

The work life of employees in the small business

Filotheos Ntalianis

Metro AG, Athens

Linda M. Dyer

&

Magda Donia

Department of Management
Concordia University

An extended abstract submitted to the CCSBE 2007 conference

Contact information:

Please contact the second author at

Linda Dyer, John Molson School of Business, Concordia University
1455 de Maisonneuve Blvd. West, Montreal, Quebec H3G 1M8

Telephone: 514-848-2424 x2936; E-mail: dyer@jmsb.concordia.ca.

The work life of employees in the small business

Extended abstract

What is it like to work as an employee in a small business? What types of relationships do employees develop with the owner-managers and with their coworkers? One frequent answer has been that firms with a small number of employees have a family-like atmosphere, characterized by harmonious, informal, non-hierarchical relationships, and that employees' work is varied, flexible and motivating. The Canadian Federation of Independent Business (CFIB, 1999) reports survey findings that more people employed in small firms say that they are satisfied with their jobs (64%) compared with workers in large companies (52%). Owners of small businesses also say they have better relationships with their employees, and create higher job satisfaction and higher employee retention because of the flexibility of their workplace practices (CFIB, 2005). The positive outcomes of harmony, satisfaction and commitment are attributed to close and frequent employer-employee communications, and the owners' willingness to accommodate employees' personal needs when firms are small.

This "small is beautiful" scenario was a common assumption in the early research and policy-making related to small business management (Ram, 1994). Over the past two decades, however, this view of small-business employment relations has been questioned. Ethnographic research and in-depth case studies conducted in a variety of small businesses have painted a less rosy picture of owner-employee relationships—descriptions of poor working conditions, exploitative, autocratic management and low pay have challenged the stereotype of industrial harmony in small companies (Dundon, Grugulis & Wilkinson, 1999; Holliday, 1995; Ram, 1994). Thus another scenario, the small firm as a "bleak house," has developed (Kotey & Sheridan, 2004; Wilkinson, 1999). The "small is beautiful" and "bleak house" scenarios are, to a certain extent, stereotypes which mask a complex interplay of personal, organizational and environmental factors that contribute to the employment relations in the small firm.

The broad goal of this paper is to develop our understanding of the management of employees in small, owner-operated businesses and to explore the types of relationships that exist between owner and employees in these firms. The importance of this issue is two-fold. First, most businesses in Canada are small; recent statistics (CFIB, 2005) suggest that firms with 50 employees or fewer comprise over 97% of all firms, while firms employing fewer than five people account for 75% of the total. Moreover, about 44% of all employees work in small businesses. The size of the small business sector makes it vital to understand the working experience of such a large segment of the population. The second reason that the issue is important is that there is a surprising paucity of research that addresses employment relations in small firms. Most small business and entrepreneurship research focuses on the creation of new ventures, the attributes of individual entrepreneurs and predictors of growth (Katz, Aldrich, Welbourne & Williams, 2000). It has frequently been observed that human resource concerns and employee management in entrepreneurial and small business ventures is a neglected area (Jack, Hyman & Osborne, 2006; Ram & Edwards, 2003). With few exceptions, the research that describes the relationships between owners and employees in the small firm focuses overwhelmingly on the viewpoint of the owner-managers, but only rarely addresses the viewpoint of the employees (a notable exception being found in Holliday, 1995). Our research is directed toward this gap. We collect data from both employees and owners in a sample of small firms in the hope of moving beyond simplistic stereotypes and developing a more nuanced picture of the workplace experiences of employees in small enterprises.

Human resource management in small businesses

By far the most common scholarly approach to understanding the working life of employees in small firms has been to examine the adoption of formal human resource policies. Scholars have taken the traditional areas of HR in large firms — staffing, training, compensation and performance appraisal — and examined the extent to which owner-managers of small firms had instituted these practices as formal policies in their companies (Cardon & Stevens, 2004; Hornsby & Kuratko, 2003; Mayson & Barrett, 2006; McEvoy, 1984). Cardon and Stevens, in their recent (2004) summary of the literature, conclude that

formal HR policies are rare in small and emerging firms, and concomitantly, these firms generally do not have in-house HR professionals. That said, all firms studied seem to engage in informal HR practices. Staffing, for example, tends to be ad hoc, with a focus on selecting employees who fit with organizational norms and values. The little empirical research that exists on training again suggests that practices are informal and associated with newcomer socialization and ongoing activities within the firm. There has been practically no empirical examination of performance management, other than a study in which small employers admitted that their handling of employee problems was often arbitrary (Verser, 1987). Cardon and Stevens (2004) surmise that the absence of academic literature is linked to an actual absence of formal performance appraisal systems in small firms. The authors conclude that human resource decisions have considerable potential to affect firm success, and practitioners as well as scholars need to direct attention to this important issue.

The firms studied in Cardon & Stevens' review were primarily US firms, but Mayson & Barrett (2006) note that there have been similar findings of informality and ad hoc decision making in human resource practices in the EU and Australia. For Mayson and Barrett (2006) informality is problematic because it does not adequately recognize the worth of employees or their value to the firm. Informal recruitment and selection, though cheap and convenient, may lead to less-than-adequate hiring and even accusations of discrimination. Informal training and performance management may degenerate into monitoring and over-control of employees, with the potential for creating feelings of oppression and low performance. They agree with others that the institution of formal HR practices is predictive of growth and future success of small enterprises (Hornsby & Kuratko, 2003, Jack, Hyman & Osborne, 2006; Mayson & Barrett, 2006, McEvoy, 1984).

This HR-checklist approach to employee relations can be criticized, however, for inappropriately treating small firms as if they were lesser or deviant versions of large firms (Welsh & White, 1981). In fact, it is not clear that the normative prescriptions of staffing, training and other HR policies accurately reflect actual practice even in large companies (Taylor, 2006). Marlow (2006) suggests that a more useful, context-sensitive approach might be to start with the activities of employees and employers in small firms, and from descriptions of these activities, to identify the key theoretical constructs that emerge. One such construct would be physical proximity between owner-managers and employees. These constructs would be a better analytical tool than an uncritical adoption of formal HR practices as the measure of successful employee relations (Marlow, 2006). It is to this approach, therefore, that we now turn.

Activities of owners and employees in small firms

Researchers in the UK have produced a few ethnographic case studies of small firms that are our chief source of data about the actual activities of owner-managers and employees that are relevant to small business employment relations (Holliday, 1995; Ram, 1994; Scase & Goffee, 1987). The case descriptions suggest that many entrepreneurs initially resist hiring employees because the presence of others reduces their control within their firms (Scase & Goffee, 1987). The need for growth makes them decide to employ others, however, and the delegation of tasks does indeed create dependence on the employees. The owners must thus find ways to exercise control. This control is not based on formal rules; instead owners try to develop a warm, family atmosphere through personal relationships with the employees so as to get employees to identify with organizational goals (Holliday, 1995). While the familial culture is desired, the owners also try to maintain some hierarchical distance in order to retain their power. In other words, the mutual dependence between owners and employees does not mean equality, simply that the hierarchical relationship may be tacit rather than explicit (Scase & Goffee, 1987). Ram (1994), too, reported a complex pattern of informal negotiation and accommodation, through which small business owners and their employees created order and control in workplace relations. Holliday (1995) found that some owners were not averse to using emotional bribery to ensure the alignment of goals and values, and to reduce the threat of turnover.

More recently, Haugh and McKee (2004) have noted that the internal operating environment of small companies is marked by frequent communication between owner and employees. Daily, face-to-face contact and high visibility of managerial action is associated with the small size of the firm, and

these factors result in considerable informality and cooperation. In his study of managerial work, Floren (2006) concurs that communication in the small firm is primarily informal, although most of these owner-employee interactions are with supervisors and secretaries, and much less with first-line employees. Holliday (1995), too, found that “transient” employees were treated with less warmth than “core” employees. This runs counter to the notion of close, familial interpersonal interaction between owner and employees that other researchers have proposed. The owners in Holliday’s research were at times reluctant to share information with employees, for fear that today’s employees might become tomorrow’s competitors. Finally Jack et al (2006) propose that direct communication with the owner is not necessarily a positive experience for the employees, rather it might be interpreted as tight control, treating employees as if they were the owner’s personal property.

Taken together, these case studies suggest that employees in the small firm may experience a dynamic mix of personable warmth, frequent contact, communication and appreciation from the owner, intertwined with distancing actions and unwelcome control. The present study uses this review of the literature to analyze the comments of a group of employees and the owners of the firms in which they work. The goal is to develop a model of the experience of work in the small business, with an emphasis on interpersonal relationships and the employee-management culture.

Method

The participants were ten owners and 33 employees in eight small firms — two were partnerships. Eight of the owners were men and two were women, while the 33 employees included 18 men and 15 women. The businesses ranged in size from three to 48 employees and had been in operation between two and 31 years. They were primarily in service industries, including two financial services firms, one software development firm, two shipper/suppliers, two leisure service firms and one retailer. Further details about the participants are available in Table 1 below.

The data used in this study are part of a larger survey of employment relations in small firms. The sampling procedure involved approaching the owners first, and securing their interest in participating in the research. Permission was sought from the owner to approach employees of the firm, and semi-structured interviews were conducted with both the owner and the employees. Both owners and employees were assured of the complete confidentiality of the interviews, and on average, 36% of the employees at each firm agreed to the interview. Employees were asked to describe the type of relationship they had developed with their employer, as well as the relationships among their co-workers and between the employer and their co-workers. They also described any particular attributes of the employer that, in their view, appeared to affect his or her working relationships. The owners were asked about their expectations of employees, their vision for the firm, the type of interpersonal relationships that had developed within the company, and their satisfaction with these relationships. All interviews were tape-recorded and transcribed.

Table 1: Participants

Industry	Age of firm (Years)	Firm size (# of employees)	#, % employees interviewed
Financial services I	20	6	5 (83%)
Financial services K	21	3	2 (67%)
Software Development U	30	35	4 (11%)
Supplier A	19	13	4 (30%)
Supplier C	16	48	5 (10%)
Leisure services A	25	12	8 (67%)
Leisure services P	3	25	2 (8%)
Retailer K	6	20	3 (15%)

Coding

Initial codes of employment relationships were derived from Brown & Brooks' (2002) study of "emotional climate," with a focus on two dimensions that focused on the interpersonal — Warmth and Support. *Warmth* was defined as "the feeling of good fellowship that prevails in the work group atmosphere; the emphasis on being well-liked and the prevalence of friendly and informal social groups (pg 333)." *Support* was the "perceived helpfulness of the managers and other employees in the group" and "emphasis on mutual support from above and below (pg 333)." Other codes were selected because of their relevance to the small firm context: the *Approachability of owner* was defined as "the feeling that the owner is easy to approach; an emphasis on ease of communication and perceived concern of the owner." The notion of mutual dependence we found in the literature led us to add *Appreciation* to our coding list, defined as "the feeling of being appreciated; that one's contribution makes a difference and that one cannot be easily replaced." It must be emphasized that the participants' comments were elicited in free response, as answers to general questions; the specific coding categories were not mentioned.

The transcripts of both employees and owners were coded using these four categories, and among the 43 transcripts, the coder identified 182 passages that fell into one of these categories. Subsequently, a separate coding exercise performed by an independent coder resulted in 82% agreement.

Results and Discussion

In this section, we present our initial qualitative analyses of the patterns that seemed to emerge in the data. In general, there appeared to be a predominant feeling of *warmth* and *support* within these eight firms. Words such as "friendly" and "intimate" were mentioned spontaneously and with considerable frequency. Some people commented that the environment allowed them room to develop personal relationships; some made specific comparisons to larger firms, attributing the on-the-job warmth they experienced as linked to the small firm size. Employees also said that they could count on their co-workers as well as their boss, and for the most part, owners agreed that the employees supported one another and could count on the boss for support. Those employees who were satisfied with the *approachability* of the owner mentioned ease of communication with the owner, a feeling of being equals with the owner, and a view of the owner as caring and open minded. Some owners also spoke of the importance of being approachable and demonstrating interest in the employees. Similarly, those who felt *appreciated* noted that their opinion was valued, and that they participated in decision-making. The content of their comments fit well with the "small is beautiful" attributes described in the literature.

We were cognizant of the possibility that only those employees who were happy with their interpersonal relationships would agree to be interviewed, and this would limit the validity of our findings. We found, however, that several participants did not hesitate to voice their dissatisfaction. Some said, for example, that they felt unappreciated, that the smiles at the workplace were superficial, or that the owner's claim to have an "open door" was untrue. Three of the owners confessed to being unapproachable or unreceptive to employees' ideas. Interestingly, two these owners excused themselves citing work overload or demanding customers. In general, dissatisfaction with the workplace relationships seemed to stem from unmet expectations. It was as if both the owners and the employees had accepted the position that small firm owners *ought* to be warm, approachable and appreciative, and the workplace ought to be harmonious, and they measured their reactions against this expectation. Only one owner said that the family atmosphere that existed in his company was inappropriate, and that strict discipline was preferable. It was interesting that the employees told us that they had positive feelings about the social climate in the company.

Turning to the differences among firms, we found that in four of the eight companies, both employees and owners were consistently positive about their relationships in all categories (see Table 2). In the four other firms there were mixed reactions among employees or inconsistencies between owners' and employees' descriptions. Some of these comments suggested negative employee experiences of the

workplace, though none of these firms was as extreme as the “bleak house” stereotype found in the literature.

Table 2: Ratings of employees and owners in four categories

	<i>Warmth</i>	<i>Support</i>	<i>Approachability</i>	<i>Appreciation</i>
Financial services K	+	+	+	+
Leisure services P	+	+	+	+
Retailer K	+	+	+	+
Supplier A	+	+	+	+
Financial services I	Mixed	+	No comment	+
Leisure services A	Mixed	+	Mixed	+
Software Development U	No comment	No comment	Mixed	Mixed
Supplier C	Mixed	No comment	+	+

These conclusions will be supported by illustrative comments in the full paper. In our ongoing analysis, we are exploring the nature of these inconsistencies, and searching for likely explanations based in the attributes of the owner as well as the company characteristics. The goal is to develop a testable theoretical framework to explain employee relations in small enterprises.

Finding and retaining good staff is important to the long term success of all companies, and it has often been noted that this is a particular challenge for small firms. Understanding the factors that contribute to a positive workplace environment for employees of small firms is a much-needed addition to help owner-managers to meet the challenge.

References

- Brown, R. & Brooks, I. (2002). Emotion at work, *Journal of Management in Medicine*, 16, 5, 327-344.
- Canadian Federation of Independent Business (1999). *Workplace satisfaction in the private, public sectors*. Toronto, CFIB.
- Canadian Federation of Independent Business (2005). *Fostering Canada’s Entrepreneurial Economy through Smart Labour Standards*. Toronto, CFIB.
- Cardon, M. & Stevens, C. (2004). Managing human resources in small organization: What do we know? *Human Resource Management Review*, 14, 295-323.
- Dundon, T., Grugulis, I., & Wilkinson, A. (1999). Looking out of the ‘black hole.’ Non-union relations in an SME. *Employee Relations*, 21, 251-266.
- Floren, H. (2006). Managerial work in small firms: Summarising what we know and sketching a research agenda. *International journal of entrepreneurial behaviour and research*, 12, 5, 272-288.
- Haugh, H. & McKee, L. (2004). The cultural paradigm of the small firm, *Journal of Small Business Management*, 42, 4, 377-394.
- Holliday, R. (1995). *Investigating Small Firms: Nice Work?* London, Routledge.
- Hornsby, J. & Kuratko, D. (2003). Human resource management in US small business: A replication and extension. *Journal of Developmental Entrepreneurship*, 8, 73-92.
- Jack, S., Hyman, J. & Osborne, F. (2006). Small entrepreneurial ventures culture, change and the impact on HRM: A critical review. *Human Resource Management Review*, 16, 456-466.
- Katz, J.A., Aldrich, H.E., Welbourne, T.M. & Williams, P.M. (2000). Guest editors’ comments: Special issue on human resource management and the SME: Toward a new synthesis, *Entrepreneurship Theory and Practice*, 25, 7-10.
- Kotey, B. & Sheridan, A. (2004). Changing HRM practices with firm growth, *Journal of Small Business and Enterprise Development*, 11, 4, 474-485.
- Marlow, S. (2006). Human resource management in smaller firms: A contradiction in terms? *Human Resource Management Review*, 16, 467-477.

- Mayson, S. & Barrett, R. (2006). The 'science' and 'practice' of HRM in small firms, *Human Resource Management Review*, 16, 447-455.
- McEvoy, G. (1984). Small business personnel practices. *Journal of Small Business Management*, 22, 1-8.
- Ram, M. (1994). *Managing to survive: Working lives in small firms*. Oxford, Blackwell.
- Ram, M. & Edwards, (2003). Praising Caesar, not burying him: What we know about employment relations in small firms. *Work, Employment and Society*, 17, 719-730.
- Scase, R. & Goffee, R. (1987). *The real world of the small business owner*, Second edition. London, Croom Helm.
- Taylor, S. (2006). Acquaintance, meritocracy and critical realism: Researching recruitment and selection processes in smaller and growth organizations, *Human Resource Management Review*, 16, 478-489.
- Verser, T. (1987). Owner's perceptions of personal problems in small business. *Mid-American Journal of Business*, 2, 13-17.
- Welsh, J. & White, J. (1981). A small business is not a little big business. *Harvard Business Review*, 59, 18-32.
- Wilkinson, A. (1999). Employment relations in SMEs. *Employee Relations*, 21, 206-217.