How to Organize Performance System in Small and Middle-Sized Enterprises (SMEs)?

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Abstract: This paper is devoted to possibilities and ways of organizing performance systems in small and middle-sized enterprises as well as constrains for applications of performance management in the enterprises related to their scale and special characteristics issued from it. Modern approach to performance management systems that includes specific methods, practices and policies which are applied to improve organizational effectiveness in the accomplishment of mission and goals mostly aims at large scale organizations. As for enterprises of small and middle size, there is common opinion that performance system in enterprises of this scale is not necessary or ineffective in the realms of its cost. Such attitude is doubtful considering the importance of small and middle-sized enterprises in modern economy, including both local and national economies of any region. This paper presents the detailed review of performance system role in enterprises of small scope, analyses ways of such organization on the example of two small and three middle-sized enterprises and, as a result, gives recommendations on successful implementation of performance system into enterprises of this type.

Keywords: Performance Management, Human Resource Management, Performance Management Systems, Small And Medium-Sized Enterprises.

I. INTRODUCTION

For many years the problem of managing resources of the company with the aim of the most effective accomplishment of business goals was the topic of interest for many scholars around the world. The vast majority of researches in this field proved the positive relationship between applying to performance management systems and enterprise performance effectiveness, suggesting that performance work systems incorporating a range of practices such as selective hiring, extensive training and employee involvement will impact positively on business performance [1]. Unfortunately, most of the scholars’ attention was drawn to functioning of performance management systems in large scale enterprises [2]. Roots of these problems lie in the underestimating the role of small and middle-sized enterprises in the local and national economies around the world and opinions that for small and middle-sized enterprises performance systems are ineffective because of their cost or even unnecessary due to small scale of the enterprise [3]. Another problem of applying performance systems for small and middle-sized enterprises is existing understanding of differences between these enterprises and enterprises of large scale as the difference only in scale. The assumption that small businesses must be managed according the same principles as the large businesses are managed appears.

Despite the fact that both of these assumptions are pretty arguable (effectiveness of applying performance systems is revealed from practice and difference between large scale enterprises and small and middle-sized enterprises lies not only in difference in turnover and quantity of employees but also in recourse opportunities), human resource management issues, for example selection, training and development of employees and performance appraisal in small and middle-sized enterprises was often ignored not only from theoretical point of view, but also from practical, or applied in the ineffective way. Nowadays, rising levels of competition among not only large scale enterprises but also smaller ones and growing potential of these enterprises for the economical system (for instance, in UK small and middle-sized businesses are accounted as 59% of private sector employment and 48% of private sector output [5], require development of theoretical and practical studies in the field of organization of performance management systems in small and middle-sized businesses, which can help managers of such companies with solving productivity issues and lead to faster development of companies.

The topic of organizing performance management system in small and middle-sized enterprises is relatively poorly researched area, for example, from 1984 till 1999 only 17 articles on this subject were published in academic journals [6]. On the other hand, during last decade more researches on this topic issued, which confirms importance and research perspectives of the researched area.

The aim of this paper is to discuss importance of performance systems in small and middle-sized enterprises, examine perspectives of organization of performance system in such enterprises and suggest the effective way of performance system organization.

II. THE STATUS OF PERFORMANCE SYSTEM IN SMEs

Before addressing directly to the topic of the research, we suggest defining the main concepts that we are going to address in the research. The research is devoted to the performance systems in small and middle-sized enterprises. Talking about precise definition of SMEs as a class we have to mention that definition varies from country to country and in some cases varies by industry. We suggest relying onto the European Union definitions, which takes into account staff headcount and enterprise’s turnover. According to this definition, medium-sized business is the business with 250 or less employees and turnover equal or less than 50 million euro; small business is the business with less than 50 employees and turnover equal or less than 10 million euro;
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Businesses with less than ten employees and turnover less than 2 million euro are defined as micro-businesses [7]. There is also wide range of performance systems definitions, each of them paying attention to one or few specific characteristics of the high performance work system. For example, Noe et al. give very general definition of high-performance work system (HPWS), "It is the right combination of people, technology and organizational structure that makes full use of organization’s resources and opportunities in achieving its goals". To understand clearly what is HPWS we should understand each of its elements. On the next figure the elements of HPWS and connections between them are shown. Except for clear understanding of all elements of high performance system we should also understand that all of them in complex must work in accordance with business goals and lead to the rise of performance quality.

![High-Performance Work System](image)

**Figure 1. High-Performance Work System**

There are numerous researches devoted to the design of the performance systems. Though, most of the researches on this issue studied large scale enterprises, whereas little attention was paid to small and middle-sized businesses. Among researchers who paid attention to SMEs there are Carlston, Faems, Heneman, to results of whose researches we will address. Most of the researches address to the small and middle-sized enterprises as a single category, although there are some researches, who choose small businesses as the subject defining them as businesses with less than 100 employees. Still, even this approach tends to address SMEs as the single category.

As for issue of importance and usefulness of performance systems in small and middle-sized businesses, there are usually two arguing theoretical perspectives. The first supports “best practice” approach, which supposes that use of HPWS practices (such as selecting hiring, employee involvement, extensive training) and incorporating performance system into business organization in any case will bring its benefits to the enterprise performance [2].

It is said that due to labour intensity of small and middle enterprises (which is often higher than in large businesses) they require appropriate HPWS [14]. The other issue that confirms importance of HPWS for middle-sized and especially small businesses is their resource constractions which make it difficult to manage labour force turnover, what in turn leads to necessity of minimizing such turnover. Moreover, financial constrains lead to more attentive and effective implementation of finance, which makes HPWS in SMEs even more useful [13]. There are researches to find positive relationship between implementation of high performance work system and enterprise profitability [15], [16], rise of labour productivity, increase of sales growth etc [17]. The other theoretical perspective is “best fit”, which suggests that performance system is useful for the business only up to definite size of the enterprise. Baird and Meshoulam, authors of Organisational Growth and Development (OGD) lifecycle model suggest that influence and, thereby, importance of implementing the performance system increases along with the enterprise size increases.

There are some arguments to support such point of view. For example, Baird and Meshoulam notice that in small businesses control, hiring, communication and all the other elements of performance management are tend be conducted by owner themselves via personal interaction with employees. Relying on this observations, some of the researchers, such as Chadwick et al., Kotey and Slade, believe that HPWS are not necessary and even bureaucratic and will not bring much benefit. On the other hand, when business growth, it becomes more difficult task for owner to control everything personally, and at the same time more problems connected with coordination and control, which brings necessity of high performance work system implementation to make sure that all the employees are treated fairly and tasks are completed fully and in time. This opinion is supported by such researchers as Baird and Meshoulam, Kotey and Slade, Messersmith and Guthrie. Thus, even for middle-sized businesses HPWS will be more effective than for small ones. Hence, such researcher as Faems and Way didn’t find much positive impact of HWPS on the SMEs, but noticed that costs of implementing the system were not covered by the financial benefits. Still, issue of implementing high performance systems in small and middle-sized enterprises is arguable and not fully-researched issue. Therefore, in the next part of our research we will look closer at specifics of implementing performance system in small and middle-sized enterprises and present examples of comparatively successful HPWS with their analysis and will make attempt to give recommendations on the organizing such system in SMEs. Still, it must be remembered that there is no way of creating single precise model of HPWS which could fit every single SMEs, all the recommendations must be taken into account considering the specifics of particular business.

III.THE PROBLEMS OF PERFORMANCE SYSTEM IN SMEs AND THEIR ROOTS

In the process of our research we will get acquainted with approach to organization of high performance work system in five successful small and middle-sized enterprises in US,
Trying to evaluate their experience and form common principles of organization such system in SMEs.

Relying onto positive perspective of using HPWS in SMEs, we have to admit that there are some problems we can face in process of constructing performance system in such kind of enterprises.

The first and main restriction is financial. Financial resource in small enterprises is so constrained that at times they cannot afford hiring HR manager, which means the lack of capability to develop performance system and use financial ways of stimulation employees, which is serious problem on the way of implementing HPWS in SMEs.

Also, the problem can be hidden in the specifics of communication in small or middle enterprise. Small scale of business makes performance system of a more personal character, which requires special cautiousness in both process of selection of employees and evaluating their performance. The main point here is that it takes effort not to make HPWS too bureaucratic as for small enterprise personal contact and chance to be heard may be more important than formal questions.

Another issue to be faced is slowing down fork force turnover, in other words, keeping the employees in the company which becomes one of the main reasons of implementing HPWS into SMEs along with the need to organize employees of the developing business. The thing is that due to the small scope SMEs cannot afford constant labour turnover without financial loses and loses in productivity which can be fatal for small enterprise.

Also, it should be mentioned that process of organizing high-performance system inside sector of SMEs can be different dependently whether it is small or middle-sized enterprise. The reason for such difference is that these enterprises are not only different in their size, they also stand on the different stages of development. Small enterprises usually go through the process of initiation, while middle-sized enterprises are on the stage of the development. Thus, the implementation of HPWS meets different requirements.

For the small enterprises figure of business owner is important not only because of his role of top-manager, but also due to the fact that usually on this phase of enterprise development he is responsible for all the performance details, including performance system. The problem here is that this sphere of management requires more knowledge in than business-owner is equipped with.

As for the middle-sized companies, their special feature is that it becomes too difficult for them to be owner-controlled, since too many responsibilities lies on him. The second issue here is that middle-sized enterprise requires new methods of task designing and control and even process of selection of workers now would be more difficult, since for the successful development and functioning of the business it is important to find balance between centralization that is classical for small businesses and decentralization that is inevitable for bigger enterprises. The other problem of performance system in middle-sized business is information sharing, since it becomes more difficult to supply each employee with up-to-date information. Generally, all the problems of implementing performance system to the middle-sized enterprise in comparison to small ones is its more complicated structures and more complicated methods of managing.

**IV. HOW TO SOLVE PROBLEMS OF PERFORMANCE SYSTEM IN SMEs?**

Few ways of solving problems of HPWS in SMEs exist. Talking about the specific problems of small enterprises, as for lack of knowledge in the designing and controlling performance system, one way is that HR specialist can be hired to design and control HPWS, which is often too expensive decision for small enterprise. The other way is for owner to develop his knowledge in this area. Employees themselves can be good help here. As we noticed before, small business is all about personal interaction, so getting advice and ideas from employees can be both good method of designing HPWS and one of its elements. Financial restriction in small businesses leads to the need of concentration on the non-financial ways of reward and creating of the most ergonomical methods of conducting all the necessary procedures, such as selection, training etc.

For middle-sized business the best way to manage performance system is to invest in hiring specialist in the area, even the HR-team of one can be enough for middle-sized business in case of good HPWS organization. To make the organizational structure and process of decision-making balanced, clear and logical department (or rather team) structure must be created allowing owner of the business except for direct communication, apply to the communication with teams representatives. The process of selection now must be conducted not only by the owner of the business or HR there is the one, but it must also be coordinated with the employees to be involved in the work.

In the next part of our research we suggest look deeply into the question of factors that can make performance system successful and applicable. Pfeffer presented seven factors that make HPWS successful, which may become the basis of our enterprise review [22].

The first one is worker’s security. Employee must be sure about their future. If stuff is not afraid of losing their job, they are able to think constructively and make any possible contribution to enterprise development. The other issue important for building successful performance system is selective employment. Right people with right qualifications must be employed at right position. On Pfeffer’s opinion, only enterprise with right personnel can achieve success on the market. After the employment important role in performance system creation plays training. In circumstances of professional growth provided employees tend to be more loyal to employer and feel more involvement in business development.

Next one is decentralized decision-making. Need to put considerable part of responsibilities for decisions on the employees, thus, they will understand clearly, how their work relates to the other employees work and how it affect company’s performance. Moreover, Pfeffer supposes that this strategy could remove unnecessary hierarchy layers.
from the enterprise organization. The other issue is status differences reduction. Employees feel they have common aim as long as they feel status equality. It leads to creation of communication channels. Continuing the topic of employees equality, the other factor is information sharing. Provision employees with up-to-date information makes them feel devoted towards the business they work on.

Performance-related compensation is the last but not the least factor to organize HPWS. Profit also can be instrument of performance system designing if employer uses correct ways of such stimulation, for example, award for high qualifications, percentage out of earning etc.

These factors are supposed to be general for enterprises of any scale. We suggest discussing and analyzing each of them in terms of its usefulness for HPWS in SMEs.

V. HOW TO DESIGN PERFORMANCE SYSTEM IN SMEs?

In this part of the paper we present examples of designing high performance work system in five enterprises from USA (two small and three middle-sized enterprises) and make attempt to analyse applicability of the suggested ways of solving problems of performance system and factors of creating successful HPWS.

The first company, which approach to performance system organization we looked into is Hindle power – middle-sized business (only 75 employees) manufacturing batteries from Pennsylvania. Their moto is “Workers are not the expense – they are value”. Such approach has something to do with most of the mentioned factors. Firstly, company invests in training and development of the personnel, which makes employees and employer mutually interested in each other. Moreover, one of the parts of training in this company is so called “Professional Manufacturing team”, where workers are offered to make their contribution to manufacturing process effectiveness, which shows successful use of the third factor. The other thing that Hindle power does to make employees feel appreciated is that there is no fixed time of work for employees. If they are needed by their families – they are free to go with their own responsibility to make up their presence to 97% of required, which makes employees feel more comfortable and stimulates them to use working time efficiently. Thus, in 2013 year, for example, company got 15% revenue growth, even in conditions of global economical decrease.

The next company that worth close attention is small enterprise Amy’s Ice creams from Texas. This company also relies on the personal involvement of employees. Since company does a lot of work for local charities, employees are offered to choose charities to support, and employees who get the most involved in such work get bonuses that stimulates their interest. Special attention must be paid to manner of selection employees. Since marketing approach requires energetic, bright and full of fun attitude to customers, Amy created her own way of selecting employees by giving them creative tasks that helps her understand if this particular person will make math to the team. Serious contribution to Amy’s business makes position of personal involvement. It is not only owner of a business selects employees herself, being acquainted and have ability to communicate freely with any of them makes of the basic principles of performance system in this company. By the way, this enterprise is good example of business owner successfully taking responsibility for human resource management [24].

The other business that goes the path is middle-sized company (currently it has only 67 employees, including 4 co-founders of the enterprise) from California called Chubbies, specializing on production of men’s shorts. The key to their performance management organization is company’s culture. In the process of hiring people, management pays attention not only to the professional qualities, but also to personal characteristics of the candidate, emphasizing that personal interaction inside teams and between them is very important for the company. Proving this position, performance system here is not restricted by the office hours, great attention is paid to off-work communication between employees. The other factor that finds its expression here is reduction of status differences and information sharing. Co-founders of the company are the equal members of the team with the same work conditions and requirements as any of their employees [25].

The example of the different idea of organizing performance system is Blur – powerhouse production company which is also based in California. It is middle-sized company, comparatively big – it consists of 95 full-time employees and constantly changing number of temporary project-base employees. In spite of its serious scope, company has only one HR manager who successfully coordinates work. It became possible thanks to the well-designed HPWS and confirms the thought that HR team of one is enough for middle-sized enterprise. The first special feature is that temporary employees here treated as well as full-time ones, which creates good base for company to continue cooperation with them in case of necessity. The other feature is great attention that is paid to feedbacks. After each project every team that was involved in work hold meetings to discuss successful and disappointing results of the work. Moreover, at these meeting not only team supervisor gives feedback to the employees, but there is also process of brainstorming to make list of new workflows, techniques and approaches that could improve work results and make working process more comfortable for employees, which is the example of well-organized information sharing [25].

The last enterprise which HPWS development is worth attention is SpotCo – ad agency from New York which faced performance systems lack on the stage of being small enterprise with 40 employees. At this point founder of the agency couldn’t control all the aspects of enterprise performance himself, therefore he made decision to invest into creating HPWS. In this company the main practices to use are the meeting of the employees with their managers and further feedback to the business owner, chance for the owner of the business to take part in such meeting to listen To employees opinions and share his ideas with opportunity for every employee to make their own contribution and
Ideas on methods of work. Thus, more sense of the equality among the employees was achieved, which has good outcome for the enterprise. Since, the business is connected with creativity, HPWS which leaves first impression of total formalism made great success in SpotCo creating the team of leaders looking forward to enterprises success rather than the team with one leader [26]. As we can see HPWS is different in every single enterprise and mainly based on the type of the enterprise, industry it is involved in and even the message it sends to society.

Taking into account all the received information we can say that all the general principles of HPWS organization and all the factors of creating successful HPWS can be successfully attached to organization of such system in small and middle-sized businesses. But, except for them, there are some peculiarities of organization of performance system in the enterprises of small scope, which we will present next:

The first that can help is versatility. Small-scale business requires not just well-trained employees but also employees who understand full cycle of companies production and can make full contribution to it, as it can be seen from Hindle experience.

The other issue especially important for small businesses is personal employee’s attitude to the business. Due to small size of the enterprise, personal communication and relationship becomes important factor in company’s success, since each of the employees plays important role in enterprise existence and is close to the image of the company, as it is clearly seen from Amy’s Ice creams and Chubbies examples, where company culture plays great role in performance organization.

Continuing topic of personal involvement into the business, role of the enterprise head-manager (owner) is the factor in small and middle-sized enterprise HPWS. It must be admitted that in small and middle-sized enterprises personal authority of the finder of the business (not only for employees but also for customers) makes great contribution to the success of the business and its development. Here the brightest examples is Amy’s Ice creams where name of the owner is not just name, but brand.

The last two features that seem to be important in the process of organization performance system for SMEs particularly are involvement into operational decisions making process and mutual feedback. For small businesses involvement into process of making decisions may help employees feel themselves as the part of the team, improve communication and quality of task fulfillment. Here Hindle power makes good progress, developing staff and making them partly responsible for production improvement. As for mutual feedback, in small enterprises it is important to pay attention to every employee, not only in terms of evaluating their work, but also as the possible source of ideas for further development of the enterprise and its HPWS in particular.

VI. CONCLUSION

In this paper we made attempt to research the question of organization of high performance work system in small and middle-sized enterprises. This research is important due to the fact that most of the researches and recommendations to the issue are oriented at large-scale enterprises, hence, HPWS in SMEs is “terra incognita” for modern researchers.

In the first part of the article the literature to the issue was covered. It was revealed that there is the debate over the necessity of HPWS in small and middle-sized enterprises at all, since some of the researchers suggest that there is direct dependence between size of the company and effectiveness of high performance work system implementation. Still, most of the researchers the same as the article author support the idea of designing performance system for small companies without giving any practical advice on it.

After the literature review we could notice some main problems of HPWS organization in SMEs. The issues are: financial restrictions of the SMEs abilities; lack of abilities to organize professional support of HPWS; personal character of small businesses; need in skilled employees and slowdown of their turnover; requirement in more difficult organization structure and thorough information sharing in middle-sized enterprises.

The next two parts of the paper were devoted to the exploration of ways of solving the problems in theory and practical features of HPWS in small and middle-sized businesses on the example of real American enterprises. We should admit that organizing HPWS in small and middle-sized enterprises is comparatively difficult process due to high level of personalization of such businesses, so there is no ideal scheme to be implemented.

However, after addressing five examples of such companies we can present the next list of the requirements to the successful high performance work system in SMEs which includes such points as selective employment that must be compliant not only with the professional requirement, but also with the company’s culture and social message, and training to develop employees and their loyalty to the employer. Training can also bring to small business such pleasant feature as versatility – provision of the enterprise with skillful multi-functional workers who can make more contribution to the enterprise’s development. Generally, the attention to worker’s feeling of security is very important in small enterprises, the same as positive personal employee’s attitude to the business and positive image of the enterprise head-manager (owner) as the leader of the team.

Considering the personal character of small and middle-sized enterprises, it is very important to make each employee feel not only respect to the management or gratitude for their professional development, it is necessary to make such system which makes employees feel devotion to the enterprise success. To some extend the growth of personal responsibility can help with this task, thus, decentralized decision-making with the involvement of the Employees into operational decisions making process is helpful. The other positive factors here are all about stimulating communication between employees and management, full and quick information sharing, mutual feedback between employees and managers differences reduction.
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Taking these principles into account it is possible to construct useful and productive performance system for the future success of small or middle-sized enterprise.

REFERENCES


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