

Chapter 9

HRM in Small and Medium-Sized Enterprises (SMEs)

Tony Dundon and Adrian Wilkinson

For

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INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are often deemed critical to the economy of many countries. The reasons for this are twofold: first, there are so many smaller firms that they make up a large proportion of employment; and second because the way people are managed is regarded as central to the competitive standing of firms and industries (Boxall and Purcell, 2015). Such recognition has provoked debate about the role of human resource management (HRM) as a means to enhance organisational effectiveness (Kinnie and Swart, 2017). Within OECD economies, SME businesses employ more than 60 per cent of the labour force and generate around 55 per cent of national gross domestic product (OECD, 2005). Smaller firms are also established as global enterprises, operating in international markets and feature as important supply chain network agents with larger global partners in many parts of the less developed world (Briscoe and Schuler, 2005). SMEs are important in terms of engines of growth, international trade and numbers employed. However, much of the HRM literature and normative models tends to be based on mainstream and large firm settings. Indeed, it is often assumed that the lessons from these larger organisations can be applied to people management practices of SMEs, writ large (Harney and Nolan, 2014). However, larger firms tend to be structured much more formally with bureaucratic command and control arrangements (Edwards and Ram, 2009). Large firms can be shaped more directly by their national environment and formal institutional effects, whereas among smaller enterprises informality is much more common. Many SMEs tend to have a very particularistic approach to HRM, with varying management styles ranging from

authoritarian to personnel and friendly relations influenced to a large extent by the values of founding-owners (Briscoe and Schuler, 2005).

The purpose of this chapter is to review the nature and extent of HRM among SMEs. We adopt a generalist approach to HRM, which includes employment relations broadly defined. In this way the chapter can report on various practices while providing an analysis about the meanings and interpretations of management action in the context of a smaller rather than larger firm. The chapter starts by asking what an SME is, commenting on the importance of SMEs in a global and local economy and for human resource management specifically. Traditional approaches to HRM are then considered, assessing how they have been applied to smaller businesses. From this it is suggested that much theorising about HRM in SMEs is limited in that analysis often gravitates around one of two polarised perspectives: the ‘small is beautiful’ versus ‘bleak house’ scenario. (Wilkinson 1999). The remainder of the chapter then reviews current research evidence concerning the core dimensions of HRM among SMEs (e.g. informality, recruitment, training, employee involvement /voice and related management practices).

WHAT IS AN SME?

Storey notes ‘there is no single or acceptable definition of a small firm’ (1994:8). The American Small Business Administration once defined as a small to medium sized firm if it employed fewer than 1,500 people. Earlier definitions in Britain defined a small manufacturing firm as one that employed fewer than 200 workers (Bolton Commission, 1971). These definitions have been frequently criticised given their lack

of context. The European Commission (2015) defines SMEs as consisting of *micro* (less than 10 employees), *small* (10-49 employees) and *medium*-sized enterprises (50-249 employees) and which have an annual turnover not exceeding €50 million (European Commission, 2015:3). However, as a definition for SMEs, such technical classifications based on numbers employed and financial turnover can be problematic (Dundon and Wilkinson, 2004). Small firms differ considerably in terms what they do and who they employ: for example, a hairdressing shop employing 10 or 12 people would be quite large for this segment of retail. Furthermore, the nature of each firm differs not only in terms of market sector and conditions but also social relations and whether an enterprise is family run. Some firms are dependent on larger organisations for their survival through outsourcing and contract services, while others operate in discrete and niche markets, such as hi-tech or business consultancy (Goss, 1991). As Edwards et al (2006) remind us, many studies fail to capture the specific economic position and social norms that govern management actions in each firm and models of HRM tend to be applied to smaller firms as though they are the same as larger organisations (Harney and Dundon, 2006). In short, SMEs are not homogenous but differ in terms of context, family and kinship along with variable labour and product markets (Edwards and Ram, 2009). These conditions need to be recognised more fully in much of the mainstream literature surrounding HRM and SMEs.

The importance of SMEs for employment and economic growth cannot be overstated. In most westernised economies smaller firms account for a significant proportion of economic activity. In Britain 99 per cent of all business are defined as an SME, accounting for around 40 per cent of non-government employment. Of all SMEs, 82

per cent are ‘*micro*’ enterprises, 16 per cent small and only 2 per cent medium (BIS, 2016). Across Europe as a whole, 9 out of 10 enterprises are an SME which, cumulatively, employ 2 out of every 3 workers (European Commission, 2015:3). However there are dangers in using such figures in a general or deterministic way. For example, the number of smaller firms not actually “companies” but rather “sole proprietorships” (Rhodes, 2015; BIS, 2016). The latter may reflect concerns about bogus self-employment in areas such as the gig economy, where workers are defined as self-employed rather than legal employees as a way for firms such as Uber or Deliveroo to avoid employment relations laws on matters such as redundancy and holiday entitlements (Chapman, 2016). SMEs that do have employees tend to be prominent in key sectors of the economy such as retail, hotels and restaurants, transport and communications, financial services and business services. Many SMEs are also family-owned (69 per cent), with the majority managed by first or second generation family members (BIS, 2016:36). Indeed, the role of familial relations has been noted as one of the more important set of factors that can influence how a small firm manages its human resource (Ram, 1994). In particular, the prevalence of dominant family values is crucial in order to understand employment relations at the workplace level, including the ideas of a founding owner or the ethnicity of family-run businesses on its people management practices (Edwards and Ram, 2009). Key challenges limiting the diffusion of more sophisticated HRM among SMEs can be a lack of professional in-house managerial skill and having to rely on external sources for information (Hann, 2012; EU, 2015).

Yet the role of SMEs stands in stark contrast to our limited understanding of HRM activity within them (Arthur and Hendry, 1992: 246). Efforts to explain this deficiency typically point to definitional complexities, access difficulties or resource constraints inherent within SMEs (Hann, 2012). Much of this neglect can be traced back to an implicit assumption that findings concerning HRM in large organisations have a universal relevance (Boxall and Purcell, 2015). HRM prescriptions assume a ready-made, large scale, bureaucratic corporation and in so doing suffer from what has been labelled ‘little big business syndrome’ (Welsh and White, 1981). The implications for both theory and practice are of particular relevance with concerns that research about HRM in smaller firms is dislocated from their environmental context (Barrett and Rainnie, 2002).

THEORISING HRM IN SMEs: FROM ‘BLEAK-HOUSE’ TO ‘SMALL IS BEAUTIFUL’

Some of the earlier studies about employment and HRM among SMEs tended to conflate the characteristics of smaller firms along opposite ends of a continuum (see Table 9.1). At one end the ‘small is beautiful’ view argues that informal communication flows between employees and owner-manager helps to generate commitment and loyalty. This perspective was epitomised in the findings of the Bolton Commission (1971), suggesting that SMEs provide a better (sic) employee relations environment than that found in larger firms. SMEs were believed to have a more committed and motivated workforce accompanied by lower levels of conflict.

The opposite end of this continuum paints a Dickensian picture of employment conditions in many SMEs (see Wilkinson, 1999). According to this view employees suffer poor working conditions, inadequate health and safety and have less access to union representation than employees in larger establishments. Conflict is not so much lacking but rather expressed through higher levels of absenteeism and labour turnover (Rainnie, 1989). The argument posits that the ‘happy family’ image of many SMEs hides a form of authoritarian management, with few employees capable of challenging management decisions without reprisals or that workers become bound by a network of family and kinship ties that govern employment relations, or strategies that enhance entrepreneurship among ethnic minority supply chain companies (Ram et al, 2011).

TABLE 9.1 ABOUT HERE: from small is beautiful to bleak house

As might be expected these polarised perspectives are the subject of much debate and criticism. While there is the possibility of some truth to each extreme, in reality SMEs are best characterised by a complex web of social and familial norms, economic conditions and sector variability (Edwards et al, 2003). Informality, for example, cannot be automatically associated with harmonious work relations (Marchington and Suter, 2013); nor should the formalisation of management techniques indicate a measure of the substance of HRM within the smaller enterprise (Gunnigle and Brady, 1984).

Theorizing about HRM in SMEs in these ‘either/or’ terms can simplify practices that are much more complicated in reality (Wilkinson 1999). Studies show that employees who work in smaller firms display a high degree of satisfaction in relation to their counterparts in larger establishments (Forth et al, 2006). However, what is more difficult to explain is whether such satisfaction is attributable the size of the firm or because of other contributory factors such as the role of management, leadership style, familial culture (Tsai et al, 2007). The work of Rainnie (1989) and Goss (1991) addressed the issue of variability among different types of SMEs. *Dependent* and *dominated* small firms are those that rely on large firms for their main customer base, responding to market pressures with low cost-differentiation strategies. Smaller supply chain firms embedded in larger firm supply networks can be vulnerable in many parts of the world (Taylor et al., 2013). As such employees tend to experience low wages and generally poor conditions, although there can be variation between these types of firms. Examples are often found in sub-contacting or retail outlets competing with larger firms. In contrast, *isolated* and *innovative* small firms tend to operate in markets that large firms avoid due to limited or minimal financial returns. *Isolated* often have to compete on the basis of low costs, whereas *innovative* SMEs may be competing in high risk markets that require specialist expertise or high employee skills.

While these typologies offer a greater degree of specificity about the wide range of SMEs that exist, they have been criticized for being too deterministic by reducing factors to external market influences and neglecting internal social relations at enterprise level. It is certainly evident that many smaller firms are dependent upon

larger organisations for their economic survival, with the larger firm often holding a degree of market power over the actions and decisions of managers (Bacon and Hoque, 2005). However, many smaller firms do operate in niche markets characterised by innovation and employee creativity, such as high-tech and business services (Harney and Dundon, 2006). These sorts of debates have led to some rich and varied studies concerning SMEs. One school of thought suggests that it is not size *per se* which best explains HRM in SMEs but rather the specificity of sector and market economy in which smaller firms have to operate (Curran, 2006). In contrast, other commentators argue that it is the type of management style or entrepreneurial support systems associated explaining a more universal HRM approach among SMEs (Hayton, 2003). Some evidence does indicate that many employees appear satisfied with their working experience within smaller enterprises (Forth et al, 2006). Of course employee satisfaction and business unit size may not be related at all. Tsai et al (2007:1780), for example, explain job satisfaction in SMEs may be a function of closer and more 'personal' relationships that exist across the SME sector. In other words small social setting may engender more friendly relations which in turn can help understand satisfaction, but also familial tensions in other types of family-run small businesses (Ram, 1994)

Given that many workers in SMEs appear satisfied while others face exploitative practices, both the 'small is beautiful' and 'bleak-house' perspectives are likely to be too polarised to reveal the complexity and unevenness of people management practices among the diverse range of SMEs (Harney and Nolan, 2014). Therefore in the following section we examine some of the main trends and developments in HR

practice among SMEs to provide a more holistic overview. While this can never be exhaustive in a single chapter, we paint a broad picture of the central components of HRM and comment on the meanings and interpretations of these practices for smaller firms. These include: the prevalence of informality; recruitment practices and training policy; union membership and employee involvement and voice and the emergence of so-called 'newer' management techniques.

HRM IN PRACTICE IN SMEs

Informality and people management

It is generally accepted that an informal rather than bureaucratized relationships is one of the key defining characteristics of HRM in SMEs. Small firms rarely consider formalising their working practices and rely on an emergent approach with an absence of structured or professional HR management (Marlow, 2005). This is partly the result of a lack of resources, with 'informal routinisation' playing a large part in the day-to-day running of the firm. Informality, however, does not imply a particular view of the substance of work relations: it could be associated with an autocratic as much as a harmonious enterprise. This results in a situation where management policy and practice is 'unpredictable' and at times 'indifferent' to the human resource needs of a firm (Ritchie, 1993: 20). The significance of informality on any subsequent HR approach cannot be overstated. One implication is that personalised and family ties can overlap and shape the nature of employment contracts and management actions in very informal ways.

In terms of HRM, informal interactions offer both the owner-manager workers a range of advantages, such as speed of decision-making, clarity of instruction and opportunities for employees to voice their ideas and concerns (Marchington and Suter, 2013). It is evident that these informal arrangements are much more challenging to sustain as a firm grows in size (Hann, 2012). One study found that an informal people management approach is more problematic when a firm employs more than 20 or more workers (Roberts et al, 1992: 255). This fits with the view that once the organisation grows above a certain size, management needs to become more professional and structured (Loan-Clarke et al, 1999). In many smaller firms during a growth stage, the owner-manager simply becomes ‘harassed’ with the day-to-day work pressures of customer demands and find little ‘spare time’ to handle the varied and emerging range of people management issues (Roberts et al, 1992: 242). In such situations, HRM is often accorded a low priority over meeting targets and production schedules.

Evidence shows that few SMEs have a strategic plan concerning HRM: 40 per cent of smaller firms compared to almost 90 per cent of large organisations (Forth et al, 2006). The WERS¹ data used four indicators to assess the extent of formalised strategic planning among SMEs (see Table 9.2). As might be expected, there is a greater tendency to have a strategic plan as the size of a firm grows. Owner-manager firms were less likely to have specific HR strategies (30 per cent) than family-run businesses (38 per cent). Between 2010 and 2015 SME owner reported a growing awareness in

¹ WERS is the Workplace Employment Relations Survey series that surveys a structured sample of organisations and employee view in Britain. It started in 1980 and the most recent survey conducted in 2004.

the needs for business planning, rising from 59 per cent in 2010 to 81 per cent in 2015 who felt they were strong in terms of people management planning (Rhodes, 2016:50).

TABLE 9.2 ABOUT HERE: People management strategies in large and small firms

The WERS data created a 'strategic index' to reflect the extent to which SMEs have a strategy towards employment and HR-related matters (see bottom half of Table 9.2).

The scale, running from zero to three, shows that 59 per cent of all SMEs scored zero, with just 10 per cent attaining the highest ranking of three (Forth et al, 2006:26). The summary of this data suggests that while SMEs are less likely to have a formalised approach to HR than larger organisations, there does appear to be a degree of diversity between small and medium-sized enterprises, and between family-run and non-family-owned businesses. At one level it is evident the absence of HR specialists or formalised strategies is because many owner-managers see such policies as burdensome. The owners' particular sensitivity to market pressures and the need for speedy operational decisions has been employed as an argument against formalised procedures. It is generally advanced that matters such as employment legislation is burdensome to smaller businesses, that is restricting expansion or constraining entrepreneurial innovation because of 'red-tape' or costly bureaucracy (Hann, 2012). However, Mayson and Barrett (2017) advance that such an argument is limiting. It is not necessarily true or generalizable that regulation is somehow inevitably all-constraining to all smaller firms. Rather, they argue, it is more fruitful to appreciate the embedded social networks in which owner-managers operate. In this way a broader set of influences can be appreciated to determine to be micro social actions that shape value

formation: what call embedded sense-making influences. In that way owner-manager ideologies and values to HRM and employment rights can be refined against the context in which they are relevant. At another level, however, it also seems probable that many managers in SMEs recognise the need for policy to control employees, but these are often used in tandem with informal relations. Therefore procedures need to be understood alongside owner-manager preferences for informality and the social action networks in which they are situated.

Recruitment and Training in SMEs

Smaller firms are less likely to use personality tests when recruiting new staff and place a lower priority on off-the-job training than larger firms. Arguably, difficulties of labour supply can be magnified for smaller firms compared to the experiences of many larger organisations given the lack of available recourses and the absence of HR specialists (Hann, 2012). While there is a preference for informality, recruitment methods have also shown to vary between industries and sectors. What is almost self-evident for SMEs is that because they have fewer employees to begin with, it is extremely difficult to maintain or develop an internal labour market based on recruitment and career development (Taylor, 2005). For most SMEs, recruitment of new staff is via *closed* and *responsive* methods that rely on informal networks (Carrol et al, 1999).

The implications of how SMEs recruit people can lead to potential problems of discrimination. For example, owner-managers can lack knowledge about equality regulations or diversity best practice options, with around one-third of SMEs seeking

external advice, most asking for financial advice followed by employment law (BIS, 2016:116). According to the WERS findings, very few SMEs monitor their recruitment methods with regard to equal opportunities (Forth et al, 2006). Further problems can arise with an *ad hoc* and informal approach to recruitment. For example, 'indirect' discrimination can be evident when workers are recruited from the same ethnic group or from within a particular familial and social milieu (Ram et al., 2011). Indeed, the use of family and ethnic labour can be extremely gendered with women occupying positions of subordination in smaller (ethnic and family-run) firms: "roles are rewarded accordingly, influenced by the 'male-breadwinner' and female 'actual or potential wife and mother' ideology" (Ram and Holliday, 1994:644). Over time evidence reiterates that owner-managers prefer informal practices (Hann, 2012). Carrol et al (1999:24) concluded that:

[W]ord-of-mouth recruitment methods are potentially discriminatory. On the other hand, given the lack of in-house expertise in human resource management techniques and the nature of the labour market, it could be argued that these methods are the most appropriate. Hiring 'known quantities' could be seen as a very effective way of reducing uncertainty in recruitment decisions

The recruitment of new employees also has the potential to inject new skills and experiences into the organisation. Thus recruitment can to some extent substitute for training, which tends to be less among SMEs. However, there is also the argument that training could be based on informal learning and the development of tacit skills. Therefore the lower incidence of formal off-the-job training among SMEs may not be the same as a lack of learning and skill development found in larger organisations (Kitching and Blackburn, 2002). This debate aside, it seems that many owner-

managers are either 'ignorant' of the softer people skills such as training, or they are too busy and pre-occupied with 'getting the products out the door' that they have little time to consider training needs in a coherent manner (Westhead and Storey, 1997). A further explanation for the lack of formal training in SMEs is that managers simply fear they will lose newly trained employees to competitors (Hann, 2012). Wynarczyk et al (1993), for example, found that many small business owners expected line managers to leave the company if they wanted to advance their career.

In summary, SMEs have a different approach to recruitment and training than larger organisations. It is an approach that is less formal and based on owner-manager views about what is appropriate for the business at a particular time (Taylor, 2005). Smaller firms have little internal labour market movement through promotion or career development, and recruitment can be one way to inject new skills into the organisation. Yet such recruitment methods raise a number of concerns about the potential discrimination surrounding informal and *ad hoc* processes.

Trade union membership and employee participation in SMEs

The available data on union membership in SMEs is patchy and disjointed. It is generally understood that union membership among SMEs is much lower than in larger organisations, although there is some international variation. For example in the UK, around 7 per cent of workers in small *firms* are union members, rising to 10 per cent in *medium*-sized (50–249 employees) organisations. This compares with about 28 per cent in larger organisations (Forth et al, 2006: 47). In contrast, in Germany union membership is 8 per cent in *micro* firms (0-9 employees), rising to

14 per cent in *small* (10-49 employees) establishments. In Norway, union density is around 30 per cent in *small* and 51 per cent in *medium*-sized respectively (Broughton, 2011). Further to this is that a greater proportion of employees in SMEs have never been a trade union member (in the UK): 71 per cent compared to 55 per cent in larger firms (Forth et al, 2006:47).

As might be expected, owner-managers are less likely to recognise a union for bargaining purposes than is the situation for larger companies. Compared to 31 per cent of large firms, only 3 per cent of SMEs recognise a union (Forth et al, 2006: 48). There is only a modest variation between sectors: 5 per cent for manufacturing firms and 3 per cent for service sector establishments. Given the absence of collective representation for workers employed in SMEs, it is perhaps not surprising that most owner-managers prefer to communicate with employees directly. For example, 86 per cent of managers said they would rather consult with employees than deal with a trade union (Forth et al, 2006:45). While most managers (72 per cent) say they have a 'neutral' attitude towards unions at their establishment, a growing proportion indicate they either 'actively discourage' union membership or are 'not in favour' of unions (see Table 9.3).

TABLE 9.3: Employee communication channels in SMEs

Despite the informal nature of communication flows noted earlier as a characteristic feature of smaller organisations, many report a range of communication and consultation methods (see Table 9.3). Over two-thirds have formal meetings with

employees and half have team briefings. For most SMEs, face-to-face meetings are the dominant mode of communication (80 per cent among all SMEs: 93 per cent in large firms) while written communications are less common. In addition to the reported existence of such communication and involvement methods, the WERS survey asked employees in SMEs about the quality of management information. In this regard the utility of information-sharing from management was more favourable among employees in small firms compared to those employed in medium-sized and large organisations. One particular feature seems to be that among those SMEs without an owner-manager on site, employees were more positively disposed toward management communications than in those firms that are run by the owner (Forth et al, 2006:55). This may suggest that owner-managers have a tendency to guard company information as privy to them or their immediate family rather than sharing this or consulting with employees (Wilkinson et al, 2007).

As insightful as the WERS studies have been for exploring HRM in SMEs, it is also known that large scale surveys cannot capture the complexity and unevenness associated HRM. And when these practices are determined by an owner-manager or an owner who may also be the head of a family unit, then the outcomes can be very different for workers. For example, a paternalistic or friendly managerial approach does not negate the fact that owner-managers discriminate workers and devise soft HR strategies to ensure the firm remains union-free (Dundon and Rollinson, 2004). In one study concerned with the extent to which SMEs are prepared for European employee information and consultation regulations, most owner-managers inform staff but fall short of the consultative requirements (Wilkinson et al, 2007). Add to

the complexity is what Ram (1994) describes as a ‘negotiated order’ between owner and employee which serves to constrain the power of owner-managers, especially when influenced by family and kinship links that override the formalised structures of an employment contract. It is these sorts of qualitative studies that suggest the meanings ascribed to specific HR practices may not be the same as the picture derived from large scale surveys. In a study of SMEs, for example, Cullinane and Dundon (2014) report the prevalence of a strong unitarist ideology among owner-managers, with a distinctive anti-union posture concerning social dialogue or collective bargaining. Furthermore, reporting the existence of teamworking in a smaller firm is not the same as a team-based structure in a large organisation. In SMEs employees tend to work together by definition of the smaller work environment: this is not a team as conventionally understood in much of the mainstream literature on HRM (Boxall and Purcell, 2015).

Pay among small firms

As already noted, pay tends to be lower among SMEs than in larger firms.

Surprisingly, research has shown that many SMEs have confirmed to and found they have benefited from statutory National Minimum Wage (NMW) and the more recent National Living Wage. The latter, while legal in the UK since April 2016, is premised on what a person is supposed need in order to meet minimum living standards. In the UK, the Living Wage Foundation suggests it should be set at £9.40 for London and £8.25 elsewhere in the country. The statutory National Living Wage, as of April 2016, was legally established at £7.20 for over-25s, therefore lower than that recommended. While exact numbers are difficult to quantify, it seems those SMEs that do pay the

higher recommended rate (as opposed to the lower statutory) Living Wage do so for ethical reasons. At the time of writing, about half of all 2800 organisations in the UK that have been accredited as Living Wage employers are private sector SMEs (Werner and Lim, 2016:11): as many as 77% reported the main motivation for paying the higher living wage was for ethical reasons (e.g. management felt it was the right thing to do’).

Notwithstanding progressive SME living wage employers, only a small proportion of workers (5 per cent) have the opportunity to discuss and negotiate their pay by collective bargaining (Forth et al, 2006). Around 20 per cent of SMEs utilise a performance or incentive-based system for employee remuneration (Forth et al, 2006:61). However these have also proved to be difficult for SMEs, with a desire for more informal approaches overriding formalised variable pay schemes (Cox, 2005). Much more common are *ad hoc* wage payment and wage negotiation systems which can lack transparency about what other employees earn, even in the same firm (Gilman et al, 2015). Arguably, pay determination in the context of an SME is often based on managerial ‘gut instinct’, ‘prejudice’ by owner-managers or ‘market pressures’ at a given moment in time. In our own research (Dundon et al, 1999), one garage mechanic explained the procedure for a pay increase:

I know when we get a rise. It’s each Christmas. It’s not automatic though, you only get a rise if they think you should have a pay rise [and] ... that’s based on not dropping a bollock in the year ... It’s a letter in the Christmas card saying we’re getting a rise .. it really pisses the lads off. I mean a little card, ‘all the best and all that’, but nought about your money and so and so next to you gets something

Overall, pay remains lower for workers in smaller firms, even though many report higher rate of satisfaction than their counterparts in larger organisations (Forth et al, 2006). It is also important to be critical of wide-sweeping generalisations, as a great deal can depend on the precise occupational category or sector in which employees work. For some owner-managers, statutory instruments such as the NMW have limited their freedom to impose unilateral decisions. In other SMEs, variable-pay schemes have been implemented, although they are not without difficulties when they formalise an established informal routine (Cox, 2005). Moreover, many variable pay schemes in smaller firms seem to be based on managerial 'gut instinct' rather than clear systematic and objective performance criteria (Gillman et al, 2002).

High-performance HRM in SMEs

One of the more contradictory images of HRM in smaller firms is the apparent coexistence of 'informality' with particular 'bundling' of HR practices that are claimed to support organisational performance (Boxall and Purcell, 2015; see Wood, S, this volume). Examples include devolved managerial responsibilities, sophisticated and formalised recruitment and selection techniques, contingent rewards, team working and a range of employee involvement initiatives. According to Bacon et al (1996), the use such strategies among many SMEs may not necessarily be 'new', but rather less formal. Initiatives such as quality and cultural change programmes may have been present for as long if not longer in many SMEs, but based on informal arrangements. In a study by Downing-Burn and Cox (1999), for example, smaller engineering firms used various high commitment practices such as quality audits, team working, job rotation and communication techniques. Harney and Dundon (2006)

show that smaller firms had a range of innovative practices including employee voice and reward systems based on contingency market strategies. However, Peetz et al (2017) reported that while emerging firms were more casualised, less unionised, and experiencing higher levels of market expansion and unpredictability, they showed remarkable similarity to older firms across a range of ER practices. WERS found that around one-fifth of SMEs use five or advanced management practices such as those described in Table 9.4. Ogunyomi and Bruning (2016) report an association in SMEs between HRM practices and what are defined as some of the non-financial performance outcomes, such as employee satisfaction and health and safety. Other studies show the degree to which innovative HR strategies and cultural change programmes based on informal engagement tend to dominate in particular small firm settings, often dependent on owner-manager personal preferences (Grugulis et al, 2000). It is suggested that many SMEs utilise some advanced HR techniques that may signal a degree of institutional isomorphism; that is to say, what is believed to be good practice in larger organisations is replicated among those SMEs that are aware of such practice complementarity (Bacon and Hoque 2005^{ref?}).

TABLE 9.4 ABOUT HERE, New HRM in SMEs

However, how these practices actually translate to a smaller firm is debatable (Harney et al., 2018). In terms of the diffusion of sophisticated bundles of HRM practices that are claimed to underscore high-performing work systems, international data tends to suggest there is at best a moderate to low take-up among smaller type firms in UK (Forth et al., 2006), the US (Hayton, 2003), Australia (Wiesner et al., 2015) or Ireland

(Harney and Nolan, 2014). The possible explanations are multiple. First, as is often the case in larger organisations, it is unclear why these managerial techniques should be viewed as positive. Many of these so-called new managerial practices can implicitly and explicitly rely on more traditional 'harder' employment conditions of work intensification which ensures a degree of managerial control over employee effort (Keenoy, 1997). Second, it is often 'assumed' that communication flows in small firms are automatically good because of the flexibility and close proximity between employee and owner-manager. However, this may be 'one-way' communication and based upon a 'need to know' approach defined by the owner-manager. There is always a danger that samples reporting such change are self-selecting, and therefore give a misleading impression of what is going on among SMEs as a whole (Curran et al, 1997). A third concern is that many SMEs can be dependent on larger organisations for business survival. In these situations owner-managers may feel obliged to conform to certain (new) managerial practices deemed desirable by the larger firm and adopted in name only in order to pacify (large firm) customer relations (Kinnie et al, 1999). For example, Heffernan and Dundon (2016) found that HR-performance was in part mediated by pressures that engendered work intensification. Other examples have reported a shift in risk from large firm to small supplier: in catering, cleaning, security and transport in which a significant proportion of the employees work part-time, experience casual and temporary contracts and are low paid women workers (MacMahon, 1996).

Yet the exploitative bleak-house perspective can be equally misleading. Reports from workers employed in smaller establishments have been surprisingly positive (Guest

and Conway, 1999; Forth et al, 2006). Tsai et al (2007) argue that satisfaction among employees is best understood in the light of the personal relationships between employee and owner-manager: a factor evident across different economic sectors. One possible explanation is the way in which employees in smaller organisation experience and perceive their psychological contract (Cullinane and Dundon, 2006). Employee perceptions of trust and mutual obligations can have a greater resonance in a small social setting where friendly relations can develop over time (Guest and Conway, 1999).

Notwithstanding the utility in a social and psychological contract explanation, there remains a contradictory image of how employees experience their work environment in SMEs. Of course this is also evident in larger firms. The idea that workers are satisfied in smaller firms and that relationships are friendlier is not always just a matter of size. HRM is often mediated on systems of ‘unbridled individualism’ with informality the central *modus operandi* in the day-to-day management of people. Many employees in smaller firms experience work-related illness, face dismissal and have less access to union representation than their counterparts in larger organisations: the fact they also seem highly satisfied is what challenges the discipline in seeking meaningful explanations that transcend polarised perspectives or static typologies of managerial action.

CONCLUSION

The numerical significance of SMEs to the economy, both nationally and internationally, means they warrant serious study and analysis. As Storey (1994: 160)

has argued: “any consideration of the small firm sector which overlooked employment issues would be like *Hamlet* without the prince”. This importance has begun to be addressed by a range of studies, of which the inclusion of SMEs in the WERS data is particularly insightful (Kersley et al, 2006; Forth et al, 2006). However, it still remains debatable about the extent to which the size of a firm is more or less important than other contextual factors such as labour and product markets, ownership, familial features, management ideology or industrial sub-culture; or the combinations thereof. Given that we do understand that in large firms HRM is not simply a function of them being large, the task of unravelling the relationship between factors in small firms should not be beyond us. If what constitutes “smallness” is contextual and possibly subjective and interpretational, then we need to examine what factors come together to explain patterns of employment relations rather than assume one particular type, be it either small is beautiful, sweatshop or the innovative high-risk SME.

Given the general overview of this chapter, there are a number of concluding comments to the issues and debates raised thus far. To begin with, much of the extant literature on HRM in SMEs tends to be characterised by size determinism. Arguably this represents a simplistic labeling of HRM that has been perpetuated by the absence of a theoretical framework to understand and prioritize particular contextual influences (Harney and Dundon, 2006). Smaller firms may manage their human resources differently than larger organisations, although in itself size by the numbers employed is not a very good predictor as to ‘why’ they are different. In this chapter attention has been given to charting the extent of various HR and newer type managerial practices. By combining evidence from large scale surveys and case study analysis, it is argued

here that size is best viewed as a variable that mediates various priorities such as labour and product market pressures, supply chain relationships or inter-firm networks along with the political and familial environment for SMEs. In short, the context in which SMEs operate remains a crucial factor in explaining people management outcomes, be they employee job satisfaction or more hostile managerial attitudes towards collective representation. Issues concerning gender, industrial sector, occupational class and family ideologies are important explanatory factors that help unravel the nature and logic of management actions among a diverse range of small social settings. Which of these factors are more or less important is likely to vary over time and space. It is this dynamic that represents a key challenge for HRM.

TABLES

Table 9.1: From Small is Beautiful to Bleak House

Small is Beautiful Perspective	Bleak House Perspective
Positive HR	Negative HR
Harmonious	Hidden Conflict
Good HR	Hostile IR
Little Bureaucracy	Instability
Family Style	Authoritarianism

Adapted from Wilkinson 1999: 207

Table 9.2: People management strategies in large and SME firms (%)

	<i>All private sector</i>	Size of Firm			
		<i>All SMEs</i>	<i>Small Firms</i>	<i>Medium Firms</i>	<i>Large Firms</i>
Strategy covering employment relations	52	34	30	54	77
Strategy, does not cover employment relations	8	6	6	10	11
No strategy	40	59	65	35	12
Investors in People (IiP) accredited	31	15	12	25	57
<i>Strategic HR Index</i>					
0	40	59	63	39	11
1	13	8	8	8	20
2	29	23	21	31	40
3	18	10	8	21	29

Forth et al, 2006:26

Table 9.3: Employee communication channels in SMEs (%)

	<i>All private sector</i>	<i>Size of Firm</i>			
		<i>All SMEs</i>	<i>Small Firms</i>	<i>Medium Firms</i>	<i>Large Firms</i>
<i>Face-to-face meetings:</i>					
Meetings between senior managers and the whole workforce	74	68	67	77	81
Team briefings	58	50	45	73	68
Any face-to-face meeting	85	80	78	88	93
<i>Written two-way communications:</i>					
Employee surveys	32	16	14	23	56
Regular use of e-mail	34	25	22	39	47
Suggestion schemes	25	13	11	20	43
Any written two-way communication	57	40	35	58	81
<i>Downward communications:</i>					
Notice boards	64	49	44	70	85
Systematic use of management chain	52	40	38	51	68
Regular newsletters	38	16	11	41	69
Intranet	27	8	6	16	54
Any downward communication	72	57	51	81	93

Forth et al, 2006:52

Table 9.4: New HRM in SMEs (1998-2004)

	<i>% of workplaces</i>	
	1998 ¹	2004 ¹
Joint consultative committee	17	10
Equal treatment/Equal opportunity practices	24	36
Union representatives	n/a	1
Union recognition	12	3
Arrangements for worker/employee representation	10	17
Flexibility working arrangements	48	n/a
Any merit or payment-by-results payment scheme	n/a	34
Employment tribunal complaints/claims (rate per employee)	2.4	2.6

1: Calculated from WERS data 2004 (Forth et al, 2006)

These figures are broadly indicative and should be treated with caution as some questions and scales were not identical between WERS surveys.

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