

HIGH PERFORMANCE WORK SYSTEMS IN SMALL BUSINESS

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Abstract

The paper will be examining the topic of high performance work systems and their application to small business. The concept of high performance work systems is not a new one but most of the existing material is concentrated on its use in larger organisations. It is not known how widespread the use of HPWS has been in small business or whether its application has been modified in some way to account for the different requirements of small business.

In 1996, Bacon, Ackers, Coates and storey made a significant contribution to the work through a study based on small business in Leicestershire, England. It is planned to try to broaden the base of their work by looking at some of the contingent factors, such as different stakeholder interests, that might influence the rate or style of take-up of HPWS in small business. A review of related literature will be given. It is intended to try to build a picture of "typical" small business usage of HPWS, if there is such a thing, and to speculate why it may have so evolved. Although beyond the scope of this paper, it is planned to research small business in the Latrobe Valley to examine the validity of this model.

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INTRODUCTION

It verges on being clichéd to say that firms small and large are coming under intensifying competitive pressures that show no signs of abating. Industry deregulation, global flows of “fast” currency that destabilises domestic exchange rates, tariff reductions/trade liberalisation and ever-present corporate predators are combining to ensure that businesses are under constant pressure to survive (Appelbaum, Bailey, Berg & Kalleberg, 2000). In the knowledge that competitors can soon enough duplicate physical and financial advantage, practitioners and researchers have been turning to the uniqueness of human resources as a possible means of obtaining sustained competitive advantage for firms (Barney, 1991; 1995).

One response to these pressures has been the development of High Performance Work Systems (HPWS), known also as High Commitment Management (HCM) (Hutchinson, Purcell & Kinnie, 2000, p.63). HPWS are intended to be a more systematic and strategic approach to human resource management with the aim of “getting more from workers by giving more to them”(Baron & Kreps, 1999, p.189). Well-designed HPWS allow employees to gain a deep understanding of their business and then apply that knowledge with skill and judgement towards the achievement of success for the business (Baron & Kreps, 1999). To date much of the research on HPWS has centred on their application to larger businesses, while comparatively little is known about their use by small business (Pfeffer, 1998; Wyer & Mason, 1999). This paper will examine the relevant literature about HPWS in small business and propose a research question.

BENEFITS OF THE COMMITMENT BASED APPROACH

The drive for the use of contemporary human resource practices stems from a widely held belief that belief that “HR practices can influence organisationally relevant outcomes such as productivity and profitability”(Delery & Doty, 1996, p.802). In particular, “employee involvement or participation or some form of delegation has received much attention as a possible means to organisational success” (Wyer & Mason, 1999, p.180). This is because the cost and complexity of doing business has considerably increased and it has become important to harness the synergies obtainable from thinking and engaged workers. The unique blend of skills and problem solving abilities that can emerge from such an approach can be a source of sustained competitive advantage if they are valuable to customers and not easily obtainable elsewhere (Barney, 1995). Further, these effects can be leveraged if tailored to specifically complement an organisation’s strategy (Delery & Doty, 1996).

The quality of labour/management relation improves under a commitment-based approach. Instead of being potentially adversarial in nature, the commitment-based model allows more co-operative labour management relations to emerge, as the old “them and us” scenario gives way to an arrangement where both employers and employees can benefit. The firm puts itself in a position of being able to enjoy the creativity, ingenuity and problem-solving skills of its workers, having given them the information, skills, incentives and responsibility needed to make decisions essential for innovation, quality improvement and rapid response to change. (Kling, 1995). Indeed, Godard and Delany muse that perhaps this kind of arrangement has to an extent rendered traditional collective bargaining obsolete (2000).

EVIDENCE OF HPWS BENEFIT?

In an attempt to find evidence for this argument, researchers Macduffie (1995), Arthur (1994), Becker & Gerhart (1996), Huselid, (1995) and others have conducted independent studies that show a positive link between HPWS and firm performance. These authors define HPWS as strategically oriented HR that “generally includes rigorous recruitment and selection procedures, performance-contingent incentive compensation systems, and management development training systems linked to the needs of the business” (Becker, Huselid, Pickus & Spratt, 1997, p.39). Ulrich notes there are many different combinations of HPWS elements advanced by different authors, which of course has affected the outcomes of their research (1997;

Kling, 1995). As Farias and Varma note, “the holistic nature of HPWS ... makes empirical studies difficult ... comparisons and generalisations often difficult to defend” (1998, p.51).

Huselid and Becker (in Becker *et al.*, 1997, p.464) have tried to measure the overall effect of “bundles” of HPWS elements on firm value, consistently finding a significant benefit. They make the point that it doesn't matter that there are so many different variations because the correct application of HPWS principles needs to be highly idiosyncratic, comprehensive and tailored carefully to the needs of the individual firm (Becker *et al.*, 1997). If an “ideal” HPWS could be obtained by just benchmarking competitors, then it would be unlikely to provide a source of sustained competitive advantage. Sustained competitive advantage is only generated from resources that are unique, valuable, inimitable and not able to be readily substituted (Wright & McMahan, 1992). Despite that, Becker and other leading researchers argue that some HR practices are always better than others and all organisations should adopt these best practices (Becker *et al.*, 1997; Delery & Doty, 1996). Pfeffer has argued for greater use of management practices “such as participation and empowerment, incentive pay, employment security, promotion from within and training and skill development” because they almost invariably result in higher profit and productivity (in Delery, & Doty, 1996, p.803). The “fly in the ointment” is that nobody appears to have found direct evidence of *how* HPWS creates value (Becker *et al.*, 1997).

IDEOLOGICAL ISSUES

Despite the claimed advantages, and despite the apparent evidence in favour of the use of HCM practices, it seems not everyone is wholly convinced, particularly British authors such as Guest, (1999) and Wilkinson, (1999). This suggests that national culture and the established pattern of employment relations may influence the extent to which HPWS will be implemented. Black (1990, p.389) has concluded, “The national culture plays an exogenous determining role in the adoption of HCM practices, with the result that the globalisation of HCM practices should be undertaken with sensitivity”. Guest, (1990a, in Black, 1999, p.389) has said that the HCM model is more likely to be applicable to a country “with its roots in the ‘American Dream’ [of freedom, and striving for individual success]. Wood (1995a; 1995b; 1996a; 1996b, in Black, 1995, p.390) has found evidence of the systematic and strategic adoption of HCM principles in British manufacturing. Perhaps this is not surprising, as globalisation must also mean a blurring of clear cultural boundaries. Not only that, demonstrated financial payoff must make a strong incentive for more progressive management to attempt to implement HCM.

Godard & Delany (2000, p.484) are non-committal about HCM's benefits. If it is so valuable, they say, it could be expected to find HCM in wider use [in Britain], but the fact is that available evidence suggests it has spread unevenly. They have found that “most employers have experimented with some of the innovations but few have adopted a full system of these practices” (2000). This may be because a full program of HCM/HPWS can be costly and difficult, worthwhile only for the large organisation able to spread the costs effectively (Godard & Delany, 2000). Baron & Kreps say that HCM is hard work, stressful for line workers, can threaten middle managers and first-line supervisors, and even if successful, needs constant attention, which can add to organisational overheads (1999). Against that, a successful implementation of HCM can help attract higher calibre employees, creating greater potential for the building of sustainable competitive advantage (Baron & Kreps 1999; Barney, 1995)

The real reason British authors have qualms about the claimed benefits of HCM practices is that they believe the perspective has been too narrow. Godard & Delany observe that there has been a preoccupation with performance outcomes, and “surprisingly little reflection on either the underlying tenets of the new paradigm or its implications for the future of the field” (2000, p.483). Guest argues, that the studies showing a reported link between HPWS and performance are “both provocative and somewhat unsatisfactory” in that they provide compelling evidence for the adoption of HPWS, but are not able to explain the reason for its apparent success (1999, p.10). Guest's other misgiving is that the HCM model is not truly accommodating of perspectives other than management's, that it has a “highly unitarist perspective ... [which] denies the legitimacy of alternative perspectives” (1999, p.6). In fact [of the “new” HRM generally] he says

“It either perceives workers as human resources to be exploited, with implications for exploitation through work intensification, downsizing and the general potential for disposability; or it claims to place the concerns of workers at the heart of analysis and action, but in fact does so only to exploit workers through a subtle management of their mind-set and by constructing for them a new reality reflected in organisational culture”

(Guest, 1999, p.10)

It seems intuitive that a workforce could only “commit” to this model of HR management, if in meeting the organisation’s needs, their own are also met. If they feel as Burawoy did (1985, in Sisson, 1999, p.455), that “the ... model [is] nothing more than a confidence trick designed to roll back the achievements of collective bargaining and legal regulation in establishing a floor of employee rights”, then of course the model will fail. To be effective, the model must follow the principles of motivation laid down many years ago by Herzberg (1959), Maslow (1954), Vroom (1964) and others. The intelligent manager will know that job design, participation mechanisms, reward systems, skills acquisition programs and job security can be designed in a way that engages individuals and meets their needs, increasing the possibility of more enthusiastic performance which will benefit the organisation also (Baron & Kreps, 1999).

Feedback from employees is mixed. Guest (1999) has examined the relationship between HR practices and employee outcomes. He has found that where more progressive HR practices are in place, workers report more positive outcomes, particularly where practices are used in combination rather than when unrelated. These workers reported greater satisfaction and their behaviour reflected greater organisational commitment and organisational citizenship (Guest, 1999). Against this, Scott (1994) and Edwards & Wright (1998) (in Guest, 1999) report that although individuals might derive benefit from greater involvement in their work, this didn’t necessarily translate into organisational commitment, either because of the limits of the intervention or because of scepticism of management motives. In this case workers went no further than offering compliance. Clearly, token or ill-conceived HCM programs are unproductive and potentially damaging to employment relations. Much would seem to depend on apparent management sincerity or lack thereof (Undy & Kessler, 1995, in Bacon, 1999 p.1181).

HPWS IN THE SMALL BUSINESS SETTING

As will have been appreciated from the foregoing discussion, much of the body of knowledge developing around the concept of HPWS has been based on larger organisations. For example, “Current ideas of best practice and high commitment management systems have tended to ignore small organisations” (Pfeffer, 1998, in Wilkinson, 1999, p.206); “...scholars are lamenting the dearth of information about human resource management practices in SMEs” (Heneman, Tansky & Camp, 2000, p.11). Much of this knowledge gap has arisen because of the difficult nature of the research itself, including “definitional problems, number and diversity of firms, standard error margins in the classification and conceptualisation of research samples and access/data collection difficulties” (Matlay, 1999, p.285). On top of this, the unique characteristics of small business mean that findings from the body of research developed for larger organisations may not be equally applicable to small business (Wyer & Mason, 1999; Wagar, 1998; Heneman, Tansky & Camp, 2000). In fact, Wyer & Mason warn us that empowerment methods used by successful small businesses are not likely to be “fully reflected in current empowerment literature” (1999, p.181) They will have been developed to meet particular needs and circumstances not faced by bigger organisations, but very little is known about the nature of this development, so such knowledge must be built up before SME-specific theory can be propounded.

THE BACON, ACKERS, COATES & STOREY RESEARCH

In 1996, British researchers Bacon, Ackers, Coates & Storey set out to examine the use of HPWS in small business and were somewhat surprised at what they found, - a “surprisingly high take-up and awareness of new management ideas among small business managers” 1996, p.82). They knew that “new” HRM (employee involvement, devolution, information sharing, performance related rewards and such) had been applied to large, mainstream companies for about ten years but did not expect that this would be common in

small business. Common consensus had predicted “bleak house” conditions of direct management control, little training, poor terms and conditions and high turnover (Bacon *et al.*, 1996). These findings will be discussed in more detail later.

PRIOR RESEARCH

The Bolton Report, (1971, in Bacon *et al.*, 1996) viewed small business employment relations positively. It reported that despite lower pay, workers, generally enjoyed “more interesting work and satisfying social relations with colleagues and superiors” (1996, p83). This optimistic view further contended that small business offered the advantages of “group working, direct communication, working rules to suit the individual, a more direct relationship between individual effort and the aims of the organisation, more varied work roles, low labour turnover and infrequent industrial dispute”(1971, in Bacon *et al.*, 1996, p.83)

Later authors, Curran & Stanworth (1979); Scott, Roberts, Holroyd & Sawbridge (1989); Rainnie (1989) (also all British, in Guest, 1999) were not so positive, noting varied patterns of social relations, higher labour instability and turnover and an often unitary view of authority held by managers. Even though relations were generally informal, it did not necessarily mean there was much scope for employee involvement. The work by Hornsby & Kuratko (US) in 1990 showed a pattern of concern by small business owners for personnel matters, but by and large an ignorance of modern approaches, which tended to lead to an intensification of problems as firms grew in size.

Marlow & Patton, (1993) had found many of the small businesses in their survey did not engage in strategic HRM with the goal of building competitive advantage, and in fact were sometimes openly sceptical of a professional approach to HR management. This attitude may damage the prospects of their businesses as Marlow & Patton have found emerging evidence that effective management of employees is likely to be a good predictor of the survival of small firms.

Against this backdrop, Bacon *et al.*, (1996) began their research. They note the work of Guest (1995), Sisson (1995), Legge (1995), and the 1992 Workplace Industrial Relations Survey (WIRS) which show that HRM practices were hardening and labour was being viewed as a factor of production. Any evidence of “new” HRM practices was found in larger, unionised workplaces and small businesses were thought to conform to the “bleak house” employment relations scenario of “direct management control, poor terms and conditions, high staff turnover and little training” Bacon *et al.*, (1996, p.82)

Starting with 560 companies in Leicestershire, their initial results showed that “to a remarkable extent, small organisations had experimented with new approaches such as culture change, devolved management, teamworking, flexibility and quality task forces” (Bacon *et al.*, 1996, p.83). Not only that, those organisations had often sustained the initiatives and reported noticeable benefits. Among those 560 respondents had been 95 small employers (15-24 employees) and 134 small-medium employers (25-199 employees, covering a range of industries. Their questioning reduced to 11 key initiatives, the results for which are reproduced below.

Table 1: The Implementation of the new management agenda by organisations employing 15-24 and 25-199 employees

	Initiative Employed %		Initiative Sustained %		Considerable Contribution To Objectives %	
	15-24	25-199	15-24	25-199	15-24	25-199
A culture change programme	23.2	18.7	54.5	80.0	40.9	72.0
Devolved management	56.8	54.5	81.5	75.3	61.1	61.6
Teamworking	74.7	76.9	83.1	89.3	69.0	70.9
Performance appraisals	44.2	46.3	71.4	75.8	61.9	59.7
A mission statement	14.7	26.9	100.0	77.8	92.9	58.3
Team briefing	61.1	63.4	82.8	84.7	67.2	69.4
Quality circles	20.0	31.3	78.9	76.2	57.9	66.7
Harmonised terms/conditions	33.7	40.3	96.9	92.6	65.6	63.0
Psychometric tests	3.2	5.2	0.0	14.3	0.0	0.0
De-layering	8.4	14.2	50.0	68.4	37.5	68.4
Increased flexibility b/w jobs	73.7	74.6	82.9	89.0	64.3	79.0

Source: Bacon, Ackers, Storey & Coates, 1996, p.86

Teamworking and increased flexibility between jobs stand out as popular and sustained initiatives. Psychometric testing and de-layering failed to excite, arguably because SMEs are inherently flexible and informal (Bacon *et al.*, 1996). The findings suggest “the new management agenda has penetrated deep into the UK economy” and that innovative employee relations practices are no longer restricted to large, mainstream companies” (Bacon *et al.*, 1996, p.87).

Further case studies on 13 of the companies were conducted to test the results, and revealed an important amount of over-claiming, only 6 of 11 firms claiming 5 or more initiatives having done so in practice (1996, p.88). In particular, teamworking, performance appraisals and harmonised terms and conditions had been over claimed, indicating significant differences of interpretation (Bacon *et al.*, 1996, p.90). Nonetheless, the authors felt that the results showed employee relations were undergoing significant change. If anything, the results seemed to indicate a move from an ad hoc culture to a more structured and formalised (“professional”) approach, which the authors felt was intended to complement existing informality than replace it (Bacon *et al.*, 1996, p.90).

Authors’ conclusions (Bacon *et al.*, 1996)

- “Bleak house” not universal
- Change in control to professional managers offers chance for change from founder influenced patterns
- Introduction of professional managers - change agents
- Some professional management development evident
- Growth precipitated the need for increased formality and structure
- Pressure from customers - standards accreditation (informal where possible)
- Pockets of managers isolated from the “new management agenda” (new ideas)

Factors contributing to “bleak house” conditions (Bacon *et al.*, 1996)

- Workplaces where managers rely upon practical experience
- Family owned companies and not yet large enough to need professional managers
- Those managed by people with limited career experience outside the family firm
- Those firms most resistant to change were those in which a family kept firm control - professional managers regarded with suspicion in these companies
- Small firms less likely to have the resources, technical knowledge and skills to implement large-scale change programs and the latest HRM techniques, but they are implementing change in a less formalised manner.

Final points (Bacon *et al.*, 1996)

- Small business potentially an ideal development site for HRM because: “communications are more direct, people have to work more flexibly, the impact of each employee on organisational performance is clearer ... greater insecurity makes the organisation more responsive to changes in market and customer demands”(1996, p.98).
- Change programs appear much more informal and organic.
- Change programs more easily achieved because of internal power structure.

OTHER RELEVANT CONSIDERATIONS

External Influences

McMahon (1996) found that variations in demand were coped with by overtime and casual labour, rather than by additional work method flexibility, which was already high. This flexibility aspect echoes the Bacon *et al.* (1996) findings. Additional numbers were recruited more readily in better times than let go in downturns (McMahon, 1996). Perhaps this is an indication of the more close knit relationships in small business, in turn leading to better job security, an important HPWS component. Rainnie (1989) and McMahon (1996) have emphasised how supply chain and competitor effects can dictate the profile of HR methods adopted by the small firm. If a small firm supplies much of its output to a large one, the latter will have considerable influence over the work practices of the former. For instance, emphasis on cost reduction can lead to a deterioration of working conditions, or the use of more advanced technology may be necessary.

Internal Influences

One of the possible reasons for the apparent workforce flexibility found by many small business researchers is their weakly unionised nature. Workers' ready “acceptance” of flexible work practices might sometimes be because they have no realistic alternative (McMahon, 1996; Rainnie, 1989). Instead, conflict arising from this and other issues might manifest itself in terms of absenteeism or turnover. Investigation of this should be included in the writer's proposed research.

Part of the profile of the HPWS profile is the provision of performance related pay. Evidence suggests this is not as widespread in small business as in larger organisations, where pay levels often markedly higher (Scott, 1989; Gunnigle, 1994, in McMahon, 1996). An exception to this is in high-tech firms, where owners are forced to “meet the market” if they wish to head off larger rivals (McMahon, 1996). Career prospects are of course more limited in the small firm, so opportunities to promote from within (an HPWS tenet emphasised by Pfeffer, 1994) are restricted.

The influence of the owner/founder is critical to whether HPWS is adopted (Baron & Kreps, 1999). The presence of a self-taught owner-manager and whether a family has tightly held an enterprise from inception are factors that make the introduction of high performance work practices less likely (Holliday, 1995; Bacon *et al.*, 1996). Even if they wished so, few small business owners can spare the time or money to invest in management development, so new HR ideas from this source may be few (Holliday, 1995). Much depends on the management skills and outside experience of the owner/manager, their leadership style, their motivation, attitudes, values and the nature of the task (Baron & Kreps, 1999; Wyer & Mason, 1999). In turn, the early history of a company built up under tight family or individual ownership acts to form a particular culture, which can be difficult to alter (Baron & Kreps, 1999). This bears out the Bacon *et al.* finding that such companies offer stony ground for the seed of HPWS in which to take root.

CONCLUSION

The study of human resource management in SMEs is to be encouraged. It is important both for business owners and the nation's economy that small business growth is fostered. Both researchers and owners recognise the importance of effective human resource management to the success of the small business

(Hornsby & Kuratko, 1990; Heneman, Tansky & Camp, 2001) but much work remains before a body of theory can be established which is of direct and practical relevance. Bacon, Ackers, Storey and Coates have laid some good groundwork in beginning to test for the presence of HPWS in small business.

Although the Bacon *et al.* initial findings are encouraging, further follow up is required. As part of a master's degree, it is planned to use this article as a basis for further research on SMEs in regional Victoria. If similar patterns emerge then it will help bear out the assertion that the use of HPWS is indeed growing in small business acceptance. Bacon *et al.* (1996) themselves emphasised the need to make sure respondents are clear on the intended meaning of the HPWS criteria used if unintentional over claiming (and result distortion) is to be avoided. Agreement on what constitutes HPWS elements is not something for which HR research has been noted (Ulrich, 1997; Baron & Kreps, 1999). It is planned to use additional criteria, such as those shown in Appendix 1 will be incorporated, as it is thought that these better reflect that high commitment should be a mutual arrangement for owners and employees. The Bacon *et al.* approach could be criticised for being too narrow in this regard, relying only on a management interpretation and not giving any weighting to employee perceptions, which should also be important to a balanced analysis.

It will also be important to gather and interpret material that gives context to the findings. Size is clearly an important factor influencing the adoption of HPWS initiatives but it will be important to sift through other information about supply chain relationships, technology, age of the business/presence of the founder, independence and more, as these can all affect the infiltration of new ideas. Further, some attempt needs to be made to look at effectiveness of the HPWS measures. A Kaplan & Norton-style "balanced scorecard" approach that tests the perceptions of main stakeholder groups is presently favoured (Ulrich, 1997). It is hoped these measures will "add some colour" to Bacon *et al.*'s black and white snapshot, giving us a little more progress towards an HR model for small business.

For the proposed research, the question to be asked is whether High Performance Work Systems are present in small business. If they are there, then what form do they take, and what are some of the influences underlying that development, for instance, industry, size and resources, owner ideology, level of independence, competitors, economic conditions, technology, to name a few? Is there a consistent pattern of HPWS mechanisms in small business, such that some generalisations can be made? Maybe their use of HPWS is actually very limited and they are still more or less the "bleak houses" referred to by Rainnie in 1989 (in Wilkinson, 1999, p.208). Maybe we will not be able to conclude anything at all except that there are as many approaches to strategic management of human resources in small business as there are owners.

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Appendix 1

Baron & Kreps' (1999, p.190) High Commitment Master List, from which to "pick and mix":

- Employment guarantees
- Egalitarianism in word and deed
- Emphasis on self-managing groups
- Job enlargement and enrichment
- Premium compensation, efficiency wages and superior benefits
- Incentive compensation based on team, unit or firm wide performance
- Extensive socialisation and training
- Extensive job rotations
- Extensive screening of prospective employees, emphasising cultural fit
- Strong emphasis on ownership, both symbolic and financial
- A strong culture of egalitarianism, often based on some superordinate goal
- Open channels of communication
- Open information about all aspects of the enterprise