management systems' emphasised the desire by other researchers to broaden the focus away from attitude and commitment. The intention here is to impact upon performance by including factors such as skill formation, work structuring, performance management and pay satisfaction (Wood 1999).

The concept of a 'high performance organisation' also became very popular during the 1990s. In contrast to Lawler et al.'s (1995) study at the company level of 279 top 1000 Fortune manufacturing and service companies, a study in which Osterman (1994) conducted a survey of workplaces in the top 1000 Fortune manufacturing and service companies measured what he labeled 'transformed organisations'. These organisations were characterised by four practices including TQM, quality circles, teams and job rotation. Thor (1994) argued that in order to create a high performance organisation, there must be a family of measures of success. He defines these measures as a balanced collection of four to six performance measures, such as productivity, quality and customer satisfaction, that together provide a comprehensive view of organisational results but individually also give a diagnostic value. He argues that these need to be linked to the appropriate level of the strategic plan and expressed in that level's language. Stainer and Stainer (1996) also consider a range of measures, such as customer satisfaction, market effectiveness, resource effectiveness, social effectiveness and workplace satisfaction. Daft (1994) defines a high performance organisation as one that attains its goals by using resources in an efficient and effective manner. He refers to efficiency as the minimal use of organisational resources and effectiveness the degree to which organisational goals are met.

In this article, the term 'high performance management' practices is congruent with the approaches outlined above and more specifically the HIM approach which describes a set of management practices that enhances employee relations through employee involvement and participation; and that increases organisational performance and profitability through quality communication and consultation between management and employees (Gollan 2005).

This approach focuses on an integration of high commitment/ involvement management and quality practices which are likely to impact on organisational performance and are responsive to the environmental challenges faced by organisations (Daft 1994). High commitment advocates such as Arthur (1994), MacDuffie (1995) and Wood (1998; 1999) argued the superiority of these practices over traditional methods by linking the use of high performance management practices to continual economic gains. High performance management is therefore treated here as synonymous with high commitment and high involvement practices.

The first research question posed in this article relates to the prevalence of high performance practices in respondent SMEs. Research on high performance practices has focused predominantly on large organisations. In the United Kingdom, Wood (1996a,b) has researched manufacturers and conducted a multivariate analysis between the various sets of high performance practices (also see Wood & Albanese 1995). Wood and de Menezes (1998) conducted an analysis of high performance practices, including aspects of quality management such as team working, quality circles and self inspection. In addition, they included incentive payment systems, such as profit sharing and merit pay, whilst excluding specific TQM methods.

In the US, Huselid (1995) examined the relationship between 13 practices which, according to him, broadly represent the domain of high performance work practices. He included ten practices used in the study by Delaney, Lewin &

Ichniowski (1989), including practices related to personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment and labor-management participation. However, he added three items in assessing firm performance: the intensity of its recruitment efforts (selection ratio); the average number of hours of training per year; and promotion criteria (seniority versus merit). Lawler et al. (1995) surveyed employee involvement and TQM and Osterman (1994) conducted a national study of work organisations in which he measured what he called transformational organisations by four key practices: TQM, quality circles, teams and job rotation. Baird and Meshoulam (1988: 122) looked at high performance measures that fit and support each other and Becker and Huselid (1998: 13) offer some guidelines as to the core elements of high performance systems. In a study by Wood (1999), in which he examined the relationship between high commitment and quality practices, practices commonly associated by TQM and high performance and commitment systems were found to have some coherency in their use. The book 'The American Workplace: Skills, Compensation, and Employee Involvement' reviews previously published studies on high performance management practices and the 'new' American workplace. In the main the findings in the book confirm that new management practices improve business performance and there exist complementarities among practices (Doeringer 2002).

While there is extensive management and academic literature on the topic of high performance practices internationally, studies on high performance practices in Australia and more specifically within the SME context are largely a new direction for research (Galang 1998). Although studies on change and HRM practices are also relatively scarce in the SME literature, they are more prevalent than studies focusing specifically on high performance management practices. For example, studies of change in small business have

focused upon the life cycle of business, their evolution and expansion, employment growth and organisational age, training of managers in small firms, explicit human resources training, strategic planning in SMEs, and the effects of globalisation on SMEs. Other examples include the study by Desphande and Golhar (1994) who surveyed employee management practices in a comparative study of large and small manufacturers in USA. Duberley and Walley (1995) revealed a lack of strategic HRM in SMEs. Conversely Bacon, Ackers, Storey and Coates (1996) discovered a high degree of the application of human resource management practices in small business; and there are a number of studies on individual employee management practices such as training or recruitment and retention of employees. Wiesner and McDonald (1998; 2001) profiled the incidence of organisational change in regional SMEs, organisational change and enterprise bargaining, and organisational change and human resource management in Australian SMEs.

Examples of studies focusing specifically on high performance practices in SMEs include the research of Youndt, Snell, Dean and Lepak (1996) and Marlow and Patton (1998) in which they argue that high performance work practices assist people in involving themselves in the decision-making and problem-solving processes of their work activities. They identified high performance work practices such as quality circles, work teams, job rotation, total quality management, cross-training, employee committees, training and development, selective staffing, compensation, and information sharing as the most frequently implemented work practices. In a study on high performance and human resource characteristics of successful small manufacturing and processing companies, Rowden (2001) reported similar results and argue that various forms of training and development, compensation and benefit packages, as well as selective staffing were the most commonly shared high performance work practices among these companies. These findings support the emphasis placed

by Levine (1995) upon the importance of these particular high performance work practices.

One comparative industry SME study that focused specifically on high performance work practices in chemical, petroleum refining, rubber, leather, metal and machinery manufacturers include the study by Galang (1998). She found that not too many of the management practices considered as high performance work practices are used in Canada, Korea and the US. These findings support Godard's (1991) assertion that the prevalence of high performance practices in small manufacturing enterprises is questionable.

The second research question addresses the impact of organisational size of an SME upon the adoption of high performance practices in respondent SMEs. The point has long been made that 'small business is not a little big business' (Welsh & White 1981: 18) and that small businesses face different concerns to those of big business (Heneman and Berkley 1999). Informality of organisational structures and processes (Callus, Kittay & Sutcliffe 1991; Olsen and Terpstra 1992; Bacon et al. 1996), for example, may lead to reporting relationships and processes which differ from larger, more formal workplaces. The results of Wiesner and McDonald's study (2001) supports the notion that organisational size has a significant impact on the adoption of Human Resource practices. There is, however, no uniformity in research findings in the literature. Chapman (1999), for example, argues that the essential dynamics of small firms are the same as large ones and that size is only one variable in understanding employee relations in small firms. Others argue that the organisational characteristics and managerial practices of SMEs cannot be assumed to reflect those in large organisations (Granovetta 1984).

Research on small businesses suggests that the factors influencing human resource management in SMEs are different from larger firms. Jennings and Beaver (1997) believe that small firm management processes are unique and contemporary management theory principles, no matter how

refined, cannot be applied directly to the smaller enterprises. The management process in the small firm may be more influenced by the personal preferences and attitudes of the owner and/or managers than in large firms because of a closer interaction of management with operations and employees. The permeation of a strong culture fostering adaptiveness and flexibility may be thus facilitated which can assist in the implementation of HR practices and in overcoming resistance to change. This is in contrast to large firms where communication of new practices can be problematic (Jennings & Beaver 1997; Johns, Dunlop & Sheehan 1983). The other side of the argument is that significant differences exist between small and large firms in terms of managerial, operational and organisational competencies arising from superior flexibility, innovation, and lower overhead costs in small firms despite being restricted by a lack of market power, capital and managerial resources (Ahire 1996). However, the widely held assumption that small businesses are, by definition, flexible should be treated with caution. An SME may lack flexibility where the organisation's culture is dominated by an owner or chief executive who is inflexible and rigid (van der Wiele & Brown 1998). Furthermore, medium sized businesses may lack not only resources but also the flexibility they may have had as small firms (Welbourne & Cyr 1999). In view of these characteristics, it is therefore debatable whether the HR management models as applied in large organisations can also be applied to SMEs. In view of this, the following hypothesis could be stated in relation to the second research question:

H1: *There is a significant positive relationship between organisational size and the adoption of high performance management practices.*

The third research question addresses the impact of the presence of a HR manager upon the adoption of high performance practices in Australian SMEs. The impact of the presence of a HR manager on the prevalence of High Performance Management practices is inherently linked

to small and medium sized businesses rather than larger organisations because large organisations tend to employ a specialised HR manager and most often also have a HR department. In a study by Banham (2005), SMEs with a HR manager, adopted organisational change practices to a much greater extent than those firms where there was no designated human resources manager. This positive relationship between the presence of a human resources manager and the introduction of organisational change practices is consistent with the work of Cummings and Worley (2001) because Human Resource Practices are identified as one of the main categories of tools for introduction of organisational change. It is not unexpected that organisations placing importance on human resources to the extent that they have either a dedicated human resources manager, or have designated an individual to take responsibility for human resources, are far more likely to be practicing their profession and implementing high performance practices, than those that have not placed this same degree of emphasis on the importance of human resources in their organisation. In view of this, the following hypothesis could be stated in relation to the third research question:

H2: *There is a significant positive relationship between the presence of a HR manager and the adoption of high performance management practices.*

The fourth research question addresses the impact of the existence of a strategic plan upon the adoption of high performance practices in Australian SMEs. A strategic orientation in organisations would require at least the presence of a corporate strategy. Written and unwritten mission statements, corporate strategies and human resource strategies are characteristics of 90 percent of large Australian organisations (Kramar 2001). The results of our survey indicate that sixty-six percent of respondents reported the existence of a formalised strategic plan. The research of Banham (2005) reported a similar scenario

and also found a strong positive relationship between the existence of a strategic plan and the introduction of organisational change practices. Since business success has been strongly linked to the existence of strategic planning and organisational change practices can be used to overcome internal weaknesses and build on internal strengths that are normally considered in the process of strategic planning, the strength of this relationship was not surprising. These findings were consistent with the literature reporting that many of these type of practices were present in successful small manufacturers (Rowden 2002). In view of this, the following hypothesis could be stated in relation to the third research question:

H3: *There is a significant positive relationship between the presence of a HR manager and the adoption of high performance management practices.*

The final research question examined in this article addresses the impact of the presence of a union upon the adoption of high performance practices in Australian SMEs. It is argued that an integrated employee participation and involvement approach in Australian workplaces is a fallacy (Gollan 2005; ACIRRT 1999); however Gollan (2005) recognises that case studies in Australia have established the link between such an approach and higher levels of performance. McDonald (2006) also found that employee participation received weak support in Australian SMEs. Low-level participation was the main option when managers did include employees in the decision making process. He argues that any employee participation in SMEs is either limited in substance or restricted to managerial and supervisory staff or employees are excluded altogether from decision-making. In SMEs with little or no participative structures, especially in the growing non-unionised sector, a lot of emphasis is placed upon management's ability to manage and implement change (Gollan 2005; Gollan & Davis 1998; 1999) and consequently one would expect that non-union workplaces may employ

participative work practices to a lesser extent than those workplaces where a union is present. In view of this, the following hypothesis could be stated:

H4: *There is a significant positive relationship between union membership and the adoption of high performance management practices.*

METHODOLOGY

A questionnaire measuring employee management and organisational change (including high performance management practices) was originally developed for a study of Queensland SMEs. The validity of the questionnaire was addressed for the Queensland study by examining the content validity and reliability. The content validity was determined by asking a panel consisting of SME managers, HR experts and academics in HR, to comment on the suitability of each item. The reliability analysis indicated Cronbach Alpha Coefficients of between .80 and .90 for each section. There were some minor revisions to the questionnaire after analysing the results for the Queensland study, in order to adapt the questionnaire for use in a national context. A significant part of the questionnaire pertains to the measurement of high performance management practices. The results discussed in this article refer specifically to these practices.

The studies by Wood and Menezes (1998), Delaney, Lewin and Ichniowski (1989), Lawler et al. (1995) and Osterman (1994) were used as a starting point in deciding what practices are representative of high performance management practices. Forty-seven practices that deem to be representative of high performance management practices were selected for the purpose of this article. The following measures of high commitment/involvement and quality practices were included for analysis: selection (with the emphasis on the involvement by parties other than the line-manager); a range of training and development practices; performance appraisal (with the emphasis on formal appraisal and appraisals that

include parties other than just the line-manager); a range of change practices in relation to numerical and functional flexibility and one item on flexi-place; a range of participative and individual compensation practices; a range of employment relations practices that focus on consultation with other parties; a range of team and quality practices; communication practices that focus on open organisational communication; certain employee management policies and procedures not compulsory by law; and two electronic practices relating to recruitment and HRIS.

There is a debate in the literature concerning whether performance-based pay qualifies as a high performance practice. However, according to Wood (1999), performance-based and merit-based pay should be included in so far as the model of high commitment/performance management is based on observation of leading edge developments rather than a theory of commitment. This was also the basis on which the two electronic HR practices have been included. However, we recognise Lawler's view that skill-based pay, group-based incentives and profit-sharing are most compatible with the notion of high-involvement management. No internal recruitment methods are included, contrary to the Wood's suggestion. This is owing to the fact that our original questionnaire focused on external recruitment only. Although we have included quality practices, another debate revolves around the inclusion of quality systems and practices (Applebaum & Batt 1994). Wood (1999: 410) investigated the coherency of practices commonly associated with TQM and high commitment/performance systems. He found a positive coherence and argues that the lesson is not dissimilar to that which was drawn from the limited adoption of high commitment personnel practices in the 1960's and 1970's, namely that: 'we ought not to expect innovations in management on humanistic grounds alone'.

The questionnaire was sent out to 4000 Australian small and medium-sized enterprises. A Dun and Bradstreet database was used and a

stratified sample according to the following criteria were employed: all ABS industry categories excluding agriculture; employee size between 20–200 employees; a personalized address label targeting the CEO or MD; and representation of each state and territory in Australia. The highest proportion of questionnaires was received from NSW (32 percent), followed by Victoria (30 percent), and Queensland (17 percent). The Australian Capital Territory, Northern Territory, South Australia, Western Australia and Tasmania comprised the other 12% of the sample. Action to encourage organisations to respond to the survey included a covering letter explaining the purpose of the survey, provision of a reply paid envelope, follow-up letters, an assurance of confidentiality, and participation in a draw for a one-day, tailor-made workshop for recipients who provided contact details.

After allowing for incorrect mail addresses and closed businesses (approximately 6 percent or 237 questionnaires of the total sample), a response rate of 36 percent was achieved (N=1435).

The prevalence of the high performance practices was measured by asking respondents to which extent these practices occurred in the previous three years – 'never, for some jobs, for all jobs'. In analysing the data, the existing scales were collapsed into two-point scales reflecting the presence or absence of a practice. SPSS was used to analyse the data. Descriptive statistics were used to describe the demographics and summarise the data. These are presented in the form of percentage distributions in order to identify trends in the data. A chi-square analysis was used to determine whether there were significant differences in relation to high performance practices between small and medium organisations, SMEs with and without a HR manager, organisations with and without a strategic plan, and unionised and non unionised SMEs. The wording presented to respondents to determine the presence of a HR manager were the following: 'Is there a manager in this organisation whose principle respon-

sibility cover human resource management and who has one of the following terms in their title: (1) There is no specialist manager; (2) Industrial Relations; (3) Employee Relations; (4) Human Resource Management; (5) Personnel; (6) Other (please specify)?’ This question was re-coded into two categories to reflect the presence or absence of an HR manager.

We defined a high level of adoption of an individual high performance management practice as occurring where 70 percent or more of SMEs employ that practice and a low adoption level as occurring where 30 percent or fewer SMEs employ that practice. For the purpose of this article, this criterion was decided upon after giving a panel of 10 SME managers a choice between various cut-off points in relation to what constitutes a high level of adoption in their view. The 70% and 30% cut-off points were also employed in testing hypotheses in this article.

Organisational characteristics of SME respondent organisations

Small businesses (fewer than 100 employees) constituted 77 percent of the sample and 100–200 employees 23 percent. The ABS industry categories were used to describe the main operations of the organisations. Table 1 lists the industry categories of the respondent organisations.

It is recognised that in some areas of business, Australian firms might well be leading in terms of high performance management practices while in others they may be lagging in the context of national and international comparisons. However, because the sample was skewed and one category (manufacturing) represented more than one-third of organisations and each of the remaining categories represented less than 10 percent of the respondents (with the exception of ‘other’), further analysis in relation to measuring differences between these industry categories in relation to the prevalence of high performance practices was not undertaken.

Forty-six percent of organisations were family organisations of which family members managed 60 percent of these organisations. Fifty-seven

percent exported their products or services of which 85 percent had been exporting for more than three years. Only five percent of SMEs were franchise operations.

TABLE 1: PROFILE OF SME RESPONDENT ORGANISATIONS USING ABS INDUSTRY CATEGORIES LISTED IN RANK ORDER (N = 1415)

ABS industry category	Percentage
Manufacturing	36%
Other	18%
Construction	9%
Wholesale	8%
Finance	8%
Retail	5%
Transport	4%
Agriculture	2%
Mining	2%
Communication	2%
Entertainment	2%
Electricity and gas	1%
Community service	1%
Storage	1%
Public administration	0.4%

One-third of organisations (34 percent) operated from a single location, 58 percent of SMEs operated in 2–10 locations and the remainder in more than 10 locations. Nine out of ten SMEs could be said to generally be ‘surviving’ businesses with almost all of them having been established for more than 10 years (90 percent). Seven percent of the organisations that had been in operation for 5–10 years and younger organisations (<5 years) represented 3 percent of the sample. As expected, most SMEs did not have a designated manager whose principle responsibility covered human resource management (69 percent). A HR department was found in only 22 percent of SMEs. Fifty-three percent of respondents said their organisation has at least one union member with more than two-thirds of the sample (67 percent) estimating that there was either less than 10 percent union membership or no union membership at all among employees.

Sixty-six percent of respondents reported the existence of a formalised strategic plan and 78 percent a business plan (a business plan builds on a strategic plan and is more tactical and operational in nature).

Most SMEs (89 percent) of respondents had access to the internet, however, only 18 percent had installed human resource information systems.

As far as the personal demographics of respondents are concerned, 77 percent had a post-secondary school qualification, 72% were older than 45 years, 52 percent were owners or part owners of their companies, and only 13 percent were female.

FINDINGS

This section summarises the results in relation to the prevalence of high performance management practices in Australian SMEs and the impact of organisational size, the presence of a HR manager, the existence of a strategic plan and the presence of a union, on these practices.

Overall, the results in Table 2 suggest a moderate level of adoption of high performance management practices.

To determine whether the management practices in SMEs could be described as high or low performance, we have tailored our discussion around the five research questions, the first of which relates to the level of adoption of high performance management practices in Australian SMEs.

This research question ascertains whether there is any evidence of a 'high performing' scenario in relation to high performance management practices in respondent SMEs. The significance of this research question relates to the contribution high performance management practices make to organisational performance. Several research studies have shown that high performance management practices and policies have positive effects on organisational performance profitability, shareholder return and organisational survival (Banker, Field, Schroeder and Sinha, 1996; Huselid 1995). The results of this study indicate that the overall picture regarding the incidence of

high performance practices in respondent SMEs looks relatively bleak. It is clear from Table 1 that a high level of adoption was found in relation to only fourteen of the forty-seven high performance practices (adopted by seventy percent or more SME respondents) and a low adoption rate was found in relation to nine practices (adopted by less than thirty percent of respondent SMEs).

There was a high level of adoption in 2 out of the 3 high performance selection practices, 3 out of 7 training and development practices, 1 out of 3 performance appraisal practices, 3 out of 7 compensation practices and only 1 out of 5 employment relations practices. Moderate to low levels of adoption of high performance practices were found in relation to flexibility, teams and HR policies. Communication was the only area that scored 4 out of 4. According to these results, SMEs have at best only a moderate affinity for a 'high performance' scenario. Any 'high performance' flavour is furthermore spoiled by the low adoption of SMEs with respect to participative practices and collective practices.

The second research question relates to the impact of organisational size on the prevalence of high performance management practices in SMEs. The results in this study clearly demonstrate that size does have a significant impact on the adoption of high performance management practices. It is clear from Table 1 that high performance management practices are significantly more prevalent in medium sized organisations (39 of the 47 practices) than in small organisations. The chi-square analysis showed that there is a significant positive relationship between the following high performance practices and organisational size ($p < 0.05$): internet recruitment; HRIS; all selection practices; all training and development practices; all performance appraisal practices; six out of the seven compensation practices; all five employment relations practices; both HR policies; one communication practice (conducting employee attitude surveys); one flexible practice (job enrichment); all three team practices; and all six quality practices.

TABLE 2: THE PREVALENCE OF HIGH PERFORMANCE PRACTICES IN AUSTRALIAN SMEs

HR Practices	%	N	Size		HR manager		Strategic plan		Unionised ³	
			Small %	Medium %	No %	Yes %	No %	Yes %	No %	Yes %
Recruitment										
1. Internet recruitment	9.3	1124	6	20*	6	16*	5	11*	11	8
HRIS										
	18	1124	13	35*	9	38*	9	23*		
Selection										
2. Formal selection procedures #	86	1283	83	95*	82	95*	76	91*	83	88*
3. Other managers/ employees have an input in the selection design	86	1266	84	92*	84	90*	81	90*	84	87
4. Other employees have an input in the selection decision	63	1229	60	73*	62	65	56	67	63	62
Training and Development										
5. Formal training budget #	61	1330	56	78*	52	80*	36	74*	54	67*
6. Technical or vocational training ¹ #	72	1347	71	77*	70	77*	67	74*	66	78*
7. Management and development training ² #	73	1347	69	87*	69	84*	61	80*	66	79*
8. Increase in training where previous program existed	71	1297	67	85*	66	84*	60	77*	68	74*
9. New career paths introduced	68	1296	64	82*	63	78*	57	73*	65	70*
10. Formal mentoring #	37	1300	65	45*	30	48*	23	44*	39	36
11. Computer-aided instruction #	62	1329	60	67*	56	76*	52	67*	60	64*
Performance appraisal practices										
12. Formal performance appraisal system #	74	1353	70	89*	68	86*	56	83*	74	74
13. Employee self-performance appraisals	48	1068	45	58*	41	61*	35	53*	52	44*
14. Peer performance appraisals	37	1048	37	36*	32	44*	29	40*	39	34
Compensation practices										
15. Performance based pay (PBP)	92	1363	92	94*	92	92	88	94*	94	90*
16. Competitive wages	89	1309	88	94*	89	89	90	89	89	89
17. Pay based on acquired skills	91	1323	91	91	90	92	87	92*	92	90
18. Group/team incentive programs	46	1266	44	55*	44	53*	30	55*	46	46
19. Profit sharing/gain sharing schemes	43	1260	42	46*	43	44	34	48*	47	39*
20. Employee share scheme	16	1260	15	22*	17	17	10	20*	18	14*
21. Individual incentive programs	56	1272	54	63*	54	60*	47	60*	61	52*
Employment relations practices										
22. Formal agreements with employees #	70	1385	67*	85*	68	76*	64	75*	65	76*
23. Formal agreements with unions #	27	1387	20	48*	24	31*	72	75*	2	48*
24. Joint consultative committees	37	1364	32*	56	32*	48	24*	45	28	45*

(Continues)

(Continued)

HR Practices	%	N	Size		HR manager		Strategic plan		Unionised ³	
			Small %	Medium %	No %	Yes %	No %	Yes %	No %	Yes %
25. Establishing work teams with direct responsibility for setting and achieving targets	45	1353	43	50*	40	56*	26	55*	44	46
26. Establishing other forms of self-management	14	1078	12	21*	11	22*	9	17*	13	14
HR Policies										
27. Employee assistance program	20	709	85	61*	88	62*	8	26*	15	24*
28. A policy of sharing business information with employees	58	716	45	32*	46	35*	43	66*	57	58
Communication Practices										
30. Explaining proposed org changes to employees	99	1404	99	99	99	100	97	100	99	100
31. Use of open channels of communication	99	1412	98	100	98	100	97	100	98	100
32. Engage in systematic search for opportunities and problems	94	1404	94	94	93	95	88	97*	93	95
33. Conducting employee attitude surveys	75	69	27	47*	26	41*	14	41*	33	31
Flexible practices										
34. Job sharing	35	1365	35	36	31	44*	30	37*	36	34
35. Flexible hours of work	55	1390	54	57	52	61*	45	61*	57	53
36. Telecommuting/work from home	26	1386	25	29	22	35*	14	33*	31	21*
37. Job rotation	44	1390	45	40	42	48*	37	47*	42	46*
38. Job enrichment	43	1364	41	50*	38	54*	28	51*	42	43
Team Practices										
39. Quality problem solving teams	47	1377	45	56*	43	55*	31	56*	44	50*
40. Self managing work teams	43	1385	42	48*	37	56*	30	50*	44	42
41. Cross functional project teams	25	1360	20	42*	18	40*	11	32*	22	28*
Quality Practices										
42. Total quality management	48	1389	46	58*	44	55*	38	53*	46	51*
43. Quality programmes (ie ISO9000)	55	1295	52	63*	54	54	50	57*	51	58*
43. Productivity improvement schemes	53	1378	51	62*	50	60*	36	62*	52	54
44. Bench marking	37	1362	32	56*	32	50*	18	50*	34	40*
45. Best practice (comparison with other Australian organisations)	42	1376	36	61*	35	58*	22	52*	39	44*
46. Best practice (comparison with similar organisations overseas)	25	1372	22	39*	20	40*	9	35*	26	25

* p<0.05.

Practices characterised by formality;

1 ie., apprenticeships, training of young employees, retraining of older employees, especially due to demand in new technology;

2 ie., leadership, supervisory skills, personal communication, graduate and postgraduate sponsorship;

3 Unionisation' refers to the estimated presence of at least one union member in the workforce (Callus et al. 1991).

In view of these results, the hypothesis:

H1: *There is a significant positive relationship between organisational size and the adoption of high performance management practices, could therefore be accepted.*

The third research question focuses on the impact of the presence of a human resource management manager upon the adoption of high performance practices in respondent SMEs. The results in Table 1 indicate that the presence of a HR manager plays a significant role in the prevalence of high performance management practices. High performance practices occurred significantly more in organisations with a HR manager (36 of the 47 practices). The chi-square analysis showed that there is a significant positive relationship between the following high performance practices and the presence of a HR manager ($p < 0.05$): internet recruitment; HRIS; two out of the three selection practices; all training and development practices; all performance appraisal practices; two out of the seven compensation practices; four out of five all five employment relations practices; both HR policies; two out of four communication practices; all flexible practices; all team practices; and five out of six quality practices.

In view of these results, the hypothesis:

H2: *There is a significant positive relationship between the presence of a human resource manager and the adoption of high performance management practices, could therefore be accepted.*

The fourth research question examines the impact of the presence of a strategic plan upon the adoption of high performance practices in respondent SMEs. The results in Table 1 show that the presence of a strategic plan has a significant positive relationship with the great majority of the high performance practices (42 of the 47 practices). The chi-square analysis showed that there is a significant positive relationship between the following high performance practices and the prevalence of

a strategic plan ($p < 0.05$): internet recruitment; HRIS; two out of three selection practices; all training and development practices; all performance appraisal practices; six out of the seven compensation practices; all five employment relations practices; both HR policies; two out of four communication practices; all five flexible practices; all three team practices; and all six quality practices.

The significance of this finding relates to the fact that only 66 percent of SMEs in this study had a strategic plan even though 78 percent had a business plan. Although 92 percent said they had identified specific goals and objectives as part of the strategic plan, only 47 percent said they had altered its practices in order to achieve the goals and objectives identified in the strategic plan. This supports the research by Wiesner and McDonald (2001) that SME managers do not tend to take a strategic approach to HRM.

In view of the results, the hypothesis:

H3: *There is a significant positive relationship between the existence of a strategic plan and the adoption of high performance management practices, could therefore be accepted.*

The fifth research question explores the impact of unionisation on the adoption of high performance practices in respondent SMEs. The results in this study show that only eighteen of the forty-seven high performance management practices are more prevalent in SMEs where there is a presence of at least one union member. The chi-square analysis showed that there is a significant positive relationship between the following high performance practices and the presence of at least one union member ($p < 0.05$): one out of three selection practices, six out of seven training and development practices, one out of three performance appraisal practices, two out of seven compensation practices, three out of five employment relations practices, one out of two HR policies, two out of five flexible practices, two out of three team practices and four out of five quality practices. These findings therefore suggest that the

presence of union members play only a moderate role in the adoption of high performance practices.

However, in view of the fact that more than 30% of the high performance management practices is more prevalent in SMEs where there is at least one union member, the hypothesis:

H4: *There is a significant positive relationship between the presence of union membership and the adoption of high performance management practices, could not be rejected.*

DISCUSSION AND CONCLUSION

Recent studies show that there is a definite link between high performance management practices and the financial performance of organisations (Huselid, 1995; Patterson et al. 1997). The results of this study indicate that the overall picture regarding the incidence of high performance practices in Australian SMEs looks quite bleak.

Why are high performance management practices lacking in so many SMEs? By their nature, SMEs have more limited human, material and financial resources (Mc Adam 2002; Vossen as cited in Huang et al. 2002) than larger businesses. With these more limited resources, it is more difficult to direct efforts to organisational change initiatives (McAdam 2002). SMEs focus on allocation of resources to achieve their maximum short-term advantage, which frequently leaves them to respond to external influences as they occur rather than taking a proactive approach.

Consequently this issue of limited resources means that SMEs face a major challenge in regard to innovation, which normally requires the directing of resources to research and development. Innovation is important to growth and viability and is cited as a practical instrument for achieving change (Wind & Main 1998).

Leadership in SMEs is frequently dominant and centralised (Khan & Manopichetwattana 1989; McAdam 2002). In the SME, the personal identity of the chief executive office and the firm's reputation are closely intertwined, as is business

success and personal success. Three factors, personal reputation in the community, investment of personal assets and hands-on involvement in the business, increase the likelihood that the enterprising, innovative and independent leader of the SME is highly committed to adapting to the changing environment (Cecora 2000). Visibility of the leader and day-to-day involvement in the operations of SMEs are potential advantages in implementation of change (McAdam 2000). The relationship between the personality of the business leader and organisational strategy and structure is found to be stronger in small firms than in larger firms (Miller & Toulouse 1986). Starting a small business involves making a commitment of resources to an idea by the owner for their future and this means there is a very strong connection between the individual and the small business (Fuller 2003). While this level of personal commitment aids survival in times of crises, it can actually inhibit growth when that growth requires a shift in the self-identity of the owner such as the hiring of professional management (Fuller 2003). For the SME to grow, the personal agenda and the organisational goals have to be aligned. The intention and ability of owner-managers needs to be consistent with opportunity in order to fulfil the growth expectations for small business (Morrison, Breen & Ali 2003). Of the three factors (intention, ability and opportunity), two (intention and ability) relate directly to leadership characteristics.

Lifestyle and independence are frequently key motivators of small business formation (Wilson 2002) and it may be that these same two factors serve to inhibit SMEs from taking on outside capital and expertise. This, in turn, may inhibit growth and growth potential.

However, the adoption rate may be ameliorated by SME characteristics accorded small business by previous research (Chapman 1999; Granovetta 1984; Welsh & White 1981; Heneman & Berkley 1999; Callus et al. 1991; Olsen & Terpstra; 1992; Bacon et al. 1996; Wiesner, 2001). Characteristics of SMEs that make them

different from their larger counterparts include: informality of organisational structures, reporting relationships and processes, availability of capital, role in the marketplace, degree of management skills and time and business planning, environmental scanning and strategic planning affect the ability and capability of SMEs to respond to the demands of the competitive environment (Jennings & Beaver 1997; Joyce, Woods, McNulty & Corrigan 1990; Johns, Dunlop & Sheehan 1989; Marlow & Patton 1993). These differences between large and small to medium sized organisations emphasises the importance of further research on high performance practices in SMEs in order to ascertain how Australian small and medium sized organisations respond to changing environmental demands.

The results indicated a significant positive relationship between organisational size and the prevalence of high performance practices. These differences in implementation of high performance practices between the smallest and largest categories confirm findings in other studies that as the organisation increases in size so does the level of change. AWIRS 1990 indicated that as size increases so does the proportion of changes in management practices and that the proportion of workplaces affected by organisational changes also increased (Callus, Kitay & Sutcliffe 1992). The business longitudinal study also reported a progressive increase in the implementation of major changes and business improvement activities in all firm sizes (Portrait of Australian Business: Results of the 1995 Business Longitudinal Survey, Small Business Research Program 1997). It is therefore debatable whether the management models as applied in large organisations can also be applied to SMEs.

Furthermore, the question 'Do SMEs with fewer than 200 employees have an easier time employing high performance management practices?' could be asked. The answer could be both 'yes' and 'no', and some arguments could certainly be made in favour of SMEs. The number of business success stories of organisations of this

size suggests that small companies can undertake fundamental changes successfully in their management practices (Dessler, Griffiths, Lloyd-Walker & Williams 1999). They have the advantages of greater control over internal resources and less complexity in their structures. Bacon et al. (1996) suggest that large organisations in the UK may have much to learn from the informal nature of change in small businesses. We suggest that the same applies to the Australian scenario. Where SMEs implement high performance practices they may have some advantages over large organisations. For example, the informality of organisational structures and relationships may mean that forces that traditionally restrain change or maintain stability have less influence. However, the descriptive data and other studies do not point to any firm conclusion on this basis. If firms do have a high degree of flexibility, their relatively small size means that changes in practices may be adopted more quickly (Marlow & Patton 1993). This is in contrast to large organisations where mechanistic and bureaucratic structures can impede the implementation of HR processes (Robbins et al. 1994). On the other hand, as pointed out earlier, small companies have fewer resources to help them with radical change.

The significance of examining the second research question regarding the impact of the presence of a HR manager on the adoption of high performance practices for Australian SMEs, lies in the fact that unlike their larger counterparts SMEs generally lack formal managers responsible for HR or HR departments. The importance of the link between the presence of a HR manager and high performance practices is therefore mainly a research question for SMEs (and not large organisations) because managers responsible for managing people issues, such as the human resource or industrial relations manager, are seen in larger organisations as being in a partnership with other managers and employees through playing a proactive, strategic role to foster the achievement of organisational success (Kramar 2001). The strate-

gic importance of high performance practices is as important for SMEs as it is for larger organisations. Unlike larger organisations, however, a full-scale, fully functioning HR department is frequently not much of a possibility; and much of what is needed in the way of skills and knowledge will have to be learned on the job. Employee management practices are often limited to the essentials and those areas with the most immediate payoff (Frazee, 1997). Thus, SME managers in most cases look to handle their limited resources to gain short-term, day-to-day maximum advantage (Jennings & Beaver 1997). If managers in SMEs tend to expect an immediate reward for any resources utilised, they may find it difficult to provide strategic human resource management due to their focus on moving as quickly as possible to meet the needs and demands of a competitive external environments. Often SME managers lack an understanding of the importance of a linkage between strategic planning and resource utilisation (Sironopolis 1994).

Only 31 percent of SMEs in this study employed a dedicated manager responsible for human resources. One can argue that those SMEs without HR managers use consultants to advise them on HR issues, however research shows that it is mainly medium-sized organisations that take advantage of this option (Wiesner & McDonald 2001).

An even more important research question for future research relates to the relationship between the presence of a HR manager and firm performance. This far research results on the link between the presence of a HR manager and performance of SMEs are mixed. Welbourne and Cyr (1999) found that in 'mid-size' firms with a senior HRM executive had a negative effect on the performance of the firm. However other empirical studies suggest that a strong association exist (Savery & Mazzarol 2001).

The results in relation to the fourth research question indicate a significant relationship between the existence of a strategic plan and the adoption of high performance practices. Business and

strategic planning may have peculiarities specific to small and medium sized organisations. The changeability of the market makes it difficult for small firms to plan for growth and change especially as they may be reliant on the sales of the larger organisation they supply or the state of the industry in which they operate (Johns, Dunlop & Sheehan 1983; Joyce, Wood, McNulty & Corrigan 1990; Marlow & Patton 1993; Martin & Staines 1994; Atkins & Lowe 1996; Jennings & Beaver 1997). The impact of a turbulent environment on the viability of SMEs is demonstrated by the high exit rates reported by *Portrait of Australian Business* (Productivity Commission/DIST 1997) which revealed that one-quarter of firms with 10 employees or fewer planned to close or sell within 3 years. This rate progressively decreased as size increased. In this present survey 55 firms were reported as no longer operating, representing 3 percent of the initial sample. SMEs are therefore plagued by high failure rates and poor performance levels (Jocumsen 2004: 659). Research focusing on strategic planning in SMEs suggest that, a key difference between successful and unsuccessful SMEs lies in the absence or presence of strategic planning. (e.g. Lurie 1987; Schwenk & Shrader 1993; Miller & Cardinal 1994; Hormozi, Sutton, McMinn & Lucio 2002). Strategic planning is concerned with the setting of long-term organisational goals, the development and implementation of plans to achieve these goals, and the allocation or diversion of resources necessary for realising these goals (Stonehouse & Pemberton 2002; O'Regan & Ghobadian 2004). With respect to high performance practices, strategic planning is generally more common in better performing SMEs and is recognised as a vehicle to drive business development, competitiveness and hence, success (Vicere 1995).

The results indicate that very little interaction occur between SME managers and representatives of unions. Formal agreements with unions are at a low 27 percent and the incidence of formal agreements with employees did not suggest that

SME managers were collective in their relations with employees or that they are consultative. The evidence for SMEs as open organisations is weak as joint employee-management consultative committees, work teams and the establishment of other forms of self management are found in fewer than half of SMEs. The evidence appears to support a picture of low participation rates of employees in decision-making.

In relation to the final research question in relation to the impact of union membership on the presence of high performance practices, this study found that the presence of union members play only a moderate role in the adoption of high performance practices. The authors expected a greater difference between unionised and non-unionised in relation to the presence of high performance practices because in SMEs with little or no participative structures, especially in the growing non-unionised sector, a lot of emphasis is placed upon management's ability to manage and implement change (Gollan 2005; Gollan & Davis 1998; 1999). Consequently one would expect that non-union workplaces may employ participative work practices to a lesser extent than those workplaces where a union is present.

What can SMEs do to enhance the high performance management practices in their firms? SMEs can seek help from industry and professional associations that provide education on high performance work systems and bring together companies to network and learn from one another. Other sources of help include Chambers of Commerce, a number of electronic forums available on the Internet and university courses on the management of SME. Small companies may also pool resources to obtain the help of change management consultants with experience in high performance work systems. To ensure business excellence, objectives and goals must be feasible and attainable. The real issue for both the development and understanding of employee performance is to get employees involved in the creation of plans as well as in their execution. What is needed in Australian SMEs is to capture the

potential of the workforce to become involved in building sound relationships and, for this, it is necessary to have deeply held core values within the organisation. Hence, individuals must be inspired rather than simply respond to any initiative. Within the business arena, it is the inter-linking of the three elements of productivity, quality and high commitment/involvement that can form a triadic gain in both economic and organisational commitment terms.

The forces propelling organisations toward high performance management practices such as global competition, technology and rapid change, are not likely to fade soon. Success stories will prompt more and more companies to create a high performance management practices. As the high performance management practices of today's SMEs mature and evolve, they will face the challenge of renewal. A critical step in the implementation is one of the most difficult and least understood. It requires SMEs to be vigilant and forward-thinking learning organisations in order to be tomorrow's performance leaders. In Gillooly's words (1998: 15):

SMEs used to be referred to condescendingly by large companies as 'ankle biters.' Small businesses, until the recent advent of advanced electronic-business technologies, occasionally nipped at the heels of much bigger companies – but many often became little more than speed bumps to the behemoths of commerce as they steamrolled their way to greater and greater market share'.

A high level of leadership commitment to the change process is a key for implementation of effective organisational change (Bruce & Wyman 1998; Kotter 1996; Want 1998). Strong leadership is an absolute necessity for change to occur (Burke, 2001) and in its absence, there can be very little change (Shinn 2001). Astute leaders will be monitoring their environment including consideration of customers, capital markets, key supplies and suppliers, competitors, human

resource practices, changing government regulations and technology (Burke 2002). The multi-tasking requirements of the leaders in operating SMEs, may overcome their capacity to maintain this watching brief.

The significance of the findings of our research for SMEs is that they underscore the need to acknowledge that contemporary change models may on the one hand not apply to organisations in the size ranges considered in this study (Banham 2006). On the other hand, while the imperatives for high performance practices are no less significant for small and medium sized firms than they are for larger organisations, the specific needs of SMEs should drive the forms of high performance management practices. Large firm solutions may not be appropriate. What the HR profession needs, is a more balanced approach to prescribing and researching management solutions; an approach with a greater emphasis on the SME sector.

SME managers may not be unaware of the links between these practices and organisational performance, which Huselid (1995) and others have proposed. In a study on the managerial assumptions of SME managers, McDonald (2006) found that three-quarters rely on their own experience as the primary source of their ideas managing their organisations. Even if they are aware of the advantages of these practices, they may still disregard them (Johnson 2000). A second reason may be that SME managers don't always view these practices as practical within the context of managing a small organisation. Third, the cost of implementing new practices is always an issue for SMEs.

A greater understanding of high performance practices may lessen the frustration that small business owners experience as the result of employee management problems. Furthermore, this added understanding of current high performance practices may also be useful in solving the problem that many small business owners may not even recognise their own failure to deal with people management issues. In other words,

regardless of their size, the reliance upon traditional work practices for SMEs may cause an intensification of problems as firms expand.

When we look at Australian SMEs, do we see a portrait represented by high or low performing management practices? While there are clearly examples of both extremes, the portrait we see is somewhere in between. The adoption by Australian SMEs of high performance practices may only be described as moderate, and in this regard the low application of participative practices in the context of low unionisation and a low incidence of collective relations, indicates that many SMEs need a make-over if they are to meet the demands of the market. It is evident from the findings in this study that high performance practices in SMEs stand to benefit from modernisation and improvement.

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