



Employment relations in micro and small enterprises - literature review

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Collective representation

Regardless of the extent or depth of any literature review upon employee relations in micro, small and medium sized firms, little reference can be found to forms of collective representation, largely because of the dearth of such representation. From the limited evidence available the following points can be observed. Few studies have found any evidence for formal representation of labour in small and micro firms. One of the most extensive surveys, the Workplace Employee Relations Survey (WER), specifically considered the issue of collective representation. From a sample of 603 workplaces, which were divided between small businesses and small multiples employing between 10 - 99 employees, the authors note, "having a worker representative on site might be expected to be something of a rarity. So it proves." (Cully et al. 1999; p.265). Those firms who recognised trade unions, less than a fifth of the sample actually had a worker representative on site. This constituted 2% of the sample as whole. It should be noted that even if a firm recognises a trade union for bargaining purposes, this does not mean that there will be a union representative on site. Cully et al. noted that small multiples who recognised unions were more likely to have a representative on site (47%) but this was still well below the level found in their larger counterparts. The survey noted that a union presence was least likely to occur where a working owner was present so it is probably safe to assume that the smallest firms in this sample, those on the cusp of the micro sector (10 employees) were the least likely to have union based employee representation. Regarding forms of representation in firms, which did not recognise unions, Cully et al. focused upon joint consultative committees considering whether they were utilised as a substitution strategy for a union presence. It was found that only 9 per cent of small businesses with a working owner (the smallest firms) had any form of committee representation, this figure rises to 17 per cent for all small businesses and 43 per cent for the small multiples. It should be noted however, that for the latter group, many of these committees were at a higher level in the organisation.

This finding is replicated in other studies. For example, Marlow and Strange (2000) found that only 7 per cent of their sample of 45 small firms (14 - 100 employees) recognised trade unions but this did not automatically mean that an official representative was present within the workforce. For most firms, they recognised unions so they could adopt industry norms of pay and conditions that were negotiated elsewhere. Within the rest of this particular sample, only a minority of firms (12 per cent) had any form of formal, elected workplace representative, the remainder felt that the 'open door' policy or the informal, family environment of the firm meant that such formality was irrelevant. This study also interviewed 77 employees and it was found that most would rather work for a larger firm and a notable minority would be interested in union representation throwing some doubt upon owner perceptions of the efficacy of workplace communication.

A qualitative case study by Dundon et al. (1999) of a medium sized firm in the North West of England considered issues of representation in more depth. This firm had attempted to introduce employee representation through a 'quality representative' who liaised between departments in the organisation but, the fact that the system was introduced without employee consultation minimised its impact and credibility. This study is important in drawing attention to the tensions that arise when a firm grows beyond the scope of its original owners ability to maintain control. In this case, a family firm was struggling to cope with delegation of managerial functions to professional staff members; however, the family were retaining their decision-making prerogative. This led to problems of communication and rationale throughout the firm. The tradition of loyalty to family was under strain with most employees feeling that consultation and communication was poor given that few opportunities existed for any formal employee voice. Paradoxically however, Dundon et al. did not believe that this discontent would lead employees to consider union representation as the residual element of family loyalty mitigated against this. It is clear that modes of representation in small firms are critically inter-related with informality and the proximity of owners, managers and labour. Regarding the

quality of employee relations, it is well documented that terms and conditions of employment are poorer in smaller firms and labour turnover higher (Scott et al. 1989; Earnshaw, 1998; Cully et al. 1999; Moule, 1998). Such evidence suggests that collective action is not undertaken by labour because of prevailing informality and owner resistance to organised voice so, discontented employees are more likely to choose exit, if denied voice. Alternatively, the work of Moule and Ram (1994) indicates that individuals resort to an almost constant form of individual social negotiation to protect their position as the most rational form of representation. This, on the whole, appears to be wasteful of human effort, resources and productivity.

Given the evidence cited above, all forms of councils and committees are less present in smaller firms although evidence pertaining specifically to micro firms is very rare. Whilst there was no evidence of specific health and safety committees, Marlow and Strange did find that for manufacturing firms in particular, health and safety issues formed a central part of any induction programme. Moreover, in discussion of training, a frequent form of both management and employee training centred upon health and safety issues. This focus arose primarily for insurance purposes.

Little evidence exists pertaining to business and trade organisation membership and dependence. In their study of labour management in smaller firms (14 - 100) Marlow and Strange enquired about forms of business advice and found the sector was influential in determining whether firms used trade organisations. So, textile manufacturers and engineering firms were inclined to be members of specific trade federations which they used quite extensively as guides to average pay and conditions. Where union recognition was present, it was not uncommon for such firms to observe the rates negotiated between trade federations and full time union officials thus, negating the need to engage in enterprise bargaining or indeed, have a lay representative on site. From this study, there was a notable trend for more firms to be utilising professional consultants to seek advice on legal and regulatory matters pertaining to labour management, this was seen as a safeguard against tribunal action by employees. Another frequently cited source of assistance was the Advisory and Conciliation Service (ACAS), an independent government body which offers free advice on employment matters. A study by Abbot (1998) noted some propensity of small and micro firm employees to consult the Citizens Advice Bureau (CAB) for legal advice on employment matters although this is a time consuming path to pursue given the pressure on this free service staffed largely by professional volunteers.

Overall, there is very limited collective representation available to labour in micro, small and medium sized firms giving weight to Tower's (1997) thesis of an emerging representation gap in British workplaces. This is to the detriment of the individual employee who is denied the protection of collective representation but, it is also to the detriment of trade union durability. Machin (2000) suggests that a significant factor underpinning the decline of unions since 1980 is their failure to gain recognition in new (and therefore, undoubtedly small) firms. So, the consequences of poor representation would appear to create a circular outcome for deterioration in the opportunities for recognition. For smaller firms, it appears that the majority of employee representation occurs at an individual, informal level directly with owners and managers. Where this fails to satisfy needs, discontent or exit results. Owners are unwilling to formalise representation as it jeopardises the informal, paternal atmosphere considered to be the basis of team working in many smaller firms.

Collective bargaining

Drawing on the WERs survey, it was noted that, 'There was little collective bargaining taking place in small businesses - just 1 per cent had all managerial employees covered by collective bargaining at any level' (Cully et al. 1999; p.268). This sets the foundation for any commentary upon union representation for bargaining

purposes in smaller firms of all categories. As such, there is little scope for considering independent collective bargaining activity in the sector.

It has however, been established that sector may influence the propensity to observe bargained terms and conditions. So, for example Marlow and Strange found from their sample of manufacturing firms, textile and engineering businesses had some propensity to observe industrial federation rates but it was not possible to observe a size effect here. Rather, it appeared that owners who pursued this route did so for a number of reasons - primarily it absolved them of the problems associated with setting conditions, but it ensured their firm stayed comparable with others in the area. This was an issue for textile firms where a contracting market was encouraging skilled staff to leave the industry so, paradoxically many of these firms were concerned about winning contracts once gained, had to face the problem of retaining appropriate staff to fulfil them. This was not evident in Ram's (1994) study of textile firms but these businesses had a heavy reliance on family labour and utilised more subtle forms of individual, social negotiation to determine working conditions. Small engineering firms also faced a dilemma in attracting and retaining appropriately skilled staff so they were anxious to meet or exceed industry norms. The impetus to move away from the prevalent forms of informality to observation of bargained or federation norms appears to arise from a complex inter-play of individual owner preference, sectoral pressures and skill retention problems.

The implications of the tendency for managerial prerogative to dominate in decision-making in smaller firms are for a highly differentiated system of terms and conditions. It is too simplistic to argue that the absence of intermediaries in smaller firms results in an ill - informed, overtly exploited labour force. From the empirical evidence cited above, it is clear that informality dominates in employee relations in smaller enterprises and whilst this has many disadvantages in offering employees an objective voice it does offer other channels for communication. Many of the studies cited noted the easy access that employees had to their employer, the opportunity to raise production issues, voice complaints and offer suggestions for change (Scott, 1989; Ram, 1994; Kitching, 1994). One of the major implications of such informality is the problem of investigating and establishing trends in labour management in smaller firms. Knowledge will always remain partial and of limited applicability to the whole sector. A further consideration is that such informality and complexity ensures that individual leverage for influence in the employment relationship will arise from particular characteristics possessed by labour such as skill, family influence, length of service et cetera (see Ram, 1994, Moule 1998). This has clear implications for issues of fairness and equity in the management of labour and undermines any attempts to create a foundation of employment rights for all individuals.

From the evidence available it would appear that in the UK there are no specific mechanisms which function to facilitate collective bargaining. It could be argued that the Employment Relations Act (1999) does offer a statutory mechanism to employees to demand trade union recognition for bargaining purposes where at least 50 per cent of the labour force are in membership. Moreover, where 10 per cent of workers are in membership, union officials can pursue a recognition claim. There must be however, significant doubt whether such statutory provision will radically alter current levels of recognition for bargaining purposes. Research investigating low levels of union recognition and bargaining in small and micro firms is largely agreed upon the reasons for this. Overall, a combination of owner hostility towards collective labour organisation, reactive and inappropriate trade union recruitment strategies towards the sector and employee fear, reluctance or inability to adopt a union consciousness mitigates against the growth of formal collective bargaining. Further influential variables such as service sector dominance and the characteristics of much small and micro firm labour also contributes to this problem.

Regarding the relationship between employers and employees there can be little doubt the individuality pervades the whole sector. Yet, there should be some caution in presuming this is invidious. It has already been noted that sector, size, employee characteristics and labour supply issues will be influential in this matter. For some specific manufacturing sectors where skills are scarce and therefore, terms and conditions of employment are open to negotiation there was a tendency for employers to observe collectively bargained rates agreed between the industrial federation and trade union officials. Indeed, Marlow and Strange (2000) found that employers frequently took such rates as a minimum, enhancing them according to the skill value of the individual worker and to reflect local conditions. Again, any investigation of smaller firms should be wary of generalisation without qualification. So, whilst there can be little dispute that individualism is a feature of labour management in small firms, it should be noted that in sectors, such as engineering, which have a tradition of union presence there will be higher level of recognition. In sectors such as private services, where even in larger firms there is a very limited union presence it is hardly surprising that recognition will be limited. Consequently, whilst it is appropriate to consider smaller firms as a discrete sector, it is also necessary to consider their characteristics within a wider analysis of economic trends and markets.

It has been noted that some sectors, for a variety of reasons, are more inclined to adopt sectoral agreements, this is discussed above. It would be fallacious to suggest that all micro firms in a particular sector will reflect this strategy as it has been noted that a complex and wide range of variables from owner attitudes to labour characteristics will influence any decision to observe collective agreements. From survey evidence (see Cully et al 1999; Atkinson and Storey, 1994) there can be little doubt that terms and conditions of employment are poorer in smaller firms than larger firms. For most businesses, conditions improve step wise as the firm grows in that greater formality, more training and development opportunities and professional managerial skills are employed. So, noting the cautions referred to above regarding heterogeneity of the sector, it is not unreasonable to suggest that objectively, any collective agreements undertaken within micro firms will be of poorer quality and content than those of larger ones. This should be considered in the light of evidence however, from the service sector, that employees in smaller firms are likely to articulate high levels of job satisfaction hence, poorer working conditions should not necessarily be deemed coterminous with labour discontent.

Working and employment conditions

By necessity there is some overlap between these discussions as consideration of representation and bargaining are a fundamental part of terms and conditions. Regarding employment status, the evidence (Atkinson and Storey, 1994; Moule, 1998; Cully et al. 1999) clearly indicates that smaller firms are more likely to rely on atypical forms of labour ranging from family members to casual workers. To consider a few of these aspects, Ram (1994) noted how the use of family labour was critical to manner in which the labour process was organised and how employees were rewarded. It was observed that there was indulgence of family members regarding their contribution to production, there were informal hierarchies, which were based around characteristics of both family and gender, there were expectations of how family workers would labour during periods of high demand. Overall, the very dynamic of the labour process combined with the vagaries of a volatile market led to very specific forms of social negotiation regarding working patterns. Overall, it would appear challenging to identify the prevalence of family firms within the UK economy other than to observe that they form an important element of small firm ownership. Further research on family firms; see for example Holliday (1995) suggests that family aid in the form of informal, flexible labour is critical. On a wider aspect, the evidence pertaining to the role of family members as a source of financial assistance to new, very small firms, is legion.

Throughout the text edited by Atkinson and Storey, it is noted that smaller firms look for greater flexibility from labour but this is unlikely to involve formal multi - skilling but an expectation that employees will help out where needed. A case of skill displacement rather than skill enhancement. Numerical and temporal flexibility is also a feature of the sector, particularly in service firms where it should be noted that such working patterns are a feature of the sector as a whole. It did emerge however, that both Cully et al. and Atkinson and Meager found lower levels of formal flexibility in the smallest firms. In terms of discretionary treatment, it has been noted from a range of sources (Moule, 1998; Ram, 1994; Cully et al. 1999) that owner prerogative also extends to tolerating considerable levels of individual negotiation concerning the labour process. From these studies, there is evidence of labour negotiating working hours, having task discretion, being allowed ad hoc absences and given discretion for unexpected caring responsibilities. It should be noted again, however, that such discretion lay within the prerogative of the owner so an individual's ability to negotiate such flexibility is totally dependent upon a range of issues including their skill value, their personal relationship with owner et cetera. From the evidence cited, it is apparent that the use of informal flexibility is rarely adopted as a strategic policy to improve competitiveness but rather, an ad hoc response to both labour supply and product demand circumstances.

It is evident that the proximity of the owner to the workforce has a profound effect upon the employment relationship. In an examination of this issue, Marlow and Strange note that the small firm environment blurs the relationship between labour and capital. This offers a number of advantages to each in that the owner of the firm can create a team ethos where labour identifies with the interests of capital to the extent of accepting poorer terms and conditions of employment and rejecting collective organisation or opposition to owner prerogative. For employees, such a labour process does offer them scope for flexibility and negotiation in their working lives but also leads to isolation and few opportunities to formally or appropriately articulate discontent. Equally, this blurring of roles in a market relationship and the absence of personnel professionals in smaller firms leads to problems. Scott et al. (1989) and Earnshaw (1998) note the high level of industrial tribunal referrals from smaller firms, their empirical examination of grievance and discipline handling reveals a tendency towards informality and avoidance. Rather than disrupt the 'team' ethos, owners prefer to ignore transgressions or have a 'quiet word' with the offender. If this failed to solve the problem, rather than utilising formal policies and processes the owners were more inclined to dismiss the offender which effectively removed the problem and facilitated the return of equilibrium. However, this inappropriate management of labour opens the way for tribunal appeals where a high level of success for appellant is noted. Further support and qualification is offered for this from Cully et al. who found that smaller firms with an owner present were equally likely as larger firms to have formal discipline and grievance policies, but much less likely to use them - preferring an informal approach. This is just one example of the impact of owners undertaking labour management tasks. From almost any study of employee relations in smaller firms, it is apparent that a lack of professional labour management is more likely to result in informal recruitment and selection processes, a poor appreciation of training and development, fewer procedures for monitoring workforce productivity, simplistic payment schemes, poor employee representation and an overall lack of strategic intent.

Studies which have noted contract issues, (Scott et al. 1989; Marlow and Strange, 2000) found that employees of smaller firms were less likely to issue formal contracts of employment or formal offer letters constituting such a contract. Owners were unlikely to be aware of the statutory implications of neglecting to offer formal contracts. Given that it is indisputable that formality of labour management grows with the firm, it is axiomatic to suggest that micro firms are least likely to observe the statutory requirements of employment.

Reliance upon larger survey evidence of employee relations in smaller firms firmly suggests that pay, conditions and fringe benefits improve as firms grow - see Cully et al. and Atkinson and Storey. From a study of managerial labour markets in small and medium sized firms, Wynarczk et al, (1993) identified fringe

benefits as, for example, company cars, private health care, share option schemes, but such benefits could extend to profit/productivity related pay bonuses, flexible working, child care provision and other family friendly policies. This matched sample study of fast growth and static firms again confirmed that the smallest firms offered the fewest benefits. The fast growers were able to offer more, partly as a strategy of attracting higher calibre management to support rapid growth paths. Such assertions must again be qualified with the notion that size alone will not be the sole determinant of this. As Curran and Blackburn (2001) note, size is a contingent issue in determining how a firm operates and performs rather than the sole determinant. So for example, if the high tech sector were to be considered, where the vast majority of firms are small but dependent on very highly skilled labour, terms, conditions and benefits are competitive and preferential. Simplistic generalisations must be avoided.

Conflicts

One of the most enduring suggestions of the Bolton Report (1971), whose overview of the small firm sector in the late 1960s is considered to be a starting point for much contemporary research, was that of harmonious industrial relations. The authors believed that 'smallness' led to shared ambitions between labour and capital regarding the aims and objectives for the firm so, the potential for dissonance was minimised. It was concluded that a distinctive feature of smaller firms was harmony in labour relations evident from the lack of collective, overt industrial disputes so notable in the large firm sector of the era. Since this simplistic assertion, analyses of labour management in smaller firms suggests that conflict articulation and resolution is a feature of the employment relationship but takes a different format from that in larger firms. It has long been recognised that organised, collective, observable withdrawal of labour is but one response to unacceptable management policy and practice. Other collective actions include working to rule, over time bans, go slows et cetera. Individualised resistance is articulated through sabotage, absenteeism, working without enthusiasm and ultimately, leaving the firm. Not surprisingly, given the informal, individualised nature of most labour management in smaller firms, and the absence of trade union representation, individualised articulations of discontent dominate. From the early work on conflict in small firms, for example, Rainnie (1989) and Goss (1991), the myth of harmony was quickly dispelled and individualised resistance identified. The primary response to discontent appeared to be exit rather than voice so, those employees unhappy with their terms and conditions sought employment elsewhere, hence labour turnover was a primary expression of conflict. High rates of labour turnover have been identified in more recent studies as conflict resolution tactics, see Atkinson and Meager and Marlow and Strange for example. It would appear that employees are reluctant to either organise fellow workers or personally articulate problem issues because of the proximity and power of the owner. Given the primary role of the owner in organising the labour process it was deemed difficult to draw the line between a resistance to working conditions and personal criticism of the owner.

Exit is not the only strategy available to employees made vulnerable as individual protestors against the prevailing working environment. Moule (1998) notes the ability of individuals to arrange their own working conditions through social dialogue and negotiation with firm directors, which to some extent, mitigates some discontent in that it offers employees a sense of discretion over work. This study also found that individuals practised a range of 'fiddles' and deceptions to gain free time during the working day, this was recognised and tolerated by the firms directors. There was a sense that the retention of key staff and of an environment of team working was traded off against a degree of worker autonomy and dishonesty. In their large scale survey of smaller firms, Cully et al. support the general distrust of size leading to industrial harmony with their comment, 'low levels of industrial action in all small workplaces might suggest that employees working there had a low proclivity towards taking such action, but another interpretation might be that they had no recourse to collective action because of the general absence of representative structures' (p.271). Supporting this assertion, the authors note the higher levels of voluntary resignations in the whole sample of smaller firms.

Discipline and grievance management has already been explored in a slightly different context above. In this particular context it should be remembered that the application of discipline measures is an articulation of owner or managerial discontent with labour whereas, the expression of a grievance should be the first option available to labour to express a problem. Cully et al. confirm that whilst most firms in their samples had formal policies to address these issues, there was a reluctance to use them as they indicated a failure of personalised management styles to resolve problems in an informal manner. For labour, the resort to a formal grievance channel would draw attention to themselves as 'trouble makers' unable to accommodate to the prevailing labour process. These factors are demonstrated in studies which draw attention to the level of social negotiation and dialogue used by small firm employees to secure individualised, personally acceptable niches for themselves in the labour process and where this is not possible, to seek employment elsewhere, or for the most marginal, vulnerable labour to tolerate the situation. Overall, there appear to be a range of tactics, stances and individualised solutions to managing conflict in smaller firms which will arise from the market position of the firm, labour characteristics and management strategies. Specifically identifiable norms and mechanisms for managing conflict in micro and small firms would appear to be elusive apart from the application of descriptors such as 'individuality', 'informality' and 'negotiated solutions'. However, it can be firmly stated the disputes, strikes and lockouts are less frequent in micro and small firms than in larger organisations.

Size and sector considerations

From this survey of literature, it does appear that whilst firm size is a primary factor in determining labour management styles and a stance, using this variable alone leads to a highly simplistic assessment of labour management. Work by Curran et al (1993) and Kitching (1994) categorically states that there are substantial and profound differences between employment practices in the service and manufacturing sector such that using firm size as a determining variable, rather than a contingent variable is unhelpful to the analysis of employee relations. Even the division between services and manufacturing is somewhat crude. If a more discerning examination is utilised it can be noted that personal and retail services, compared to professional services, are more likely to depend on flexible, feminised labour whose specific needs and characteristics will lead to a particular form of labour management. Moreover, taking more careful account of sectoral labour characteristics offers some explanation for certain aspects of small firm employment relations, such as the low levels of trade union representation. Unions have never had a strong presence in private service sector firms - large or small - and have, in the past, neglected to adopt policies, which would attract the typical employee from this sector into membership. Hence, to suggest that firm size alone will determine the presence of collective organised representation is a false, partial correlation. Yet, it cannot be denied that size is a critical aspect in issues of employee representation. In a recent analysis of union decline in the UK, Machin (2000) observes that unions have largely failed to register a presence in new (axiomatically small) firms since 1980. Hence, union strength in the manufacturing sector overall has declined whilst their already tenuous presence in private sector services has dwindled alarmingly. Machin argues that this failure to gain entry to new firms over the last 20 years, rather than any determined managerial strategy of de-recognition, has been a central cause of union decline.

Building upon this argument of complexity within broad sectoral divisions, a very important component of the small firm service sector is that of high technology firms where working conditions, labour characteristics and expectations and ownership patterns et cetera are very specific. The manner in which high tech labour negotiates terms and conditions of employment is not likely to reflect the social negotiations, fiddles and deceptions to which the button makers in Moule's study resorted. Such examples of differences within the service sector can easily be replicated within the manufacturing sector where comparisons between the employment practices of struggling clothing manufacturers and those of specialist engineering firms are hardly comparable. So, whilst it is acceptable to use a literature overview of micro, small and medium sized firms to

tease out generalisations pertaining to labour management, these must always be considered in context. So, whilst firm size is a major consideration factors such as sectoral influence, labour characteristics, owner preferences, market constraints, competitive environments and supply side issues, to name but a few, cannot be discounted or merely subsumed to the size variable.

The relationship between large and small capitals is a critical variable determining the manner in which a small firm is managed. Those firms which Rainnie (1989) describes as 'dependent', i.e. having a sole or primary large customer, are vulnerable in a number of obvious market aspects whilst enjoying the security of a (usually) financial sound organisation. Apart from obvious competitive advantage, assessments of smaller firms which seek accreditation for quality (for example ISO 9000) or labour management (for example, Investors in People) note that they usually do so in response to pressure from existing large customers or as part of a bid to win contracts from such (Kinnie et al. 1999). So as subcontractors, smaller firms can be pressurised into raising standards if returns are secure. The evidence would suggest that such quality standards are of a uniform variety so are disproportionately expensive for smaller firms and consequently, this mitigates against micro firm engaging with such benchmarking.

Policy implications

Having cautiously identified a clear trend for informality in the management of labour, it would appear that such informality underpins highly differentiated approaches to employee relations so informality should not be confused with uniformity. One clear policy implication from the evidence cited is a need to encourage greater formality and professionalism in managing labour. Any attempt to introduce greater formality into the employment relationship will probably have to be statutory with non-compliance penalties rather than advisory regulation as prevailing evidence (Scott et al. 1989, Winters and Nolan, 1999; Marlow and Strange, 2000; 2001) suggests that advisory regulations will be largely ignored by small firm owners already resistant to regulatory compliance. The introduction of a national minimum wage (nmw) in the UK was surrounded with predictions of wide scale business failures as small firms in particular would struggle to find the resources to meet the nmw. Such predictions have, however, proved unfounded as the low level of the nmw and statutory obligation for all firms to adopt it has cushioned the impact (The Low Pay Commission, 2000). It is still too early to assess the full impact of the Employment Relations Act (1999), which makes statutory provision for individual and collective employee rights. From preliminary enquiries (Marlow and Strange, 2001) it would appear that some small firm owners are determined to ignore any compulsory regulation but there is some evidence for greater formality towards employment policies and practices and some consultation of professional agencies to ensure appropriate standards are adopted.

It is clear that there is a representation gap for the objective articulation of employee views upon their own labour process. This is unlikely to be addressed by easing the path for statutory trade union recognition given the complex and varied reasons for the reluctance of many firm owners and their employees to engage with trade unions in any constructive manner. There would be probably more scope for enterprise works councils to be more effective but again, even in the face of regulatory requirement, these are unlikely to be adopted by micro firms whose size will ensure a persistence of informality and employer/employee personal interaction. The problems already identified regarding the awareness of power inequity by labour in very small firms, in the context of a personalised employment relationship creates a barrier to open discourse.

Finally, it would appear that the policy implications are two fold. Either a broad attempt to eliminate informality by such means as a more detailed Employment Relations Act with defined penalties for non-compliance and obviously, some method of policing the requirements. Alternatively, individual aspects such

as the employment contract issue, the formalisation of discipline and grievance policies can be focused upon as discrete areas. Governments and advice agencies would have to decide whether this should be in a statutory manner or as a dedicated campaign through existing agencies such as the Small Business Service.

Regarding stakeholder views, attempts to formalise the employment relationship in both small and micro firms is likely to be resisted or ignored by owners and managers. Such rationalisation of labour management is yet another time consuming, regulatory compliance task to be resisted but primarily, whilst noting heterogeneity, small and micro firm owners consider the exercise of personal prerogative to be a fundamental right. It is their knowledge of products, markets and individual employees, which is combined to create an employment relationship which is likely to be specific to the context of particular firms. This flexibility is dependent upon informality. It would appear that if greater formality could be associated with improved terms and conditions of employment, small firm labour would support such policies. However, it is apparent that the opportunities to engage in personalised social negotiation to create a labour process that is advantageous to an individual are valued. As the study of service sector labour by Curran et al. (1993) demonstrated, many micro and small firm employees express high job satisfaction as the flexible nature of their employment served their atypical labour market needs. Hence, just as there cannot be any presumption of homogeneity regarding employee management in small firms the needs of labour also vary. Overall, however, if a fairer more equitable labour market is preferred this can only be achieved through greater regulation based upon formality. For governments, small firms are a vital sector of the economy in terms of the new jobs they create as well as the markets they serve. Whilst in the 1980s there was a policy preference for encouraging the development of new small firms to maximise job creation, in more recent years both the potential for these firms to create sustainable new jobs and the quality of this employment has been brought into question (Storey, 1994; Atkinson and Storey, 1994). Hence, recent government initiatives have recognised that micro firms offer the greatest potential for new employment creation so a balance must be found between encouraging firm growth whilst also articulating support for better quality jobs. This has led to a strategy of introducing legislation to establish a floor of rights for all employees but tempering this statutory requirement with some unpaid provisions (parental leave) and low levels to facilitate compliance, such as in the nmw. Regarding future policy development, governments must decide whether to pursue the path of encompassing legislative provision or a more diffuse, discrete focus upon different aspects of the employment relationship articulated through specialist small firm advice agencies.

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