

ISSN 1466-1535

**INDUSTRIAL RELATIONS IN SMEs: CONCEPTUAL AND CONTEXTUAL
PERSPECTIVES**

SKOPE Research Paper No.35 Autumn 2002

By Dr Harry Matlay, University of Central England Business School

**ESRC funded Centre on Skills, Knowledge and Organisational Performance
Oxford and Warwick Universities**

Editor's Foreword

SKOPE Publications

This series publishes the work of the members and associates of SKOPE. A formal editorial process ensures that standards of quality and objectivity are maintained.

Abstract

Despite the growing significance afforded to small and medium-sized enterprises (SMEs) in contemporary Britain, much of the industrial relations (IR) literature in this country is based on research undertaken in large organisations. The minority of IR studies that are focused upon smaller firms tend to be prescriptive and their results polarise into either the 'small is beautiful' or the 'bleak house' perspective. Furthermore, most of these are qualitative studies that involve relatively small target samples and, as a result, there is a paucity of quantitative research that could be generalised across this important sector of the British economy. The research on which this article is based originated from a perceived need to redress this imbalance. As part of a larger, longitudinal research study of IR in Britain, it was carried out over a three-year period (1998-2000) and it collected quantitative and qualitative data from a target sample of 6,000 organisations. Respondents were selected at random from the Yellow Pages Business Database of Great Britain. Preliminary results indicate that the majority of small business owner/managers in the sample exhibited personalised and mostly informal management styles. It emerges that IR in this type of business can be as varied as the characteristics, personalities and preferences exhibited by the respondents in the research sample.

Keywords: Industrial Relations; SMEs, Owner/Managers, Management Styles, Great Britain

Orders for publications should be addressed to the SKOPE Secretary, SKOPE,
Warwick Business School, University of Warwick, Coventry CV4 7AL

Industrial Relations in SMEs: A Critical Perspective

Dr. Harry Matlay
Reader in SME Development
University of Central England Business School
Perry Barr
Birmingham B42 2SU

Tel. 0121 331 6640
E.Mail Harry.Matlay@uce.ac.uk

Introduction

Following the virtual full employment in Britain during the 1950s and 1960s, the oil crises of the early 1970s heralded the onset of long-term (youth and adult) unemployment and the decline of the domestic manufacturing sector. The overall downsizing and restructuring trend that followed was particularly noticeable in the manufacturing sector of the economy: a large proportion of operations that were traditionally carried out 'in-house' were either contracted out or exported to areas of the world that offered substantially lower labour and/or running costs (Matlay, 2001). In Britain, most of the resulting subcontract activity was mopped up by existing or newly created small businesses. Consequently, a large proportion of manufacturing micro- and small business start-ups were equipped with readily available obsolete plant and manned by redundant (unskilled or semi-skilled) workers (Matlay, 1996). Throughout the 1979-97 period, general and specific support aimed at start-ups as well as established small firms was boosted by the 'free market' economic policies pursued by the conservative governments led by Margaret Thatcher and John Major (Matlay, 1997a). Furthermore, the appropriation of post-Fordist rhetoric by the New Right had promoted the small business sector to a key position in the quest for the regeneration of the British economy.

The explicit emphasis placed by the conservative government's on small firms was based mainly upon the pseudo-scientific belief that a healthy small business sector was a fundamental prerequisite for an expanding and globally competitive domestic economy. According to Binks and Vale (1990:19) it was the 'dynamic element' of small firms that made them so attractive to Thatcherite policy-makers during the 1980s and 1990s, even though the tenuous link between entrepreneurship and economic rejuvenation has never been conclusively proven. For similar reasons, the current Labour government appears to be fully committed to the continuing improvement and expansion of the small business sector (McGoldrick, 1997; Hyland and Matlay, 1997). It would be reasonable to assume that future policy measures, designed to encourage start-ups and to assist with the development and growth of existing small firms, will continue to support this crucial sector of the British economy (Corney, 1997; Matlay and Hyland, 1998).

Beginning with the 1980s, small business research expanded rapidly, to reflect its newly found socio-economic and political topicality and the availability, volume and diversity of designated funding (Gibb, 1991). Such fast expansion of the specialist literature, however, resulted in empirical research that, on the whole, turned out to be inconsistent in terms of quality, focus and relevance (Matlay, 2000a). The majority of the early small business research was quantitative in nature, providing ‘snap-shot’ insights that suffered prominently from low response rates (Matlay, 1997b). Furthermore, much of the small business literature was limited in range and biased towards perceived ‘mainstream’ topics such as start-ups, finance, marketing and production (Storey, 1994; Matlay, 1999a). Most surprising, however, was the neglect of the human resource aspect of small businesses in general and IR in particular (Pettigrew *et al.*, 1990; Hendry *et al.*, 1991). In contrast, human resource management and IR in large organisations enjoyed both topicality and continued academic interest (Matlay, 1996). It appears that larger organisations tend to lend themselves more readily to academic research: typically, they are approachable and offer better and more comfortable investigatory environments (Marginson *et al.*, 1993). Conversely, small firms are more difficult to access and seem to have less to offer in terms of research opportunities and academic prestige (Storey, 1994, Hyland and Matlay, 1997).

Contextual Issues Relating to Industrial Relations in SMEs

It has often been stated that a social phenomenon – such as industrial relations – cannot be usefully investigated in isolation from its wider context (see, for example, Dunkerley, 1996; Coates, 1994). Contemporary British society has been described as industrially advanced and highly complex, comprising a dynamic combination of groups, activities and relationships, interweaved with a diversity of attitudes and expectations (Cairncross, 1995). Furthermore, the small business sector of the British economy is widely acknowledged to consist of a large and heterogeneous group of geographically dispersed units of economic activity (see, for example, Storey, 1994; Goss, 1991). In this context, small business IR ‘systems’ integrate the roles, relationships, processes and activities that involve owner/managers, members of their families and their employees (Matlay, 2001). Within the inherent flexibility of small business strategy, the labour input attributable to this type and size of economic activity can be particularly complex. Apart from family engagement, it can also involve a variety of employee categories including permanent, temporary, casual, full- and part-time labour (Matlay, 2000b).

Due to their small size, the confines or boundaries within which small business IR systems operate are relatively ‘hard’ and well defined vis-a-vis external influences such as those exerted by sectoral, industrial or national structures (Goss, 1991). It should be noted, however, that their size enables small firms to claim considerable exemptions from, or modifications to, the requirements of external accountability and revenue collecting bodies (i.e., Inland Revenue, Customs and Excise). These mitigate, to some extent, the disadvantages inherent in those firms that choose to operate within the formal small business sector of the British economy (Burns and Dewhurst, 1996). Due to a tendency to use paid and/or unpaid family labour, internal influences on small business IR systems are much ‘softer’ and fuzzier than those encountered in larger organisations. The informality characteristic to most firms in the small business

sector adds significantly to interrelational fuzziness and makes it difficult to disentangle the complex and often contradictory web of horizontal and vertical influences affecting IR in this type of firm (Ram, 1994).

It has long been recognised that external environments can exert a powerful influence upon IR. Economic, social and political values were found to be particularly relevant in this context (Hunter, 1988; Taylor, 1982; Deaton, 1983). Significant or even subtle changes in any of these aspects could stimulate or constrain a variety of related activities and influence owner/managers' attitudes or expectations (Kessler and Bayliss, 1995). Furthermore, organisational issues, conflicts and values can become inextricably bound up with those of society at large (Fox, 1974:4). In Britain, work - as a socio-economic activity - is influenced and supported by values that are considered to be amongst the 'loftiest' of religious and moral virtues (Tawney, 1961). Often referred to as the 'Protestant Work Ethic', it endorses the principle of one individual working for, and deferring to, the superior authority of another (Weber, 1994). Over time, widely accepted socio-economic and political values have given rise to complex arrangements and polarised divisions that influence significantly IR in the workplace (Salamon, 1998).

Time is perceived to affect employment relations in as much as present processes are viewed as belonging to a continuum between the participants' past experiences and their future expectations (Salamon, 1992). At macro-economic level, the development of IR is influenced by time-bound changes in the socio-economic and political environment in Britain. In this context, the rapid rise to prominence of the small business sector can be perceived as typical of the changing socio-economic and political milieu of late 20th Century Britain. Wider external influences include the globalisation of markets (Armstrong and Vickerman, 1995; Caves, 1996; Dunning, 1993) as well as the changing socio-economic and political balance in other regions of the world (Hood, 1997; Young *et al.*, 1988). At micro-economic level, the time context may affect IR processes in two interrelated ways. First, current organisational issues are often perceived to have originated in owner/managers' past decisions and present solutions might generate different problems in the future (Rollinson, 1993; Arnold *et al.*, 1998). Second, owner/managers' individual and collective experiences can be seen to have shaped their current work-related attitudes, expectations and relationships (Gospel and Palmer, 1993; Kelly, 1998). Thus, the time context provides not only an important tool for the understanding of contemporary IR processes in small businesses but also a framework for predicting future trends and related outcomes (Matlay, 2000b).

Conceptual Issues Relating to Industrial Relations in SMEs

It has been noted that despite a growing interest in social processes in small businesses, the state of knowledge on IR in this type of firm remains very limited (Wilkinson, 1999; Matlay, 1999b). Scase (1996) suggested a number of reasons to explain the paucity of empirical research on this pertinent topic. First, there are considerable definitional problems linked to the size, sector and type of economic activity of firms operating in the small business sector of the British economy. Second, in view of the scope and diversity of the sector under investigation, error margins in the classification and conceptualisation of research samples become

increasingly significant. Third, the nature and scope of IR processes in small firms are bound to vary across a wide range of industry and sectoral characteristics, impairing attempts to generalise from small-scale empirical results. Fourth, problems of access and data collection can add further to the methodological difficulties inherent in the study of small business topics. As a result, research "...evidence is so fragmentary and the theories so empirically specific that there are severe limitations to the development of cumulative small business theory" (Scase, 1996:580).

Interestingly, even within a relatively small number of empirically specific research studies relating to IR in SMEs there can be considerable differences of opinion and/or interpretation (Matlay, 2001). An example of the dichotomy in interpretation was provided by two investigative studies that focused specifically upon IR in the printing and clothing industries in Britain. Ingham (1967, 1970) claimed that IR in small businesses that operated in these industries promoted co-operation, mutual respect and moral attachment between owner/managers and their workforce. In his seminal work, Rainnie (1983, 1984) challenged the conventional view that IR in small firms encouraged 'industrial harmony'. In his experience of the printing and clothing sectors, 'industrial harmony' reflected wishful thinking amongst employers, researchers and policy-makers (see Goss, 1988). Not surprisingly, Schumacher's (1974) view that *Small is Beautiful* became Rainnie's (1989) nightmare of autocratic, oppressive and stifling 'sweatshops'. As a result, the literature on IR in smaller firms tend to polarise into two ideal types: the 'small is beautiful' or the 'bleak house' perspective (Wilkinson, 1999). There can be little doubt that the promoters of the 'industrial harmony' perspective have benefited considerably from its endorsement by the influential Bolton Report (1971:21). It is generally accepted, however, (see, for example, Stanworth and Curran, 1979; Goss, 1991, Storey, 1994; Curran *et al.*, 1993) that the Bolton evaluation was based upon the uncorroborated evidence of a small number of employers and an overtly narrow study of small firm employees that was conducted during the 1960s by Ingham (1967, 1970).

Few commentators, however, would agree with Rainnie's 'overly simplistic and mostly pessimistic' views on IR in smaller firms (Stanworth and Curran, 1978, 1979; Curran and Stanworth, 1981a, 1981b, 1986; Ram 1991a, 1991b, 1994). Following an extensive study of IR in small printing and electronics businesses, Stanworth and Curran (1978, 1979) found that their empirical results did not fit neatly into typically simplistic IR conventions. In their sample, small business employee orientations were not necessarily related to the size of their firms. Employers' selection practices and an employee's perceived position in the labour market were more important than business size or sector of economic activity. As Goss (1991:71) noted, these factors were largely beyond an employee's control. Importantly, Stanworth and Curran (1978:627) conclude that most employees worked in small firms as a result of their relative lack of skills and experience and not because they chose to do so for intrinsic reasons (cf. Ingham, 1967, 1970).

Ram's (1994) in-depth examination of small firms operating in the clothing industry has highlighted the simplistic and arbitrary nature of Rainnie's view that small businesses are amongst the most dangerous, vulnerable and autocratic workplaces in the British economy. Ram (1991b:44) claims that "...such treatments of the clothing sector are unduly simplistic and fail to pay sufficient attention to the complex, informal and often contradictory nature of workplace relations, even in this most

competitive of industries”. Furthermore, the detailed investigation of specific aspects of IR in small clothing firms, such as direct supervision and control under highly competitive conditions found no evidence to substantiate Rainnie’s pessimistic perspectives. Ram’s (1991b:52) research results emphasised “...a negotiated order, based on complex and often contradictory processes as evidenced by the highly informal and contingent manner in which piece rates were fixed”. In contrast to Rainnie’s model, Ram (1994) provides a collaborative representation of small business IR that relies upon flexibility, negotiability and informality.

Attempts were also made to establish whether there were statistically significant differences in IR processes amongst small businesses that operated across a variety of economic sectors (McMahon, 1996; Scott *et al.*, 1990; Curran and Stanworth, 1986; Bassett, 1986). Although minor IR differences were found between manufacturing and service based small businesses, these were not statistically significant (Storey, 1994). Similarly, there were no statistically significant differences between IR in small businesses where owner/managers adopted ‘core’ as opposed to ‘periphery’ labour practices during the 1980s (Curran *et al.*, 1993).

From the late 1970s onwards, the influence of trade unions upon workplace relations and organisational strategies began to decline rapidly (Guest 1991:41). During the 1980s and 1990s, trade unions were no longer perceived to play a significant role in IR. Guest (1995:110) argued that “...from an IR perspective, the most telling feature of policy has been the successive pieces of legislation designed to limit the role and rights of trade unions”. The data generated by Curran *et al.*, (1993) showed that trade unions had little impact upon IR in small businesses. Only a minority of owner/managers in their sample have recognised trade unions. Similarly, just over a quarter of employees were prepared to join a trade union as compared to two thirds who would not become union members even if these were recognised at their workplace (Curran *et al.*, 1993:123).

Recently, a number of researchers have suggested that the changing competitive environment in which small businesses are operating has forced significant modifications in their management of IR. The external environment is perceived to exert three major pressures upon smaller firms: time compression, increased uncertainty and a need for continuous change (Kinnie *et al.*, 1998). The tension between external pressures and internal structures/practices is likely to alter existing IR processes in those small firms that are most affected by the increasing globalisation of markets (Hutchinson *et al.*, 1998). There exists, however, an apparent conflict between two possible solutions to externally generated pressures and influences. On the one hand there are ‘progressive’ human resource policies (teamworking, flexibility, quality and continuous improvement) as demanded by major suppliers and/or customers. On the other hand there are ‘primitive’ industrial relation strategies (low pay, long working hours, cramped working conditions, etc.) as imposed by cost conscious and resource-starved owner/managers. Small business employees in Britain appear to be particularly vulnerable to ‘primitive’ industrial relation solutions: unlike most of their European Community counterparts, they mostly fall outside the regulatory framework of collective bargaining and related legislation (ENSR, 1997).

Research Sample and Methodology

The research study upon which this paper is based was designed to combine, over the 1998-2000 period, three investigative and analytical approaches. In the first stage, an exploratory telephone survey was carried out between January and September 1998. This involved a sample of 6,000 respondents who were randomly selected from the Yellow Pages Business Database of Great Britain (Table 1). The official European Commission (1996) size definition was observed throughout the research. The telephone survey achieved an overall response rate of 87%. Those respondents who declined to be interviewed (13%) cited time constraints (7.9%), excessive requests from researchers (4.5%) or other factors (0.6%) as reasons for their refusal to participate in the survey. During the second stage, face-to-face interviews were conducted with a sub-sample of 600 respondents. In the final stage, in-depth data was collected from 120 matched case studies chosen from the wider sample. A rigorous approach to data collection and analysis has facilitated the triangulation of the overall results and the postulation of a number of pertinent policy recommendations.

Table 1. - Size Distribution and Composition of the Research Sample (N=6,000)

Size Band	Size Definition	Number of Employees	Manufacturing (N=2,129)	Services (N=3,871)
A	Micro-Business	1-10	1,675	3,062
B	Small Business	11-49	381	724
C	Medium-Sized	50-250	73	85

The telephone survey involved a sample of 6,000 participating organisations, of which 2,129 respondents operated in manufacturing and 3,871 in services. Numerically, service oriented businesses (64.52%) outnumbered manufacturing units (35.48%), a trend that seems to be characteristic of the contemporary British economy. Furthermore, micro-businesses (Size Band A: 78.95%) and small businesses (Size Band B: 18.42%) dominated the research sample (97.37%). In the case of micro-businesses (Size Band A), 1,675 were operating in manufacturing (35.36%) and 3,478 in services (64.64%). A similar distribution was observable in small businesses (Size Band B), amongst which 381 were manufacturing (34.48%) firms and 724 were providing services (65.52%). The medium-sized business sample (Size Band C: 2.63%) included 73 manufacturing (46.20%) and 85 service (53.80%) organisations. The size distribution and composition of the research sample closely reflect that of the British economy as a whole.

The Locus of Industrial Relations Processes in SMEs

Respondents in the telephone survey were requested to identify the locus of IR processes in their firms. Cumulatively, their responses have highlighted two important

trends related to IR in SMEs (Table 2). First, there were considerable size-related differences amongst the firms in the sample. Second, responses within the same size band showed substantial similarities across both the manufacturing and the service sectors. In micro-businesses (Size Band A), the monopoly on IR related decision-making processes was retained by owner/managers (100%). This is not surprising, considering that in this type of business they control most, if not all, the daily operations of their firms. The locus of IR decision-making processes in small businesses (Size Band B) was concentrated mostly in the hands of owner/managers (84.07%). In 15.93% of small businesses, however, owner/manager have delegated responsibility for IR to personnel managers. Nevertheless, it appears that the final decision regarding IR rested with the owner/managers.

Table 2. - The Locus of Industrial Relations Processes (N=6,000)

Size Band	Number of Employees	Size Definition	Locus of Industrial Relations Processes			
			Owner/Manager (%)	Personnel Manager (%)	Training Manager (%)	Other Managers (%)
A	1-10	Micro-Business	100.00	0.00	0.00	0.00
B	11-49	Small Business	84.07	15.93	0.00	0.00
C	50-250	Medium-Sized	17.72	72.78	9.50	0.00

In medium-sized businesses (Size Band C), the locus of control upon IR processes was typically the domain of personnel managers. It became obvious that operational complexity in this size band invariably resulted in increased levels of formality in relevant managerial and control systems. Owner/manager direct involvement in IR processes was reduced significantly: only 17.72% of respondents stated that they have retained control. The majority of respondents (72.78%) claimed to have delegated responsibility for IR to personnel managers, while 9.50% of owner/managers relied upon training managers to deal with such issues. No other category of staff appears to have been involved with, or to have held responsibilities for, IR in medium-sized organisations.

Workforce Composition in SMEs

Workforce composition in contemporary Britain is becoming increasingly flexible, with smaller organisations employing a variety of labour, including full-time, part-time, permanent and casual. Self-employed ‘specialists’ and consultants are also being used more extensively in some areas of small business activity. Differences emerged in the workforce composition of firms that operated in the manufacturing (Table 3) and in the service sectors (Table 4). For example, in micro- and small businesses in the manufacturing sector, the incidence of full-time only labour was considerably higher at 73.63% and 74.30% than in similarly sized businesses in the service sector (46.87% and 54.21% respectively). In the manufacturing sector, the incidence of part-time only employment in micro- and small businesses was marginal (1.29% and

0.63%). Considerably higher rates were recorded in the service sector where 12.43% of micro-businesses and 30.59% of small firms depended exclusively on part-time labour. In total, 28.33% of manufacturing micro-businesses relied on a mixture of full- and part-time workforce as compared to 39.71% in the service sector. In the case of small businesses, 27.69% of manufacturing and 30.59% of service firms employ a mixed, full- and part-time labour force.

Table 3 - Workforce composition in the Manufacturing Sector (N=2,129)

Type of Labour Employed	Micro-Business (%)	Small Business (%)	Medium-Sized (%)
Full-Time Only	73.63	74.30	48.10
Part-Time Only	1.29	0.63	0.00
Mixed Full-Time/ Part-Time	28.33	27.69	77.21
Permanent Only	84.25	81.81	66.46
Temporary Only	2.10	2.53	0.00
Mixed Permanent/Temporary	16.82	18.37	0.00
Casual	34.81	35.57	88.61

Similar sectoral differences emerged in relation to the type of employment contracts issued to employees in micro- and small businesses. For example, 84.25% of micro- and 81.81% of small businesses in the manufacturing sector employed exclusively permanent staff as compared to only 47.12% and 48.60% in the service sector. Interestingly, only a minority of the manufacturing micro- and small businesses (2.10% and 2.53%) employed temporary staff exclusively. In the service sector, the incidence of only temporary labour was four times higher (11.63% and 10.14% respectively). While 16.82% of micro-businesses and 18.37% of small firms in the manufacturing sector depended on a mix of permanent/temporary labour, in the service sector this proportion was significantly higher (43.26% and 47.78%, respectively). In the case of casual workers, manufacturing micro- (34.81%) and small businesses (35.57%) reported a higher incidence of usage than their counterparts in the service sector (24.42% and 30.32%).

Table 4 - Workforce composition in the Service Sector (N=3,871)

Type of Labour Employed	Micro-Business (%)	Small Business (%)	Medium-Sized (%)
Full-Time Only	46.87	54.21	26.58
Part-Time Only	12.43	30.59	14.56
Mixed Full-Time/ Part-Time	39.71	22.44	56.96
Permanent Only	47.12	48.60	62.35
Temporary Only	11.63	10.14	5.06

Mixed Permanent/Temporary	43.26	47.78	34.18
Casual	24.42	30.32	32.28

Differences in workforce composition between the manufacturing and the service sector also held across the sample of medium-sized organisations. In total, 48.10% of medium-sized manufacturing firms employed exclusively full-time labour as compared to only 26.58% in the service sector. None of this type of manufacturing organisations employed exclusively part-time labour. In the service sector, however, 14.56% of medium-sized businesses used only part-time employees. Similarly, 77.21% of respondents in manufacturing and 56.96 % in services claimed to rely on mixed, full-time/part-time labour. Interestingly, 66.46% of medium sized manufacturing firms depended exclusively on permanent staff as compared to 62.35% in the service sector. While temporary staff were totally absent from medium-sized manufacturing firms, 5.06% of service firms claimed to employ exclusively this type of labour. Consequently, mixed permanent/temporary labour was only employed in 34.18% of medium-sized organisations in the service sector. A vast proportion (88.61%) of medium-sized manufacturing businesses used casual labour, as compared to only 32.28% of service organisations in this size band.

The Impact of Management Style in SMEs

Most researchers in mainstream small business topics tend to focus upon the performance or behaviour of the firm and often neglect the pivotal role that owner/managers play in the operation of their firms. Previous research in employee relations in smaller firms has noted the importance of owner/managers' styles and preferences upon the performance of their businesses (see, for example, Matlay, 1999b). When asked to indicate their preferred management style, the majority of micro- and small business owner/managers in the research sample claimed to favour an informal approach (Table 5). Their preference for informal management styles was evident from the large proportion of owner/managers who claimed to adopt it in their workplace: 88.22% in micro- and 70.76% in small businesses. In contrast, only 12.02% of respondents in medium-sized businesses admitted to reliance on informal management procedures. A further 7.39% of owner/managers in micro-businesses preferred a combination of formal and informal management styles and 4.39% of respondents have entrusted the management of their firms to external managers or agencies. External/agency management was specific to a minority of micro-businesses and was perceived as a last resort strategy by those owner/managers who were forced by personal circumstances to adopt it. Interestingly, neither formal nor professional approaches to management were encountered in micro-businesses. Only 10.14% of owner/managers in small businesses have indicated a preference for formal management styles. A further 19.10% of them used a mixed, formal/informal style of management.

Table 5 – Management Styles of Owner/Managers (N=6,000)

Management Style	Micro-Business (%)	Small Business (%)	Medium-Sized (%)
Formal	0.00	10.14	27.22
Informal	88.22	70.76	12.02
Mixed Formal/Informal	7.39	19.10	1.90
Professional	0.00	0.00	58.86
External/Agency	4.39	0.00	0.00

By contrast, 58.86% of respondents in medium-sized organisations preferred their businesses to be managed by professionals and/or qualified managers. A further 27.22% of respondents made use of formal management styles. Most of the businesses in this size band relied on professional teams to manage organisational functions, operations and work-related issues. Furthermore, all professionally managed businesses in the sample employed complex reporting, control and communication systems. Interestingly, 12.02% of medium-sized businesses in the sample were managed informally and 1.90% relied on mixed, formal/informal management styles. Most of these organisations were positioned at the lower size limit of the medium-sized business range.

Most respondents were confident that management styles influenced industrial relations and related outcomes in their firms. Thus, owner/manager styles reflected directly upon recruitment, training, human resource development, pay negotiations, grievance procedures and interpersonal relationships at the workplace. The vast majority of owner/managers in micro- and small businesses used informal channels of recruitment. Similarly, they preferred informal training and human resource development processes. Informal discussions were also employed to negotiate wage rates and to deal with any work-related complaints or grievances. Most importantly, interpersonal relationships at the workplace were managed informally and this was perceived to greatly facilitate communication within micro- and small businesses. Those owner/managers who have indicated a preference for formal styles of management, relied on them to recruit, train or dismiss their employees. All categories of employee were treated with the same degree of formality, regardless of their length of service or position within the business. Similarly, formal structures were in place to deal with pay negotiation, grievances and complaints. Interpersonal relationships between owner/managers and their employees were subject to the same degree of formality.

Interestingly, mixed formal/informal management structures appear to be less rigidly imposed or followed. Used interchangeably to suit an owner/manager's perceived needs, this type of management was considered less flexible than the purely informal style but particularly suited to growth-oriented small businesses. Mixed formal/informal management styles also reflected the conflict between an owner/manager's desire for organisational growth and his/her reluctance to relinquish

control of some managerial functions. It appears that formal means of recruitment, training, pay negotiation and grievance procedures were applied mainly to supervisory or management staff. In relation to 'ordinary' employees, however, informal means were used to deal with similar issues. Interpersonal relationships at the workplace were usually reversed: informality prevailed between the owner/manager and supervisory or management staff. In turn, formality was imposed upon all personal or social contacts that involved owner/managers and their workers.

The Influence of Unions in SMEs

An analysis of unionisation rates in the research sample (Table 6) showed that only a fraction (3.10%) of micro-businesses recognised unions. Similarly, in the case of small businesses, only 5.43% of owner/managers tolerated union membership at the workplace. In medium-sized businesses, unions were present in 6.96% of firms in this size band. It also emerged that most of the micro-business owner/managers who claimed to recognise unions, employed individuals who belonged to external unions. There were only two exceptions and in both of these micro-businesses, employees as well as the owner/manager belonged to the same union. Similar trends were observed in small businesses within the sample. It appears that individual or firm-specific union membership was inherited from previous employment situations. Where owner/managers and employees belonged to the same union, this reflected a continuation of union membership that originated from a larger organisation that has undergone restructuring or downscaling. Owner/managers and their employees were either made redundant or left on their accord in order to start-up or work in newly founded micro- or small businesses. In contrast, union membership in medium-sized businesses operated in a more traditional labour environment and reflected a long-term commitment to unionisation at the workforce. Intention to unionise or de-unionise was only identified in a fraction of micro-businesses (0.25% and 0.19% respectively). Similar results were observed in small businesses where 0.45% of respondents indicated their intention to unionise and 0.27% to de-unionise. In the case of medium-sized organisations, 1.90% of respondents stated an intention to unionise as compared to 1.27% who planned to de-unionise in the near future.

Table 6 – Unionisation at the Workplace (N=6,000)

Size Band	Number of Employees	Size Definition	Number of Businesses	Unionisation at the Workplace		
				Union Recognition (%)	Intention to Unionise (%)	Intention to De-Unionise (%)
A	1-10	Micro-Business	4737	3.10	0.25	0.19
B	11-49	Small Business	1105	5.43	0.45	0.27
C	50-250	Medium-Sized	158	6.96	1.90	1.27

The data that emerged from face-to-face interviews and matched case studies was indicative of the marginal influence that trade unions appear to have upon industrial relations in micro- and small businesses. In contrast, unionisation seems to exert a

more important influence on workplace relations in medium-sized businesses. This was particularly noticeable in relation to the nature, structure and development of collective bargaining in the larger of the medium-sized businesses in the sample. Interestingly, most of the owner/managers who were positive towards unions claimed to have been or were still members of a union. They were confident that union membership posed no dangers and/or caused few difficulties in their firms. Moreover, there was no evidence of any kind of pressure to join or leave a union and membership was not perceived to have a negative influence upon IR in smaller firms. A number of respondents insisted that there were positive outcomes attributable to union membership. First, members showed an affinity towards other employees in the union, regardless of their organisational or social status. In terms of 'bonding' and looking after 'one's own', such attitudes were perceived to motivate, facilitate and reinforce a deeper sense of belonging to an organisational team or an 'extended family'. Second, union membership afforded a degree of safety in terms of arbitration, job security and pay negotiation. Third, the social implications of trade union membership appear to have a beneficial 'spill over' effect in terms of attendance at meetings and participation in related social events.

None of the owner/managers who refused to recognise union membership in their firms would consider unionisation in the near future. Some of them appeared hostile towards trade unions while others felt that unionisation would not contribute to better IR in their businesses. The intensity of such hostility varied considerably across the sample. Interestingly, former members of large, 'old style' unions seem to be more hostile than other respondents. These individuals felt strongly that unions followed their own hidden agendas and cared very little for the needs or opinions of their members. Typically, these owner/managers preferred to deal directly with their employees, either on an individual or on a group basis. None of them admitted to have ever been requested by their employees to recognise a union. This, they argued, was 'concrete proof' of the lack of demand for unionisation in their businesses.

Concluding Remarks

A number of important findings have emerged from this exploratory research on IR in SMEs. The locus of IR in micro-businesses appears to rest entirely with the owner/manager. Similarly, in the majority of small businesses, owner/managers retained control of, or the final say in, the decision-making process relating to this important aspect of management. In the case of medium-sized businesses, the locus of control upon IR processes was typically the domain of personnel managers, with some responsibilities being devolved to training managers. The workforce composition of the research sample closely reflected the flexibility of the labour force in contemporary Britain. Various types of labour were employed, including full-time, part-time, permanent and casual, as well as self-employed 'specialists' and consultants. There were differences between the workforce composition of manufacturing and service businesses in the sample. Manufacturing firms employed mostly full-time labour while owner/managers in the service sector seem to prefer part-time employees. Respondents in the manufacturing sector were more likely to employ permanent staff. In contrast, owner/managers in the service sector tended to make more use of temporary staff. There were, however, similarities in the use of

casual labour across both sectors, with a higher incidence being reported by micro- and small businesses in manufacturing.

Management style preferences appear to have a significant influence upon IR in micro- and small businesses. Typically, an owner/manager's style tended to reflect upon his/her choice of recruitment, training, human resource development, pay negotiations, grievance procedures and interpersonal relationships at the workplace. In most of the micro- and small businesses in the sample, IR was managed informally and this was perceived to improve communications between owner/managers and their employees. Respondents in medium-sized organisations preferred their businesses to be managed by professionals and/or qualified managers and this impacted considerably upon IR in this size band. The vast majority of micro- and small businesses in the sample were not unionised. It emerged that most of the owner/managers who claimed to be unionised employed individuals who were members of external unions. Union membership in these businesses have been inherited from previous work situations and continued under new working conditions. Unionisation in micro- and small businesses was perceived to exert only a marginal impact upon the relationship between owner/managers and their employees. In contrast, unions appear to exert a more significant influence on IR in medium-sized businesses. This was particularly noticeable in relation to the nature, structure and development of collective bargaining in the larger of the medium-sized businesses in the sample.

References

- Acs, Z. & Audtretsch, D., (Eds.) 1990: *The Economics of Small Firms - A European Challenge*, London: Kluwer Academic Publishers
- Armstrong, H. and Vickerman, R., 1995, *Convergence and Divergence Amongst European Regions*, London: Pion
- Arnold, J., Cooper, C. and Robertson, I., 1998, *Work Psychology – Understanding Human Behaviour in the Workplace*, Third Edition, London: Financial Times Management
- Barclays Bank, 1998, *Small Business Bulletin*, Issue 3, Barclays Bank PLC, London: Small Business Banking
- Bassett, P., 1986, *Strike Free: The New Industrial Relations in Britain*: London: Macmillan
- Bennett, R. and McCoshan, A., 1993, *Enterprise and Human Resource Development*, London: Paul Chapman Publishing
- Binks, M. and Vale, P., 1990, *Entrepreneurship And Economic Change*, London: McGraw Hill
- Bolton Report, (1971), *Report of the Committee of Inquiry on Small Firms*, Cmnd 4811, London: HMSO
- Bridge, S., O'Neil, K. and Cromie, S., 1998, *Understanding Enterprise, Entrepreneurship and Small Business*, Basingstoke: MacMillan Press Ltd
- Burns, P. and Dewhurst, J., (Eds.), 1996, *Small Business and Entrepreneurship*, Second Edition, Basingstoke: MacMillan Press Ltd
- Cairncross, A., 1995, *The British Economy Since 1945: Economic Policy and Performance, 1945-1995*, Oxford: Blackwell Publishers Ltd
- Caves, R., 1996, *Multinational Enterprise and Economic Analysis*, Second Edition, Cambridge: Cambridge University Press
- Coates, D., 1994, *The Question of UK Decline – The Economy, state and Society*, Hemel Hempstead: Harvester Wheatsheaf
- Corney, M., 1997, 'Beauty contest to woo the favour of small businesses', *Times Educational Supplement*, 28th February
- Curran, J., Kitching, J., Abbott, B. and Mills, V., 1993, *Employment and Employment Relations in the Small Service Sector Enterprise*, Kingston: Centre for Research on Small Service Sector Enterprises

Curran, J. and Stanworth, J., 1981a, 'A New Look at Job Satisfaction in the Small Firm', *Human Relations*, 34, 5, pp.343-65

Curran, J. and Stanworth, J., 1981b, 'Size of Workplace and Attitudes to Industrial Relations in the Printing and Electronics Industries', *British Journal of Industrial Relations*, 19, 1, pp.14-25

Curran, J. and Stanworth, J., 1986, 'Trends in Small Firm Industrial Relations and Their Implications for the Role of the Small Firm in Economic Restructuring', in Amin, A. and Goddard, J., (Eds.), *Technological Change, Industrial Restructuring and Regional Development*, London: Allen & Unwin

DTI, 1996, *Small Firms in Britain - 1996 Report*, URN 96/15, London: DTI Small Firms Publications

Deaton, D., 1983, 'Unemployment', in Bain, G., (Ed.), *Industrial Relations in Britain*, Oxford: Blackwell Publishing

Dunkerley, M., 1996, *The Jobless Economy? Computer Technology in the World of Work*, Cambridge: Polity Press

Dunning, J., 1993, *Multinational Enterprises and the Global Economy*, Wokingham: Addison-Wesley Publishing Company

EC, 1996, 'SMEs: Recommendation of the Commission', *Official Journal of the European Communities*, L107/6, pp.1-2

ENSR, 1997, *The European Observatory for SMEs*, Fifth Annual Report, Zoetermeer: EIM Small Business Research and Consultancy

Fox, A., 1974, *Man Mismanagement*, London: Hutchinson

Gibb, A., (Ed.), 1991, *Recent Research in Entrepreneurship*, Aldershot: Avebury Gower

Gospel, H. and Palmer, G., 1993, *British Industrial Relations*, Second Edition, London: Routledge

Goss, D., 1988, 'Social Harmony and the Small Business: A Reappraisal', *Sociological Review*, 32, 1, pp.114-32

Goss, D., 1991, *Small Business and Society*, London: Routledge

Guest, D., 1991, 'Human Resource Management: Its Implications for Industrial Relations and Trade Unions' in Storey, J., (Ed.), *New Perspectives on Human Resource Management*, London: Routledge

Guest, D., 1995, 'Human Resource Management, Trade Unions and Industrial Relations', in Storey, J., (Ed.), *Human Resource Management – A Critical Text* London: Routledge

Hendry, C., Jones, A., Arthur, M. and Pettigrew, A., 1991, *Human Resource Development In small To Medium Sized Enterprises*, Research Paper No.88, Sheffield: Employment Department

Hood, N., 1997, 'The United Kingdom', in Dunning, J., (Ed.), *Governments, Globalisation and International Business*, Oxford: Oxford University Press

Hunter, L., 1988, 'Unemployment and Industrial Relations', *British Journal of Industrial Relations*, 26, 2, pp.201-14

Hutchinson, S., Kinnie, N., Purcell, J., Collinson, M., Terry, M. and Scarborough, H., 1998, *Getting Fit, Staying Fit, Developing Lean and Responsive Organisations*, London: Institute of Personnel and Development

Hyland, T. and Matlay, H., 1997, Small Businesses, Training Needs and VET Provision, *Journal of Education and Work*, 10, 2, pp.129-139

Ingham, G., 1967, 'Organisation Size and Orientation to Work', *Sociology*, 1, 3

Ingham, G., 1970, *Size of Organisation and Worker Behaviour*, Cambridge: Cambridge University Press

Jeremy, D., 1998, *A Business History of Britain, 1900-1990s*, Oxford: Oxford University Press

Kelly, J., 1998, *Rethinking Industrial Relations*, London: Routledge

Kessler, S. and Bayliss, F., 1995, *Contemporary British Industrial Relations*, Second Edition, Basingstoke: Macmillan Press

Kinnie, N., Purcell, J., Hutchinson, S., Terry, M. and Scarborough, H., 1998, *Employment Relations in SMEs: Market-Driven or Customer-Shaped?*, Paper Presented at the Annual Conference of the British Universities Industrial Relations Association, Keel University, July

McGoldrick, J., 1997, 'Just the Job?', *People Management*, 3, 17, pp.32-35, 28th August

McMahon, J., 1996, 'Employee Relations in Small Firms in Ireland, An Exploratory Study of Small Manufacturing Firms', *Employee Relations*, 18, 5, pp.66-80

Marginson, P., Armstrong, P., Edwards, P., Purcell, J. and Hubbard, N., 1993, *The Control of Industrial Relations in Large Organisations: An Initial Analysis of the Second Company Level Industrial Relations Survey*, Warwick Papers in Industrial Relations No.45, University of Warwick: Industrial Relations Research Unit

Matlay, H., 1996, *Paradox Resolved? Owner/Manager Attitudes to, and Actual Provision of, Training in the Small Business Sector of the British Economy*, Paper Presented at the 19th ISBA Conference, Birmingham, 20-22nd November

Matlay, H., 1997a, *Evaluating the Effectiveness of Training Initiatives: Factors Influencing the Provision of Training in the Small Business Sector*, Paper Presented at the Small Business & Development Conference, University of Sheffield, 19-20th March

Matlay, H., 1997b, 'The Paradox of Training in the Small Business Sector of the British Economy', *Journal of Vocational Education and Training*, 49, 4, pp.573-589

Matlay, H., 1998, *Educating the Reluctant Entrepreneur: Lessons from Britain*, Paper Presented at the IntEnt98 Conference, Oestrich-Winkel, Germany, 27-29 July

Matlay, H., 1999a, 'Vocational Education, Training and Organisational Change: a Small Business Perspective', *Strategic Change*, 1999, 8, 5, pp.277-286

Matlay, H., 1999b, 'Employee Relations in Small Firms: A Micro-Business Perspective', *Employee Relations*, 21, 3, pp.285-295

Matlay, H., 2000a, 'S/NVQs in Britain: Employer-Led or Ignored?', *Journal of Vocational Education and Training*, 2000, 52, 1, pp.135-147

Matlay, H., 2000b, *Entrepreneurship, Globalisation and Industrial Relations: Lessons from Great Britain*, Paper presented at the 12th IIRA World Conference, Tokyo, Japan, May 2000

Matlay, H., 2001, *New Labour, New Deal? Employment Relations in the Small Business Sector of the British Economy*, Paper presented at the 16th Annual Employment Research Unit Conference, Cardiff Business School, September

Matlay, H. and Hyland, T., 1998, 'Lifelong Learning and New deal Vocationalism: A Small Business Perspective', *British Journal of Educational Studies*, 1998, 46, 4, pp.463-487

Pettigrew, A., Arthur, M. and Hendry, C., 1990, *Training and Human Resource Management In Small To Medium Sized Enterprises: A Critical Review Of The Literature And A Model For Future Research*, Sheffield: Training Agency

Rainnie, A., 1983, *Industrial Relations in Small Firms*, Unpublished PhD Thesis, Newcastle: Newcastle Polytechnic

Rainnie, A., 1984, 'Combined and Uneven Development in the Clothing Industry', *Capital and Class*, 22, pp.11-29

Rainnie, A., 1985, 'Small Firms, Big Problems: The Political Economy of Small Business', *Capital and Class*, 25, pp.140-168

Rainnie, A., 1989, *Industrial Relations in Small Firms*, London: Routledge

- Ram, M., 1991a, 'The Dynamics of Workplace Relations in Small Firms', *International Small Business Journal*, 10, 1, pp.44-53
- Ram, M., 1991b, 'Control and Autonomy in Small Firms: The Case of the West Midlands Clothing Industry', *Work, Employment & Society*, 5, 4, pp.601-619
- Ram, M., 1994, *Managing to Survive*, Oxford: Blackwell Publishers
- Rollinson, D., 1993, *Understanding Employee Relations – A Behavioural Approach*, Wokingham: Addison-Wesley Publishing Company
- Salamon, M., 1992, *Industrial relations, Theory and Practice*, Second Edition, London: Prentice Hall
- Salamon, M., 1998, *Industrial relations, Theory and Practice*, Third Edition, London: Prentice Hall
- Scase, R., 1996, 'Employment Relations in Small Firms' in Edwards, P., (Ed.), *Industrial Relations, Theory & Practice in Britain*, Oxford: Blackwell Publishers
- Schumacher, F., 1974, *Small is Beautiful*, London: Abacus
- Scott, M., Roberts, I., Holroyd, G. and Sawbridge, D., 1990, *Management and Industrial Relations in Small Firms*, London: Department of Employment Research Paper No.70
- Stanworth, J. and Curran, J., 1978, 'Some Reasons Why Small is not Beautiful', *New Society*, 14th December
- Stanworth, J. and Curran, J., 1979, 'Worker Involvement and Social Relations in the Small Firm', *Sociological Review*, 27
- Stanworth, J. and Curran, J., 1981, 'Size of Workplace and Attitudes to Industrial Relations', *British Journal of Industrial Relations*, 1, 1, pp.14-25
- Storey, 1994, *Understanding The Small Business Sector*, London: Routledge
- Tawney, R., 1961, *Religion and the Rise of Capitalism*, London: Penguin Publishers
- Taylor, R., 1982, *Workers and the New Depression*, Basingstoke: The Macmillan Press
- Weber, M., 1994, *The Protestant Ethic and the Spirit of Capitalism*, London: Routledge
- Wilkinson, A., 1999, 'Employment Relations in SMEs', *Employee Relations*, 21, 3, pp.206-217

Young, S., Hood, N. and Hamill, J., 1988, *Foreign Multinationals and the British Economy: Impact and Policy*, London: Croom Helm