
Employment systems in small firms: A multilevel analysis

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Source: *International Small Business Journal* (2013), **31**(4): 405-431.

ABSTRACT:

This exploratory study draws upon the perspectives of employees and managers from 50 small Australian firms to build a more complete and nuanced view of the interaction of human resources and capabilities with firm performance. Specifically, it uses a mixed methods multilevel design that elicits employee perspectives of employment systems and chief executive officer (CEO) assessments of firm performance. Results show that higher performing firms had better rated employment systems, with a cluster of human resource practices which included greater informality, employee engagement and participation. The views of employees were more discriminating and diagnostic than those of CEOs. The article discusses the implications of these findings for the study of employment systems and human resource management in small firms.

KEY FINDINGS:

Key finding from this study are:

- Teamwork and happiness of employees were found to be prominent in higher performing firms.
- Employees in higher performing firms were more likely to report as being engaged, contributing and committed, with key drivers being the policies, practices and systems that comprised their employment environment.
- In lower performing firms communication was a negative issue and unfairness was a factor that featured prominently. These employees were found to have a different perspective to those in higher performing firms over how human resources were managed, and reported lower job satisfaction and less commitment.
- Major differences were found between the employees and the CEO in relation to the firm's employment systems and the role that employees could play strategically.

IMPLICATIONS FOR MANAGERS:

- The introduction of formal HRM systems and performance management processes can risk putting too much distance between the CEO and the workforce as the business grows in size and complexity.
- The CEO of a small firm should avoid losing touch with the "informal" systems and processes that underpin the organisational culture and contribute to the performance of higher performing firms.
- It is important that employees have a "voice" in the way any HRM systems are to be designed and implemented, and an active participation in these systems. This will require a "balancing act" to resolve inherent tensions in the small firm's HRM system as it seeks to move from informality to formality.
- Employees seem to understand the HRM systems and have a more sophisticated view of them than many CEO's seem to understand or accept.