

# Managing Labour in Small Firms

*Edited by*  
Susan Marlow, Dean Patton  
and Monder Ram

Routledge Studies in Small Business

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## Managing Labour in Small Firms

This book explores the manner in which the size of the organisation influences the employment relationship with a focus upon small enterprises. The majority of organisations in the UK economy are categorised as small firms, having under 50 employees, and in 2002 such firms were found to provide 43 per cent of jobs within the economy (DTI, 2002). Clearly these organisations make a critical contribution to the British economy, yet—surprisingly—until quite recently very little was known about how such firms managed their labour. Since the 1990s there has been a growing body of evidence which has explored the employment relationship in small firms and this book fulfils an important task by recognising the importance of this literature, and also by moving the debate forward.

*Managing Labour in Small Firms* also acknowledges that size—whilst influential in shaping firm behaviour—will interact with context to create particular employment relationships. These relationships are examined in chapters covering:

- HRM in the smaller organisation
- The challenge of undertaking research in such firms
- The impact of regulation
- The influence of social embeddedness
- The affect of the national minimum wage
- Training and development
- Pay construction
- Employee representation

These discussions link the key themes and concepts within employment relations, and illustrate how firm size shapes their articulation and consequent management. Written by well respected specialists in the field, this is one of the only books on the market covering this topic, and as such it will be an essential text for researchers and graduates studying business and management, human resource management and industrial relations.

**Susan Marlow** is Reader in HRM at De Montfort University. She has extensive experience and an international reputation in the field of small firm research, having her work published in leading academic journals such as *Entrepreneurship, Theory and Practice*. **Dean Patton** is Senior Enterprise Fellow at the Institute for Entrepreneurship, University of Southampton; he has undertaken research and consultancy within and on behalf of small firms. His current research interests focus on the evaluation of small firm policy, and training and management development within smaller firms. **Monder Ram** is Professor of Small Business, and Director of Small Business and Enterprise Research Group, at De Montfort University. He has extensive experience of working in, researching, and acting as a consultant to ethnic minority businesses. He is author of *Managing to Survive— Working Lives in Small Firms*, and co-author of *Ethnic Minorities in Business*.

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# **Managing Labour in Small Firms**

**Edited by Susan Marlow, Dean Patton and Monder Ram**



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# 1 Introduction

*Susan Marlow*

In a recent discussion paper pertaining to theoretical shifts and challenges in the study of the contemporary employment relationship, Edwards (2001:3) argues that ignoring emerging sectors of the economy and associated developments in management theory is blinkered and indeed, counterproductive. Whilst arguing that new areas for study and debate must be recognised, Edwards also states that these must be seen to be part of wider, established theoretical analyses in that, 'tools such as the effort wage bargain (are) equally applicable'. Hence, it was suggested that whilst debate upon developments in labour management must have foundations set in fundamental terms and concepts, it must also recognise how particular situations and circumstances, such as firm size, will shape and influence the articulation of these concepts within the organisation. This book demonstrates the manner in which the size of the organisation influences the effort-wage bargain (Burowoy, 1979). Illustrated by the range of issues and arguments included within this text, it is evident that organisation size will affect the manner in which the employment relationship is managed. However, it is also acknowledged that size, whilst influential in shaping firm behaviour, will interact with a number of other extraneous elements such as market constraints, sector, location, age (amongst others). These will, in turn, interact with characteristics such as management styles, family dynamics, skill profiles, owner gender and ethnicity; the outcome of these complex interactions being varied and shifting employment relationships.

So, whilst sensitive to heterogeneity arising from context, the underlying argument within this book is that it is possible to recognise and accommodate difference within labour management in small firms whilst identifying a number of key themes and concepts which will offer an analytical framework and foundation to this work. As such, this book differs from others which focus on contemporary employment relations by considering the manner in which fundamental concepts pertaining to labour management in a market economy, such as the effort-wage bargain, are shaped particularly by the context within which the firm operates. Hence, whilst drawing upon a number of key areas in current debate such as human resource management (HRM) as a new managerial strategy, employee representation and employment regulation, this collection of essays illustrates how the size of the firm, in conjunction with other influences, such as sector, forms a lens through which specific articulations of the effort/wage concept can be analysed.

When considering the extant literature which explores the employment relationship in small firms, there is a growing sophistication in the material which acknowledges heterogeneity within sector, whilst developing conceptual themes drawn from accepted theory and applying this to the specific circumstance of the smaller organisation. So, whilst the current body of evidence exploring employment relations in small firms is limited, compared to that of larger firms, it is notable for its increasing complexity in unpicking how firm size, in tandem with other contingent factors, will influence the manner in which labour is managed. Indeed, just recently, it has been argued that within the sociological discipline of work and organisations, the growing sophistication of the literature pertaining to labour management in small firms is, 'a key exemplar of analytical advance... (and) British research has made substantial empirical and analytical progress' (Ram and Edwards, 2003:719). This book will contribute further to this debate through discussion and analysis of the manner in which firm size, in accordance with other factors, impacts upon labour management. To set these current debates in context, a critical evaluation of the extant literature pertaining to this area of study will be briefly outlined after which there will be a consideration of how the contributors to this text advance this debate.

As interest in the experience of small firm ownership grew from the mid-1970s so did a certain myth that labour management in small firms was, in general, 'harmonious' with proof of this assertion evident by the absence of collective dispute (Bolton, 1971). Although the analysis of labour management in small firms commanded little attention during the 1980s (Matlay, 2002), the emergent debate focused largely around dispelling the harmony thesis. Rather, it was argued that industrial relations in small firms was generally defined by autocratic owner prerogative (Rainnie, 1989) leading to highly exploitative labour relations. In his challenge to the 'harmony' thesis, Rainnie argued that the structure of the market economy, founded upon the domination of large capitals ensured that small firms were limited in their operations primarily to subcontracting or within niche areas where it was irrational for large firms to operate. Such market positioning then critically affected the nature of the employment relationship in such firms. In effect, in markets where large organisations dictate supplier relationships small firm owners and managers are largely denied choice regarding the manner in which they manage

labour as observing cost constraints and meeting quality targets takes away options for independent decision making. For those firms who locate in niche areas and so do not enter such supply chains, the nature of the market, by definition, limits their operational scope and so again, survival under such constraints will lead to specific and exploitative approaches to labour management. This analysis broadened the debate to locate small firms within the wider market environment, arguing that centralised and fragmented capital have a symbiotic relationship, if asymmetrical in terms of power. Hence, large firms dominate markets in such a way as to essentially dictate the employment relationship in both their smaller suppliers and those confined to niche markets.

In expounding this analysis, Rainnie used a series of taxonomies reminiscent of Weberian ideal types to describe how the market positioning of smaller firms would determine their modes of operations and management strategies. To some degree this was a useful device as it challenged the notion of homogeneity based upon size alone. The focus upon market determinism, however, did somewhat narrow the scope to generate further analyses of the employment relationship in small firms whilst the use of taxonomies is constricting. Although this device is useful in recognising degrees of heterogeneity, the nature of the model by necessity, crudely categorises firms on the basis of limited descriptors. In a contrasting consideration of employment relations in small firms, whilst still favouring the taxonomy approach, Goss (1991) based his typologies of labour management on a wider ranges of influences drawing together both market structures and the impact of owner prerogative upon management style. This led to a more sensitive, sociological assessment which recognised the interplay of structure and agency in the dynamic links between the internal and external environment of the firm (Gorton, 2000), thus acknowledging the impact of the social relations of production upon labour management practices.

Indeed, recent work which has advanced the analysis of the employment relationship in small firms recognises the complex interplay between the position of the organisation in the wider economy and the components which make up the 'black box' of the firm itself (Ram, 1994; Holliday, 1995; Moule, 1998). This case study material, gathered in the 1990s, proved to be both sensitive to market constraints whilst acknowledging how the internal dynamics within the firm led to heterogeneity within the sector. This work illustrated how owners actually managed their employees *in situ* and also, how employees experienced their work in small firms and were in fact able, to differing degrees, to manipulate their own labour process. Reminiscent of the classic case studies of large firms in the 1970s and 1980s (Beynon, 1973; Nichols and Beynon, 1977; Cockburn, 1983) studies of labour management in smaller firms echoed this approach with their intimate portrayals of how the employment relationship was constructed, changed and challenged in such firms. So for example, the study of three small textile firms owned by members of ethnic minorities enabled Ram (1994) to analyse the interplay between sector, ethnicity and gender and then demonstrate how firm size was critical in deciding how these influences collided to generate a particular employment relationship. In recognition of the negotiated nature of the employment relationship, Ram (1994:150) suggests that the market-based autocracy thesis did not adequately 'convey the bargained nature of life on the shop floor, the extent of mutual dependency between workers and management and the importance of informal accommodation'.

The primary influence of market conditions upon the employment relationship was further challenged by Holliday (1995), who explored the manner in which family ownership structures shaped this relationship and how, in particular, paternalism pervaded labour management. The ensuing employment relationship then developed around notions of deference and mutual dependence, but this also acted to obscure exploitative behaviour as notions of obligation intruded, particularly where family members were also employees.

Developing this focus upon the dynamic interplay between the social relations of production and market imperatives, Moule's (1998) study of a button factory brought together issues of firm size in a context of subcontracting dependence. Just as in the other cases discussed, he observed an employment relationship which was constructed around negotiation, toleration and occasional outbursts of employer prerogative. In this particular study, Moule was a participant observer so was able to observe first hand, and over some time, the manner in which the proximity between the Directors and the employees facilitated a particular employment relationship where mutual dependence was tacitly recognised, if unevenly applied. Within Button Co. this led to a situation where, 'the toleration of certain fiddles, practices [by employees] and unpredictable patterns of behaviours by the Directors did not appear to stem from any other motive other than ensuring workable day to day relations' (Moule, 1998:652). Thus, it was argued that this firm had a complex approach to labour management whereby Directors would ignore certain behaviours if targets were met but levels and degrees of toleration were differentiated dependent on employee status. This debate around the notion of consent and control is well rehearsed (Burowoy, 1979) and the type of behaviour identified by Moule in Button Co. is evident throughout the economy. But what sets this firm and many small firms aside in this debate is that this behaviour is not bounded or underpinned by the bureaucratic rationality of formal management processes, a point which will be explored in more detail below. Instead, the business was based upon an informal, tacit, uneven managerial approach which was negotiated and renegotiated on a frequent basis. This work, as part of the wider evidence to analyse the complexity of employment relations in small firms which emerged in the 1990s (see also, Curran *et al.*, 1993; Matlay, 1999; Ram, 1999) advanced the debate by demonstrating the manner in which firm size facilitates social negotiation between employees and employers around the labour process.

These case studies have been particularly helpful in revealing the inter action between markets, firms, owners, managers and employees which then in turn, shapes the manner in which labour is managed. The findings support the notion that it is somewhat simplistic to argue that the employment relationship in small firms is determined solely by the market and so, from necessity autocracy, not harmony, dominates. It would appear that market influence is critical, but equally, the particularistic social relations of production generated within a context of smallness and proximity will facilitate differentiated degrees of negotiation between employers and employees regarding the terms and conditions of employment. As such, the form and content of the employment relationship in small firms arises from the interplay of these factors rather than either one alone. A critical outcome of this more complex analysis focuses around the importance of informal management approaches in small firms. In this context, informality and formality are presented as opposing constructs where the former is perceived to encompass an approach where labour management is largely emergent, flexible and loosely structured. As such, in the small firm this would appear to be an outcome from a number of factors, of importance amongst these is the preference of owners to manage labour either themselves or delegate this task to a general manager. Consequently, there is an absence of informed professional HR management, this ensures that contemporary and appropriate HR policies and practices are unlikely to be in place plus, management by the uninformed encourages and perhaps even requires the intrusion of personal idiosyncrasies and priorities (Wynarczyk *et al.*, 1993; Marlow, 2002). Formality, however, might usefully be described as where:

terms and conditions of employment are formally contracted so both labour and management have recourse to a set of rules, should they feel it appropriate to use them. Moreover, the presence of HR professionals who can be called upon to formulate policy and apply rules and regulations facilitates a more 'arms length' or anonymous application of formality which emphasises bureaucratic rationality.

(Marlow, 2002:4)

This notion of informality in small firms is a useful construct as a general indicator of difference between the employment relationship in small and large enterprises with empirical evidence, drawn from both fine grained research (Marlow and Patton, 2002) and large surveys (Matlay, 2002) supporting this notion, whilst of course, exception is recognised. So, for example Cully *et al.* (1999) in WERS did find that smaller firms were likely to have some formal policies in place—particularly regarding discipline issues. It is interesting to note that Marlow (2002), in a qualitative study of labour management in manufacturing firms, also found some degree of co-existence between formality and informality, but upon closer analysis found that whilst policy was in place, owners were reluctant to use it. This occurred as the close proximity between employer and employee generated a social relationship into which formality could not readily intrude. This social relationship emerged in a number of ways, some of which were highly exploitative, but whether harsh or based around friendships and team working, the resort to formality was unlikely as this in fact 'professionalised' the employment relationship where previously there had been no precedent for this. Matlay (2002), in his survey of 6,000 SME owners, looked for any 'mix' of formality and informality but found little evidence for this and a significant preference for informal approaches to labour management by small firm owners.

However, it is recognised that it is overly simplistic to subscribe to a dichotomy of formality and informality without recognising the dynamic nature of such constructs as noted by Ram *et al.* (2001:846), who suggested that 'informality is therefore, a matter of degree and not kind' when arguing that the manner in which informality is articulated changes over time and is sensitive to context. Drawing upon a study of the impact of regulatory shock, specifically the introduction of the National Minimum Wage (NMW), Ram *et al.* argued that informality was not solely an outcome of owner prerogative but is also a necessary response to accommodating fluctuating product and labour market demands. In essence firms were combining flexibility and informality to remain viable.

There can be little dissent, however, from the notion that a defining feature of firm growth is increasing bureaucracy which will, of course, also apply to the employment relationship (Wynarczyk *et al.*, 1993). This is articulated through the development of formal policy and practice administered by a personnel function subject to updating and, where trade unions are recognised, amendment through collective bargaining. Studies of labour management in large firms again demonstrate the co-existence of formality and informality, indicating that whilst the former 'bounds' the employment relationship, the latter underpins it (Nichols and Beynon, 1977; Westwood, 1986). Moreover, despite recent volatile markets, shifts towards greater managerial prerogative and diminishing union power, the informal manipulation of the labour process persists and continues to be tolerated to a greater or less degree (Elger and Smith, 1998; Webb and Palmer, 1998).

So, it would appear that within all firms there is a differentiated degree of co-existence between informal and formal labour management approaches which suggests that it is too simplistic to develop an uncritical correlation between firm size and these concepts. Whilst recognising this, Marlow (2002) draws attention to the fact that within larger firms, the dynamic of control and consent is bounded by formality in that if, and when, line managers have to overtly assert authority, they have the channels by which to do so or indeed, where necessary or preferred, they can even delegate this task to the professional HR

function. Equally, the recourse to formal policy and practice is available to employees or their trade union representatives should they wish to individually, or collectively, assert their rights within the employment relationship.

From this, it is argued that informality in large firms, although an enduring if changing feature of the employment relationship, is to a degree, a subversive activity. Whilst many informal practices are accepted under the auspices of custom and practice, this is only ever discretionary with both labour and management being able to challenge these practices should the need arise. This is not the case in small firms where formality is less likely to 'police' informality as, even where the former is in place, owner/managers seem reluctant to use it. As noted above, this is supported by survey and case study evidence (Cully *et al.*, 1999; Marlow, 2002) regarding the presence of formal discipline/grievance policies. Yet, as small firms are still overrepresented at Employment Tribunals (Earnshaw *et al.*, 1998) in unfair dismissal cases it would appear that they are either over-selecting litigious employees or failing to apply appropriate policy in the correct manner. The latter scenario would appear more likely. So, whilst the constructs of informality and formality are useful in the debate regarding the association between firm size and employment relations, this is a complex association. Rather, it would appear that formality and informality co-exist in all firms but the degree to which this occurs and the manner in which it emerges will be influenced by firm size. Hence, larger firms are likely to be bounded by formality whereas their smaller counterparts are likely to adopt this approach as an outcome of a range of influences which include, amongst others, owner prerogative, professional ignorance, the need to respond flexibly to market shifts and employer/ employee dynamics. Thus, some degree of difference can be identified between the articulation of formality and informality in large and small firms whilst still acknowledging heterogeneity and change both within firms themselves and within their market context.

Empirical evidence relating to the manner in which regulatory compliance is managed by smaller firms is a good illustration of the impact of external change upon the articulation and accommodation of informality. Regulating the employment relationship through the strengthening of individual rights and, to a lesser degree, collective rights has been a critical element of contemporary Labour government policy (Labour Party, 2001). This has been articulated through the recognition and adoption of European regulation (albeit in a minimal fashion [McKay, 2001]), the enactment of legislation to introduce a National Minimum Wage (NMW) in 1998, plus the Employment Relations Act (1999) and the Employment Act (2002). Overall, the introduction of an increasing tranche of employment regulation has been seen to be particularly problematic for smaller firms. If, as the evidence would indicate, that many such firms rely on differing degrees of informal, flexible, even idiosyncratic labour management, adopting a regulatory approach will be challenging as it is axiomatic that compliance is demonstrated by inclusion within existing, established policy. There has been considerable resistance to the regulation agenda by pressure groups representing small businesses in particular (FSB, 2000) with dire predictions made regarding the impact of increasing regulation upon the performance of the small firm sector per se (Oldfield, 1999). However, the empirical evidence which has emerged regarding this issue suggests that the impact of compliance has been considerably less disastrous than predicted with negative perceptions outweighing 'experiential effects' (Blackburn and Hart, 2001:764).

Developing an analysis of the challenges surrounding the successful incorporation of NMW regulation into largely informal systems of labour management enables Ram *et al.* (2001) and Gilman *et al.* (2002), to unpick the concept of informality in more detail. It was found that whilst informality was positively advantageous in accommodating the NMW as 'the effort bargain was very fluid' (Gilman *et al.*, 2002:65), it was not an outcome solely of owner preference and/or spatial and social proximity with labour. Rather, it was noted in both these papers that the interaction between labour markets, product markets and owner/employee social dynamics generated particular and differing forms of informality which then supported a largely indeterminate approach to pay setting whilst prompting specific responses to pay change. For some firms this meant ignoring the NMW, others were able to adjust fairly easily but the authors of these studies reveal that whilst informality assisted this process, the manner in which it was articulated adapted itself in accordance to changes being introduced. This was in response to both external market conditions and internal approaches to labour management and again, illustrated that informality is not just a product of owner prerogative but an outcome of a number of influences which go beyond the whim of owner choice alone.

This brief overview of some of the critical developments in the literature pertaining to employment relations in small firms serves to demonstrate the growing sophistication of this analysis. Contrary to the belief of Barrett and Rainnie (2002), the literature has moved forward from the generalised dichotomy focused upon notions of 'small is beautiful' or 'bleak house scenarios'. Rather, as evidence has accumulated around analyses which delve into the nature of employment relations in small firms, knowledge has become more detailed and far more sensitive to issues of heterogeneity within the sector as well as the dynamic between these enterprises and their larger counterparts. What has emerged is an argument which suggests that the effort—wage bargain is an outcome of the interaction between the external market positioning of the firm and the internal dynamics of the enterprise. Gilman *et al.* (2002:54) usefully summarises this commenting that, 'the balance between some form of negotiation and direct employer autocracy and the whip of the market is likely to be determined by employee skill, scarcity value, and the extent to which there are fraternal or familial relationships'.

Whilst concepts of formality and informality have been applied rather generally, in the light of recent evidence stemming largely from the regulation debate, it has emerged that these constructs have a co-, rather than counter-, existence and should

not be seen as simply emerging from the interplay of firm size and owner prerogative. Rather, there is a complex relationship between wider issues such as contemporary market pressures and how these are articulated within the firm. Moreover, it is simplistic to perceive informality as irrational, inappropriate or unprofessional. Work by Ram (1994), Marlow (2002) and Gilman *et al.* (2002) indicates that informality facilitates a flexible response to changing environments and so is positively advantageous to firm survival and stability whilst recognising that it leaves employees vulnerable to employer prerogative. The manner in which the study of the employment relationship in small firms is a critical element in the contemporary analysis of shifting labour management policy and practice is now clearly acknowledged (Edwards, 2001). This book will advance the debate further through the consideration of a range of critical issues in employment relations and how they are articulated, modified, understood and practised within smaller firms.

So, in [chapter 2](#), Taylor analyses the manner in which HRM theory and practice has been explored in relation to smaller organisations. The discussion is thought provoking in that it explores Townley's (1993) argument which views HRM as a discourse. In so doing, it is suggested that it is necessary to consider how this discourse is introduced into smaller organisations; to undertake this task it is essential to analyse the structural and cultural conditions that influence the introduction of HRM into smaller firms. As such, the notion of HRM as an objective set of policies and procedures strategically linked to performance enhancement is challenged. In many ways, the smaller firm emerges as the 'other' in organisational studies as the normative model is that of the complex, hierarchical enterprise equipped with appropriate systems to apply new managerial strategies such as HRM, to labour management. Taylor explores this notion, critically evaluating the presumptions underpinning HRM which demand sophisticated managerial practices combined with an ideological investment in the concept of HRM to ensure successful adoption. Taylor draws two key conclusions: first, that the culture of the firm, of management, of labour, of HRM and of regulation is a critical mediating influence which must be understood to fully comprehend differing approaches to labour management; second, Taylor draws attention to the manner in which HRM is linked to performance enhancement as it aims to limit indeterminacy between employee effort and output. This approach, however, is not in accordance with the socially embedded and negotiated employment relationship more likely to be found in smaller organisations and so leads to a degree of tension as firms grow and the negotiated stance is gradually replaced by one which is based upon more structured policy and practice. Currently, it is argued, the theory to explore this shift is narrow and so should be challenged and developed to add to our conceptual knowledge of the role of HRM.

The discussion by Taylor questions accepted theory and practice regarding new managerial strategies and their articulation in firms of differing sizes, so the next chapter by Blackburn, focusing upon methodological approaches underpinning contemporary knowledge of the employment relationship, complements this debate. Blackburn begins with an exploration of the evolution of employment relations research in small firms; during this analysis the methodological challenges of undertaking such work are considered. Moving on from this general overview, the chapter reviews in more depth the degree to which labour management in small firms has been incorporated into the time series dates captured by the Workplace Industrial Relations survey (now Employment Relations). This survey is seen as a barometer by which labour management strategies, policies and practices can be revealed and evaluated and data from these studies informs a wide range of literatures exploring many different facets of labour management. So in many ways, that which is included in this survey is deemed to be the critical core of what actually constitutes the employment relationship. Given that until the late 1990s, small businesses were excluded from the survey suggests that, regardless of the fact that 99.1 per cent of enterprises in the UK economy are classed as such and these firms employ 43 per cent of the private sector workforce (DTI, 2002), the conditions under which labour is managed in these organisations have only just been considered to be of consequence to the wider debate.

Hence, whilst the survey methodology in itself has been subject to critique (see McCarthy, 1994 for example), this discussion advances the debate further with a consideration of how the adoption of specific methodological parameters can effectively define that which constitutes key issues in a field of study. This chapter reveals the growing integration of small firm labour management research into the mainstream debate and it is noted that the first WERs study to be published in the twenty-first century will have again broadened this particular analysis. This chapter argues that there is now a rich and varied body of research drawing upon diverse methodologies which serve to illustrate the manner in which labour is managed in small firms, and moreover this contribution is critical to the wider understanding of the employment relationship in the contemporary economy.

An important element of the last chapter focused upon the manner in which large firms are taken as constituting the normative model of labour management which leads to a focus upon such organisations to advance developments in theory and illustrate change in practice. However, it is argued that such bias leads to a 'skewed' picture of what is happening in the contemporary employment relationship as it offers only a partial view of events; [chapter 4](#) supports this notion. Traditionally, strategic management was a set of complex practices associated with large, sophisticated firms and so, by its very constitution, is not utilised in small firms. Despite developments in the strategy field and particularly, the emergence of HRM theory with its focus upon the strategic use of labour, smaller firms have been largely excluded from this debate as it is assumed that firm size will preclude the utilisation of such management practices which are associated with complex, large organisations. This notion is critically evaluated by Richard Scase through his analysis of sectoral heterogeneity which draws

comparisons between managerial strategies in the traditional manufacturing sector and those in the fast growing creative and professional areas of the economy. From this analysis, it is concluded that the diverse context within which small firms operate ensures that there can be no allembicing operational textbook advice which offers definitive advice upon the ‘best’ approach to managing small firms. Consequently, strategic management of large firms is informed by very different considerations to those of its smaller counterparts, reflecting this assertion, this discussion draws attention to the way in which firm context shapes the manner in which strategy is devised and articulated.

One facet of effective strategic development is to enhance opportunities for individual and organisational learning and training. However, drawing upon the extant literature, it would appear that smaller firm owners, in general, invest few resources in formally developing either themselves, their managers or employees. Empirical evidence (Patton and Marlow, 2002) would indicate that informal approaches to training and learning are the preferred mode of development and this in itself is considered problematic. There is a presumption that an absence of formally delivered training and development with measurable inputs and outputs will contribute to a general erosion of the national skill base and prevent organisations building strategic capabilities (Harrison, 2002). In [chapter 5](#), Patton explores this area in more detail challenging the generalisation that ‘small firms do not train’ with an analysis sensitive to issues of formality and informality in issues of learning and development. It is overly simplistic to suggest that training, development and learning which enhances key competencies does not occur in smaller firms, but rather, the manner in which these practices are articulated will be shaped by firm context and so differ from the formal large firm model. However, in his analysis of current arguments Patton considers some of the implications of trying to integrate informal models of training into the mainstream arena, for example, how to ‘measure’ the extent and impact of training, development and learning upon the individual, the firm and the economy as a whole. If the aim of the government is to improve measurably upon the level of skill and competence in the economy, assessing the contribution of informal training in smaller firms to this agenda would be challenging. It is recognised, however, that engaging small firms in the training agenda has proved to be difficult; as there is little likelihood of regulation in the UK to ensure training becomes incorporated into firm practice and policy, alternative routes are required to address this issue. Drawing upon the extant evidence, this chapter argues for a more inclusive approach to training and development that recognises the value of informal initiatives whilst sensitivity to the diversity of sectoral needs is key to ensuring that training initiatives are perceived as both relevant and able to add value to the organisation.

So, it is argued that the manner in which teaching, learning and development emerges within firms is linked to context. Developing this concept further, in [chapter 6](#), Ram *et al.* link the notion of social embeddedness and the employment relationship; Granovetter’s (1985) theory of mixed embeddedness argues that economic rationale alone is not sufficient to explain individual choices and actions, rather, action is influenced by social and geographical environments. This thesis is particularly useful in the analysis of the employment relationship where the penetration of the local/social/cultural environment into labour management practices is evident. One area of employment which reflects the mixed embeddedness concept is that of ethnic minority labour; there are notable enclaves of employment which are dominated by different ethnic minority groups, for example, the Indian restaurant sector. This chapter analyses the notion of mixed embeddedness, how this is articulated, what the consequences are for employment issues and, critically, will draw together theories of embeddedness and ethnicity whilst demonstrating how the context of firm size has a fundamental affect upon this relationship. Ram *et al.* specifically focus upon the notion of breakout—that is moving away from traditional ethnic minority business niches—and the strategies firms might use to achieve this aim. In exploring this process, the chapter finds that reliance on social networks for key assets such as finance and employees is important at start up, but if the firm does not broaden its networks, serious limitations will be placed upon its ability to access alternative sources of human and social capital. Sectoral location was also found to be influential in terms of breakout, so for example, the restaurant sector is currently buoyant but this has attracted growing numbers of enterprises leading to market saturation. This situation, in itself, has motivated greater creativity in product and process differentiation, which has in turn required shifts in labour management strategies to attract new staff with expertise in these particular areas.

From this analysis of embeddedness it appears that a range of influences combine in a dynamic and variable fashion to shape the employment relationship, hence efforts to formalise and regulate labour management will be potentially disruptive to the organic and negotiated nature of this relationship. However, successive Labour administrations, elected since 1997, have focused upon labour market regulation as the most appropriate manner in which to restore ‘fairness at work’ whilst reflecting the social agenda favoured by the European Union. The Employment Relations Act (1999), which was an amalgamation of new legislation and statutory amendments, aimed to establish a floor of individual employment rights, offer some limited new rights to trade unions and place ‘family friendly’ policies upon the statute book. Attempts to regulate the employment relationship have been resisted by employers’ organisations—particularly small-firm pressure groups—who argued that compliance costs threaten firm viability whilst stifling enterprise. Exploring such issues in more detail, in [chapter 7](#), Hart and Blackburn develop an analysis of the labour regulation debate and the degree to which blanket policy imposition, presuming a degree of homogeneity across the economy with a fixed notion of universal best practice, can be effective. To add a new dimension to this debate, the authors also place their arguments in the broader European context of

regulation to assess to what degree the UK does suffer under any excessive regulatory burden. Drawing upon empirical evidence, the manner in which regulation and compliance issues are dealt with by smaller firms and consequent implications for policy development, employee rights and firm viability are critically evaluated. From this evidence the authors found that contrary to images portrayed by the media and small business pressure groups, regulation did not emerge as the primary constraint upon business performance. In fact, market competition was identified as the greatest challenge in this respect. What has emerged, however, is that once again, the level of heterogeneity within the sector is influential; so micro firms reported few negative aspects whilst those firms who depended heavily upon female employees were more likely to be affected by new maternity rights. Whilst acknowledging such diversity within the sector, Hart and Blackburn did note a more generalisable negative predisposition regarding regulation even when owner/managers professed to have very little knowledge of the details of such. Overall however, this chapter does not support the notion that currently, new regulation is a significant obstacle to small firm development in the UK, but does draw attention to differences between EU member states regarding SME perceptions and responses to regulation which reflects both the pace and intensity of such change.

Having explored recent shifts in regulatory regimes and the manner in which the context of the firm ensures that unproblematic, informed and complete compliance is unlikely, the impact of a particular element of recent regulation is analysed in more detail. The introduction of a National Minimum Wage (NMW) stimulated wide-ranging debate regarding potential damage to overall economic performance and smaller firms in particular. It was argued that the marginal position of many smaller organisations meant that any extra financial demands upon them would lead to increasing and extensive levels of firm failure (FSB, 2000). Widespread predictions of firm failure, downsizing and constrained performance do not appear to have been borne out in practice and in [chapter 8](#), Arrowsmith and Gilman analyse this issue in greater detail drawing upon debates pertaining to theory, role, utility and impact of a national minimum wage across the economy. Given the level of concern articulated by various interest and pressure groups regarding the potentially damaging effect of this policy upon smaller firms in particular, this issue will be considered in some depth utilising empirical evidence drawn from a recent study of the impact of the NMW in such firms. The findings from this study suggest that notions of fairness were defined using both external benchmarks, such as local market rates, and internal values of flexibility and ‘give and take’. Whilst the NMW had raised very low wages without the predicted growth in unemployment, there was a persistence of so called ‘stickiness’ in pay and conditions such that there appear to be relatively few direct and determinate effects of this regulation.

Arrowsmith and Gilman demonstrate that the manner in which pay is related to effort and productivity is highly complex and subject to a wide range of influences and variations. In [chapter 9](#), Cox develops this analysis of employment reward with a particular focus upon the context of the firm and how this fashions the construction and perception of payment. Analyses of variable pay systems in the UK are mostly dominated by investigations of individual performance-related pay. There is very little work which compares the process of design, implementation and outcomes across different kinds of variable pay systems and even less into the way pay and pay systems are managed in smaller organisations. This chapter is grounded in well established theory pertaining to the significance of employee involvement and consultation practices and the role of procedural and distributive justice perceptions in introducing variable pay schemes.

Drawing from empirical evidence, the debate examines the application of differing types of variable pay systems. Attention is drawn to the way in which the design of pay systems is influenced by the nature and size of the organisations with perceptions of distributive and procedural justice shaping employee responses to the schemes. The chapter concludes by assessing how far the management of variable pay systems is typical of, and dependent upon, the methods used to manage other aspects of the employment relationship in such firms. The implications for the application of organisational justice theory to the study of pay systems within smaller firms are also assessed.

As noted above, employee involvement and consultation are highly significant in the determination and perception of payment. In this final chapter these key elements within the employment relationship are considered at greater length. Until fairly recently there was a presumption that smaller firms were more likely to enjoy close, harmonious employment relations. As noted in this chapter, this thesis has been effectively challenged with evidence indicating that a complex and shifting range of influences will impact upon labour management in small firms leading to varying outcomes (Rainnie, 1989; Ram, 1994; Moule, 1998). Simplistic correlations between size and labour management style have been exposed as both inappropriate and inaccurate. However, one area which has remained rather closed—in terms of evidence and investigation—is that of employee representation in small firms. A number of presumptions underpin this stance; trade unions, as the ‘norm’ of representation are rarely present; firm owners are hostile to union organising; representation is, therefore, fragmented and ineffective leaving many small firm employees without an effective voice.

In this chapter Ryan explores such notions in greater detail. It is certainly true that unions are no longer synonymous with employee voice in the UK economy per se (Towers, 1997) so, as suggested by other contributors, it is no longer appropriate to see small firms as the ‘other’ as union representation is unusual in this particular area. This chapter explores issues of voice, communication, consultation and representation and how these concepts are articulated in smaller firms. Evidence would indicate that employees in small non-union firms do have informal and negotiated channels by which they can, to differing and varying degrees, influence their conditions of employment (Ram, 1994; Marlow, 2002). Such channels are created and

managed by employers and employees reflecting a range of often disparate influences from the market position of the firm to the nature of social and personal relationships and so are potentially discriminatory and do not challenge underlying power disparities dependent as they are upon social ties. Thus, forthcoming regulation—the Information and Consultation Directive—has some potential to challenge this preference and the implications of this are considered in some detail. Hence, this chapter draws out a range of issues around employee voice and representation in small organisations to demonstrate that this situation is not static and can by no means be presumed to be simply atomised and fragmented.

This collection of essays draws upon a number of key elements in the contemporary labour management field and illustrates how the context of the organisation will shape the manner in which they are articulated. Using a ‘lens’ of firm size, whilst recognising how other variables also intrude into labour management policy and practice, demonstrates how core concepts underpinning employment relations are sensitive to context and so emerge in a shifting and fluid manner.

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## The hunting of the snark<sup>1</sup>

A critical analysis of human resource management discourses in relation to managing labour in smaller organisations

*Scott Taylor*

### Introduction: universal labour management systems and local order

Sometimes when I'm with people who are in equivalent positions to me you hear views like, 'well, they're just cheap labour'...they really don't give a shit about the people. They look at a person as, how much have you turned over for me, how much profit, how little can I keep you for, and how bad can I make your conditions before the Health and Safety walk in? The sadness is, bastards often do make a lot of money. I sat recently with [the owner-manager of a] company, a wellknown company, with 1400 employees—and their [staff] turnover in the year is 600. One of my girls who [worked] there, she said, 'I felt as if I had a job. I walked in and I walked out, and there was nothing in between'. I've had people come to work for me who've come up in that sort of environment, and I've had a terrible job breaking through—if you go up and say good morning you almost see them cower in front of you, it takes quite a bit of bringing them out, because they would feel exposed, they're suspicious. When they've been in the hands of these people, and they're totally helpless to do anything about it because they need the money—that really sickens me. I think they should clear the bloody boardrooms out, because it's not often the people.

(Director and department manager, Zincpipe)

As outlined in [chapter 1](#), Edwards (2001) argues that there is a continually adapting but fundamentally consistent basis for analysing industrial relations (IR) in work organisations, whatever the sector or context. He suggests that while managerial labels may change and employment environments can be differentiated, a core of critical analytical concepts endures, amongst which we find the notions of conflict, uncertainty and tension. Central to this understanding of IR is the pursuit of interests by groups of employees and managers, and the structured antagonism that results. In this chapter, it is argued that we can better understand this dynamic through analysis of the enactment of labour management practices in the context of human resource management (HRM); that is, the accomplishment of people management through recruitment, appraisal and training, within the particular 'way of ordering' (Townley, 1993) that HRM provides. Following Townley, particular attention is paid to the *actions* of managing labour within the HRM framework. This approach is taken to throw light on the management of indeterminacy in work contracts through changing definitions of formality (Ram *et al.*, 2001; see also [chapter 1](#)). In particular, the analysis examines the interstices of organising people management, where managers and employees must negotiate an order that both can work with. 'All activities that affect the provision or utilisation of human resources within the business unit' (Arthur and Hendry, 1990:233) are open to analysis; however, the symbolism and legitimacy associated with HRM are crucial to understanding people management (Ferris *et al.*, 1999). This chapter develops an analysis that integrates the practical working reality with less visible aspects of the discourse. This approach contrasts with the more common focus on either the individual or organisation in analysing HRM, wherein priority is given to assessing goal achievement and efficiency (Wright and Boswell, 2002). The chapter is informed empirically by a qualitative study of people management practices in four smaller organisations.<sup>2</sup>

The chapter begins with a brief review of the historical development of HRM and its application in British organisational contexts, with a focus on the ideological nature of the discourse. The descriptive nature of mainstream HRM research is noted, and it is argued that this approach has subsequently been adopted in research into HRM in the small business context. The chapter then moves on to consider current research into HRM and performance; it is argued that this strand of research forms the basis of exhortations to small business managers to adopt HRM as a practice and as an ideology in managing people. This dynamic can be seen in a number of studies that seek to apply HRM or test for its existence in smaller organisations, and is further manifest in recommendations to owner-managers to adopt voluntarist state frameworks for people management, such as Investors in People (IiP), that are informed by the HRM discourse.<sup>3</sup> Recognition of the role of state agencies in legitimating certain practices, and stimulating managerial adoption of them, is often absent from research into HRM (de Kok and Uhlener,

2001). A number of problematic aspects of the movement of 'HRM-ism' (Keenoy, 1999) are outlined, and the economic basis of the calls to adopt the discourse is noted. The chapter then presents managerial and employee experiences of people management in four smaller organisations, focusing especially on the nature of formality and the changing basis of enactment over time. This serves to provide a contrast to surveys that provide a momentary picture of intent (Ram *et al.*, 2001), and to highlight the iterative process of people management enactment and formalisation. It is argued that the HRM discourse is not adopted in the organisations; rather, it forms one aspect of people management processes that are in continual flux and under constant contestation.

Thus, the rationale of this chapter is in part to question the association of smaller organisations and HRM in two contexts. First, the academic, in which HRM practices are presented as the answer to managerial difficulties, particularly during expansion. Second, in the policy area, where the ideology of HRM informs legislation and state sponsored initiatives. The approach taken enables the analysis of both the practices within the HRM discourse, and the ideological underpinnings. It is not the aim of the chapter to simply argue against either the practices or the theory of HRM; rather, the intent is to question the unproblematic application of the discourse to smaller organisations. The chapter is intended as a counterpoint to the numerous calls for managers in smaller organisations to adopt an HRM approach to managing people.

As part of this, two alternative means of understanding the relation between discourses of HRM and labour management in smaller organisations, other than the functionalist or positivist, are explored. First, it is argued that more attention should be given to the role of HRM discourses in seeking to minimise indeterminacy in the management of the labour process (Townley, 1993) in smaller organisations. Such an approach would enable a conceptualisation of power relations within people management processes, and provide an alternative to functionalist studies of HRM-performance links. In addition, it would focus attention on how, why and with what effects people management frameworks are enacted, moving away from mock scientific (Van Maanen, 1995) analyses of the efficiency or effectiveness of techniques and procedures. Second, relatedly, it is suggested that people management practices in smaller, non mainstream<sup>4</sup> organisations may be conditioned more by cultural contexts than formalised economic considerations, and that analyses of people management in smaller organisations should recognise this more than currently is the case (de Kok and Uhlaner, 2001). This contributes to the argument that adoption of individual practices and adherence to discourses such as HRM are complex and conditioned by a wider variety of dynamics beyond the economic or functional.

### **Developing HRM: practice and ideology**

Exploring the nature of HRM can take a number of empirical or theoretical forms. This chapter takes the approach that investigation of how a discourse of HRM emerged and has been legitimated is of more interest than assuming that it reflects an 'external facticity' (Townley, 1994:22) of managerial practice. Such an analysis takes into account the many stakeholders involved in developing 'HRM-ism': personnel managers, academics, consultants, professional bodies and state agencies (Keenoy, 1999). Our understanding of HRM as a discourse is thus seen as a complex interplay of practitioner, academic, policymaker and student.<sup>5</sup> It is also relevant to note at this point that managers in smaller organisations are often argued to be excluded from such processes of discourse formation (Gibb, 1987).

Academically, HRM as a clearly articulated approach to managing labour is rooted in a series of publications emanating from Harvard and Michigan universities (Tichy *et al.*, 1982; Beer *et al.*, 1984; Fombrun *et al.*, 1984). An extended treatment of the shift from labelling people management as 'personnel' to the discourse of HRM was set out by Lundy (1994) where she argues that incorporation of strategy, either as a language or as a practice, is the key indicator in assessing any purported move away from personnel to HRM. Such an understanding of people management emphasises the developing professionalism of both HR managers and labour management itself. Linkages with organisational performance are also central to this process, expanding the managerial role beyond basic functional tasks (Ferris *et al.*, 1999). This argument has been used many times to support the claim that HRM provides an approach to managing labour in large companies that is significantly different from the old personnel approach (Guest, 1987; Boxall, 1992).

In contrast, it is easy to find arguments that support the 'old wine in new bottles' (Armstrong, 1987) criticism that is applied to HRM; the primary contention here is that HRM may be seen as a re-labelling of personnel management more than anything else, as part of the ongoing process of professionalisation that personnel managers are caught up in (Lupton, 1964; Bell *et al.*, 2001). Survey evidence appears to support the contention that personnel managers in the UK have mutated only very slowly into HR managers (Cully *et al.*, 1999), and a number of best-selling textbooks continue to juxtapose personnel management with HRM (e.g. Torrington and Hall, 1995; Bach and Sisson, 2000). Wright (1994) provides a systematic analysis of textbooks under both flags, concluding that there is a clear focus on the same subjects in terms of practical action, while Torrington (1989) argued at length that the concept of HRM was merely personnel management 'moved on a bit'. The newly constituted HR manager does, however, take on a role defined by service to the organisational bottom line, moving away from welfarist roots and the old organisational identity as a social reformer or humane bureaucrat. Responsibility for design and

implementation of recruitment and selection, appraisal, payment systems and training is retained, but the ideology underpinning the actions has changed.

This distinction between the practices that HR managers are responsible for, and the linguistic changes that becoming an HR manager rather than a personnel manager involves, is central to understanding the construction of HRM as a discourse. The dichotomous representation of the practical 'essences' (Eccles and Nohria, 1992) of people management, and the ideology of HRM, is however only a heuristic to come to an understanding of both sides of the HRM coin. In practice, the two are inseparable (Townley, 1993). At the broadest level, personnel management is traditionally concerned with four basic realms of organising labour: bringing in new staff (recruitment and selection), methods of paying staff (payment systems), performance appraisal (or management), and training or development. It is unlikely that an HRM textbook could be found that would not include substantial sections on each. Clearly, a wide variety of managerial and organisational dynamics can be chosen through which to illustrate and theorise the basic action.

This approach, according to Legge (1995), can be seen as the normative or aspirational model of personnel.<sup>6</sup> Personnel managers are explicitly advised of the best way to maximise production through efficient use of human resources, in contrast with the descriptive-functional model, in which the regulation of employment relations and discipline are emphasised. This second framework recognises that people, managers and capital owners may not share the same, or even similar, goals. Personnel managers in this perspective are also acknowledged as working within organisational power relations, at a micro-political between-managers level, and at a collective level.

Beyond this is the critical-evaluative model, within which Legge's (1978, 1989, 1995) own work falls. This understanding of the activities of personnel management seeks to incorporate the inequality and power relations that characterise 'working for capital', and to assess activities and associated languages as discourses. This is the rarest analytical perspective taken in seeking to understand personnel management, yet potentially one of the most theoretically fruitful. Townley (1989, 1994), for example, explores the ways in which everyday personnel management activities may be seen as means of constituting subjectivity at work. These analyses locate personnel management as just one aspect of the development of a disciplinary society, in which employees may find themselves working within a matrix of power that seeks to define them as individuals to be 'produced' through personnel practices. HRM may thus be seen as providing means to measure the many tangible and subjective dimensions of labour, with the promise of rendering individual behaviours predictable and individual labour calculable (Townley, 1993).

The final category of Legge's (1995) typology is termed the descriptive-behavioural model of personnel. This thread of research takes as its focus the status and role of personnel professionals within large and complex work organisations. As Legge outlines, key issues here include the gendered nature of the personnel profession (which has arguably changed significantly since the advent of HRM), and a number of connotations attaching to the function that personnel managers have long sought to discard; bureaucratic, interfering, ineffectual and out of touch with business reality (i.e. not always focused on economic outcomes), for example. This approach to understanding HRM is an enduring concern of practitioners and the professional body that regulates personnel and HR management, the Chartered Institute for Personnel and Development (CIPD), and it is a dynamic that will be echoed later in this chapter.

The next section assesses a recent development in the discourse of HRM that provides a category on its own: the performative model. The academic study of HRM is currently much concerned with attempting to construct models of labour management that show causal (or at least correlative) relations between individual or bundled people management practices and performance. The section focuses on two issues: first, whether the proxy measures that are used to indicate whether an 'HRM approach' is being enacted are appropriate to smaller organisations, and second, the ideological aims of this strand of labour management research. It is argued that this conceptualisation of labour management practices is more appropriate in a large firm context both in terms of practice, and in relation to the discourse employed to legitimate it. The defining feature of this project, it is suggested, relates to supporting HR managers in contexts where micro-political battles must be fought to ensure their own and the department's status.

### **HRM and performance: individual and collective**

In addition to seeking to link personnel management with organisational strategy and corporate performance, the systematic focus within HRM discourse on individual performance, on exploiting the labour resource more fully (Storey, 1992), distinguishes it from previous ideas of people management. This emphasis was embedded within HRM from the outset, and has provided academics and consultants with a research agenda since; to prove, using positivist methods, what is an article of faith within the profession and aspirational how-to books. This section explores the progress so far in this endeavour, and questions whether this approach to HRM research should also inform analysis of people management practices in smaller organisations in the manner in which it has done so.

Studies in the area of HRM and performance have become so numerous, particularly in the UK and the US, that it is more practical to review summary articles that gauge progress towards demonstrating correlations between HRM and performance