

High-Performance Work Systems in Small Firms: A British-French Comparative Analysis

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ABSTRACT

Analysis of a comparative dataset of growth factors within British and French small firms highlights clear differences in the adoption level and type of HPWSs and their association with performance. These findings have consequences for international HRM and the further study of different institutional settings.

1. INTRODUCTION

Over the past decades the underlying principle of the role that human resource management (HRM) policies and practices can play within firms is that those organisations that select and implement specific HRM policies and practices are able to develop sustained competitive advantage (Boxall, 2007). This premise, coupled with some early influential studies that attempt to explain how and why some firms may perform better than others (for example see Appelbaum *et al*; 2000; Huselid 1995 etc.), has led to a burgeoning range of empirical works on the performance enhancing effects of HRM. This preoccupation with high performance, often referred to as the 'high-performance paradigm', has developed into a dominant theme within the discipline (see Delaney & Godard, 2001; Fleetwood & Hesketh, 2008) as authors continue to search for the 'holy grail'. One of the central concepts within the paradigm, High-Performance Work Systems (HPWS), advocates that firms can implement appropriate HR arrangements and that it is these that contribute to success (Godard, 2004). Such an approach emphasises the integration of core processes such as strategy, innovation, flexibility and HRM (Paauwe, 2004).

With HPWS having been studied primarily as a model for large firms, more recently interest has grown as to its application at the small firm level. Whilst small firms have been shown to exhibit low levels of uptake of HRM practices, it has been posited that they may well be better positioned to reap the performance enhancing effects of greater levels of HRM and as such represent an unrealised opportunity (Way, 2002). Despite this, research on how small firms utilise HRM policies and practices for performance and growth is an underdeveloped entity (Drummond & Stone, 2007).

Furthermore, it is questioned whether firms should focus on their internal capacity (a resource-based perspective) or take into account their environment when developing a competitive advantage (Boxall, 2003). The importance of understanding firms' institutional settings, and how such mechanisms affect their actions and outcomes, has been recently renewed through theories such as New Institutionalism, with the opinion that it is these forces that drive homogeneity amongst firms (Paauwe & Boselie, 2003). New institutionalism is seen as a supplement to, rather than replacement for, the resource-based view of the firm (Paauwe & Boselie, 2003), bridging the gap between traditional 'inside-out' and 'outside-in' approaches. It is apparent that these issues are of particular interest to national governments with small firms being recognised for playing a key role as employment, value and innovation generators (BERR, 2008).

The purpose of this study is to undertake a comparative investigation into the incidence, nature and performance effects of HPWS in small firms. The central tenet running throughout the paper is how small firms utilise HPWS within differing institutional settings. To explore this we draw on a comparative sample of 348 British and French small firms. The paper is divided into four sections. First, we give a brief overview of the literature on the high performance debate in small firms and highlight particular differences in regard to their institutional settings. Second, we report on the study's methodology and the analysis methods employed. Third, we reveal our findings. We complete the paper with a discussion, limitations of the research design and suggestions for further research.

2. LITERATURE REVIEW

2.1 Human Resource Management and Performance

The HRM discipline posits a plethora of practices and policies that firms can utilise in the management and development of intellectual capital (Wall & Wood, 2005). Descriptions of HRM range from the simplistic 'hard' and 'soft' dichotomies (Forster & Whipp 1995) to various models that aim to take HRM to a more macro, strategically oriented level (Wright & Boswell, 2002). For the sake of space this paper will not explore each specific model (For a list of theories/models see Paauwe (2004), Fleetwood & Hesketh, 2008).

More recently, the concept of High-Performance Work Systems (HPWS) has been utilised from many theoretical perspectives, despite Paauwe's (2004) argument that HPWS mainly fall into the less

dynamic 'universalistic' approach. HPWS are conceptualised as a set of distinct but interrelated HRM practices that together select, develop, retain and motivate a workforce (Way, 2002; de Menezes and Wood, 2006) in a superior manner (Kerr, et al., 2007) leading to enhanced organisational outcomes. In general they are characterised by a set of managerial practices that serve to enhance the involvement, commitment and competencies of the employee (Osterman, 2006) by transforming employees from merely being workers into partners with employers, in realising company goals (Caspersz, 2006). While there is a growing body of evidence that certain types of HR practices are associated with high performance, the lists of effective practices vary widely and even contradict one another (Hiltrop 1996). Such practices are argued to occur in three 'bundles' although components of the bundles differ from author to author (Angelis & Thompson, 2007; Shih *et al.*, 2006; Sung and Ashton, 2005): high employee involvement practices, human resource practices, and reward and commitment practices¹.

Despite claims that innovative HRM practices can boost performance few studies have been able to show this empirically and fewer still have been able to systematically describe the manner in which HRM influences performance (Jayoram 1999). Evidence must also be weighed against substantial research on barriers to the adoption of high involvement work practices (Ichniowski et al., 1996); that practices are studied in a vacuum (MacDuffie 1995) and that the area lacks a clear theoretical framework (Forster & Whipp, 1995). Goddard (2004) suggests that claims of 'superior performance may be unwarranted' and that 'the problems of these systems may run deeper than proponents assume'.

2.2 High-Performance Work Systems (HPWS) and small firms

The HPWS, primarily a model of large business, is more recently being aligned with small firms. Successive UK governments remain committed supporters of the role of small firms in the economy, not only because the small firm ethos complements a political and economic philosophy, but crucially it is believed that they avoid the complex employment relations issues and conflicts inherent in large firms whose poor management had such a damaging effect on the economy in the 1970s (Marlow & Patton, 1993). Much of the success of HPWS in small firms is supposedly based on them being more innovative, informal, flexible, and in touch with their employees. Optimism continues to prevail with proponents arguing that small firms demonstrate HRM 'potentiality' despite highlighting the predominantly low uptake of HPWS at the small firm level (Drummond; 2007, Sels *et al.*; 2006, Way, 2002). As a result a number of common criticisms have been levelled at the above theories when transferred to the small firm setting.

Principally there is an acute shortage of research identifying and validating HRM practices in small firms, let alone the relationship between strategy, HRM practices and performance (Andrews & Welbourne, 2000). Whilst the need to improve skills and encourage innovation is seen as key to such models (Bryson et al., 2005), Andrick (1998) observes that innovation is inconceivable without accurate information. In this respect, small firms generally have fewer information sources, but in principle have a greater need for information. Some studies also make a strong case for managerial vision as a critical factor (Denton, 2006) and the presence of an HR manager (Kerr et al., 2007). Yet, Klaas et al. (2000) found that the costs of hiring a HR specialist on a full time basis are highly prohibitive to small firms. While many associate low level of HRM uptake lack to a finance or knowledge (Marlow & Patton, 1993), others argue that the biggest problem is the ability of convincing the owner to get on board with such ideas (Van der Wiele & Brown, 1998; Wilkes & Dale 1998). Managers, especially in small firms, may be limited in their ability to understand the sources of sustained competitive advantage (Lado et al, 2006) and lack the capabilities to develop HRM practice (Bacon and Hoque, 2005). Strategic considerations also need to embrace linkages to wider business issues (HR, IT, Marketing, etc. (Kearns 2003)), with firms being more likely to benefit from HPWS if they also pursue quality enhancing strategies (Angelis & Thompson, 2007). This runs counter to research that suggests small firms very rarely have any coherent strategy for managing employment relations (Scott et al, 1989;) let alone a strategy aimed at developing employee flexibility, commitment and trust. Therefore, clear questions are raised as to the extent that these alleged characteristics of small businesses exist and, if so, to what degree they are the intended outcome of an HRM style or emerge through management informality and limited channels for collective opposition (Marlow & Patton, 1993).

2.3 HPWS across borders

The apparent disparity in the productivity of firms within different national raises questions about the specific nature of a country's HRM systems and its impact on economic efficiency. Establishing a clear link between such HR systems and economic performance is a complex process due to the range of intermediating variables. Attempting to consider such factors is made more difficult by the fact that debates have raged over whether HR practices are converging or diverging. These debates mostly concentrate around determining whether national contextual, institutional or organisational issues are

more important in influencing management practices. It has been argued that all are important and that their impact on management practice will vary across different parts of the human resource system, but the key issue is to understand which parts affect what (Tregaskis, 1997).

There is no doubt that the UK and France have very different historical, religious, educational and political backgrounds (Ramirez & Fornerino, 2007, Almond, 2004). The demographic challenges faced by French employers (Cerdin & Peretti, 2001), the role of the state in determining training policy and employment legislation, the organisation of primary and tertiary education, and the professionalisation of management are just some of the areas likely to affect how HR is managed in these countries (Tregaskis 1997).

Despite French HR managers striving to adapt their firms through the adoption of unique practices, or practices similar to those implemented in other countries (Cerdin & Peretti, 2001), a large body of empirical research suggests that French HRM innovations/reforms are limited in scope and effect as a result of the detailed regulative environment and that HR is seen more as an effective administrative function (Cerdin & Peretti, 2001; Desmarais, 2008). This conclusion is based around the fact that HRM reforms are subject to immense conflict making it difficult to decipher what is happening. Four HR practices have been particularly identified as being influenced by the French institutional environment, being: career management; recruitment and selection; training; and compensation (Ramirez & Fornerino, 2007. Cerdin & Peretti, 2001).

In general, it has been found that UK firms are more likely to use a wider variety of practices, than French firms. Tregaskis (1997) argues that the diversity in the range of HR practices used by UK firms may, in part, be explained by the lack of standardisation in management education and the highly unregulated characteristic of the training market in contrast to their French counterparts. Firms with a formalised HR strategy were found to be more likely to adopt practices in line with the notion of HPWS than those with informal or no HR strategy, although HR strategy was less influential than the impact of national context.

Despite significant criticism being levelled at the high-performance paradigm (see Fleetwood, 2008; Godard, 2004; Wall, 2005; Wood; 1999), it continues to attract much attention (Guest; 2001). Given the limited knowledge of how HPWS are used within small firms, and the *a priori* gaps identified in the literature, the aim of this paper is to investigate the nature and performance effects of HPWS in small firms in comparative institutional settings. The following section describes the research and analysis methods employed.

3. METHOD

This paper concentrates on the HRM associated variables gathered through the survey stage of an EU funded comparative multimethodⁱⁱ research projectⁱⁱⁱ within the Cote d'Opale/Nord Pas de Calais (French) and Kent/Medway (British) regions. A sample of 2,000 small to medium sized enterprises (SMEs^{iv}) was provided via external regional bodies on either side of the channel. Firms were over five years in age and representative of all private industry sectors^v. A response rate of 10.8% (n=215) was achieved on the British side, with a 6.6% (n=131) response rate being achieved on the French side. Anecdotal evidence attributed the low French response rates to their preference for face-to-face meetings.

The survey included a wide range of growth related variables including firm strategies, HR practices, communication mechanisms, training and skills methods and performance measurement systems. The analysis utilises the three HPWS bundles aforementioned and included 38 work practice variables within this research^{vi}. Contextual variables regarding the firm and its environment were also used (e.g. age, ownership and international presence via exports, working hours etc.). In order to test performance effects, performance data was collected on growth in turnover and employment over a three-year period comparable with OECD (2008) definitions for growth.

3.1 Analysis techniques

Techniques used to analyse the data were selected in order to demonstrate the level of HPWS adoption and the variance of practices by country. Adoption levels were illustrated competently by investigating a unitary measure of HRM 'intensity' a similar method employed by others (e.g. Sels *et al*; 2006, Way; 2002). The measure within this study aligns firms against a configuration of 'best practices' across the three HPWP bundles. The initial approach taken to analyse variance at an individual HPWP level was based on a form of multivariate analysis known as multidimensional scaling (MDS). Differences in location of British and French firms were observed on a two-dimensional plane using this method however a coherent interpretation as to the reasons for these locations was not forthcoming (for in-depth description of the use and limitations of this analysis method see Mar-Molinero and Xie; 2006, Mar-Molinero and Mingers; 2006). As a result the authors used a binary logistic regression, which in this

context was equivalent to an analysis of variance. An automatic selection procedure was employed (the backwards elimination method based on the likelihood ratio). This analysis was able to show the probability of firms utilising various HPWPs as a function of being French or British.

4. RESULTS

Before presenting the results of the main analyses, the profile of respondents and distribution and adoption levels of HPWS by country will be summarised.

4.1 The profile of respondents

Eighty percent of respondent firms had less than 49 employees. British^{vii} responses mirrored the representative nature of the original sample taken, with predominant sectors including manufacturing, construction, wholesale and retail, and business services (incl. real estate, rental and business services). Firms were dominated by family ownership with three fifths (59%) of British firms and four fifths (78%) of French firms involving some level of family ownership. Such a high level of family ownership within small firms is not uncommon (IFB, 2008). Both French and British firms provide similar age profiles, with over 50% being greater than 20 years old. Those firms demonstrating higher levels of innovative work practices were more likely to be larger, older, and privately owned. Respondents were asked whether they had an individual whose sole, or part, responsibility was management of HR within the firm. Just over two fifths (n=94, 44.0%) of British small firms compared with nearly two thirds of French small firms (n=86, 65.6%) have such an individual.

4.2 The distribution of HPWP by country

Table 1: The distribution of HPWP adoption by country (%)

No. of practices	Britain	France
Under 10	42	71
10 or <20	42	24
20 or <30	15	5
30 or more	1	0

(British n = 213, French n = 129)

Table 1 highlights the distribution of HPWP by country^{viii}. The only direct comparison that could be found is that of Sung *et al* (2006) who generally find a greater level of HPWP adoption amongst their sample with just under two fifths (39.3%) of firms utilising 20 to less than 30 practices, compared with between 5-15% within this study. This may be explained by the fact that Sung *et al*'s (2006) study contained medium and large firms.

4.3 The level of HPWP adoption by country

The evidence displayed in table 2 illustrates low levels of uptake in all HPWS categories. These findings concur with other authors (Sels *et al.*, 2006; Way, 2002) that SMEs exhibit HRM 'potentiality' and that there is scope for implementing higher levels of HRM and HPWS. Despite such low HPWS uptake, significant differences were found in the level of uptake by small British firms using 16% greater levels of HR practices, and 11% greater levels of reward and commitment in contrast with French firms.

We tested whether this HRM intensity measure was associated with performance, equivalent to an additive approach (Guest, 2001). That is, does a greater level of adoption

Table 2: the level of HPWP by country

		Total practices	Mean	Uptake (%)	Difference
High-involvement	British	13	3.0	23	0.512
	French	13	2.9	22	
	All	13	3.0	23	
HR	British	15	5.3	35	0.00***
	French	15	2.8	19	
	All	15	4.4	29	
Reward & commitment	British	10	3.6	36	0.00***
	French	10	2.5	25	
	All	10	3.2	32	

Note: *** Significant to 0.01, ** Significant to 0.05, * Significant to 0.10
Differences were calculated using a non parametric statistical test because distributions are not normal

of HPWPs result in enhanced performance outcomes. To assess performance we use a firm's three-year average growth in turnover and employment to classify firms into two groups; 'growth' (incorporating high growth (15%+) steady growth (0-15%) categories) and 'no growth' (incorporating remaining the same +/-5%, steady decline (-0-15%), and rapid decline (-15%+) categories). A significant relationship was found

between HR practices, high involvement and reward and commitment practices and performance (growth in turnover) of small British firms. The significant relationship between high-involvement practices and performance was also found by growth in employment. No significant relationships were found in French firms.

From these results it is possible to conclude that British firms utilise greater levels of HPWS? Can we also conclude that British firms use similar practices to French firms? No, this is not evidence for this. In order to glean a more detailed picture of the differences in the HPWP practice by small firms we need to explore the variance at an individual practice level.

4.4 Correlation between HPWP adoption and country

All HPWPs were included in addition to particular characteristics of the firm and its environment that it was deemed would add further context to the analysis. The analysis took 20 iterative steps, the results of which are displayed in table 3. The analysis exploited 96.3% of the firms within the dataset (97.2% of British, 95.0% of French) providing results representative of the sample. Negative numbers are associated with British firms and positive numbers are associated with French firms. The larger the coefficient is the better this variable is at discriminating between British and French firms.

Table 3: Correlation between the HPWP adoption and country

	British firms		French firms	
	Significant variables	β / sig	Significant variables	β / sig
High-involvement			Quality circles	12.416***
			Culture/change programmes	9.945***
			Sharing info (notice board)	9.091***
			Strategic process innovation	6.223**
			Communication skills	5.322*
			Problem solving skills	3.997**
			Team briefings	2.769**
Human Resource			Teamwork	2.207**
	Harmonised conditions	-11.696***	Strategic employment practices	19.383***
	Strategic skill development	-11.433***	QMS (ISO 9000)	5.452***
	Strategic quality improvement	-9.743***	Quality control skills	4.093**
	Staff induction	-9.223***		
	Staff appraisal	-8.744***		
	Formal recruitment & selection	-7.574***		
	Selection testing	-5.203		
Reward & commit	Equipment operation skills	-2.011**		
	Employ share options (ESOP)	-12.054***	Staff job satisfaction	7.071***
	Labour turnover records	-8.211***	Internal promotion	5.583***
	Absenteeism records	-3.817***	Job security	3.103**
			Formal pay system	2.976***
Other			Performance related pay	2.112*
	Reliability/time mgt training	-8.041***	Productivity records	3.667**
	Health & safety training	-6.577***	Export	3.398***
	Long working hours >35hrs/wk	-6.571***	Business strategy	2.654*
	Customer service training	-3.865***		
	Communicate by email	-3.264**		
	Skill development is important	-3.040***		
Communicate through mgrs	-1.919*			

Note: *** Significant to 0.01, ** Significant to 0.05, * Significant to 0.10

- High-involvement practices

French small firms were found to exhibit a range of high involvement work practices placing particular emphasis on taking a strategic route to process improvement/innovation. This approach is further demonstrated through the involvement of employees in decision making through quality circles and teams, and the provision of skills development for communication and problem solving to enable employees to contribute to such areas. In contrast, no variables were found to discriminate British small firms.

- Human resource practices

As previously highlighted, British small firms were found to be utilising almost twice as many HR practices in comparison to their French counterparts, however it is the nature of such practices that is interesting. British firms were more likely to report the use harmonised terms and conditions and a set of common HR practices including selection testing, formal recruitment and selection, induction and appraisal. British firms also highlighted the importance of quality within the business strategy, but appeared less likely than French firms to be accredited to a quality related standard (i.e. ISO9000). Additionally, whilst British firms recognised the importance of skill development within the business strategy, such development appears dominated by a task focussed approach (i.e. equipment operation). This is in contrast to French firms who demonstrated a greater importance of quality related skill and accreditation, as well as the development of HR policies and practices, which would appear to support their high-involvement approach.

- Reward and commitment practices

The findings within the reward and commitment HPWP bundle would appear to strengthen the aforementioned outcomes, with French firms more likely to place greater importance on employee job satisfaction, pay and reward systems and internal promotion opportunities with such practices known to reinforcing job security. In contrast, whilst British firms placed greater importance on high level assessments of employee satisfaction (i.e. labour turnover and absenteeism records), apart from Employee Share Options (ESOP), less of an emphasis would appear to be placed on employee relations practices to engender higher employer commitment.

- Other contextual variables

A number of other contextual variables were included to strengthen the findings. As can be shown, British small firms reinforced the importance of skill development, but compounded the notion that such skills are largely statutory (e.g. health and safety) or task related (e.g. customer services skills, reliability and time management). Communication within British firms was more likely to occur on an individual level through managers or via email. Long working hours were also demonstrated. French firms in contrast are more likely to record productivity levels inline with the quality emphasis highlighted previously. The importance of exporting and a possessing a business strategy was also evident in French firms.

5. DISCUSSION & CONCLUSION

The purpose of this paper was to investigate the comparative differences in the nature and performance effects of HPWS in small firms with comparative institutional settings. The paper was informed by a broad definition of an HPWS that covered three categories high employee involvement practices, human resource practices and reward and commitment practices (Sung *et al*, 2005) and provided the opportunity to classify 38 practices into three broad bundles. A range of supplementary firm characteristics were also noted to add further context to the findings. A welcome introduction was made to the results through analyses of respondent profiles, and the distribution and level of practice adoption by country. These findings demonstrated low levels of HPWP adoption within British and French small firms in line with previous findings (Sels *et al*; 2006, Way, 2002, Zheng *et al*; 2006).

Despite there being comparative evidence of higher overall levels of HPWP adoption within British firms it was the nature of individual practices that provided the necessary clarity. French firms appeared to take a more strategic and integrated approach placing importance on productivity and low working hours. These guiding principles were reinforced by an emphasis on employee team working, involvement in decision making, and reward mechanisms to monitor and engender employee involvement and commitment. In contrast, British firms were less likely to implement involvement related practices and placed significantly more emphasis on implementing a common range of human resource practices dominated by recruitment, selection and induction practices. Despite highlighting the importance of quality and training, British firms appeared to place greater significance on more task-related skills issues. Additionally, few reward and commitment oriented principles were adopted by British small firms.

From the research evidence it is apparent that such differences between British and French small firms can be allied with previous theoretical and empirical works and is likely to reflect some of the differences in national systems. The approach taken by French firms would appear to place greater importance on the development of labour within the firm for competitive advantage, akin to an 'inside-out' approach, exploiting the heterogeneous nature of firms. A stakeholder approach may also be evident through the involvement and development of employees for involvement and decision making. There would appear to be clear disparity between this approach and that of the British small firms within the

sample. British firms appeared to be focussing on practices that allow for the correct selection and recruitment of skills from the external labour market. This approach is compounded through firms' approach to skill development which is statutory or task focussed, with little or no appreciation for employee involvement. If this were intentional and rational a strategic decision making style should be presupposed. Clear evidence however was found of the disparate nature of practices implemented by British firms, denoting a lack of strategic understanding of how such practices interact and contribute to the goals of the organisation. Consequently another explanation proposed is that British firms may be seeking to imitate the practices of larger firms in response to national government 'best practice'.

6. FUTURE RESEARCH

This paper has provided an important contribution in understanding the nature of HPWS in small firms and the effect of institutional settings. These findings strengthen support for more detailed research in this area with such work able to provide greater insight into how British firms may close the productivity gap with their international counterparts. Particular limitations do exist within the survey findings. The use of single informants and self reported organisational outcome measures may provide a level of response bias. The research also used relatively small comparative samples and only studied British and French firms so may not be generalisable to other settings. The measurement of practices through a dichotomous scale of presence has also been called into question. In response, appeals resound within the paradigm for further 'black box' oriented studies that investigate in greater detail the ways in which practices are implemented and enacted in particular settings (see Boselie *et al*, 2005; Drummond; 2007). It has been proposed that themes such as a firms 'climate' (Bowen & Ostroff, 2004) and the role of line managers may add noteworthy context to the processes at play. In response to this plea the authors will aim to develop these findings through further qualitative interpretation contained within the personal interview and detailed case study data collected as part of this project, and as a result move from towards a more explanatory perspective (Fleetwood, 2008).

7. REFERENCES

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ⁱ See the following for the individual practices: Blasi & Kruse, 2006; Drummond & Stone; 2006, Godard; 120, Osterman, 2002.

ⁱⁱ The project involved surveys, personal interviews and detailed case study research.

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^{iv} Commission Recommendation 2003/361/EU concerning the definition of micro (0-9 employees), small (10-49 employees) and medium-sized enterprises (50-249 employees).

^v SMEs were classified in accordance with the Standard Industrial Classification (SIC) 2003 two-point system.

^{vi} For the full list of variables please see the full working paper at www.kent.ac.uk/kbs/ecg

^{vii} At the time of writing this paper the French sectors had not been coded so any analyses against this variable has been omitted.

^{viii} For a more detailed report on the incidence of HPWPs in British and French firms see the full working paper.