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# Small and Medium-sized Enterprises: Findings from the 2004 Workplace Employment Relations Survey

JOHN FORTH, HELEN BEWLEY and ALEX BRYSON

# **Small and Medium-sized Enterprises**

Findings from the 2004 Workplace  
Employment Relations Survey

**John Forth, Helen Bewley  
and Alex Bryson**



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# Executive Summary

## Introduction

There is little quantitative data on the employment practices of small and medium-sized firms (SMEs), despite the fact that 94 per cent of all private sector firms in the UK have less than 250 employees. This study uses the nationally representative 2004 Workplace Employment Relations Survey (WERS 2004) to describe employment practices in private sector workplaces belonging to SMEs. As both managers and employees were surveyed within workplaces, this report is able to compare employees' views of the employment relationship with those of their managers. It also makes comparisons between the practices of SMEs and those of larger firms.

## The management of employees

In SMEs it was much more common for employment relations to be dealt with by an owner-manager than a personnel specialist. SME managers with responsibility for employment matters were less likely to have a formal qualification in personnel management or a related subject than managers working in this area in large firms. Nonetheless, they tended to have more career experience of the personnel role than managers with responsibility for employment relations in large firms. Managers responsible for personnel matters in SME workplaces spent less time on employment relations, but carried out a wider range of tasks than those in an equivalent position in large firms. SMEs made greater use of external advice on employment relations than workplaces which were part of large firms.

## Recruitment, training and work organization

SMEs were less likely to use formal channels of recruitment than larger firms. This appeared to be related to the lower incidence of personnel specialists in smaller firms. Workplaces which were part of a small firm were less likely to provide off-the-job training than those which belonged to medium-sized and large firms. However, where small firms did invest in off-the-job training, the number of days provided was similar to the amount provided by larger firms. As there was no evidence of employees being any the more likely to be over-, or under-skilled in SMEs, it seems likely that smaller firms substituted off-the-job training with on-the-job training, the incidence of which

was not investigated in the survey. Team-working arrangements, problem-solving groups and functional flexibility were less developed in SMEs than in large firms, but this appeared to be determined by workplace size to a large degree.

### **Information and consultation**

Union representation was unusual in workplaces which were part of SMEs, with direct communication with employees the more common arrangement. SMEs were less likely to supply employees with information on a regular basis than large firms and owner-managers were particularly unlikely to share financial information. Consistent with this, employees were less likely to report that managers were good at keeping them informed on financial matters where they worked for a small firm which was run by an owner-manager. However, in contrast to employees in medium-sized and large firms the majority of employees in small firms reported that managers at their workplace were good or very good at keeping employees informed about changes to the running of the organization, changes in staffing and changes to their job. Managers of small firms were less positive about unions than managers in large firms and union membership was lower among employees who worked for SMEs than among employees who worked for large firms.

### **The determination of pay and other terms and conditions**

Unions were rarely involved in pay-setting in SMEs. Pay was set unilaterally by management for over four-fifths of employees who worked for SMEs, whilst one tenth of employees of SMEs negotiated their pay on an individual basis with managers. Variable payment systems were less common in SME workplaces than in large firms, although they were still used in a significant proportion of SMEs. Pay appeared to be higher in medium-sized and large firms than in small firms, but satisfaction with pay was lower in large firms, perhaps because these firms had greater pay dispersion. It was less common for managers in SMEs to engage in joint regulation of non-pay terms and conditions, or to consult over redundancies than large firms.

### **Conflict and dissonance**

Grievances were most likely to have arisen in medium-sized firms, whilst managers were least likely to have used disciplinary sanctions over the past year in small firms. Large firms were much more likely to have formal procedures in place for resolving individual disputes. Nevertheless, the majority of workplaces in even the smallest firms had these procedures in place. The level of trust between managers and employees, and the rating of management-employee relations appeared to be highest in the smallest firms. The rate of absenteeism was lowest in workplaces which belonged to small firms, whilst voluntary resignations were lowest in SMEs.

## **Equality, diversity and work-life balance**

Workplaces in small firms were less likely to have a formal equal opportunities policy in place than workplaces which were part of larger firms. Although it was unusual for SMEs to have reviewed a range of activities to identify discriminatory practices, this was also rare in workplaces which belonged to large firms. Workplaces within small firms were less likely to have practices in place to support employees with caring responsibilities than those which were part of larger firms. Despite the fact that managers in SME workplaces were more likely to believe that it was up to employees to balance their work and family responsibilities than those who worked for large firms, employees who worked for smaller firms were more likely to expect that they would have access to flexible working arrangements if required. Employees of SMEs were also more likely than those who worked for large firms to find managers understanding of their responsibilities outside of work and to report that managers treated employees fairly.

## **Employee attitudes**

Managers in small firms were more likely than those in large firms to report that they involved employees in decision-making when making changes at the workplace. Consistent with this, employees who worked for small firms believed that they had a greater degree of influence over the final decisions made by managers. Employees of smaller firms were also more likely to believe that they had job autonomy, influence and security, and reported lower work intensity and higher general well-being than employees who worked for larger firms. In addition, they were more likely to feel committed to the organization.

## **About the survey**

WERS 2004 consisted of interviews with 2,295 managers, 984 union and non-union employee representatives and 22,451 employees in workplaces with 5 or more employees. In addition to this, a Financial Performance Questionnaire was completed by managers in 1,070 of these workplaces. The cross-section survey was supplemented by a panel survey, in which 938 workplaces with 10 or more employees originally surveyed in 1998 were revisited. Fieldwork was carried out between February 2004 and April 2005. WERS 2004 provides a sample of 621 workplaces and 4,683 employees located in private sector SMEs. The WERS 2004 data is available from the Data Archive at the University of Essex (<http://www.data-archive.ac.uk>). A free publication, reporting the First Findings from the survey, is available at: <http://www.dti.gov.uk/files/file11423.pdf>, whilst the full publication reporting the primary analysis, *Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey*, was published by Routledge in July 2006.

# 1 Introduction

## Introduction

The significance of small and medium-sized private sector enterprises (SMEs) is often overlooked by analysts and commentators. Yet official statistics on the incidence of SMEs record that, at the beginning of 2004, there were 1.16 million private sector firms with fewer than 250 employees, representing 94 per cent of all employers in the UK economy.<sup>1</sup> These SMEs employed a total of 8.66 million employees (36 per cent of all employees in the UK) and they accounted for 47 per cent of private sector employers' turnover. The numerical importance of SMEs is therefore apparent.

SMEs are also considered by many to be a vital part of a healthy economy because of the role they can play in the creation of jobs and the fostering of innovation, together with their perceived ability to adapt to rapidly changing market conditions. In addition, some maintain that they perform an ideological function in the modern economy by sustaining notions of competition and opportunity (Scase, 1995: 571–72). Others question the emphasis on SMEs, arguing instead that enterprise and entrepreneurship should be encouraged in all types of business and pointing to the role played by SMEs in job destruction (TUC, 2003). Nevertheless, their importance as a provider of employment is evident and, for this reason alone, SMEs are necessarily of interest to those concerned with employment relations.

## Existing research on employment relations in SMEs

Until just a few years ago, it was common for researchers in the field to bemoan the limited extent of research on employment relations in SMEs (see, for example, Scase, 1995: 57–571; Wilkinson, 1999; Matlay, 1999). More recently, however, there appears to have been an increase in the quantity of research, and a broadening of the research agenda.

One of the primary themes in the literature concerns the degree of harmony or dissonance in workplace relations. In the 1970s, the *Committee of Inquiry on Small Firms* concluded that, although physical working conditions were generally inferior to those found in larger firms, industrial relations in smaller firms were distinctive in a conflict-prone economy as being predominantly harmonious (Bolton Report, 1971). However, this assertion was based on what many subsequently argued to be rather casual observations about levels of labour turnover and the incidence of industrial disputes (Curran and Stanworth, 1981). Later

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analyses took an opposing view of relations in small firms, arguing that they tended to feature autocratic styles of management which led to exploitation (Rainnie, 1989). But it was also argued that many managers of small firms had little choice but to adopt such an approach, since they were constrained by their economic dependence on large firms.

Such generalizations – both about the character of relations and the role of market forces in shaping them – are now criticized in favour of more nuanced accounts. These emphasize the tensions that arise, particularly for owner-managers, in maintaining control whilst also maintaining positive working relationships. But they have argued that ‘negotiation of the balance’ between these goals leads to contingent and fluid approaches to the management of employment relations (Moule, 1998; Ram and Edwards, 2003). This highlights the informal approach to employment relations that is still accepted to characterise much of the sector, whereby labour management is largely “emergent, flexible and loosely structured . . . there is an absence of informed professional HR management . . . and contemporary and appropriate HR policies and practices are unlikely to be in place” (Marlow, 2005: 5). Yet even this may be set to change as legislation on specific aspects of the employment relationship, such as the handling of individual disputes, seeks to introduce greater formality in even the smallest of firms.

Despite the increasing number of studies that have emerged over the past decade, there remains little nationally-representative quantitative evidence on the nature of the employment relationship in small and medium-sized firms. There are a few notable exceptions (e.g. Matlay, 1999, 2002; Kitson and Wilkinson, 2003a) but the literature is dominated by in-depth, qualitative research of particular companies or industries. Its strength is therefore its ability to depict the complexity and subtlety of employment relations in SMEs in particular circumstances. The drawback is the difficulty one has in extrapolating from these results to a wider population. The primary source of nationally-representative quantitative evidence on employment relations in Britain – the Workplace Employment Relations Survey (WERS) series – has historically been ignored because of its exclusion of smaller workplaces (which are more common in small firms) and its resultant focus on institutions and procedures.

WERS began to offer new opportunities in 1998 when the fourth survey in the series expanded its scope to include workplaces with 10–24 employees for the first time. Substantial alterations were also made to the survey instruments. The management questionnaire was revised to include more questions on issues such as recruitment, training, work organization and workforce flexibility, and a new survey of employees was introduced, thereby providing a wealth of data on job quality and employees’ experiences of work. The expansion in the sample meant that, although the population of workplaces represented by the survey still only accounted for 13 per cent of all workplaces belonging to SMEs, it accounted for three-fifths (61 per cent) of all employees working in SMEs. A chapter in the 1998 sourcebook was devoted to employment relations in smaller firms (Cully *et al.*, 1999: 251–74). Even so, only a small number of papers presenting secondary analysis followed (Gilman *et al.*, 2002; Harris *et al.*, 2004; Bacon and Hoque, 2005; Hoque and Bacon, 2006).



## What can WERS 2004 contribute?

The fifth Workplace Employment Relations Survey (WERS 2004) further enhances the opportunities for quantitative research on smaller firms. Following consultation with a team of academic experts on employment relations in SMEs, and with funds from the Small Business Service, WERS 2004 expanded the scope of the survey to include workplaces with 5–9 employees. This expanded the population of workplaces represented by the survey sample so that it accounted for one quarter (26 per cent) of all workplaces belonging to SMEs and three-quarters (76 per cent) of all employees working in SMEs. An introduction to WERS 2004 is provided in Appendix A.

The WERS sourcebook (Kersley *et al.*, 2006) focused on the consistently-defined subset of workplaces with 10 or more employees in order to examine the degree of change in employment relations across the whole economy over the period since 1998. This left an opportunity to utilise the new sample of smaller workplaces. That opportunity is taken up in this companion volume, which uses data on workplaces with 5 or more employees to examine the nature of employment relations among workplaces and employees that belong to private sector SMEs. The aim is to contribute to debates about the nature of employment relations in small and medium-sized firms, and also to contribute to the wider examination of the role of firm size in shaping private-sector employment relations.

Despite the relative paucity of statistical evidence on the nature of employment relations in smaller firms, there is scepticism in some quarters about what might be learned from large-scale surveys about management-employee relations in SMEs (see, for example, Blackburn: 2005). The strength of large-scale surveys, it is argued, is their ability to record the incidence of formal structures and practices, something that is less pertinent to the experience of employment relations in smaller firms. A second concern is that the small firm (or workplace) may often be unable to furnish easily-identifiable role-holders who can speak authoritatively about employment relations issues at their location, due to the lower incidence of specialised personnel managers and the scarcity of union representation. The relative absence of recorded data on employment issues in SMEs is also thought to inhibit quantitative data collection methods.

Large-scale surveys are certainly well-suited to the collection of information on the incidence of formal structures and practices. Their reliance on closed questions and the fact that they are often conducted intermittently mean they are necessarily more limited in their ability to examine ad hoc arrangements or depict the ever-changing social relations within the workplace. However, the WERS questionnaires go some way beyond a concern with the facts and figures that commonly form part of personnel records, or the institutional arrangements that have characterised some investigations of larger firms. Furthermore, the survey collects a good deal of attitudinal information that provides an insight into the experience of work in firms of all sizes.

As regards the availability of suitable respondents, smaller firms and workplaces are naturally less likely to employ specialist managers of personnel or related issues. But this is also reasonably common in larger firms and workplaces. Only

two-fifths (39 per cent) of the 2,295 workplaces that participated in WERS 2004 employed someone with the title of personnel manager, human resources manager, employee relations manager or similar. Accordingly, all approaches are directed to the “senior person at the workplace with responsibility for personnel or employment relations issues”, in recognition of the fact that, in many workplaces – small and large – this person may be the owner or proprietor, a general manager or a manager whose primary responsibility lies in another area, such as finance.<sup>2</sup> Furthermore, since 1998, the survey has collected data directly from employees to ensure that it obtains a picture of employment relations that is less dependent on the managerial respondent. These linked employer-employee data are rarely present in most SME studies.

In addition to these attributes, WERS 2004 also benefits from healthy response rates, both at survey and item-level, thus guarding against non-representativeness. It also benefits from its considerable scope and scale – it has a large sample of workplaces belonging to SMEs, and includes a wide range of questions on a broad spectrum of employment relations issues. The sample size and question coverage permit wide-ranging comparisons with workplaces and employees in large firms. A limitation of WERS is that, even after the extension of the employment threshold, the survey is still only representative of workplaces with 5 or more employees, which together employ around three-quarters of all employees in SMEs. But as Blackburn points out (2005: 59), WERS 2004 is not a panacea for understanding the employment relations in smaller firms. Indeed, there are few if any methodologies in the social sciences which offer universal solutions. Advances are more usually made incrementally through a variety of methods which, together, broaden our understanding in different, but complementary, ways.

### **Identifying workplaces and employees that belong to SMEs**

The WERS 2004 Cross-Section Survey provides a sample of 2,295 workplaces that, after appropriate weighting, is nationally representative of all workplaces with 5 or more employees, located in Great Britain (England, Scotland and Wales) and engaged in activities within Sections D (Manufacturing) to O (Other Community, Social and Personal Services) of the *Standard Industrial Classification* (2003). A workplace is defined as comprising the activities of a single employer at a single set of premises. Examples include a single branch of a bank, a car factory or a school.

Management interviews were conducted at each of these 2,295 workplaces. Self-completion questionnaires were distributed to up to 25 randomly-selected employees in each workplace where the manager permitted it, and were returned by a total of 22,451 employees. Interviews were also conducted with 948 on-site employee representatives and financial data was returned by 1,071 of the participating workplaces. Appendix A provides full details.

Definitions vary as to what constitutes an SME and Storey (1994) notes that “there is no single, uniformly acceptable definition of a small firm”. Some studies have used criteria based upon turnover, market share, ownership structure, or even respondents’ perceptions of what constitutes a smaller firm. However,

whilst complex definitions may permit a better distinction between smaller and larger firms within an individual industry, they make comparisons across sectors less transparent. Accordingly, employment-based definitions generally prevail over other options. As indicated at the beginning of the chapter, official statistics in the United Kingdom and European Union categorise all private sector enterprises with fewer than 250 employees as SMEs. Within the SME category, small firms are defined as those employing fewer than 50 employees and medium-sized firms are defined as those employing 50–249 employees.

In WERS firm size was indicated by the response to a 12-category measure of the total number of employees within the ultimate controlling company in the UK or, for single independent workplaces, by a continuous measure of the number of employees working at the site (there being no other sites within the organization).<sup>3</sup> Private sector workplaces were defined as those which categorised their formal status (or the formal status of the firm to which they belonged) as any of the following: public limited company (PLC); private limited company; company limited by guarantee; partnership (inc. limited liability partnership) or self-proprietorship; trust or charity; body established by Royal Charter; or co-operative, mutual or friendly society.<sup>4</sup>

These categorisations yielded samples of 621 private sector SME workplaces from the management survey and 4,683 of their employees from the employee survey. Some 392 of these workplaces and 2,438 of these employees were located in small private-sector firms with fewer than 50 employees, whilst the remaining 229 workplaces and 2,245 employees were located in medium-sized private-sector firms with 50–249 employees.

It should be noted again at this point that the WERS sample excluded workplaces with fewer than 5 employees. The sample available for this report therefore excludes all firms with fewer than 5 employees, and all workplaces with fewer than 5 employees that belonged to firms with 5 or more employees. The practical implication is that the data used in the report is representative of 26 per cent of all workplaces and 76 per cent of all employees in private sector SMEs.<sup>5</sup>

## Approach of the report

The principal aim of the report is to describe the nature and conduct of employment relations in workplaces belonging to private sector firms with fewer than 250 employees (SMEs), albeit with the caveat about coverage just noted. Data on the nature and practice of employment relations is taken from the 621 management interviews, whilst the 4,682 employee questionnaires provide data on the experience of work. Data from employee representatives is not used, since union and non-union representatives were rare in workplaces belonging to SMEs and the sample yielded only 61 interviews. Financial data is not used because of the descriptive nature of the report. Data from public sector workplaces does not feature since the adopted definition of SMEs is concerned only with private sector organizations.

Comparisons are made within the SME category between workplaces belonging to small firms that have fewer than 50 employees and those belonging to

medium-sized firms that have between 50 and 249 employees. Frequent comparisons are also made with workplaces and employees in large private sector firms employing 250 or more employees. WERS 2004 provides a sample of 1,072 workplaces and 10,578 employees in large private sector firms, which form the basis for such comparisons. The tables and figures presented in the report include separate estimates for workplaces or employees within small, medium and large firms, together with summary data on all SMEs and the private sector as a whole (comprising SMEs plus large firms).

The approach differs from that taken in the analysis of small business employment relations presented in the WERS 1998 sourcebook (Cully *et al.*, 1999: 251–74). That earlier analysis used a sub-sample of workplaces with fewer than 100 employees, making comparisons between single independent workplaces and those that belonged to larger firms. The main point of comparison was therefore the number of sites within the firm. The approach taken in this report is rather different, with the main point of comparison being the number of employees in the firm, irrespective of workplace size or organizational structure. One consequence, as illustrated in Chapter 2, is that the comparison group of workplaces in large firms demonstrates a considerable degree of heterogeneity, comprising small workplaces and large ones, head offices and branch sites, and so on.

The reason for framing the analysis primarily in terms of firm size is to align it more closely with the commonly-used definitions of SMEs. This reflects our primary objective, which is to present a descriptive mapping of employment relations in SMEs in some of the areas covered by WERS 2004. Where space permits, the analysis indicates further variations within the SME category, for example, between firms with full-time working owners and those managed under other arrangements. It is, of course, just one way of analysing and presenting the WERS data. Other approaches are possible, and it is hoped that this study will encourage others to make use of the opportunities presented by WERS which space constraints prevent us from exploring more fully here.

One potential concern with the approach adopted here is that it may appear to attribute variations in the pattern of behaviour across firms solely to differences in firm size. This is not the intention. Firm size is one of a number of characteristics shaping the employment relationship, along with workplace size, management and employee attitudes and abilities, product market characteristics, technology and a host of other factors. Multivariate analysis can help to tease out the relative importance of these factors but, to the extent that firm size has been given only limited attention in the literature, the analysis presented here may help to identify patterns that prompt further investigation.

The report proceeds as follows. Chapter 2 uses some of the contextual information that WERS collects about workplaces and their employees to provide a profile of SMEs and their business operations, covering industrial activity, ownership, product market competition and employees' demographic characteristics. Chapter 3 assesses management's orientation to the business of managing employees, assesses employee perceptions of management in SMEs, and explores the ways in which management and employees engage when innovating. Chapter 4

considers how employers set out to meet their staffing needs, covering issues such as recruitment and selection, working patterns, employee development and work organization. Chapter 5 examines the arrangements for information provision, communication and consultation, covering arrangements for direct communication and employee representation, as well as looking at the degree of information sharing on key issues. Chapter 6 identifies how pay and other terms and conditions are determined, including an examination of pay levels and the links with pay satisfaction. Chapter 7 looks at the incidence of a variety of different indicators of workplace conflict or dissonance, including qualitative evaluations of the state of the employment relationship. Chapter 8 looks at the ways in which firms seek to ensure equality of opportunity in the workplace, and also considers arrangements to assist work-life balance, including an assessment of the views of managers and employees on the relationship between working life and responsibilities outside of the workplace. Finally, Chapter 9 provides a summary of the main findings and sets out some conclusions.

### Analytical issues and conventions

The high response rates achieved in WERS 2004 (both for the survey as a whole and for individual questions) help minimise response biases, but sampling and non-response weights have also been computed to ensure, so far as is practicable, that one can extrapolate from the survey to the population from which it was drawn. Like other sample surveys, however, WERS 2004 is subject to sampling errors whereby the results computed from the sample provide only an estimate of the true figure within the population as a whole. It is possible to quantify the degree of error through the calculation of standard errors and confidence intervals. For ease of reading, these are not reported within the text, which reports estimates as if they were exact. However, Appendix B includes tables which allow the reader to approximate standard errors for various percentages, based on average design effects for both the management and employee surveys within the WERS 2004 Cross-Section.

Unless otherwise stated the results presented in this publication exclude cases where the respondent did not provide an answer (i.e. they refused to provide one or were unable to express a view). The level of missing cases never exceeds 10 per cent, unless otherwise stated. Where differences or associations are highlighted, these have all been tested and are statistically significant at the 5 per cent level, unless stated to the contrary.

### *Symbols within tables*

0 Represents less than 0.5 per cent, including none.

## 2 A profile of workplaces belonging to SMEs

### Introduction

There are many contextual factors that may affect the conduct of employment relations in SMEs. Matlay (2002: 308), for example, highlights the importance of economic, social and political values, with particular emphasis on the state of the economy, attitudes towards entrepreneurship, the nature of labour supply, and legislation governing business activity and employment. Kinnie *et al.* (1999), for their part, emphasize the role played by competitive pressures.

This chapter does not attempt to survey the macro-economic, social or political context in which SMEs operate. This sort of general scene-setting is ably done elsewhere (see for example Storey, 1994; Cosh and Hughes, 2003a). Instead, the chapter uses contextual information that WERS collects about workplaces and their employees to provide a profile of SMEs and their business operations. The chapter covers a wide range of workplace characteristics, from industrial activity and ownership, to the nature of product market competition. It also considers the characteristics of employees who work in SMEs. Each of these factors has a bearing on employment relations to some degree. Considering such issues at the outset of the report will therefore aid understanding of the patterns of employment relations that are described in later chapters.

### Workplace size

The size of either a workplace or a firm – measured in terms of the number of employees – is an important determinant of employment relations practice because, other things being equal, larger units entail a greater level of organizational complexity (Sisson and Marginson, 2003: 178–79; Kersley *et al.*, 2006). The analysis presented in this report is focused on the size of the firm, but where firms are comprised of multiple workplaces, it is important to make a distinction between the two types of unit. One might expect workplace size to be the more important determinant of the presence of on-site employee representatives or on-site childcare, for example, where reasonable numbers of employees are required to make such services viable, or for it to be critical in shaping requirements for functional flexibility. Firm size, on the other hand, might be more important in determining the sophistication of grievance and disciplinary procedures or the nature of pension arrangements.

Workplaces belonging to smaller firms tended themselves to be smaller, on average, than those belonging to larger firms. However, most workplaces

belonging to large firms were modest in size (84 per cent employed fewer than 50 employees) and any differences were principally due to the small proportion of very large workplaces belonging to large firms. The median workplace in SMEs employed 10 employees, compared with a median of 12 employees in large firms, whereas mean employment in the two categories stood at 17 and 42 employees respectively. Workplaces belonging to medium-sized firms tended to be larger than those belonging to either small or large firms, illustrating the complexity of the relationship between workplace and firm size.

The presence of a small proportion of sizeable workplaces in large firms meant that the pattern of employment by workplace size was rather different across the three categories of firm. Almost three-quarters (72 per cent) of all employees in SMEs worked in workplaces with fewer than 50 employees, compared with less than three-tenths (27 per cent) of employees in large firms. More than two-fifths (43 per cent) of all employees in large firms worked in workplaces with 250 or more employees.

### **Industrial activity**

Whilst some forms of SME activity are perhaps more prominent in the public eye than others, SMEs operate in almost all areas of industry. The Wholesale and retail sector accounted for the greatest proportion of private sector SME workplaces (22 per cent), but substantial proportions were also engaged in Manufacturing, Hotels and restaurants, Other business services and Health and social work (Table 2.1). Workplaces in small firms differed from those in medium-sized firms in being less likely to be engaged in Wholesale and retail and more likely to be engaged in Hotels and restaurants. Compared with workplaces belonging to larger firms, those belonging to SMEs were more likely to be engaged in Manufacturing (18 per cent, compared with 5 per cent), Construction (8 per cent, compared with 2 per cent), Other business services (19 per cent, compared with 13 per cent) and Health and social work (13 per cent, compared with 5 per cent). Workplaces belonging to SMEs were less likely to be engaged in Wholesale and retail (22 per cent, compared with 38 per cent) and Financial Services (less than 1 per cent, compared with 14 per cent).<sup>1</sup>

The pattern of SME employment by industry sector was broadly in line with the workplace distribution. In large firms, however, there were two notable exceptions. Whilst manufacturing sites comprised only 5 per cent of all workplaces in large firms, they accounted for almost one fifth of all employees. In contrast, the two-fifths of workplaces engaged in Wholesale and Retail accounted for only one quarter of all employees. The implications are that, in large firms, manufacturing sites tended to have a relatively large number of employees, whilst large wholesale and retail firms spread their activities across many smaller sites.

### **Location within the wider organization**

Cosh and Hughes (2003b: 6) estimate that 71 per cent of all firms with fewer than 500 employees operate on a single site. In the population of *workplaces*

Table 2.1 Industrial activity

	% workplaces						% employees						
	All private sector			Size of firm			All private sector			Size of firm			
	All SMEs	Small	Medium-sized	All SMEs	Small	Medium-sized	All SMEs	Small	Medium-sized	All SMEs	Small	Medium-sized	
<i>Industrial activity:</i>													Col %s
Manufacturing	13	18	19	14	5		19	21	19	25	18		
Electricity, gas and water supply	0	0	0	0	0		0	0	0	0	1		
Construction	6	8	8	8	2		5	8	8	8	3		
Wholesale and retail	29	22	20	31	38		22	16	17	16	26		
Hotels and restaurants	10	10	11	2	10		7	8	12	3	7		
Transport and communications	4	3	3	1	6		7	5	5	4	9		
Financial services	6	0	0	1	14		8	1	1	1	11		
Other business services	17	19	19	22	13		17	21	18	26	15		
Public administration	0	0	0	0	0		0	0	0	0	0		
Education	1	1	1	2	1		3	2	1	3	3		
Health and social work	9	13	12	13	5		7	12	15	9	5		
Other community services	6	6	6	6	6		4	6	6	6	3		

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,706 (all private sector), 621 (all SMEs), 392 (small firms), 229 (medium-sized firms) and 1,072 (large firms).



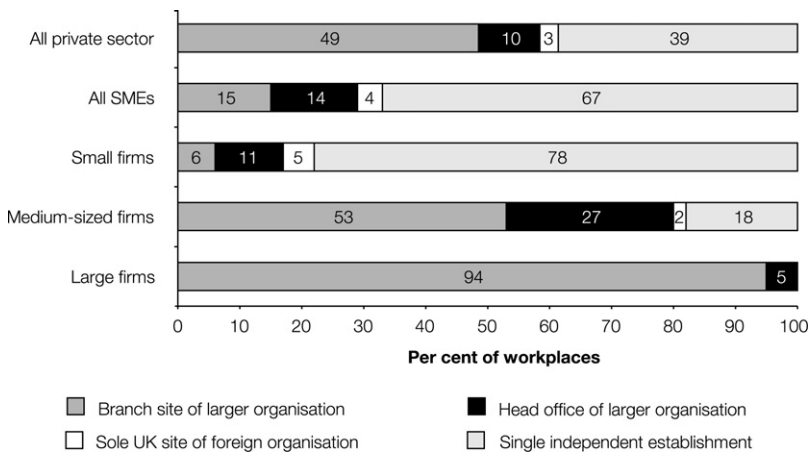
covered by WERS, two-thirds (67 per cent) of workplaces belonging to SMEs constituted the only site in the firm. A further 14 per cent were head offices of multi-site firms and 15 per cent were branch sites; the remaining 4 per cent were the sole UK workplace of a foreign firm (Figure 2.1). There was a substantial difference between workplaces belonging to small firms and those belonging to medium-sized concerns. Three-quarters (78 per cent) of workplaces belonging to small firms were single-independents and just 6 per cent were branch sites; the equivalent figures among workplaces belonging to medium-sized firms were 18 per cent and 53 per cent respectively. Among workplaces belonging to large firms, the vast majority (94 per cent) of all workplaces were branch sites and less than one per cent were single-independents.

One likely result of these patterns is that managers in workplaces belonging to smaller firms are likely to have a greater degree of autonomy in their approach to employment relations than managers in workplaces belonging to larger firms, many of whom may have to follow guidelines or policies determined at a higher level in the organization. The corollary, however, is that managers in SMEs will usually have to look outside of the firm for advice or assistance with employment matters, whereas branch managers in large firms are more likely to be able to call upon expertise at regional or head office.

## Ownership

Ownership is said to be a particularly important element in determining the nature of the employment relationship in SMEs, with studies commonly focusing on the impact of family ownership and the role played by owner-managers (e.g.

Figure 2.1 Location within the wider organization



Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,704 (all private sector), 619 (all SMEs), 392 (small firms), 227 (medium-sized firms) and 1,072 (large firms).

Marlow and Patton, 2002). The wider literature on employment relations also acknowledges the distinctiveness of foreign-owned businesses (Ferner, 2003) although, foreign-ownership is comparatively rare in the SME sector.

Three-quarters (74 per cent) of SME workplaces belonged to limited companies (either public limited companies, private limited companies or companies limited by guarantee). Private limited companies accounted for the majority of these (65 per cent of all SME workplaces). A further 21 per cent belonged to partnerships or self-proprietorships, 5 per cent were trusts or charities and the remaining one per cent either categorised themselves as bodies established by royal charter or as co-operatives, mutuals or friendly societies.

Managers in three-quarters (77 per cent) of SME workplaces belonging to limited companies subsequently reported that a single individual or family owned at least 50 per cent of the company. Almost three-fifths (57 per cent) of SME workplaces therefore belonged to family-owned companies. The figure was 58 per cent in small firms and 53 per cent in medium-sized firms. It was just 20 per cent in large firms, with the majority of the workplaces in this category (61 per cent) belonging either to PLCs or private limited companies that were not under family-ownership. In later chapters, family-owned companies and partnerships/self-proprietorships are together categorised as 'family-owned' firms. Under this categorisation, around four-fifths (78 per cent) of SME workplaces are considered family-owned (80 per cent of workplaces in small firms and 67 per cent of workplaces in medium-sized firms). The figure among workplaces belonging to large firms is just 22 per cent. Family-ownership was therefore extensive in the SME sector although this was especially the case in firms with less than 50 employees. The involvement of owners in the management of family-owned firms is considered in Chapter 3.

Almost all workplaces belonging to SMEs (93 per cent) were wholly UK-owned, with 4 per cent being wholly foreign-owned and 2 per cent being partly UK-owned and partly foreign-owned. The extent of foreign ownership was much higher in large firms, where one third (34 per cent) of workplaces were at least partly foreign-owned. Among SME workplaces, there was no difference in the extent of foreign ownership between workplaces belonging to small or medium-sized firms. A small difference was apparent between SME workplaces engaged in manufacturing (12 per cent) and those engaged in services (5 per cent), but the difference was not statistically significant. In contrast, among large firms, the extent of foreign ownership was much greater in manufacturing (60 per cent) than in services (33 per cent).

### **Age of workplace**

Whilst the focus of much of the literature – and indeed this report – is on the *size* of the firm, it is clear that a number of features of smaller firms are a function of both their size and their age. Procedures for handling grievances or conducting performance appraisals, whether they be formal or informal, can take some time to develop and refine. Cohort effects may also be apparent: current rates of union recognition, for example, are highest among workplaces that were established in the period around the Second World War (Millward *et al.*, 2000).

WERS 2004 contains no information on the age of the organization to which the workplace belongs, asking the management respondent only about the age of their own workplace. Workplaces belonging to SMEs were slightly younger, on average, than those belonging to larger firms, but the differences were not substantial. Some 15 per cent of workplaces belonging to small firms were less than 5 years old, compared with 7 per cent of workplaces in medium-sized firms and 10 per cent of workplaces in large firms. Conversely one third (32 per cent) of workplaces in small firms were at least 25 years old, compared with 42 per cent of workplaces in medium-sized firms and 35 per cent in large firms. The muted relationship between firm size and workplace age would seem to be partly a function of the way in which some firms grow – opening new sites rather than continually expanding their existing ones (the retail sector being an obvious example).

### **The competitive environment**

WERS 2004 took place in a period of relative stability in the economy, when Britain was benefiting from low interest rates and low inflation. Nonetheless, there was evidence of demand constraints in the manufacturing sector and of increasing difficulties in some hi-technology sectors (Cosh and Hughes, 2003b: 4). The literature on employment relations in SMEs has highlighted the pressures that may derive from customers, suppliers and competitors. Kinnie *et al.* (1999), for example, draw attention to the ways in which relationships with other businesses constrain managers in smaller firms. WERS 2004 contains data on workplaces' relationships with customers and on the nature and degree of product market competition they face, enabling us to map the types of competitive situations experienced by smaller firms and to place these in context by comparing them with the situations of larger firms.

First, it was apparent that workplaces belonging to smaller firms were more likely than workplaces belonging to larger firms to trade with other firms and less likely to trade with the general public. Some 45 per cent of workplaces in SMEs traded solely with other firms, 45 per cent traded only with the general public and 8 per cent did both. In large firms, only 18 per cent of workplaces traded solely with other firms, 64 per cent traded only with the general public and 14 per cent did both.<sup>2</sup> The fact that smaller firms were more likely to trade only with other firms indicates a greater likelihood of being reliant on a single customer, which can create particular pressures on the operation of a business (see Moule, 1998). Just under half (48 per cent) of workplaces belonging to SMEs supplied more than 10 per cent of their goods (by value) to a single customer, compared to 34 per cent of large firms. The dependence of SMEs on particular customers did not differ greatly between small and medium-sized firms, but it was notably more apparent in manufacturing than in services, which is likely to result from the greater reliance in manufacturing on trade between businesses. The greater level of exposure among SMEs in general is further illustrated by figures which show that half (48 per cent) of workplaces belonging to SMEs relied on a single product or service, compared with one third (35 per cent) of workplaces belonging to larger firms.

Workplaces belonging to SMEs were less likely than those belonging to large firms to have a purely local market (43 per cent, compared with 57 per cent) and more likely to have a regional market (21 per cent, compared with 10 per cent). The proportions with a national or international market were thus similar (11 per cent and 10 per cent respectively).<sup>3</sup> The proportions of workplaces facing competition from overseas-based suppliers was also similar: 25 per cent in SMEs and 27 per cent in large firms. In respect of the *level* of competition, Kitson and Wilkinson (2003b: 23) suggest that the degree of competition increases with firm size. In WERS, managers were asked how many competitors they had for their main product or service, and they were also asked to rate the degree of competition on a five-point scale from 'very high' to 'very low'. The proportions of managers reporting more than 5 competitors was around three-fifths in small, medium and large firms. However, only one third (33 per cent) of managers in workplaces belonging to SMEs rated the degree of competition in the market for their main product or service as 'very high', compared with almost half (48 per cent) of managers in workplaces belonging to large firms.

Taken together, these findings suggest that workplaces belonging to SMEs do not necessarily face more difficult trading conditions than larger firms, on average. But they do suggest that, when fortunes change for the worse, the greater reliance on single products or services and the absence of a broad customer base, may place greater pressure on such workplaces than otherwise equivalent workplaces belonging to large firms. The risk is heightened by the fact the workplaces belonging to SMEs were more likely than those in large firms to be located in turbulent or declining markets. Overall, two-thirds of SME workplaces reported that the market for the main product or service was either growing (41 per cent) or mature (26 per cent), whilst one third reported that it was either declining (13 per cent) or turbulent (19 per cent). In large firms, three-quarters (78 per cent) of workplaces said their primary market was growing or mature and one quarter (22 per cent) said it was declining or turbulent.

The firm's own competitive strategy can also have a bearing on employment relations. Kersley *et al.* (2006) show, for example, that workplaces competing heavily on price were less likely to provide off-the-job training to core employees than workplaces with lower degrees of price dependence. Managers were asked to rate the extent to which demand for their main product or service depended on offering lower prices or superior quality than their competitors, in either case using a five-point scale in which the end points of the scale were labelled 'Heavily' (5) and 'Not at all' (1).<sup>4</sup> The responses among SMEs and large firms were similar in some respects, with around one fifth of managers in each category saying that demand was heavily dependent on price (18 per cent in SMEs, compared with 21 per cent in large firms) and around two-fifths saying that it was heavily dependent on offering superior quality (43 per cent and 40 per cent respectively). The main difference was that managers in SMEs were more likely to say that demand was not at all dependent on price (20 per cent, compared with 9 per cent in large firms). As a result, the mean scores on the price-dependence scale were 3.0 among SMEs and 3.4 among large firms, whilst the means on the quality-dependence scale were 4.0 for both groups. Combining

the responses, and categorising dependence as a response of 4 or 5 on the scale, demand for SMEs' products and services was most likely to be dependent primarily on quality (50 per cent), whereas demand for large firms' output was almost equally likely to be dependent on both price and quality (34 per cent) as it was to be dependent primarily on quality (37 per cent) (Table 2.2).

When asked what other factors were critical to competitive success, workplaces belonging to SMEs were more likely than their counterparts in large firms to mention offering a complex product or highly-skilled service and less likely to mention developing new products or services. The general tenor of these findings is then in keeping with others (Kitson and Wilkinson, 2003b: 25) which show that smaller firms are more likely than larger firms to compete on the basis of quality and expertise than price.

### Workforce composition

The final part of this chapter considers the composition of the workforce in SMEs. Six specific characteristics are covered – occupation, gender, ethnicity, disability, age and caring responsibilities – with other factors often considered under the same heading (such as hours of work and contractual forms) being discussed

*Table 2.2* Factors critical to competitive success

	<i>All private sector</i>	<i>Size of firm</i>				
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
						<i>Col %s</i>
<i>Price and quality:</i>						
Demand depends primarily upon offering lower prices	13	10	11	9	16	
Demand depends primarily upon offering superior quality	45	50	51	49	37	
Both	29	25	24	32	34	
Neither	13	14	15	10	13	
						<i>Cell %s</i>
<i>Other factors:</i>						
Offering a complex product or highly skilled service	21	24	23	29	18	
Offering a product or service with unique features	22	23	21	30	22	
Developing new products or services	10	6	6	9	15	
Customising to meet the needs of particular customers	45	46	47	40	43	
Maximising availability or minimising delivery times	19	19	18	19	20	
Offering a high level of customer service	67	64	66	58	69	
Other	3	4	4	0	1	

Base: all trading private-sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,581 (all private sector), 602 (all SMEs), 383 (small firms), 219 (medium-sized firms) and 996 (large firms).

along with forms of work organization in Chapter 4. As the principal focus of WERS is on relations between managers and paid employees, it is important to note that the discussion does not cover the incidence or characteristics of unpaid workers, who are likely to be most prevalent in small, family-owned firms.

The composition of the workforce in SMEs is of particular interest because it has been asserted that smaller firms are more likely to employ workers from groups that, traditionally, have been disadvantaged in the labour market, such as women, young workers and people from ethnic minority groups (TUC, 1998, cited in Dundon *et al.*, 1999; Kirton, 2004). The discussion begins, however, with the characteristic that is perhaps most commonly used to categorise employees within firms: occupation.

The occupational profile of employment in SMEs was not particularly different in aggregate from the profile of employment in large firms, when categorised according to the nine Major Groups of the *Standard Occupational Classification (2000)*. The main difference was that SMEs employed much lower proportions of employees in Sales and customer service occupations (5 per cent, compared with 16 per cent), partly reflecting the lower degree of wholesale and retail activity (see Table 2.1). Differences were more apparent, however, when comparing the identity of the largest non-managerial occupational group (LOG). In almost half (47 per cent) of workplaces belonging to large firms, the LOG was Sales and customer service occupations, with none of the other seven non-managerial groups accounting for much more than one tenth of all workplaces. In contrast, none of the eight occupational groups accounted for more than one fifth of workplaces in SMEs (Skilled trades and Elementary occupations each constituted the LOG in 17 per cent of SME workplaces).

Whilst Managers and senior officials and Administrative and secretarial staff each accounted for less than one fifth of all employees in SMEs, employees from both occupations were employed in most workplaces belonging to smaller firms (82 per cent in the case of Managers and senior officials; 65 per cent in the case of Administrative and secretarial staff). The figures were little different even among workplaces belonging to micro firms with between 5 and 9 employees (74 per cent and 66 per cent respectively), but further cross-tabulations showed that workplace size was clearly a more important determinant than firm size. There were also no substantive differences by firm size in the proportion of all employees with supervisory responsibilities (34 per cent of all employees in SMEs, or 27 per cent of non-managerial employees).

The proportion of female employees was slightly higher in small firms (52 per cent) than in medium-sized and large firms (46 per cent and 48 per cent respectively). However, these differences could be explained by differences in industrial activity: no statistically significant differences remained after controlling for industry sector. It was also apparent that the female share of employment was lower in the smallest firms with 5–9 employees (47 per cent) than in those with 10–49 employees (53 per cent). The relationship between firm size and gender was therefore not straightforward.

There is a particular interest in the role that women play in leadership within SMEs. Cosh and Hughes, for example, show that only 10 per cent of firms with

less than 500 employees are led by women (2003b: 7, 11). WERS collects no data on the characteristics of business owners, except in cases where the owner is a full-time manager and responded themselves to the survey (see Chapter 3). However, WERS does collect information on the gender of Managers and senior officials, through both the Management and Employee surveys. The Employee Questionnaire data indicate that the proportion of female Managers and senior officials was identical in SMEs and large firms (36 per cent), whilst the Management data showed that the proportion of workplaces in which women were under-represented in management grades was very similar between workplaces in SMEs (71 per cent) and large firms (72 per cent).<sup>5</sup>

One in twenty employees working in SMEs (6 per cent) classified themselves as belonging to a non-white ethnic group.<sup>6</sup> The proportion was lowest in firms with fewer than 20 employees (3 per cent), and stood at 7 per cent among employees in other small firms, medium-sized firms and large enterprises.<sup>7</sup> The management data confirmed the view that ethnic minority employment is less extensive in smaller firms. Employees from non-white ethnic groups accounted for at least one tenth of the workforce in 13 per cent of workplaces belonging to SMEs and 24 per cent of workplaces belonging to large firms. One sixth (17 per cent) of workplaces belonging to firms with fewer than 20 employees employed at least one person from a non-white ethnic group, compared with 25 per cent in other small firms, 38 per cent in medium-sized firms and 41 per cent in large firms.

Around one in twenty employees in SMEs (4 per cent) reported that they had a long-term illness, health problem or disability that affected either the amount or the type of work they could do. The figure was identical in large firms. Managers may not always be aware of their employees' health status, which may explain why they reported in aggregate that only one per cent of employees had a long-term disability that affected their work. Nonetheless, managers in 7 per cent of workplaces belonging to SMEs reported that at least 5 per cent of their employees had such disabilities. This compared with 6 per cent among managers of workplaces in large firms.

Across the private sector, SMEs and large firms employed the same proportions of young workers: 7 per cent of all employees were aged 18–21 and 2 per cent were aged 16–17. However, the workplace distribution of young employees varied across SMEs and workplaces in large firms. Around one third (35 per cent) of workplaces in SMEs had at least 10 per cent of their workforce in the age range 16–21 (38 per cent in small firms and 26 per cent in medium-sized firms), compared with 49 per cent in large firms. Nevertheless, this greater concentration of young workers into specific workplaces within large firms was explained by the greater proportion of large firm workplaces that operated within the Wholesale and retail sector. After excluding this sector, the proportion of large firm workplaces in which more than 10 per cent of the workforce were aged 16–21 fell to 33 per cent, whilst the proportions for workplaces in small and medium-sized firms were relatively unchanged.

SMEs employed a slightly higher proportion of older workers than large firms: 28 per cent of employees in small firms and medium-sized firms were

aged 50 or above, compared with 23 per cent of employees in large firms. Around three-quarters (77 per cent) of workplaces in SMEs had at least 10 per cent of their workforce aged 50 or over, compared with three-fifths (59 per cent) of workplaces in large firms.

Almost two-fifths of private sector employees (37 per cent) had dependent children, with 12 per cent having children of pre-school age. There were no differences in these proportions between SMEs and large firms. There was some indication that employees in firms with fewer than 10 employees were more likely to have dependent children than employees in other sizes of firm (44 per cent of employees in micro firms had dependent children and 14 per cent had children of pre-school age), but the differences were not statistically significant. Eight per cent of employees in SMEs spent five hours or more per week looking after or giving support to family members or friends with long-term physical or mental illness or disability, or with problems relating to old age. In large firms, the equivalent figure was 7 per cent. Substantial minorities of employees in SMEs thus had responsibilities relating to the care of dependent children or other adults, but they did not appear to differ greatly from employees in large firms in these respects.

## Summary and conclusions

This chapter used some of the contextual information collected in WERS in order to outline some of the basic features of SME workplaces and their employees. A variety of characteristics were considered, including industrial activity and ownership, the nature of product markets and the composition of the workforce. There were few surprises, with many of the results corroborating patterns observed in other statistical portraits (Cosh and Hughes 2003a, 2003b; Kitson and Wilkinson 2003a, 2003b). This is reassuring, since the patterns observed in this chapter will contribute in some way to an understanding of the variations in employment relations that are described in later chapters. However, the characteristics are also of interest in their own right, as they begin to indicate some of the heterogeneity among small and medium-sized firms.

SMEs were present in all industry sectors that had noticeable shares of private sector employment, with the exception of Financial services. Three industries accounted for around three-fifths of all employees in SMEs (Manufacturing, Wholesale and retail and Other business services), but SME employment was no different to employment in large firms in that respect. Variations in the average size of workplaces between small, medium and large firms were generally as one would have expected, except that medium-sized firms had the lowest proportion of very small workplaces.

The proportion of workplaces operating as single independent sites decreased sharply as firm size increased. This was one of those areas in which differences between workplaces in small and medium-sized firms were most obvious. The differences were much smaller in respect of the degree of family-ownership and the extent of foreign-ownership. Differences were also rather muted in respect of workplace age.



The findings in respect of the competitive environment suggested, as one might expect, that smaller firms were more reliant on single products or services, and on trade with particular customers. SMEs were also more likely than large firms to be located in markets that were either turbulent or declining. Nevertheless, the degree of competition faced by SMEs from other suppliers was lower, on average, than the degree of competition faced by workplaces in large firms. Questions on the nature of product demand showed that workplaces belonging to SMEs were more likely than those belonging to larger firms to compete on the basis of quality and specialist expertise, and less likely to compete on price. However, the degree of variation between the size categories was much lower than the variation within each.

There were relatively few points on which employees in SMEs were distinct from the wider profile of private sector employment. Some of the main differences were found in respect of occupation and age, although these could be largely explained by differences in industrial activity. Workplace size was also an important factor in determining the occupational profile of employment in firms of different sizes. In other respects, such as gender or ethnicity, differences were relatively small.

In the chapters which follow, the report considers a wide range of characteristics that can be considered more central to the topic of employment relations than the material presented here. It will be helpful to reconsider some of the patterns outlined here as the material that forms the core of WERS is presented and discussed. The analysis makes some attempt to include these factors, where obvious relationships suggest themselves and where space permits. Nevertheless, the primary goal is to map the features of employment relations in SMEs, and so it can be expected that many questions about underlying causes and effects will remain unanswered until further research is conducted.

## 3 The management of employees

### Introduction

There is perhaps more research on management style than there is on any other area of employment relations in small and medium-sized firms. Blackburn (2005) maps the genesis of this research from early studies portraying small as 'beautiful' or 'bad' to more recent evidence that employment relations in SMEs are more nuanced and complex, defying simple categorisation (Holliday, 1995). These later studies have emphasized the diversity within the sector, demonstrating that management styles are not determined solely by structural features of the firm but are often fashioned in response to market conditions, employee bargaining power and social conditions within and beyond the firm (Goss, 1988, 1991; Ram, 1991, 1994). This chapter compares SMEs to larger firms in relation to who manages employment relations at workplace level, the resources devoted to managing employees, and the extent to which employment relations issues are integrated into business strategy. The chapter moves beyond the traditional focus of WERS surveys in three respects. First, it assesses management's orientation to the business of managing employees, thus engaging directly with the debate relating to management style. Second, it explores how managers said they dealt with employees when introducing workplace changes, thus providing evidence of the ways in which management and employees engage when innovating. Third, it assesses employee perceptions of the extent to which management seek to involve employees in SMEs and large firms.

### Who manages employees?

As stated in Chapter 2, over three-quarters (78 per cent) of SME workplaces were family-owned, compared with just over one fifth (22 per cent) of workplaces belonging to large firms. Furthermore, in three-quarters (74 per cent) of workplaces belonging to small firms and around half (48 per cent) of workplaces in medium-sized firms the family owner was also involved full-time in the running of the business (Table 3.1). This rose to 82 per cent in micro firms with between 5 and 9 employees. However, it was the case in only 8 per cent of workplaces belonging to large firms. Three-tenths (61 per cent) of employees in SMEs were owner-managed – 71 per cent in workplaces belonging to small firms and 45 per cent in workplaces belonging to medium-sized firms – compared with one tenth (9 per cent) of employees in workplaces belonging to large firms. The literature has established that owner-managers have a distinctive orientation to

Table 3.1 Family ownership and management

	<i>All private sector</i>	<i>Size of firm</i>				<i>Col %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Full-time owner-manager	43	69	74	48	8	
Family owned, but not owner-managed	11	9	7	19	14	
Not family owned	43	21	19	32	72	
Don't know	3	1	0	1	6	

Base: all private sector workplaces with 5 or more employees. Figures are weighted and based on responses from the following numbers of managers: 1,706 (all private sector), 621 (all SMEs), 392 (small firms), 229 (medium-sized firms), and 1072 (large firms).

the management of employees (see Scase, 2005). Managerial styles are considered later.

In over nine-tenths of cases where the managerial survey was conducted at the workplace, it was conducted with the manager personally responsible for employment relations at the workplace.<sup>1</sup> However, only 9 per cent of SME managers said employment relations was their major job responsibility. A further third (34 per cent) said they were equally responsible for employment relations and other matters, with the majority (58 per cent) saying their main responsibilities lay with other matters. In workplaces belonging to large firms, on the other hand, employment relations was the manager's major responsibility in one fifth (21 per cent) of instances and only a minority (39 per cent) said their main responsibilities lay with other matters.

These competing responsibilities were reflected in the job titles of managers responsible for employment relations. In SMEs almost half (46 per cent) of managers said they were 'proprietors'; one third (34 per cent) said they were 'General Managers' and a further 9 per cent were Financial Managers. Ten per cent had a job title denoting specialisation in employment relations such as 'Personnel Manager', 'Human Resources Manager' or 'Staff Relations Manager'. In workplaces belonging to large firms the management respondent was more likely to be a General Manager (73 per cent) or an employment relations specialist (26 per cent), but unlikely to be a proprietor (1 per cent).<sup>2</sup> Within SMEs, specialists and General Managers were much more common and proprietors much less common in workplaces belonging to medium-sized firms than they were in workplaces belonging to small firms.

SME managers spent much less time on employment relations matters than their large-firm counterparts. Three-quarters (74 per cent) of managers in workplaces belonging to small firms spent less than one quarter of their time on employment relations matters compared to half (49 per cent) of those in workplaces belonging to medium-sized firms and 45 per cent of those in workplaces belonging to large firms.<sup>3</sup> Managers in workplaces belonging to large

firms were more likely than SME managers to be spending the majority of their time on employment relations – one third (32 per cent) did so, compared to quarter (23 per cent) of those in workplaces belonging to medium-sized firms and a mere 14 per cent of those in small firms. These differentials were accounted for, in part, by the higher incidence of managers designated as employment relations specialists in large firms compared with SMEs. However, even among those designated as specialists, SME managers spent much less time on employment relations matters than their large-firm counterparts.<sup>4</sup> Differences in time spent on employment relations matters were not compensated for by a greater incidence of other staff assisting with the employment relations function in SMEs. Indeed, assistants were less prevalent in workplaces belonging to small firms than they were in workplaces belonging to medium-sized and large firms (56 per cent, 64 per cent and 63 per cent respectively).<sup>5</sup>

Turning to the personal attributes of employment relations managers, they were more likely to be male in workplaces belonging to small firms (67 per cent) than in workplaces belonging to medium-sized and large firms (58 per cent and 57 per cent respectively).<sup>6</sup> Of those with specialist job titles, 38 per cent were men in workplaces belonging to small firms, compared to 31 per cent in workplaces belonging to medium-sized firms and 32 per cent in workplaces belonging to large firms. Among generalists the figures were 69 per cent, 65 per cent and 66 per cent respectively. However, none of the results broken down by specialists and generalists were statistically significant.

One fifth (20 per cent) of private sector employment relations managers held 'formal qualifications in personnel management or a closely related subject'. SME managers were less likely to be qualified: 14 per cent of those in workplaces belonging to small firms held qualifications, compared with 20 per cent in workplaces belonging to medium-sized firms and 28 per cent in workplaces belonging to large firms. This difference is partly, though not wholly, accounted for by the higher incidence of women and specialists in these posts in larger firms (Kersley *et al.*, 2006). On the other hand, SME managers had much more experience in their current jobs and years of experience managing personnel or employment relations than in workplaces belonging to large firms. These differences were large. One third (32 per cent) of SME managers had been in their current post for 11 years or more compared to 6 per cent of those in workplaces belonging to large firms. Among SME managers for whom employment relations was their major responsibility, or equal with others, two-thirds (64 per cent) had been in employment relations for 11 years or more, compared with two-fifths (43 per cent) of those in workplaces belonging to large firms.

### **What tasks do employment relations managers perform?**

Despite spending less time on employment relations matters and having fewer assistants, SME managers and their assistants performed more employment relations tasks than those in large firms, the number of tasks falling as firm size increased. Almost half (47 per cent) of managers in workplaces belonging to small firms performed all thirteen tasks listed on the card shown to respondents,

compared to one third (32 per cent) of those in workplaces belonging to medium-sized firms and 8 per cent of those in workplaces belonging to large firms. One reason for this was that, among multi-site organizations, some tasks were performed by managers beyond the workplace (Kersley *et al.*, 2006). Table 3.2 shows which employment relations tasks were undertaken by workplace managers and their assistants. Pay and conditions (including hours and holiday and pension entitlements) were much more likely to be the responsibility of SME managers than was the case in workplaces belonging to large firms, reflecting the fact they are often determined above workplace-level in multiple-site firms (Kersley *et al.*, 2006). This was also the case with equal opportunities matters. Managers in workplaces belonging to large firms were much more likely to be responsible for performance appraisal than managers in SMEs, perhaps because performance appraisal was absent in many SMEs (see Chapter 4). Within the SME sector, managers in workplaces belonging to medium-sized firms were just as likely to have responsibility for working hours as those in workplaces belonging to small firms. However, small-firm managers were more likely to have responsibility on the other three terms and conditions (rates of pay, holiday entitlement and pension entitlement).

Table 3.2 Job responsibilities of employment relations managers

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
<i>Terms and conditions:</i>						
Rates of pay	71	82	84	70	54	
Working hours	80	83	83	82	73	
Holiday entitlements	65	80	82	64	41	
Pension entitlement	42	60	62	46	15	
<i>Staffing:</i>						
Recruitment and selection	92	90	89	96	96	
Training	88	85	83	93	92	
Staffing plans	87	86	87	84	88	
Performance appraisal	84	79	78	84	92	
Employee consultation	84	85	83	94	82	
<i>Other:</i>						
Grievances	90	91	92	87	88	
Disciplinary matters	92	91	91	91	93	
Equal opportunities	78	82	82	85	71	
Health and safety	86	87	87	90	85	
All 13 tasks	31	45	47	32	8	

Base: all private sector workplaces with 5 or more employees where the respondent was interviewed at the workplace.

Figures are weighted and based on responses from the following numbers of managers: 1,441 (all private sector), 550 (all SMEs), 358 (small firms), 192 (medium-sized firms), and 879 (large firms).

Firms are increasingly likely to require their suppliers to provide information on the employment conditions faced by their employees, either to conform to an industry or firm-specific code of conduct, or in response to consumer concerns regarding employment standards of firms from whom they purchase goods and services. Where workplaces traded with other firms, WERS asked managers whether they were required to give those organizations information about eight employment conditions, including rates of pay, working hours and health and safety. Four-in-ten said they were – 41 per cent of SMEs and 40 per cent of workplaces belonging to large firms. Over half (53 per cent) of workplaces belonging to medium-sized firms said they had to provide such information. This percentage is significantly higher than that for large firms at a 10 per cent significance level, but is not significantly different from workplaces belonging to small firms.

### **Employment relations advice from beyond the workplace**

As shown in [Figure 2.1](#), virtually all workplaces in large firms were part of multi-site firms, as were four-fifths of workplaces belonging to medium-sized firms. However, this was the case for only around one fifth of workplaces belonging to small firms. Consequently, workplaces belonging to large and medium-sized firms were able to draw upon resources from elsewhere in the firm to assist them in the management of employees at their workplace. If one takes account of the presence of employment relations specialists beyond the workplace, over nine-in-ten (92 per cent) of workplaces belonging to large-firms had access to employment relations specialists, compared to 42 per cent of those belonging to medium-sized firms and 13 per cent of those belonging to small firms.

Managers were asked whether they had sought advice on employment relations from other bodies over the previous twelve months. Two-thirds (66 per cent) of managers in SME workplaces had done so compared with one third (35 per cent) of managers in workplaces belonging to large firms. SME managers also used a different mix of external advice from managers in large firms. They were more likely than managers in large firms to use Acas, Business Link/Small Business Service, management consultants, and external lawyers and accountants. Within the SME sector, managers in medium-sized firms were the most likely to use external advice on employment relations, being more extensive users than small-firm managers of Acas, 'other government agencies' (excluding DTI and Business Link/SBS), management consultants, lawyers and 'Other professional bodies'. This might reflect the greater complexity of managing a larger business, especially during the transition from a small to a medium-sized firm (Scase, 2005).

Employment relations managers may also obtain information through membership organizations. Just over half (55 per cent) of private sector workplaces were members of employers' associations, trade associations, chambers of commerce and the like, either directly or through the membership of their parent firm. Fifty-eight per cent of workplaces in large firms belonged to such an organization compared to 53 per cent of SME workplaces, a difference which

was not statistically significant. Workplaces belonging to small firms were less likely to be members of employers' associations, industrial and trade associations than workplaces belonging to medium-sized or large firms, but they were more likely to belong to the Federation of Small Businesses.

### **Strategic employment relations**

Academics and practitioners in the Human Resource Management (HRM) literature have advocated integration between the human resources function and strategic business planning to maximise the value that business derives from the deployment of its workers (Pfeffer, 1995; Storey, 1992). There is a debate about the value of strategic planning on employment relations in the case of small and medium-sized firms (Marlow, 2000; Deshpande and Golhar, 1994), but there is little information regarding the incidence of strategic employment relations in SMEs.

The extent of strategic planning by firm size is identified here using four measures: whether the workplace was 'covered by a formal strategic plan which sets out objectives and how they are to be achieved'; whether employment relations issues (employee development, employee job satisfaction or employee diversity) were covered in the plan; whether an employment relations manager was involved in preparing the plan; and whether the firm was accredited as an Investor in People. Two-fifths (40 per cent) of SMEs had a strategic plan compared to nearly nine-tenths (89 per cent) of workplaces belonging to large firms. Workplaces in medium-sized firms were almost twice as likely to have a strategic plan as workplaces in small firms (64 per cent compared to 36 per cent). In most cases, plans covered employment relations (Table 3.3). Strategic plans in workplaces belonging to large firms tended to cover a greater number of issues than SMEs' plans, the biggest differences being the higher coverage of employee diversity, employee job satisfaction and forecasting staffing requirements in large-firms' plans. Within the SME sector, strategies covering employment relations were least common among owner-managed firms (30 per cent), followed by other family-owned firms (38 per cent) and SMEs that were not family-owned (47 per cent). The positive association between having a strategy covering employment relations and no family ownership was still apparent having controlled for the size of the firm. Where a formal strategic plan was in place, employment relations managers were more likely to be involved in its preparation in workplaces belonging to SMEs than was the case in workplaces belonging to large-firms (86 per cent compared with 60 per cent).

Investors in People (IiP) is an accreditation of systems of people management and development that is promoted and developed by Investors in People UK – a public body sponsored by the Department for Education and Skills. Some question the appropriateness of IiP for small firms (Ram, 2000). Nevertheless, in 2003, the Department for Education and Skills announced an initiative to increase by 20,000 the number of small firms with 5–49 employees achieving IiP accreditation. At the time it was estimated that some 14,500 small firms were accredited. Table 3.3 shows that 15 per cent of SMEs – 12 per cent of

Table 3.3 Strategic people management

	<i>All private sector</i>	<i>Size of firm</i>				<i>Col %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Strategy covering employment relations	52	34	30	54	77	
Strategy, does not cover employment relations	8	6	6	10	11	
No strategy	40	59	65	35	12	
Investors in People accredited	31	15	12	25	57	
<i>Strategic people management index:</i>						
0	40	59	63	39	11	
1	13	8	8	8	20	
2	29	23	21	31	40	
3	18	10	8	21	29	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,642 (all private sector), 613 (all SMEs), 390 (small firms), 223 (medium-sized firms) and 1,022 (large firms).

Note: see text for definitions.

workplaces belonging to small firms and 25 per cent of medium-sized firm workplaces – had IiP accreditation in 2004.

A simple ‘strategic’ employment relations index was constructed by giving workplaces a point for having a strategic plan covering employment relations matters, for involving managers responsible for employment relations matters in its preparation, and for IiP accreditation. If one sums these points to create a scale running from zero to three, six-in-ten (59 per cent) of SMEs scored zero; 8 per cent scored one; one quarter (23 per cent) scored two; and one tenth (10 per cent) scored three. The score rose with firm size and was higher among SMEs where the firm was not family-owned. Within SMEs, designated specialists were no more likely to take a strategic approach to employment relations than generalists.

In summary, it seems that, although SMEs were less likely to take a formal strategic approach to employment relations than managers in large firms, there was considerable diversity of approach within the SME sector, including some firms that did adopt a clear strategic approach.

### Employee involvement in decision-making

Early studies of employment relations in small and medium-sized firms frequently portrayed SME management as autocratic, the belief being that, in the absence of formal procedures and worker collective voice to enforce adherence to rules of engagement between management and employees, owner-managers were able to fashion employment relations to their own advantage through informal systems



of patronage, kinship and favouritism – what Scase (2005: 71) has termed ‘developing networks of personal allegiance’. It later became apparent that management styles were not simply determined by the structure of the workplace – its size and ownership – though these factors played a role. Rather, SME managers had discretion as to how to manage employees, the choices they made being influenced by the skills and bargaining power of different types of worker in the firm, product and labour market conditions (Goss, 1988, 1991), and perceptions of fairness and justice within the firm (Cox, 2005). Analysts came to emphasize the heterogeneity within the SME sector (Scase 2003, 2005), the role for managerial discretion, and the constraints that managers faced in exercising this discretion, such that managerial styles could vary across and within SMEs, as well as over time. This section contributes to the literature by examining how prevalent more and less autocratic management styles are in firms of different sizes and investigating whether the styles professed by managers affect the way employees in those same workplaces perceive management.

Among a battery of ten questions about managers’ orientations towards employment relations issues, the survey asked managers to say how strongly they agreed or disagreed with three statements relating to the role of employees in the decision-making process.<sup>7</sup> SME managers were more likely than managers of workplaces belonging to large firms to agree with the statement that ‘Those at the top are best placed to make decisions about this workplace’ (69 per cent compared with 46 per cent). Those in workplaces belonging to small firms were more likely to ‘strongly agree’ with the statement than managers of workplaces in medium-sized firms (28 per cent compared with 16 per cent). Yet responses to the statement ‘Most decisions at this workplace are made without consulting employees’ did not differ by firm size, with around two-thirds of managers disagreeing or strongly disagreeing with the statement. Furthermore, managers in workplaces belonging to small firms were more likely than managers of workplaces in medium-sized and large firms to agree with the statement ‘We do not introduce any changes here without first discussing the implications with employees’. Three-quarters (75 per cent) of small-firm managers agreed or strongly agreed with this statement compared with 66 per cent of those in workplaces in medium-sized and large firms. Within the SME sector there were no particularly pronounced differences in responses to these three statements among owner-managed, family-owned and ‘other’ SME firm workplaces.

Taken together, these findings suggest that, in spite of a stronger belief among SME managers than large-firm managers that ‘those at the top were best placed to make decisions’ small-firm managers were more likely to at least discuss the implications of changes with employees. There might be a number of possible explanations for these findings. It may be that the physical proximity of SME managers to employees makes the environment more conducive to discussions about changes, or SME managers may be more constrained in making decisions without discussions with staff than managers in larger firms. Another possibility is that change in workplaces belonging to large firms may be initiated outside the workplace, perhaps higher up in the firm, offering workplace managers fewer opportunities to engage with employees at workplace level prior to change.

The analysis above provides an indication of managers' orientation towards involving employees in decision-making whilst the mechanisms for consultation and involvement are detailed in Chapter 5, but what happens in practice when changes are introduced? Managers were asked to identify which of eight changes had been introduced at the workplace in the previous two years. SME workplaces were less likely to have made a change than workplaces belonging to large firms in all but two domains, namely the introduction or upgrading of computers and changes to working time arrangements (Table 3.4). Nevertheless, only one quarter of SMEs had introduced none of the changes (27 per cent of workplaces belonging to small firms and 15 per cent of workplaces belonging to medium-sized firms) compared with 13 per cent of workplaces belonging to large firms. Asked to identify the change that 'had the greatest impact on employees working here' SME managers were almost twice as likely to say the 'introduction or upgrading of computers' compared to large-firm managers (see the figures in parentheses in Table 3.4).

Figure 3.1 shows that the amount of involvement employees had, as reported by managers, in introducing or implementing change was lower among larger firms. Managers were asked 'what type of involvement did the employees likely

Table 3.4 Changes introduced by management in the last two years

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Introduction of performance-related pay	10 (5)	8 (3)	8 (2)	9 (5)	13 (7)	
Introduction or upgrading of computers	60 (24)	61 (31)	58 (30)	71 (35)	60 (16)	
Introduction or upgrading of other types of new technology	43 (15)	38 (15)	37 (15)	45 (14)	50 (15)	
Changes in working time arrangements	21 (8)	20 (8)	21 (9)	17 (6)	23 (8)	
Changes in the organization of work	32 (14)	28 (12)	27 (12)	32 (12)	38 (17)	
Changes in work techniques or procedures	43 (13)	34 (11)	33 (12)	42 (6)	54 (16)	
Introduction of initiatives to involve employees	29 (10)	22 (9)	21 (7)	26 (16)	39 (10)	
Introduction of technologically new or significantly improved product or service	30 (11)	25 (11)	24 (12)	31 (6)	36 (12)	
None of these	20	25	27	15	13	
Mean number of changes	2.69	2.37	2.29	2.73	3.15	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,699 (all private sector), 620 (all SMEs), 392 (small firms), 228 (medium-sized firms), and 1,066 (large firms).

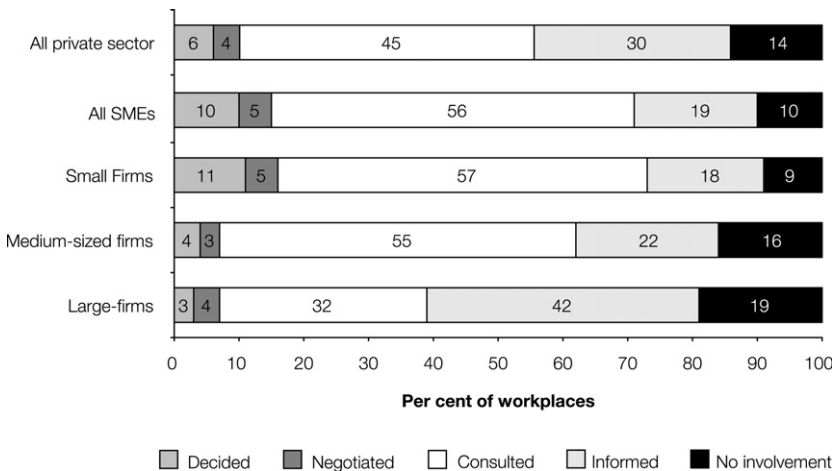
Note: Figures in parentheses relate to the change the manager thought 'had the greatest impact on employees working here', the base being workplaces with more than one change.

to be affected have in introducing and implementing' the only change or the one that had had greatest impact on employees. In 16 per cent of workplaces belonging to small firms, managers said the employees had either decided the matter or had negotiated it with management, compared with 7 per cent in workplaces belonging to large firms. In more than half (56 per cent) of SME workplaces employees had been consulted about the changes, compared with one third (32 per cent) of workplaces belonging to large firms. These findings seem to confirm earlier research which emphasized the way in which 'order' was 'negotiated' in SMEs as opposed to simply imposed through managerial diktat (Ram, 1991, 1994).

Assuming that employees prefer some degree of involvement in changes affecting their working environment, one might assume from the findings above that SME employees were more satisfied with their involvement in decision-making. This was the case. Almost half (47 per cent) of SME employees were either 'satisfied' or 'very satisfied' with their involvement in decision-making at the workplace compared with 37 per cent of employees in workplaces belonging to large firms. Small-firm employees were more satisfied than employees of medium-sized firm workplaces (52 per cent compared with 40 per cent).

SME employees also rated managers more highly than employees in large firms in the extent to which they sought employees' views, responded to employees' suggestions, and allowed employees to influence final decisions (Table 3.5). However, the difference was wholly accounted for by ratings in

Figure 3.1 Involvement of employees in introducing and implementing change



Base: all private sector workplaces with 5 or more employees and where at least one change introduced in the last two years.

Figures are weighted and based on responses from the following numbers of managers: 1,503 (all private sector), 510 (all SMEs), 307 (small firms), 203 (medium-sized firms) and 981 (large firms).

Note: In workplaces experiencing more than one change, respondents were asked about the change that had the greatest impact on employees.

Table 3.5 Employee ratings of managerial responsiveness

	<i>All private sector</i>	<i>Size of firm</i>				<i>Col %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
<i>Seeking the views of employees or employee representatives:</i>						
Very good	13	17	21	12	11	
Good	35	36	39	32	34	
Neither	26	25	22	28	27	
Poor	16	14	11	17	18	
Very poor	10	8	7	10	10	
<i>Responding to suggestions from employees or employee representatives:</i>						
Very good	12	15	18	10	10	
Good	33	37	41	31	31	
Neither	29	27	24	31	31	
Poor	17	14	11	18	19	
Very poor	9	8	6	10	10	
<i>Allowing employees or employee representatives to influence final decisions:</i>						
Very good	8	11	13	7	7	
Good	24	29	33	23	22	
Neither	34	33	32	34	34	
Poor	20	16	12	21	23	
Very poor	13	12	10	15	14	

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees (minimum): 13,712 (all private sector), 4,150 (all SMEs), 2,132 (small firms), 2,018 (medium-sized firms) and 9,506 (large firms).

workplaces belonging to small firms. Within SMEs employee ratings were higher in micro-firms with fewer than 10 employees than they were in workplaces with 10–49 employees. Employees in workplaces belonging to medium-sized firms rated their managers in much the same way as employees in workplaces belonging to large firms, a finding consistent with evidence from studies that point to the employment relations difficulties firms face once they become too large to rely solely on informal face-to-face contact (Cox, 2005; Scase, 2005).

## Summary and conclusions

This chapter reveals considerable differences in who managed employment relations and how they went about it across SMEs and large firms. Compared with managers in workplaces belonging to large firms, managers of employment relations in SMEs were more likely to be men, more likely to be owner-managers and less likely to be designated as employment relations specialists. They were less likely to be qualified in employment relations' management than their large firm counterparts but had longer job tenure and more career experience in employment relations. SME managers also differed from large-firm managers

in how they undertook the employment relations function. They spent less time on it, yet undertook more employment relations tasks, partly because they were less likely to be assisted by others in the organization, either at the workplace or higher up in the firm. Consequently, they were more reliant on information and advice from outside the firm. Their style of management was also different. Whereas SME managers were more likely to subscribe to the ethos of 'top-down' management, they were actually more likely to involve employees in the decision-making process than large-firm managers. This resulted in SME employees being more satisfied with their role in decision-making than large-firm employees, and they rated management responsiveness to their needs as greater.

In many instances, differences *within* the SME sector were at least as pronounced as those between workplaces in SMEs and large firms. This was the case, for instance, in terms of who did employment relations management, the time spent on employment relations matters, the strategic orientation to employment relations, the involvement of employees in decision-making and the ratings employees gave management.

Finally, reflecting on the response of employees to the way they were managed, the majority of employees give mid-level ratings to management on seeking the views of employees, responding to suggestions and allowing employees to influence final decisions. This was the case across firm size. This points to a more nuanced world than the one painted by analysts who, in the past, appeared intent on viewing small or large firms as predominantly 'good' or 'bad'.

## 4 Recruitment, training and work organization

### Introduction

This chapter considers how employers set out to meet their staffing needs. They may approach this in a variety of complementary ways, through recruiting new employees, training existing staff, or employing contractors or agency workers. They may also engage in activities which offer the potential to maximize the productivity of the workforce, such as developing working patterns which suit production requirements, appraising the performance of employees, using appraisals to identify training needs, and instituting team-working, problem-solving groups or the multi-skilling of employees. This chapter assesses how firms of different sizes utilize each of these methods in managing their staffing requirements. It also illustrates how differences in the organization of work between firms impact upon the employee's experience of work.

The chapter begins by looking at the methods that firms use to recruit and select staff. It then briefly considers the retention of employees, before moving on to look at the working patterns and types of contracts used by employers. The provision of off-the-job training by workplaces of different sizes is assessed, and the use of appraisals is examined. The chapter looks at methods of organizing work, including team-working, functional flexibility and problem-solving groups. It then focuses on differences in employee attitudes to work in firms of different sizes. The chapter concludes by examining the use of non-employed labour, such as temporary agency workers or sub-contractors.

### Recruitment and selection

The fact that small firms have few employees makes it difficult for them to develop an internal labour market, although some firms do indeed try to do so (Carroll *et al.*, 1999: 243). Perhaps because this is often not a viable option, and because of the need to bring new skills into the firm, management reports showed that workplaces belonging to small firms were less likely to give preference to internal applicants when filling vacancies than those located in medium or large firms (14 per cent did so, compared to 28 per cent and 29 per cent respectively). Conversely, they were far more likely to give preference to external applicants (27 per cent did so, compared to only 9 per cent of medium-sized, and 4 per cent of large firms).

Atkinson and Meager (1994: 39) highlight how the approach to external recruitment is of critical importance in a small firm because of the greater

reliance on individual employees. Therefore, the method of filling vacant posts, from advertising through to making the selection decision, is key. Table 4.1 shows that the way in which vacancies were filled for the core group of employees varied with the size of the firm. Overall, a similar proportion of workplaces in SMEs and large firms used at least one informal recruitment channel (defined as approaching potential recruits directly, acting on recommendations or enquiries by existing employees or using word of mouth). However, SMEs were less likely to use at least one formal recruitment method (either through the use of professional help, such as a Jobcentre, Careers Service or a private employment agency, or the non-professional forms of help listed in Table 4.1). Although this was the case, workplaces within SMEs were more likely to use at least one formal recruitment method involving professional help where they had an employment relations specialist, than where this was not the case (79 per cent compared to 57 per cent). The fact that generally SMEs were less likely to use formal recruitment procedures creates the potential for discrimination to arise in recruitment, as well as reducing the likelihood that the optimum recruitment decision is made (Carroll *et al.*, 1999: 236–37).

Managers were asked to state the factors which were important when recruiting staff. Table 4.2 shows that experience was equally important to workplaces in firms of all sizes, and a similar value was placed on qualifications. However, references, motivation and availability were less important to workplaces in SMEs than those in large firms, whilst recommendation by another employee was given greater weight. Age was a more important factor in small

Table 4.1 Recruitment channels used in filling vacancies

	<i>All private sector</i>	<i>Size of firm</i>				<i>Col %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Local or regional newspapers	53	57	54	70	50	
Trade, professional or specialist press	11	15	12	25	7	
Internal notices	44	25	19	50	65	
Notice in office or shop window	29	15	15	14	45	
Jobcentre/Employment service office	58	51	48	63	66	
Careers service	11	9	9	8	14	
Private employment agency	18	18	15	30	19	
Direct approach to potential recruits	22	23	23	26	22	
Replying to speculative applications	24	16	14	25	33	
Recommendation or enquiry by existing employee	42	35	31	50	51	
Word of mouth	42	42	41	44	43	
Internet	4	5	5	5	4	
Other	2	2	1	3	3	

Base: all private sector workplaces with 5 or more employees which had vacancies in the core group of employees over the past 12 months.

Figures are weighted and based on responses from the following numbers of managers: 1,495 (all private sector), 495 (all SMEs), 291 (small firms), 204 (medium-sized firms) and 988 (large firms).

Table 4.2 Important factors in recruitment

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
References	68	61	60	67	79	
Availability	49	45	45	46	54	
Recommendation or enquiry by existing employee	43	48	49	45	36	
Skills	81	81	79	89	81	
Age	18	21	23	13	12	
Qualifications	43	45	46	41	40	
Experience	84	84	84	88	84	
Motivation	81	76	75	80	90	
Personality or team fit	4	4	4	4	3	
Other	7	6	6	8	7	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,704 (all private sector), 620 (all SMEs), 392 (small firms), 228 (medium-sized firms) and 1,071 (large firms).

firms compared to medium and large firms, whilst medium-sized firms placed greatest emphasis on skills. Perhaps because of the differences in the factors which were considered important in recruiting staff, there was a notable divergence between SMEs and large firms in the use of personality and performance tests in filling vacancies. Whilst 29 per cent of large firms sometimes used personality tests in filling vacancies, only 9 per cent of SMEs did so. Performance tests were more commonly used by SMEs (36 per cent did so), but their use was still more likely in large firms (47 per cent).

It was relatively unusual for firms of any size to engage in positive action by encouraging applications from employees with particular characteristics. However, there was some evidence that workplaces within large firms were more likely to undertake this type of activity than those within SMEs. SME workplaces were less likely to use special procedures to encourage applications from members of ethnic minorities, disabled people, or people who had been unemployed for 12 months or more, but there was no significant difference in the proportion of workplaces belonging to SMEs or to larger firms which sought to encourage applications from women returning to work after having children, women in general, or older workers. Less than one-in-five (18 per cent) workplaces in large firms used any of these procedures, compared to around one-in-eight (12 per cent) of those located in SMEs.

### Labour turnover

The need to recruit employees is in part determined by the rate of labour turnover. Around four-fifths of all private sector workplaces led employees to expect long-term employment with the firm, with little difference in this proportion



between firms of different sizes. The likelihood that there were vacancies within the core group of employees over the last 12 months rose with firm size, so that vacancies in the core group had arisen in only 68 per cent of workplaces in small firms, compared to almost three-quarters (74 per cent) of workplaces in medium-sized firms and 86 per cent of those in large private firms. There was no significant difference in the mean or median average labour turnover between firms of different sizes, but workplaces within SMEs were less likely than those in large firms to report that a quarter or more of the workforce had left over the previous 12 months (27 per cent compared to 45 per cent). This picture of greater workforce stability in SME workplaces is consistent with the findings of other research (Kitson and Wilkinson, 2003a: 34).

### **Working patterns**

Employers may also seek to satisfy staffing needs by organizing working patterns to suit the requirements of the firm. This can involve using part-time workers, shift systems or annual or zero hours contracts. Employee reports showed that a greater proportion of employees worked part-time in small firms than in medium or large firms (27 per cent, 16 per cent and 21 per cent respectively).<sup>1</sup> According to managers, a similar proportion of employees worked part-time in workplaces which belonged to small and large firms (29 and 27 per cent respectively), but a smaller proportion were part-time in medium-size firms (18 per cent). Small and large firms showed a similar propensity to employ a large proportion of part-time staff, with 13 per cent of workplaces in small firms and 15 per cent of those in large firms reporting that more than three-quarters of employees worked part-time, compared to just 3 per cent of workplaces in medium-sized firms. However, more than half the workforce was part-time in only 21 per cent of SME workplaces compared to 36 per cent of workplaces which were part of a large firm. Small firms were also less likely to operate a shift system, with 16 per cent of workplaces in small firms having one in place, compared to 27 per cent of those in medium-sized firms, and 31 per cent of workplaces in large firms. Whilst only two per cent of SME workplaces made use of either zero or annual hours contracts, their use was more common in large firms (7 per cent and 5 per cent respectively).

### **Contractual status**

In addition to using working patterns which meet the needs of the firm, contractual arrangements may also be used by employers to fulfil particular staffing requirements. Employees were slightly less likely to have an open-ended contract if they worked for an SME rather than a large firm (91 per cent compared to 93 per cent). Reflecting this, a greater proportion of SME employees were on fixed-term contracts (3 per cent compared to 2 per cent of those employed by large firms) and temporary contracts (6 per cent compared to 4 per cent of employees of large firms). The Management Questionnaire grouped fixed-term and temporary contracts together, and according to managers, there was little difference

between workplaces which were part of SMEs and those in larger firms in the proportion of employees on fixed-term or temporary contracts (around 8 per cent). There was also very little difference between workplaces which were part of SMEs and those which were part of a large firm in the proportion of workplaces where at least half of the workforce were employed on fixed-term contracts (5 per cent and 2 per cent respectively).

Where some staff were on fixed-term contracts, the reasons for using these were fairly similar between firms of different sizes, although workplaces which were part of SMEs were more likely to employ fixed-term staff as a spur to improve performance (10 per cent compared to 2 per cent), and were less likely to use them to cover for maternity leave or long-term absence (14 per cent compared to 25 per cent).

### **Off-the-job training**

There is disagreement over the level of training provided by small firms. Kitson and Wilkinson (2003a: 36) found that small firms provided less training than larger firms when formal on- and off-the-job training methods were combined. However, some claim that informal training is more appropriate than formal training in small firms and that the difficulties of measuring informal training provision lead to underreporting, so that the true level of training provision may be similar between firms of different sizes (Patton *et al.*, 2000: 84). There is also evidence that small employers have a preference for in-house training, whether formal or informal in nature (Kitching and Blackburn, 2002: 25–26).

The WERS 2004 Management Questionnaire asked about formal off-the-job training provision, but not about informal training methods, and so it is unsurprising that this showed workplaces in small firms to be far less likely to provide formal off-the-job training for experienced employees in the core occupation than workplaces in medium or large firms (59 per cent, compared to 85, and 89, per cent respectively). SMEs were less likely to provide formal off-the-job training than large firms in both the manufacturing and services sectors, although it was apparent that the gap in training provision between SME workplaces and large firms was greater in the manufacturing sector – likely to be in part because of the considerable difference in the average size of manufacturing workplaces in SMEs and large firms (see Chapter 2). Whilst almost all workplaces in large manufacturing firms provided formal off-the-job training (98 per cent), less than three-fifths (56 per cent) of those in SME workplaces did so. In comparison, 88 per cent of large service sector firms provided off-the-job training, compared to around two-thirds (65 per cent) of SMEs.

Just 24 per cent of workplaces in small firms gave at least three-fifths of their experienced core employees off-the-job training, compared to around half of all those in medium and large firms, whilst only 15 per cent of SMEs had ‘Investors in People’ status, compared to 57 per cent of large private firms, and 74 per cent of public sector workplaces. There was also a positive relationship between the size of the firm and the likelihood that targets for workplace training were set, although smaller firms were less likely to engage in target-setting generally.

Despite the lack of formal training provision, or targets for provision, a lower proportion of employees in small firms than in medium or large firms reported that they were dissatisfied with the training that they received (16 per cent compared to 23 per cent and 24 per cent respectively). Employees who worked for small firms were also more likely to ‘strongly agree’ that workplace managers encouraged people to develop their skills than those in medium-sized or large firms (22 per cent, compared to 14 per cent of those in medium or large firms). This perhaps confirms the view that informal, on-the-job training compensates for the apparent lack of formal training provision in small firms. It has also been suggested that where small firms do provide training, this matches, and can even exceed, the number of days of training provided by large firms (Deloitte *et al.*, 1989: 25). Management and employee reports did indeed indicate that for those firms which did provide some off-the-job training for experienced core employees, the number of days training was similar in workplaces which were part of small and large firms.

Table 4.3 shows the topics covered by formal off-the-job training for experienced core employees. Health and safety training was the most common form of off-the-job training across firms of all sizes. There were clear differences in the type of training provided by size though, perhaps because some types of training were less necessary in a smaller firms. For example, it may be easier to monitor quality in a small firm, making it less necessary to train staff in quality control procedures than in a large firms. SME workplaces were less likely than workplaces in large firms to provide training on customer service liaison, teamworking, communication skills, leadership skills, problem-solving methods, equal opportunities, quality control procedures, reliability and working to

Table 4.3 Topics covered in training for core employees

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Computing skills	38	40	38	46	37	
Teamworking	38	27	25	33	49	
Communication skills	44	34	35	33	53	
Leadership skills	26	19	17	23	33	
Operation of new equipment	50	44	42	51	55	
Customer service/liaison	45	26	24	34	63	
Health and safety	67	64	61	72	71	
Problem-solving methods	19	14	15	12	24	
Equal opportunities	18	13	12	14	23	
Reliability and working to deadlines	20	14	16	9	25	
Quality control procedures	35	29	28	32	41	
None of these	5	6	8	1	4	

Base: all private sector workplaces with 5 or more employees, where any core employees had received off-the-job training over the past 12 months.

Figures are weighted and based on responses from the following numbers of managers: 1,472 (all private sector), 463 (all SMEs), 259 (small firms), 204 (medium-sized firms) and 998 (large firms).

deadlines and the operation of new equipment. There was no significant difference in the proportion of workplaces from SMEs and large firms which trained core employees in computing skills.

Employees were asked how well they thought that their own skills matched the skills they needed to do their job. The proportion of employees who felt that their skills exceeded those needed was slightly lower in SMEs than in large firms (51 per cent compared to 55 per cent), whilst the same proportions of employees in firms across the three size bands felt that their skills were lower than required (around one out of every 20 employees).

### **Performance appraisals**

The evidence on the value of performance appraisal is mixed, with the value of these depending on the way in which they are conducted (Taylor *et al.*, 1995). The likelihood that a workplace carried out regular performance appraisals for some non-managerial employees increased with firm size, so that whilst only 45 per cent of small firms regularly appraised some non-managerial employees, this was the case in 63 per cent of medium firms, and 82 per cent of large firms. Half of all workplaces within small firms did not make use of appraisals for any staff, compared to 30 per cent of medium-sized firms, and only seven per cent of large firms. Where appraisals were carried out, it was usual for them to result in an assessment of training needs, but this was less common in SME workplaces than in large firms (89 per cent, compared to 98 per cent). In around two-fifths of workplaces where appraisals were conducted, pay was linked to the outcome of the appraisal, with this proportion fairly constant, regardless of firm size.

### **Work organization**

An important objective of work organization for small firms is to maximize the effectiveness of the existing workforce. This can involve encouraging and supporting staff to work well together, including giving them the responsibility to take decisions in the interests of the firm; training staff to be functionally flexible, so that they are able to carry out a wide range of tasks; and utilising the knowledge and experience of employees by seeking their involvement in improving products and processes. This section assesses the evidence that firms of different sizes engage in each of these activities.

WERS explored a range of dimensions relating to team-working. At least some core employees worked in teams in 55 per cent of workplace which were part of an SME, compared to 64 per cent of workplaces which belonged to a large firm. Workplace size appeared to be an important determinant of whether core employees worked in teams. Within large firms, some employees in the core group worked in teams in 58 per cent of workplaces with less than 50 employees, compared to 90 per cent of workplaces with 50–249 employees, and 96 per cent of workplaces with 250 or more employees. A similar pattern was in evidence for medium-sized firms.

Where there was some team-working in the core employee group, team members in workplaces belonging to SMEs were slightly less likely to be dependent on each other in order to do their job, or to rotate tasks or roles among the team than where they were located in a large firm (82 per cent compared to 89 per cent, and 64 per cent compared to 73 per cent respectively). There was little variation between firms of different sizes in the likelihood that team members were responsible for jointly deciding on how work should be done, with this being the case in around three-fifths of private sector workplaces which made some use of teamworking for core employees. The size of the firm also bore little relation to whether the team had responsibility for a particular product or service, which was the case in four-fifths of private workplaces where there was teamworking among some core employees. However, it was unusual for teams to appoint their own leader in firms of any size, with this happening in just 8 per cent of private sector workplaces.

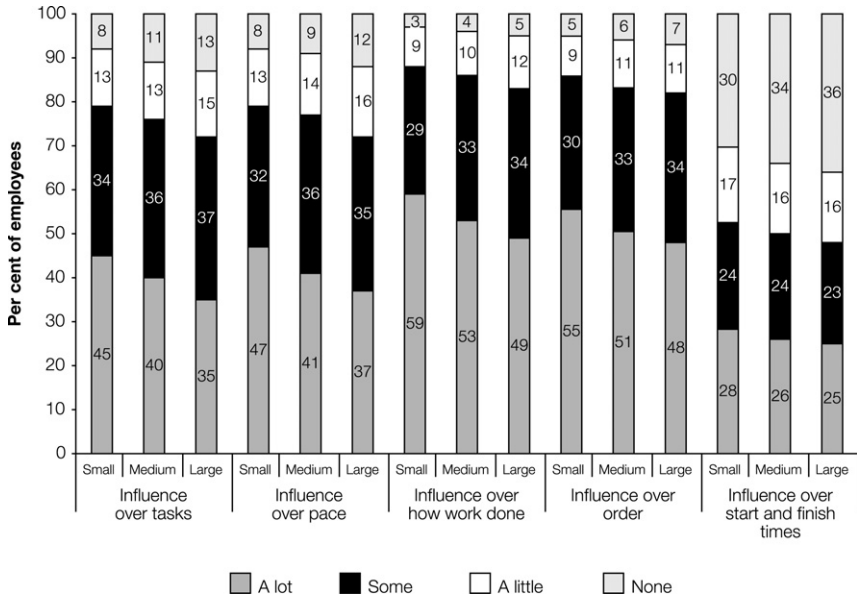
Perhaps surprisingly, workplaces which were part of SMEs were less likely to report that most core employees were trained to do a job other than their own than were those in large firms (17 per cent compared to 25 per cent). Only 52 per cent of SME workplaces had any core employees who were trained to be functionally flexible, compared to 72 per cent of those which were part of a large firm. Reflecting this, 57 per cent of SME workplaces reported that some core employees did a job other than their own at least once a week, compared to 70 per cent of workplaces in large firms. However, the proportion of employees carrying out a job other than their own exceeded the proportion trained to do another job in one fifth of workplaces which were part of an SME, compared to only ten per cent of workplaces which were part of a large firm.

Workplaces which were part of SMEs were less likely to have any problem-solving groups of non-managerial employees than workplaces which belonged to large firms (13 per cent compared to 20 per cent). The difference in incidence between SMEs and large firms was particularly noticeable in the manufacturing sector, where 44 per cent of workplaces which belonged to large manufacturing firms made some use of problem-solving groups, compared to just 14 per cent of those which were part of an SMEs. Employees might also be involved in problem-solving through a suggestion scheme. SME workplaces were far less likely to have a suggestion scheme than large firms, with only 13 per cent having a suggestion scheme, compared to 43 per cent of workplaces within large firms.

## **Job influence and autonomy**

Figure 4.1 shows that employees were significantly more likely to report that they had a lot of influence over the tasks that they did in their job in small firms than in medium or large firms. They were also more likely to say that they had a lot of influence over the pace at which they worked, how they did their job and the order in which they carried out tasks. However, there was little difference in the proportion of employees who had a lot of influence over their start and finish times.

Figure 4.1 Job influence



Base: All employees in private sector workplaces with 5 or more. Figures are weighted and based on responses from a minimum of the following numbers of employees: 2,370 (small firms), 2,188 (medium-sized firms) and 10,385 (large firms).

Perhaps reflecting the greater influence that the employees of small firms had over many aspects of their work, a larger proportion of employees of SMEs were satisfied with the amount of influence that they had over their job than employees who worked for large firms. Two-thirds of SME employees stated themselves satisfied or very satisfied with the amount of influence that they had, compared to 56 per cent of employees of larger firms. Also, 29 per cent of employees in firms with less than 50 employees were very satisfied with the scope they had for using their initiative, compared to 22 per cent of employees of medium-sized firms, and 19 per cent of those who worked for large firms.

### Work intensity

One might expect greater job autonomy to be accompanied by higher work intensity if employees are given greater control over the organization of work in return for taking more responsibility for completing tasks. However, despite the fact that employees in smaller firms reported greater job influence, there was very little evidence of a link between firm size and the proportion of employees believing that their job required that they work very hard. Also, whilst a similar proportion of employees in firms of all sizes strongly agreed that they never seemed to have enough time to get their work done (11 per cent of those in small firms, 11 per cent in medium-sized firms and 12 per cent

in large firms), a larger proportion of employees who worked for small firms disagreed with the statement than those employed by medium or large firms (33 per cent, compared to 28 per cent and 27 per cent respectively).

### Employee well-being

Employees who worked for SMEs were less likely to report that their job made them feel tense, worried or uneasy than employees who worked for larger firms. Conversely, they reported that their job made them feel calm, relaxed or content more frequently than employees of larger firms. Table 4.4 shows that there was very little difference between firms of different sizes in the proportion of employees who worried a lot about their work outside of working hours, but employees of SMEs were significantly more likely to believe that their job was secure than employees of large firms. A greater proportion of SME staff were very satisfied with the sense of achievement that they got from their work, and with the work itself, and they were more likely to report that they shared the values of the organization, felt loyal to the organization, and were proud to tell people who they worked for.

### The non-employed workforce

Small firms were less likely to use any temporary agency workers than medium or large firms (8 per cent, 16 per cent and 14 per cent respectively), and there was no significant difference in the proportion of workplaces in SMEs and large

Table 4.4 Employee well-being

	All private sector	Size of firm				Cell %s
		All SMEs	Small	Medium-sized	Large	
<i>Agree or strongly agree:</i>						
I worry a lot about work outside working hours	25	25	24	26	25	
I feel my job is secure in this workplace	68	74	77	71	64	
I share many of the values of my organization	54	58	61	54	51	
I feel loyal to my organization	71	77	80	73	67	
I am proud to tell people who I work for	61	67	69	63	58	
<i>Very satisfied or satisfied with:</i>						
The sense of achievement you get from your work	70	75	77	72	67	
The work itself	72	77	79	75	69	

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees (minimum): 14,615 (all private sector), 4,392 (all SMEs), 2,280 (small firms), 2,112 (medium-sized firms) and 10,161 (large firms).

firms where the number of temporary agency workers was equivalent to 10 per cent or more of the workforce. However the difference between the use of agency workers between SMEs and large firms was pronounced in the manufacturing sector, where 13 per cent of SMEs employed some agency workers, compared to 55 per cent of large firms. Despite the large proportion of workplaces within large private sector manufacturing firms using agency staff, the number of agency workers was only equivalent to more than 10 per cent of the workforce in eight per cent of these workplaces, and in the same proportion of SME firms in the manufacturing sector. The most common reasons for using agency workers were to provide short-term cover for staff absences or vacancies, and to match staff to peaks in demand, with a similar proportion of workplaces in SMEs and large firms stating each of the reasons for using agency workers. SMEs were more likely to make use of homeworkers than large firms (9 per cent compared to 4 per cent), and they were also more likely to employ freelancers (13 per cent compared to 6 per cent).

Whilst 78 per cent of workplaces which were part of a small firm contracted-out some services, nine-out-of-10 workplaces in medium-sized and large firms employed sub-contractors. Again, the difference between workplaces in SMEs and large firms was most apparent in the manufacturing sector, where almost all large employers (97 per cent) contracted-out some services, compared to 81 per cent of SMEs. Workplaces which belonged to small firms were less likely to contract-out cleaning, security or catering than those in medium or large firms. They were also less likely to contract-out the temporary filling of vacant posts than medium-sized firms (8 per cent compared to 21 per cent), although a similar proportion of large firms (12 per cent) contracted-out this service. SME workplaces were less likely than those within large firms to contract-out building maintenance or the transport of documents or goods, but were more likely to contract-out printing or photocopying, payroll or training.

A similar proportion of workplaces within SMEs and large firms used contractors to do work which five years previously would have been done by employees (13 per cent and 15 per cent respectively). However, there was a marked difference between firms of different sizes in whether the contractors were in fact former employees of the workplace, with only 1 per cent of SME workplaces reporting that this was the case, compared to 16 per cent of those in large firms.

## Summary and conclusions

This chapter has shown that on average, workplaces which were located in small firms appeared to have a rather different approach to recruitment, training and work organization than those which were part of larger firms. Small firms tended to give preference to external applicants in filling vacancies and were less likely to use formal recruitment methods or to use performance or personality tests in filling vacancies. SMEs showed a lower tendency to provide formal off-the-job training than large firms, but where this was available, employees received a similar amount to that provided by larger firms. It was also the case



that employees of SMEs were less likely to feel dissatisfied with the training that they had received and were more likely to strongly agree that managers encouraged employees to develop their skills.

In terms of work organization, there was little evidence that the use of teamworking within workplaces varied greatly with firm size, but SMEs made less use of problem-solving groups or suggestion schemes than large firms. They were also less likely to carry out appraisals or to provide training on functional flexibility, although employees of small firms were more likely to be functional flexible in practice than employees who worked for larger firms. Working patterns appeared to be rather different in SMEs in that there was less use of shifts, zero hours and annual hours contracts, although the employment of part-time workers was common.

There was some evidence of greater workforce stability in small firms, both based on management and employee reports, although SMEs did make greater use of fixed-term and temporary contracts and freelancers. They were also less likely to use agency workers or subcontractors to supplement their own employees. Besides the fact that employees were more likely to feel that their job was secure in SMEs, it was also notable that they reported greater job influence and autonomy and expressed greater satisfaction with their work, and with the organization that they worked for, than the employees of large firms.

# 5 Information and consultation

## Introduction

Traditionally, most discussions within the employment relations literature about the opportunities for employee 'voice' have focused on the extent and nature of various forms of employee representation. Attention has most commonly been drawn to the activities of trade unions, although a small but distinct literature has also concentrated on forms of representation that may exist in the absence of unions (Terry, 1999; Gollan, 2000). The focus on trade union representation would seem to be of limited current relevance to much of the private sector, where less than one-in-five employees (17 per cent) are now trade union members (Grainger and Holt, 2005: 3). And the attention on employee representation more generally could be argued to be of limited relevance to many small workplaces and firms, where the opportunities for direct contact between managers and employees are more commonplace.

However, there is an interest in aspects of employee voice that extends beyond a concern with the arrangements for employee representation. The broader issues are concerned with the extent to which employees are informed and consulted about developments at their workplace, and the extent to which they have an influence in decision-making. Such matters are as pertinent to managers and employees in small and medium-sized firms as they are to managers and employees in large firms. Indeed, one might argue that these matters have been of increasing importance to SMEs since the implementation in 2005 of the European Community Directive on Informing and Consulting Employees (2002/14/EC) which currently covers firms with 150 employees or more, and which will cover all those with 50 or more employees by 2008.<sup>1</sup>

Employees' involvement in decision-making has already been discussed to some extent in Chapter 3, and will be returned to in Chapter 6. This chapter examines the arrangements for information provision, communication and consultation that are in place within workplaces belonging to SMEs. These include arrangements for direct communication between managers and employees that form the basic arrangements in small firms, as well as the less common arrangements for employee representation that are largely the preserve of medium-sized and large firms. The chapter also looks at the extent to which managers regularly share information of importance with their employees, using both management and employee data to gain different perspectives.

The chapter begins by looking at managers' attitudes towards particular aspects of employee 'voice'.

## Management attitudes

The discussion in Chapter 3 showed that managers in smaller firms were more likely than those in larger firms to consult employees over changes at the workplace. Nonetheless, some have highlighted an antipathy among managers in SMEs towards formal and independent employee representation via trade unions (Dundon *et al.*, 1999; Ryan, 2005). Certainly, WERS indicated that few managers in SMEs viewed trade unions in a favourable light.

As part of the broader set of attitudinal questions that were asked of managers, and which were referred to in part in Chapter 3, management respondents were asked whether they would prefer to consult directly with employees than with trade unions. Overall, 87 per cent of managers in workplaces belonging to small firms agreed with the statement, along with 77 per cent of managers in workplaces belonging to medium-sized firms (Table 5.1). The equivalent figure among workplaces belonging to large firms was lower, but still considerable, standing at 73 per cent. The differences were largely accounted for by differences in the proportions of managers from each group that expressed strong agreement with the statement (46 per cent, 35 per cent and 33 per cent respectively). The proportions of managers that disagreed – thereby expressing a preference for consulting with unions rather than directly with employees – were extremely low (1 per cent in workplaces belonging to small firms, 3 per cent in medium-sized firms and 8 per cent in large firms),

Table 5.1 Managers' attitudes towards trade unions

	<i>All private sector</i>	<i>Size of firm</i>				<i>Col %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
<i>Would rather consult directly with employees than with unions:</i>						
Agree	80	86	87	77	73	
Neither	16	13	11	20	19	
Disagree	4	1	1	3	8	
<i>Unions help find ways to improve workplace performance:</i>						
Agree	17	13	12	18	22	
Neither	42	46	44	55	37	
Disagree	41	41	44	28	41	
<i>Attitude towards union membership at establishment:</i>						
Actively encourages	7	2	2	3	15	
In favour	5	3	2	7	8	
Neutral	68	72	73	67	62	
Not in favour	17	20	19	22	13	
Actively discourages	3	3	4	1	2	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,687 (all private sector), 610 (all SMEs), 384 (small firms), 226 (medium-sized firms) and 1,064 (large firms).

indicating a general preference for direct communication among private sector managers, and not just among those working in SMEs.<sup>2</sup>

Possible reasons that have been put forward to explain the apparent aversion to trade unions among managers in SMEs include an unwillingness among managers to share control (Ryan, 2005: 213), and feelings that the presence of a union may signal criticism of the managers' approach towards employment relations (Beresford, 2003). But broader analyses of non-union approaches have alluded specifically to the potential costs of union organization (Kaufman and Taras, 2000: 35). In this vein, a second attitudinal question indicated that managers in SMEs were less likely than managers in large firms to view trade unions as partners who might contribute positively to the overall performance of the business. Some 13 per cent of managers in workplaces belonging to SMEs agreed that unions helped find ways to improve workplace performance, compared with 22 per cent of managers in workplaces belonging to large firms (Table 5.1).<sup>3</sup> However, the proportion of managers that disagreed with the statement (41 per cent) was no higher in workplaces belonging to SMEs than among workplaces in large firms.

It may be argued that these are hypothetical questions for many managers, and so may not indicate their true preferences. But managers were also asked directly about their general attitude towards union membership among employees *at their establishment*. Among workplaces belonging to SMEs, only 5 per cent of managers were in favour or actively encouraged union membership, compared with 23 per cent of managers in workplaces belonging to large firms (Table 5.1). The proportion of managers in SMEs actively supporting union membership was just 2 per cent, compared with 15 per cent in large firms. Almost one quarter (23 per cent) of managers in SME workplaces said they were not in favour or actively discouraged union membership, compared with 15 per cent in large firms.<sup>4</sup> Nonetheless, few managers in SMEs admitted that they actively discouraged union membership among employees at their workplace (3 per cent). These figures suggest a general absence of positive support for trade unions among managers in SMEs, but they also suggest that the degree of direct opposition is relatively low.

## Union membership and representation

Whilst the extent of union membership is generally low in the private sector, and density is thought to be particularly low in SMEs, official data on union membership density is limited in the extent to which it can provide detail on this issue. One reason is that, although the Labour Force Survey covers employees in firms of all sizes, it is possible only to categorise recent results by the number of employees at the respondent's workplace, rather than the size of the firm.<sup>5</sup> Another reason is that, being a household survey, the LFS provides no information on the concentration of union membership within particular workplaces. WERS 2004 therefore provides a unique insight into the patterns of union membership in SMEs.

Only 7 per cent of employees in small firms were members of trade unions, compared with 10 per cent of employees in medium-sized firms and 28 per cent

in large firms. There was no difference in the percentage of employees who had, at one time, been trade union members but had since ceased their membership. Rather, the difference between SMEs and larger firms was accounted for by the greater proportion of employees in SMEs who had never been a member of a trade union when compared with employees in large firms (71 per cent, compared with 55 per cent). This pattern could not easily be related to a younger age profile of employment in SMEs: Chapter 2 indicated no substantial differences in the age profile of employees by firm size.

The lower rate of union membership in smaller firms was apparent in manufacturing and service industries.<sup>6</sup> The industry sector that provided an exception to this general rule was Health, where the density in SMEs (17 per cent) was similar to that seen in large private sector firms (18 per cent), a pattern which may relate to the role of some health unions as professional and educational bodies.

Among employees working in SMEs, there was no significant difference in the rate of membership between men and women, but employees from a non-white ethnic group were half as likely to belong to trade unions as employees from a white ethnic group (4 per cent, compared with 8 per cent). In SMEs, union membership was also less common among those working for family-owned firms (5 per cent) than among those working in firms where a single individual or family did not own a majority of the business (15 per cent). A difference remained after controlling for occupation, ethnicity, industry, and firm and workplace size. No difference was apparent, however, between owner-managed firms and other family-owned firms.

In respect of the concentration of union membership within individual workplaces, some 90 per cent of workplaces belonging to small firms had no union members at all. In only 3 per cent did membership density reach at least 25 per cent, and in only 2 per cent did at least half of all employees at the workplace belong to trade unions. This later figure was not much higher among workplaces belonging to medium-sized firms (7 per cent). By contrast, around one quarter (23 per cent) of workplaces belonging to large firms had membership density of 50 per cent or more.

Much has been made about the need for unions to recruit members in non-traditional territories (Healy *et al.*, 2004). One in twenty non-members in small firms (5 per cent) said that they had been invited to join a union, compared with 7 per cent of non-members in medium-sized firms and 17 per cent in large firms. These results are indicative of a general absence of union recruitment activity in SMEs, but not to a degree that is strikingly out of step with that seen across the rest of the private sector.

Turning to the extent of lay union representation in SME workplaces, only 10 per cent of SME workplaces with union members had on-site union representatives, compared with a figure of 30 per cent among large firms. Consequently, only 1 per cent of all workplaces belonging to SMEs had an on-site union representative, compared with 10 per cent among workplaces that were part of large firms (Table 5.2). The fact that many SME workplaces with a membership presence are likely to have a relatively small number of members in total is probably one contributory factor, since an appreciable number of

Table 5.2 Arrangements for employee representation

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Any union representative(s)	7	1	1	4	15	
On-site	5	1	1	3	10	
Elsewhere in the organization	2	0	0	2	5	
Recognized trade union(s)	14	3	2	7	31	
Any joint consultative committee(s)	31	10	5	29	62	
On-site	7	4	3	9	10	
At a higher level in the organization only	25	6	2	20	52	
Stand-alone non-union representatives	5	6	6	6	2	
Any arrangements for employee representation	39	17	12	39	71	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,672 (all private sector), 616 (all SMEs), 391 (small firms), 225 (medium-sized firms) and 1,056 (large firms).

union members (around 15) is seen to be required before there is a reasonable chance of there being a representative on-site (Kersley *et al.*, 2006).

In large firms, members in workplaces that are without their own representatives may often have access to a representative at another site within the organization. But this form of representation is also naturally limited in workplaces that belong to smaller firms, since many are single independent sites (see Chapter 2). Considering workplaces with union members but no on-site representative, in large firms, members at around one quarter (24 per cent) of such workplaces had access to a representative at another site, compared with members in just 4 per cent of such workplaces in small firms. This meant that, overall, there was some form of lay union representation available, either on or off-site, in 13 per cent of SME workplaces with union members (and 1 per cent of all SMEs), compared with 43 per cent of unionised workplaces in large firms (or 15 per cent of all workplaces in large firms).

In view of the low rates of union membership described above, and the now limited extent of industry-wide bargaining in Britain (Kersley *et al.*, 2006), it is not surprising to find low rates of union recognition among SMEs. Only 3 per cent of all workplaces in SMEs recognized unions (5 per cent in manufacturing, 3 per cent in services), compared with 31 per cent of workplaces in large firms (Table 5.2). The figure was 2 per cent among those workplaces belonging to firms with between 5 and 19 employees, which are outside the scope of the statutory union recognition procedure. The proportion of employees working in establishments that recognized unions was 3 per cent in small firms,

12 per cent in medium-sized firms (7 per cent in all SMEs) and 45 per cent in large firms. It is notable that the recognition rate among workplaces with union members was much lower in SME workplaces than in those belonging to larger firms (27 per cent, compared with 78 per cent). One plausible reason is the lower levels of membership density in workplaces belonging to SMEs.<sup>7</sup>

There appears to be limited potential for an extension in recognition in workplaces belonging to smaller firms: 4 per cent of workplaces in SMEs had union membership density of between 10 and 50 per cent although they did not recognize trade unions, and a further 1 per cent had majority membership without recognition. Less than one per cent of workplaces in SMEs reported that there had been a request for recognition since 1998 that had not been granted.<sup>8</sup>

### **Other forms of employee representation**

Other forms of employee representation are provided by joint consultative committees (JCCs) and stand-alone non-union representatives. JCCs are committees of managers and employees that are primarily concerned with consultation rather than negotiation. These are also sometimes referred to as works councils or representative forums; the term 'joint consultative committee' is used hereafter as the generic label. JCCs may include union or non-union representatives, or a mixture of the two (so-called mixed constituency committees).

The coverage of JCCs can be expected to be slightly lower among workplaces belonging to SMEs than among workplaces belonging to large firms because SME workplaces tend to be slightly smaller in size, on average (see Chapter 2), and thus less likely to either require or sustain representative structures. But the incidence will also be constrained because many large firms have higher-level arrangements that cover a number of small workplaces. Ten per cent of workplaces belonging to SMEs were covered by some form of consultative committee, either at the workplace or at a higher level, compared with 62 per cent of large firms (Table 5.2). Workplace-level committees were present in 3 per cent of establishments belonging to small firms, 9 per cent of those belonging to medium-sized firms and 10 per cent of those in large firms, with workplace size being the more important determinant of the presence of an on-site committee. Firm size had a more important impact on the incidence of higher level committees.

Workplace-level JCCs in SMEs generally discussed similar issues to those present in large firms. The main differences were in the lower proportions discussing future plans (62 per cent, compared with 84 per cent in large firms), pay issues (51 per cent, compared with 71 per cent), work organization (60 per cent, compared with 78 per cent) and equal opportunities (25 per cent, compared with 46 per cent). Even so, managers in those few SME workplaces that had JCCs were more likely to consider that the committee was 'very influential' (46 per cent, compared with just 14 per cent in large firms).<sup>9</sup>

Stand-alone non-union representatives are representatives whose constituency is not determined by union membership, and who do not sit on JCCs, but who

nonetheless perform some general, representative function on behalf of their colleagues in dealings with managers. Some 6 per cent of workplaces in SMEs had a stand-alone non-union representative, compared with 2 per cent in large firms (Table 5.2). The higher incidence of stand-alone non-union representatives in SMEs did not appear to be a function of the lower levels of unionisation or the lower incidence of JCCs in such firms.

### Summary of arrangements for employee representation

Summarising over the various arrangements for employee representation discussed above, less than one fifth (17 per cent) of workplaces in SMEs had arrangements for representative voice. The figure was 12 per cent in small firms and 39 per cent in medium-sized firms. It was 71 per cent in large firms. Overall, 13 per cent of employees in small firms worked in an establishment with representative voice, compared with 43 per cent of employees in medium-sized firms and 78 per cent of employees in large firms. The proportion of employees working in establishments with *on-site* arrangements for employee representation was 10 per cent in small firms, 31 per cent in medium-sized firms and 55 per cent in large firms.

Employees' views about who would best represent them in dealing with specific employment issues suggest that there is limited demand for an extension in employee representation in smaller firms. In SME workplaces without any arrangements for employee representation, a minority of employees said they would prefer a union or non-union employee representative to represent them in respect of getting increases in their pay (16 per cent), getting training (12 per cent), making a complaint (14 per cent) or dealing with a disciplinary charge (17 per cent).<sup>10</sup> This suggests that the demand for unionism and representation more generally in SMEs is limited by worker ambivalence (or what Ryan (2005: 214) refers to as 'worker apathy'). This may partly be the result of higher levels of job satisfaction (Chapter 6 indicates higher rates of satisfaction with pay, for example), the prevalence of good management-employee relations (see Chapter 7) or the greater incidence of temporary workers (Chapter 4). It might also reflect a lack of past exposure to unionism or other forms of representation: in essence, knowledge of viable alternatives. It is also likely to reflect structural factors: three-fifths (59 per cent) of SME workplaces without representation were part of single-site firms with less than 20 employees. With no wider organizational structure to provide representative capacity, and a small number of employees on-site, the potential for establishing representative structures seems small; in large firms, only 7 per cent of workplaces with fewer than 20 employees had on-site representation. Further research could usefully examine the relative importance of these various explanations.

### Direct forms of voice

Forms of direct communication between managers and employees have been the subject of increasing interest, partly resulting from the substantial growth in



the use of such methods within the private sector generally (Forth and Millward, 2002). They are particularly salient for SMEs because of the various factors, alluded to above, which mean that direct methods of communication may have a better 'fit' in the small firm than representative forms of voice. They are also of particular interest in this sector because past research has indicated that direct communication methods can have a positive impact on the performance of workplaces belonging to small firms – an effect not found among large firms (Bryson, 1999). Arrangements for direct communication between managers and employees can take different forms. The mechanisms vary according to whether the communication is face-to-face or written, and also according to whether there is an opportunity for dialogue. Following Kersley *et al.* (2006), the mechanisms discussed here are categorized into three groups, beginning with face-to-face, two-way communication through workforce meetings and team briefings. The second group comprises written methods that might permit upward communication from employees to managers, namely e-mail, suggestion schemes and employee surveys. The final category comprises methods that are primarily, if not wholly, concerned with downward communication, specifically use of the management chain, newsletters, notice boards and company intranets.

This categorisation does not include the more informal, personal communication that may take place between managers and employees as part of usual daily activities, and which may dominate in smaller firms and workplaces where managers and employees work in close proximity. The nature and extent of such communication is necessarily difficult to capture through survey methods. The emphasis on more formal and systematic arrangements therefore needs to be acknowledged. However, the subsequent section goes on to consider the extent of information sharing by managers on specific topics, thereby providing some assessment of the 'end result' in a way that is not dependent on having identified each of the mechanisms through which this information may be provided.

### *Workforce meetings and team briefings*

Regular meetings between senior managers and the whole workforce (whether altogether or in groups) were a regular feature of most workplaces, irrespective of firm size, but they were slightly less common in workplaces belonging to small firms. Two-thirds of all workplaces in small firms had formal meetings between senior managers and the whole workforce, compared with 77 per cent of workplaces in medium-sized firms and 81 per cent of workplaces in large firms (Table 5.3). As this pattern was not due to differences in the average size of workplaces, it seems likely that it partly reflects the greater difficulties of effecting systematic *informal* communications between senior managers and employees in larger firms.

As well as being less common, meetings were also less regular in SMEs than in larger firms. Around half (49 per cent) of SME workplaces with regular workforce meetings held them at least once a month, compared with 67 per cent in

Table 5.3 Arrangements for direct communication

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

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,688 (all private sector), 620 (all SMEs), 392 (small firms), 228 (medium-sized firms) and 1,068 (large firms).

large firms. SME workplaces appeared slightly more likely to offer a substantial amount of time in the meeting for questions or comments from employees (66 per cent made at least one quarter of the time available for employee contributions, compared with 59 per cent in large firms), but the difference was not statistically significant. There were also few substantive differences in the types of issues discussed, except that meetings in SMEs were less likely than meetings in larger firms to discuss financial issues (50 per cent, compared with 67 per cent) or training (63 per cent, compared with 77 per cent). SME workplaces run by full-time owner-managers were less likely to discuss financial issues at workforce meetings than other SME workplaces, perhaps because these issues are of a more personal nature for these types of managers.

Team briefings were less common in small firms (45 per cent) than in larger firms, although the incidence in medium-sized and large firms was similar (around 70 per cent). There were no substantial differences in the regularity of team briefings by size of firm, or in the amount of time made available for employee contributions, with just under half of all workplaces that operated team briefings holding these meetings at least once a week and around three-fifths making at least one quarter of the time available for employee questions or comments. Financial issues and training again stood out as topics that were

less likely to be discussed in SME workplaces than in those belonging to large firms. But within SMEs, financial issues were no less likely to be raised at team briefings in workplaces with a full-time working owner than in other types of workplace.

### *Written forms of upward communication*

Written forms of upward communication may be thought to be less critical in smaller firms and workplaces where there is more opportunity for face-to-face contact between managers and employees. However, in firms of all sizes, employees may appreciate the opportunity to provide suggestions or feedback in written form or, as is the case with some suggestion schemes or surveys, on an anonymous basis.

Only 16 per cent of workplaces in SMEs had conducted a formal survey of employees' views or opinions in the two years prior to the survey (14 per cent in small firms and 23 per cent in medium-sized firms) (Table 5.3). This compared with 56 per cent of workplaces in large firms. Suggestion schemes were used to a similar degree, operating in 13 per cent of workplaces belonging to SMEs, compared with 43 per cent of large firms. Managers in 25 per cent of SME workplaces reported that they regularly used e-mail to communicate with all employees; this compared with 47 per cent of managers in workplaces belonging to large firms. Overall, 35 per cent of workplaces in small firms used one of the three forms of written upward communication, compared with 58 per cent of medium-sized firms and 81 per cent of large firms.

Firm size thus appeared to be strongly related to the incidence of these methods. Workplace size also appeared to be relevant, although less so in respect of the use of surveys. The presence of an employment relations specialist was not significantly associated with the presence of these arrangements within SMEs.

### *Arrangements for downward communication*

The final set of mechanisms concerns arrangements that function primarily as a means of conveying information downwards from management to employees, and which thus contain no systematic upward element. Considered under this heading are the use of notice boards, newsletters, intranets and systematic use of the management chain. Each of these arrangements were less common in SMEs, with the use of newsletters and company intranets showing a particularly strong association with firm size (Table 5.3). These two methods of distributing company information were used by less than one fifth of all workplaces belonging to SMEs.

### **Extent of information sharing**

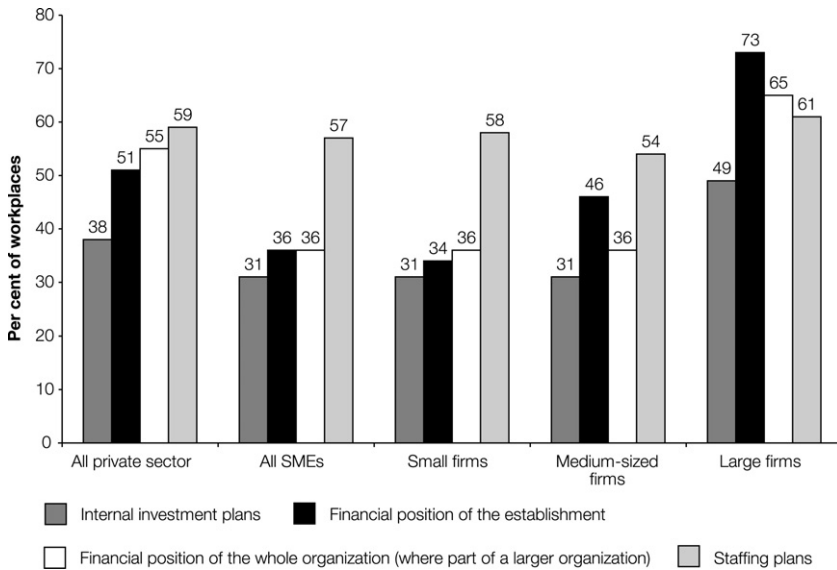
The final section in this chapter moves on from a discussion of the arrangements in place for representation and communication to consider the extent to

which managers keep employees informed about key issues concerning their workplace or firm. Data is presented from both managers and employees.

Managers were asked whether they regularly gave employees or their representatives information about internal investment plans, the financial position of the workplace, the financial position of the whole organization (where part of a multi-site firm) or staffing plans. The proportion of workplaces in SMEs that regularly gave employees or their representatives information about staffing plans was similar to that among large firms (57 per cent, compared with 61 per cent) (Figure 5.1). But the extent of regular information sharing about investment plans or financial matters was much lower in SMEs than in larger firms. Focusing solely on the three workplace-level items, about one third of workplaces in SMEs (32 per cent) did not regularly share information on any of the three items, whilst one fifth (18 per cent) did so on all of the three. The equivalent figures among large firms were 13 per cent and 32 per cent respectively.

The differences between small and medium-sized firms were not pronounced on any of the measures. However, information-sharing was less common in SME workplaces with owner-managers than in other types of SME workplace. The difference was most apparent in respect of the financial position of the establishment, followed by investment plans; no substantive difference was apparent in respect of staffing plans.

Figure 5.1 Regular information sharing



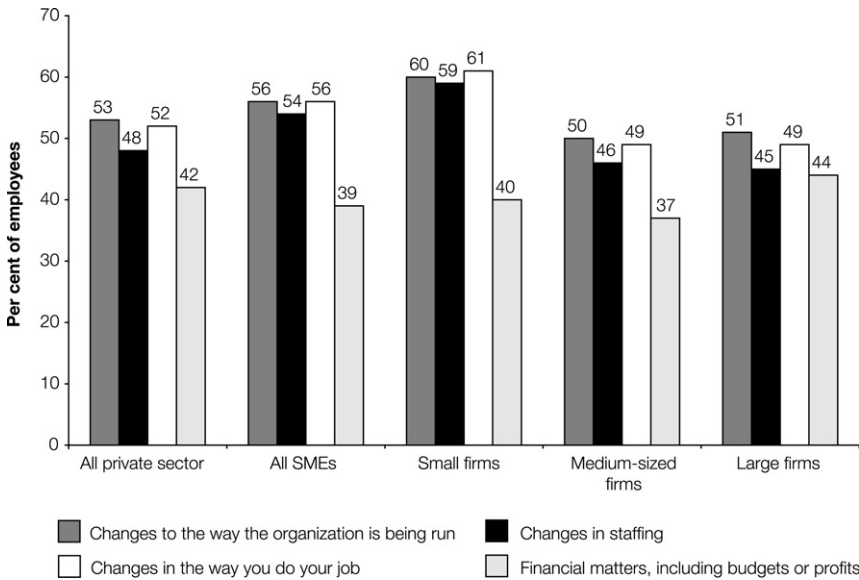
Base: all private sector workplaces with 5 or more employees.

Figures in columns 1, 2 and 4 are weighted and based on responses from the following numbers of managers (minimum): 1,698 (all private sector), 618 (all SMEs), 391 (small firms), 227 (medium-sized firms) and 1,067 (large firms). Figures in column 3 are weighted and based on responses from the following numbers of managers: 1,195 (all private sector), 191 (all SMEs), 71 (small firms), 120 (medium-sized firms) and 993 (large firms).

An employee perspective comes from a question in the employee survey where respondents were asked how good managers at their workplace were at keeping employees informed about changes to the way the organization is being run, changes in staffing, changes in the way the employee does their job and financial matters, including budgets or profits. It is particularly notable, in view of the tenor of the results thus far, that on the first three of the four items employees in small firms gave more positive ratings than those in medium-sized and large firms (who gave similar ratings to each other) (Figure 5.2). In respect of financial matters, however, the pattern of responses was similar across the three categories, with the exception that employees in SMEs were slightly more likely than employees in large firms to rate their managers as ‘very poor’ (15 per cent, compared with 11 per cent).

Following on from this, it was also apparent that, within SMEs, the presence of a full-time working owner had the strongest association with employees’ perceptions of the adequacy of information sharing in respect of financial issues. Among employees in SMEs without an owner-manager, 45 per cent considered that managers were either good or very good at keeping employees informed about financial matters, and 28 per cent considered them poor or very poor. In SMEs that did have an owner-manager, only 35 per cent considered them good or very good, and 33 per cent considered them poor or very poor.

Figure 5.2 Employees’ perceptions about managers’ ability to keep them informed



Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees (minimum): 14,168 (all private sector), 4,200 (all SMEs), 2,149 (small firms), 2,051 (medium-sized firms) and 9,968 (large firms).

Note: The figures are the proportion of employees rating managers as ‘very good’ or ‘good’ at providing information on each of the topics.

## Summary and conclusions

This chapter examined the arrangements in place in SMEs for direct communication between managers and employees, and the less prevalent arrangements for employee representation. It also looked at the overall extent to which employees in firms of different sizes were kept informed about specific issues such as finance or staffing plans. The material complements that discussed in Chapter 3, which looked in part at employees' involvement in workplace change, and Chapter 6, which will consider employees' involvement in the determination of pay and other terms and conditions.

The figures presented in the early parts of the chapter amply illustrated the scarcity of trade union representation in small and medium-sized firms. In aggregate, less than one tenth of employees in SMEs belonged to trade unions and there were few workplaces in which this average level of membership density was exceeded. The extent of union recruitment also appeared low, no doubt linked to the small proportion of workplaces with lay union representatives, and unions were recognized in only a small minority of workplaces. Management attitudes towards trade unions may have some role to play in explaining these patterns, but the differences between managers' attitudes in SMEs and large firms were not nearly as substantial as the differences in unionisation. Indeed, forms of non-union employee representation were also scarce, and the level of demand among employees for employee representation of any form was low. The smaller workplace and common lack of a wider organizational structure that tends to characterise many of the smallest firms are arguably more salient in explaining the limited extent of employee representation in such firms.

As expected, direct methods of communication between managers and employees were the dominant arrangement in smaller firms. Although the survey focused on relatively formal methods of communication, such as meetings with senior managers, team briefings and written communication, these each operated in reasonable proportions of SMEs, even among the smallest of firms where informal, personal communications can be expected to play a particularly significant role. More interesting were differences between smaller and larger firms in the extent of information sharing. Managers in smaller firms were less likely than those in larger firms to share information regularly with employees or their representatives about investment plans or the financial situation of the business, with the level of information sharing about financial matters being lower still in owner-managed firms.

Nonetheless, although managers in smaller firms tended to have fewer formal arrangements for communicating with staff, and were less likely to provide regular information on specific issues, employees in smaller firms (particularly those in small firms) tended to be more content with the amount of information they received from managers. This may well be because it might be easier in a small firm to gather knowledge of managers' plans through close working relationships, or to have a good sense of the financial situation of the firm through the closer proximity of workers to the actual marketplace.

## 6 The determination of pay and other terms and conditions

### Introduction

Some studies find small firm employers have a unitarist view of employment relations offering employees and their representatives less say in decision-making than their counterparts in larger firms (Scott *et al.*, 1989). However, because the literature is, as one commentator put it, 'littered with piecemeal surveys ... generally ... distinctive by their methodological inadequacies' (Blackburn, 2005: 43) it has not been possible to map the extent of joint regulation in smaller firms relative to larger ones across different aspects of employment. Furthermore, the proximity of small firm employees to senior managers in the firm might mean that less formal avenues for communication may offer opportunities for employee input which might not be feasible in larger firms (see Chapter 3). Case studies have shown that, regardless of the absence of formal structures for engagement between SME staff and management, workers are frequently involved in constructing a 'negotiated order' (Ram, 1991, 1994) which is far from the autocratic stereotype which dominated the early literature. Since only a small number of studies deal with employee perceptions of outcomes, it remains unclear whether the lack of joint regulation means that employees in small firms feel differently about aspects of their work, when compared with employees in larger firms. This chapter addresses these issues by identifying how pay and other terms and conditions are determined in small and medium-sized firms compared with large firms. It considers the form that pay takes, focusing particularly on variable forms of pay, and hourly pay levels, linking the latter to pay satisfaction. It then shows how non-pay terms and conditions are set in workplaces belonging to small, medium and large firms, and how issues such as redundancies and health and safety are handled. The chapter concludes by reflecting on the extent of joint regulation in SMEs and the implications for public policy.

### Pay determination

Very little is known about the extent of collective bargaining in SMEs in Britain: a recent review of the literature relied primarily on WERS 1998 (European Foundation, 2001). The first row in Table 6.1 shows its incidence in 2004 was eight times greater among workplaces belonging to large firms than in SMEs (3 per cent compared to 25 per cent).<sup>1</sup> This reflects the fact that SMEs do not tend to recognize trade unions (see Chapter 5) and also the scarcity of

sectoral agreements in the UK (EIRO, 1999). Even where unions are present in SMEs there is evidence that managers often prefer informal management styles and, as a result, eschew formal pay bargaining (Matlay, 1999).

The association between collective bargaining incidence and firm size was stronger in manufacturing. Whereas only 2 per cent of workplaces belonging to small firms had any collective bargaining coverage for any of their employees, this rose to 13 per cent in medium-sized firm workplaces in manufacturing, but to only 5 per cent in medium-sized firm workplaces in services. The last three rows of Table 6.1 show the proportion of employees covered by collective bargaining. Only 5 per cent of SME employees had their pay set through collective bargaining, though this figure rose rapidly with firm size, particularly in manufacturing where one fifth (21 per cent) of employees in workplaces belonging to medium-sized workplaces were covered.

Despite the availability of a statutory union recognition procedure covering all firms with 20 or more employees, the incidence and coverage of collective bargaining were no different in workplaces belonging to firms with 20–49 employees than they were in workplaces belonging to firms with 5–19 employees. Only 1 per cent of those with 20–49 employees had any collective bargaining, compared with 2 per cent of those with fewer than 20 employees, with bargaining covering 2 per cent of employees in both instances.

One per cent of workplaces belonging to SMEs had 100 per cent collective bargaining coverage, with a further 2 per cent having coverage above zero but less than 100 per cent. In contrast, 18 per cent of workplaces belonging to large firms had 100 per cent coverage and a further 7 per cent had coverage above zero.

Table 6.1 Incidence and coverage of collective bargaining

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
<i>% of workplaces engaging in any collective bargaining:</i>						
All workplaces	12	3	2	6	25	
Manufacturing	11	3	2	13	46	
Services	12	2	2	5	24	
<i>% of employees covered by collective bargaining:</i>						
All employees	24	5	2	9	35	
Manufacturing	36	11	2	21	52	
Services	21	3	2	5	31	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,666 (all private sector), 606 (all SMEs), 380 (small firms), 226 (medium-sized firms), and 1,060 (large firms).



Since SME employees' pay is rarely determined by collective bargaining, how is it determined? The survey asked managers which of eight methods of pay determination were used to set pay for the occupations at that workplace.<sup>3</sup> Nearly nine-in-ten workplaces in SMEs used a single method of pay determination, compared with three-quarters of larger firms (Table 6.2, row 1). Unilateral pay setting by managers was also much more likely to be used in SMEs, though they were also more likely to engage in negotiations with at least some individuals over pay than larger firms.

The bottom half of Table 6.2 shows the percentage of employees covered by these pay setting methods. Over four-fifths (84 per cent) of SME employees had their pay set unilaterally by management, either at workplace or firm-level, compared to two-thirds (67 per cent) of employees of large firms. Three times as many SME employees as employees who worked for large firms negotiated their pay directly with management. The workplace incidence and employee coverage of pay determination methods did not differ very much across manufacturing and services.

Table 6.2 Pay determination methods

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
<i>% of workplaces:</i>						
Single method of pay determination	82	87	88	81	76	
Any collective bargaining	9	2	2	3	19	
Any unilateral pay determination by management	82	89	91	84	71	
Any individual negotiations	13	16	17	13	10	
Any other methods	1	2	2	4	0	
<i>% of employees:</i>						
Collective bargaining	19	3	2	6	29	
Unilaterally determined by management higher in organization	27	9	2	18	38	
Unilaterally determined by management at workplace	46	75	82	66	29	
Negotiated with individual employees	5	10	12	8	3	
Some other way	2	2	2	2	1	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,662 (all private sector), 603 (all SMEs), 380 (small firms), 223 (medium-sized firms) and 1,047 (large firms).

Note: The collective bargaining coverage figures are lower than those for Table 6.1 because they rely solely on managerial responses to questions about occupation-level pay setting, whereas Table 6.1 adjusts the figures to take account of a banded overall estimate of collective bargaining coverage at the workplace.

## Pay reviews and settlements

Analyses of WERS 1998 showed annual pay increases were less common in small firms than in larger firms (Gilman *et al.*, 2002), while small-firm case studies confirm that ‘the idea of structured pay increases was far from firmly established’ (Gilman *et al.*, 2002: 58). In her small-firm case-studies, Cox (2005: 191) found that ‘the main source of distributive injustice was lack of a recent pay rise’.

In 2004, four-fifths of SME workplaces (81 per cent) reviewed the pay of their core employees annually compared to 87 per cent of large firms. Of the remainder, 12 per cent said they conducted reviews more regularly than annually and 7 per cent said they conducted them less frequently (the figures for large firms being 8 per cent and 5 per cent respectively). Practice was most varied in micro-firms with 5–9 employees: only 71 per cent conducted annual reviews, 17 per cent conducting them more frequently and 12 per cent less frequently.

In nearly nine-tenths of cases (88 per cent of SMEs and 86 per cent of large firms) the last pay review had resulted in a pay increase for core employees and no change in nearly all the other cases. Pay decreases were rare. Where pay had increased managers were asked whether the increase had been higher, the same or lower than the average increase for managers at the same workplace, similar workers in the same industry/sector, and similar workers in the same locality. In each case, SME managers – particularly those in small firms – were more likely than managers of larger firms to say it was ‘higher’. Nevertheless one fifth (21 per cent) of SMEs did not know how the increase compared with increases for similar workers in the same industry, and one quarter (26 per cent) did not know how it compared with increases for similar workers in the same locality. As others have suggested, this lack of knowledge regarding pay setting elsewhere may account, at least in part, for the ‘substantial range of indeterminacy’ (Gilman *et al.*, 2002: 61) which characterises pay setting for similar workers in a locality. Nevertheless, this lack of knowledge was not confined to SME managers. Fourteen per cent of managers in workplaces belonging to large firms did not know how the increase compared with increases for similar workers in the same industry, and one fifth (22 per cent) did not know how it compared with increases for similar workers in the same locality.

Managers were asked which of five factors had influenced the size of the settlement. Managers of SMEs were more likely than large firm managers to cite the ability to recruit and retain staff (54 per cent against 44 per cent) and less likely to cite cost of living increases (57 per cent against 65 per cent). The financial performance of the organization or workplace was the most frequently cited influence (74 per cent against 71 per cent). Half the managers said productivity levels influenced the settlement (52 per cent in SMEs and 49 per cent in large firms). Fewer than one per cent of SME managers cited industrial action compared with 1 per cent of managers from workplaces in large firms.

## Factors affecting pay levels

It was fairly unusual for all full-time employees in the core occupation to receive the same amount of pay. It happened in 17 per cent of SMEs (18 per

cent of workplaces belonging to small firms and 14 per cent workplaces in medium-sized firms) and in 14 per cent of workplaces belonging to large firms. Where they were not all paid the same managers were asked what factors explained the differences in pay levels. In SME workplaces the factor most often cited was skills or core competences, followed by career experience then job grade or classification (Table 6.3). These were also the three most frequently cited explanations in workplaces belonging to large firms, but almost three-quarters (71 per cent) of managers in workplaces belonging to large firms cited job grades/classifications compared to half (51 per cent) in SMEs, indicating the centrality of formal pay scales in large firms. SMEs, on the other hand, placed greater reliance on career experience. Compared with SMEs, large firm workplaces also made greater use of performance appraisal/assessment and incentive or performance-related pay in determining pay levels for core employees.

### Variable payments

Variable payments were less prevalent in SMEs than in larger-firm workplaces but, with the exception of employee share ownership schemes (ESOS), they were far from uncommon (Table 6.4).<sup>4</sup> The survey distinguishes between payment-by-results (PBR), in which the level of pay is determined objectively by the amount of work done or its value, and merit-based systems, in which pay is related to a subjective assessment of performance by a supervisor or manager. Around one third (34 per cent) of SMEs used one or other of these incentive pay

Table 6.3 Factors explaining differences in pay levels among full-time core employees

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Basic hours	38	34	33	39	44	
Overtime hours	35	33	32	38	38	
Shift premiums	12	10	10	12	15	
Age of employees	17	14	16	7	21	
Career experience	56	60	60	59	50	
Years of service with this employer	45	44	46	37	46	
Skills/core competences	62	63	64	61	60	
Formal qualifications	23	25	24	29	20	
Job grade/classification	59	51	47	64	71	
Incentive or performance-related pay	31	22	20	27	44	
Performance appraisal or assessment	31	24	22	30	40	
Other factors	6	6	7	3	6	

Base: all private sector workplaces with 5 or more employees where full-time employees were not paid the same amount.

Figures are weighted and based on responses from the following numbers of managers: 1,331 (all private sector), 463 (all SMEs), 270 (small firms), 193 (medium-sized firms) and 860 (large firms).

Table 6.4 Incidence of variable payment schemes

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Employee share ownership schemes	20	2	1	5	44	
Any merit pay or payment-by results:	44	34	34	35	57	
Merit pay only	9	8	8	6	11	
Payment-by-results only	28	22	22	26	37	
Both	6	4	4	2	10	
Profit-related pay	35	24	21	38	49	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,704 (all private sector), 621 (all SMEs), 392 (small firms), 229 (medium-sized firms) and 1,070 (large firms).

methods. SMEs were no more likely to rely on subjectively measured merit pay than large firms. One quarter (24 per cent) of SMEs had profit-related pay (PRP) schemes and these were twice as prevalent among large firms. In three-quarters of the workplaces where SMEs ran PRP, non-managerial employees were eligible for payments and in almost half (47 per cent) all non-managerial employees had received payments in the previous 12 months (compared to 54 per cent in large firms running PRP schemes). A substantial minority of small firms thus make profit-related payments to a majority of their employees.

### Pay rates and pay satisfaction

Information on employee pay was collected in both the manager and employee surveys with pre-coded responses banded into four categories of gross hourly pay: £4.50 or less, £4.51 to £5.00, £5.01 to £14.99 and £15.00. Using information taken from employee respondents (Table 6.5), almost one quarter (23 per cent) of employees in SMEs were low paid (receiving £5.00 per hour or less) compared to 17 per cent employees in large firms.<sup>5</sup> A much higher percentage of women were low-paid than men in SMEs (29 per cent compared with 17 per cent) but this was also the case in workplaces belonging to large firms (23 per cent compared with 11 per cent). With respect to high pay (earning £15 or more per hour) the major difference was within the SME sector, rather than between SMEs and large firms. Small-firm employees were half as likely to be high paid as those in medium-sized firms (7 per cent compared to 13 per cent). The percentage of employees who were high paid was no different across medium-sized and large firms.<sup>6</sup>

The information provided by managers provides a picture of the extent to which low pay was concentrated within particular workplaces. It shows that, in the average SME workplace, 21 per cent of employees were low paid, compared with an average of 15 per cent within workplaces belonging to large firms. As

these figures are lower than the overall percentages of employees reported by managers to be on low wages (13 per cent in SMEs and 10 per cent in large firms), this indicates that low pay tended to be concentrated in smaller workplaces, irrespective of firm size.

In spite of these rates of pay, pay satisfaction was lower among larger firms – 43 per cent of employees in workplaces belonging to small firms were satisfied with their pay compared to 39 per cent of employees in medium-sized firms and 33 per cent in large firms (Figure 6.1). Furthermore, pay dissatisfaction was higher in larger firms – 31 per cent of employees expressed dissatisfaction in workplaces belonging to small firms compared to 43 per cent in workplaces belonging to large firms.

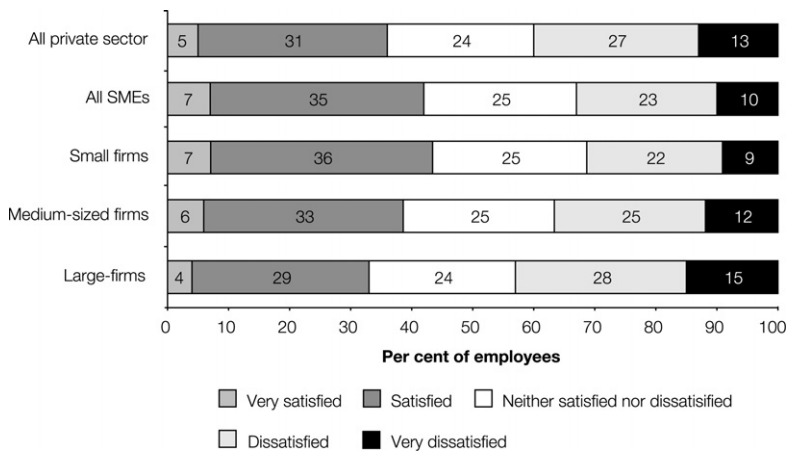
Table 6.5 Distribution of gross hourly pay

	All private sector	Size of firm				Col %s
		All SMEs	Small	Medium-sized	Large	
£4.50 or less	6	10	11	8	5	
£4.51-£5.00	12	13	13	13	12	
£5.01-£14.99	69	68	69	66	70	
£15.00 or more	12	10	7	13	14	

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees: 13,842 (all private sector), 4,217 (all SMEs), 2,200 (small firms), 2,017 (medium-sized firms), and 9,625 (large firms).

Figure 6.1 Employees' satisfaction with pay



Base: all employees in private sector workplaces with 5 or more.

Figures are weighed and based on responses from the following numbers of employees: 10,449 (all private sector), 2,207 (all SMEs), 2,387 (small firms), 4,594 (medium-sized firms) and 15,107 (large firms).

Note: Employees were asked how satisfied they were with 'the amount of pay you receive'.

The literature on pay satisfaction indicates that pay levels and pay relativities often play an important role in whether employees are satisfied with their own pay. To explore this issue further, multivariate models were run to establish the effect of pay levels and pay compression on employee pay satisfaction in SMEs and workplaces belonging to large firms. These models indicate that employee satisfaction rose with higher pay in SMEs and large firms. Having controlled for individuals' pay levels, employees in workplaces belonging to large firms had lower pay satisfaction than those in SME workplaces. Having controlled for individuals' own pay, pay compression – as indicated by the percentage of employees in the workplace earning between £5.01 and £14.99 per hour – had no effect on SME employees' pay satisfaction, whereas it reduced pay satisfaction among employees in workplaces belonging to large firms. This could be because SME employees were less likely to know about the pay of their colleagues, as other studies have shown (Cox, 2005). Another possibility is that pay is more compressed in small firms anyway, so that pay differences are less pronounced. A model estimating the effect of firm size on the percentage of employees in the £5.01–£14.99 pay band confirmed that pay was indeed more compressed in SME workplaces than in workplaces belonging to large firms.

### **The role of employee representation in determining terms and conditions**

The survey asked managers whether they normally negotiated with, consulted, or informed union or non-union representatives over twelve terms and conditions of employment.<sup>7</sup> In 90 per cent of workplaces belonging to SMEs there was normally no involvement of unions or non-union employee representatives over all twelve of these items, compared to 70 per cent of workplaces belonging to large firms. In 4 per cent of SMEs employee representatives were normally involved in negotiation with management over at least one of the items; in 7 per cent of cases they were normally involved in consultations over at least one item; and in 8 per cent of cases managers informed employee representatives about at least one of the issues. In large firm workplaces the figures were 20 per cent, 24 per cent and 23 per cent respectively. The differences between SMEs and workplaces belonging to large firms were largely due to the absence of employee representation in SMEs (see Chapter 5). However, even among those workplaces with some form of employee representation, SME managers were less likely to engage with representatives over these matters than was the case in large firms. Where managers did engage with employee representatives in SMEs it was more likely to involve sharing information than negotiation.

### **Redundancies**

Eight per cent of SMEs had made redundancies in the 12 months prior to the survey.

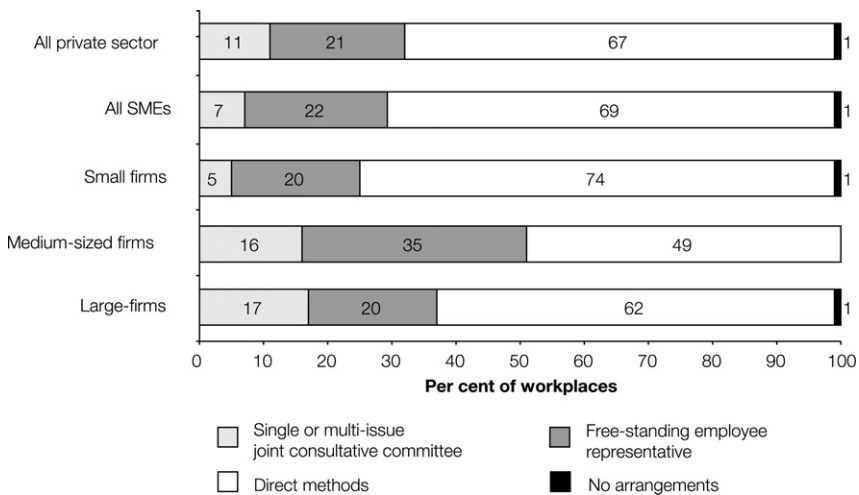
In a further 1 per cent of SMEs redundancies had been proposed but were later withdrawn. These figures compare to 11 per cent and 2 per cent respectively for workplaces in large firms. Within the SME sector workplaces in

medium-sized firms were more likely to have made redundancies than workplaces in small firms (14 per cent compared to 6 per cent). However, the probability of an employee being made redundant – expressed as the number of redundancies per hundred employees – was lowest in workplaces belonging to medium-sized firms (1.1 redundancies per hundred employees, as compared to 1.6 in workplaces belonging to small firms and 1.6 in those belonging to large firms).

The reasons given for redundancies differed by firm size. SMEs were more likely than workplaces in large firms to refer to a lack of demand for products or services, and reductions in budgets or cash limits, whereas they were less likely to refer to the reorganization of work methods or efforts to improve competitiveness, efficiency or to reduce costs.

Employers consulted with employees or their representatives in three-quarters (75 per cent) of cases where redundancies were made or proposed, the likelihood of consultation rising with firm size. Consultation occurred in four-fifths (81 per cent) of workplaces in large firms where redundancies had occurred or been proposed compared with just over two-thirds (69 per cent) of SMEs (65 per cent in workplaces in small firms and 77 per cent in workplaces in medium-sized firms). Although firms are required to consult with employees and their representatives in collective redundancy situations, these were very uncommon (see Kersley *et al.*, 2006 for a discussion).

Figure 6.2 Health and safety consultation arrangements



Base: all private sector workplaces with 5 or more employees.

Figures are weighed and based on responses from the following numbers of managers: 1,060 (all private sector), 228 (all SMEs), 390 (small firms), 618 (medium-sized firms) and 1,691 (large firms).

Note: 'Direct methods' include newsletters/noticeboard/email, management chain/cascade, staff meetings and consultation directly with workforce. Arrangements are coded hierarchically such that each workplace is identified with a single arrangement, with collective methods taking precedence over direct methods.

### Consultation over health and safety matters

Employers are required by law to consult their employees over health and safety matters with the law giving employers wide discretion as to how they do this). Only 1 per cent of workplaces in SMEs and large firms appeared to have no arrangements whatsoever for consulting employees on health and safety issues (Figure 6.2). Workplaces in small firms were much more likely to use direct consultation methods than other workplaces: micro-firms with below 10 employees were similar in this respect to 'larger' workplaces belonging to small firms with between 10 and 49 employees. Meetings between management and employees were the most common direct method used, with 56 per cent of SMEs using them in the absence of committees or representatives; 39 per cent used the management chain, and 19 per cent used newsletters, notice-boards or email. Workplaces in medium-sized and large firms were equally likely to use committee structures while those in medium-sized firms were actually *more* likely than those in large firms to use free-standing employee representatives. As a consequence, workplaces in medium-sized firms were less likely than workplaces in large firms to resort solely to direct consultation on health and safety matters.

### Summary and conclusions

This chapter has mapped the ways in which workplaces in SMEs and large firms involve their employees in matters relating to pay and non-pay terms and conditions. In relation to pay setting it simply quantifies what is already well-known in the literature, particularly the minor role played by collective bargaining. Even so, the chapter offers a definitive picture of the extent of pay setting methods for firms with workplaces employing at least 5 employees for the first time. It also throws up some surprises, such as the greater use of employee representatives in consulting on health and safety matters in medium-sized compared to large firms, and the relatively high incidence of low pay within larger firms. It draws attention to some issues worthy of further investigation, such as higher pay satisfaction in SMEs compared with large firms having conditioned on pay levels. In identifying some discrepancies in the accounts of employers and employees it also highlights the value of drawing on many 'voices' when recounting what is happening in SMEs and large firms.



# 7 Conflict and dissonance

## Introduction

The issue of workplace conflict has arguably been one of the most contentious in SME research. Early analyses suggested that employment relations tended to be more harmonious in smaller firms (Bolton Report, 1971). Subsequent research challenged this view, arguing that relations in smaller firms were more commonly characterised by an autocratic style of management and employee exploitation. Other studies – including many recent ones – have sought to illustrate the heterogeneity within the sector and to emphasize the different ways in which the employment relationship develops and is challenged in smaller firms (e.g. Ram, 1994).

A common feature of this more recent literature is an emphasis on an informal approach to the management of conflict or dissonance. In owner-managed firms in particular, overt conflict is often said to be avoided as managers seek to juggle between maintaining control and fostering positive social relationships (Marlow and Patton, 2002: 538). One potential outcome is that differences between managers and employees may be dealt with through a severing of the employment relationship (either through dismissal or resignation) than through procedural solutions. The degree of informality in the handling of grievance and disciplinary matters within smaller firms has recently been challenged, however, by the introduction of a new legal framework for the internal resolution of disputes which came into effect in October 2004. Unlike some employment legislation, these regulations apply to all sizes of firm. Nevertheless, studies have shown that the response of smaller firms to the introduction of new regulations may often be characterised by resistance, ignorance and a reticence among employees to challenge existing custom and practice (Marlow, 2002).

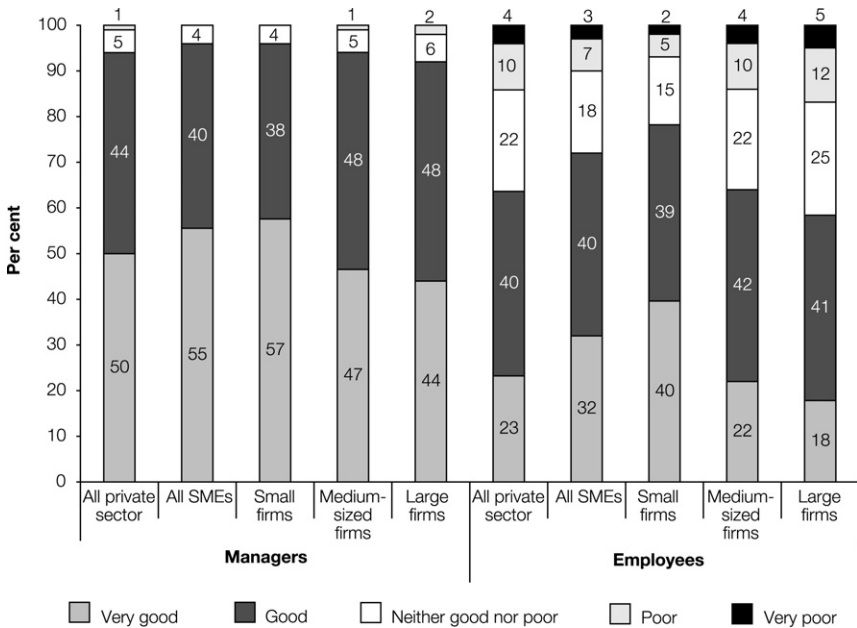
In light of these various issues, this chapter examines the incidence of a variety of different manifestations of workplace conflict. It looks at indicators of overt conflict, namely collective disputes, grievances and disciplinary sanctions. But it also considers other potential indicators of discontent, such as absenteeism and voluntary resignations. The chapter also considers how different forms of overt conflict are managed, looking both at the incidence of formal policies for dispute resolution and at the procedures that are commonly applied in practice when a dispute emerges between managers and employees. The chapter begins by considering qualitative evaluations of the state of the employment relationship, provided by both managers and employees.

### The state of management-employee relations

In order to provide a summary indicator of management-employee relations at the workplace, managers and employees were asked to rate these relations on a five-point scale from 'very good' to 'very poor'. Managers in firms of all sizes were generally very positive about the state of management-employee relations at their workplace. Half of all private sector managers considered that relations were 'very good' and only one per cent considered that they were either 'poor' or 'very poor' (Figure 7.1). The principal difference was between managers in small firms (57 per cent of whom considered that relations were 'very good') and managers in medium-sized and large firms (where the proportion was just under half), although further investigation suggested that the proportion began to decline only among firms with 100 or more employees. Ratings were also higher in small workplaces, with this association being partially independent of the association with firm size.

Employees in all sizes of firm were notably less sanguine than their managers about relations at the workplace, following patterns identified elsewhere (Kersley *et al.* 2006; Marlow and Patton, 2002: 534). But employees in small firms nonetheless rated management-employee relations in their workplaces more

Figure 7.1 The state of management-employee relations



Base: all management respondents and all employees in private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers and employees respectively: 1,698 and 15,070 (all private sector), 618 and 4,590 (all SMEs), 391 and 2,381 (small firms), 227 and 2,209 (medium-sized firms) and 1,067 and 10,414 (large firms).

positively than did employees in medium-sized and large firms. Two-fifths of employees in small firms rated management-employee relations as 'very good', compared with around one fifth in medium-sized and large firms. Less than one in ten (7 per cent) of employees in small firms rated relations as either 'poor' or 'very poor', compared with around one-in-seven employees in medium-sized and large firms. Employees in micro firms gave the highest ratings, on average, with 56 per cent considering that relations were 'very good' and only 2 per cent rating them as either 'poor' or 'very poor'.

Within SMEs, there was no straightforward association between employees' ratings of workplace relations and family ownership or management. Adopting the categorisation in [Table 3.1](#), employees' ratings of workplace relations in small firms were lowest in those firms that were family-owned but not owner-managed, whilst in medium-sized firms ratings were highest in this category. These patterns remained after controlling for workplace size and industry sector.

The fact that both managers' and employees' perceptions of the state of relations were generally better in smaller firms, however, raises a number of questions about the detailed patterns of conflict and its resolution. It may be that conflict or dissonance is generally less prevalent in smaller firms. Alternatively, if few procedures are in place to aid the resolution of disputes, it may be that dissatisfied employees are more likely to exit smaller firms. These issues are considered in the remainder of the chapter, beginning with an examination of the incidence of collective conflict and procedures for resolving collective disputes.

## **Collective disputes**

The incidence of industrial action in Britain has been relatively low since the early 1990s, and 2004 was no exception (Monger, 2005). Moreover, most of the working days lost to collective disputes were in public sector organizations. And so whilst industrial action was extremely rare in workplaces belonging to SMEs, these workplaces were not substantively different to those belonging to large private sector firms in this respect. Just 1 per cent of workplaces in SMEs had experienced strike or non-strike action in the year preceding the survey, compared with just 2 per cent of workplaces belonging to large firms ([Table 7.1](#)). Threatened action was also an unusual occurrence, being reported in just 1 per cent of workplaces belonging to SMEs and 3 per cent of workplaces belonging to large firms. The most striking comparison is with workplaces in the public sector, 14 per cent of which had experienced industrial action or the threat of action in the year preceding the survey.

Around one quarter (26 per cent) of workplaces belonging to SMEs had a formal procedure in place for dealing with collective or group disputes raised by non-managerial employees. The figure was 22 per cent in small firms and 43 per cent in medium-sized firms, compared with 53 per cent in large firms. Some of this difference reflected the lower degree of collective labour organization in smaller firms: in the large firm category, where the survey contained reasonable numbers of workplaces with and without union recognition, it was apparent that workplaces with recognized trade unions were much more likely

Table 7.1 Collective and individual disputes

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Any industrial action	1	1	0	2	2	
Threatened industrial action (not taken)	2	1	1	2	3	
Any employee grievances	37	37	34	47	38	
Any claim made to an Employment Tribunal	5	4	3	9	7	
Employment Tribunal claims per 1,000 employees	2.6	2.6	2.1	3.3	2.6	
Any disciplinary sanctions	45	40	37	52	54	
Disciplinary sanctions per 100 employees	6.2	5.3	5.0	5.9	6.7	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,661 (all private sector), 614 (all SMEs), 388 (small firms), 226 (medium-sized firms) and 1,034 (large firms).

to have a collective disputes procedure than workplaces without recognition (80 per cent, compared with 39 per cent). But even non-union workplaces in large firms were more likely to have such procedures than non-union workplaces in smaller firms.

There were no substantive differences between SMEs and large firms in the proportion of workplaces whose procedures covered pay and conditions (86 per cent in SMEs), the organization of work (77 per cent) or health and safety (86 per cent). Formal disputes procedures in SME workplaces appeared less likely than procedures in large firms to cover redundancies (67 per cent, compared with 78 per cent), but the difference fell just short of statistical significance.

Focusing on workplaces with a procedure that covered pay and conditions, those in SMEs were much less likely to have a provision to refer the issue to a body or person outside the workplace (35 per cent, compared with 73 per cent in large firms). But this difference was wholly accounted for by the fact that workplace procedures in large firms were more likely to contain a provision to refer issues to management at a higher level in the firm (45 per cent, compared with 9 per cent in SMEs). The proportion of workplace procedures that provided for issues to be referred outside of the firm – for example to Acas or to an independent arbitrator – was the same in SMEs and large firms (27 per cent).

### Grievances and disciplinary matters

There is little existing quantitative evidence on the incidence of grievances and disciplinary sanctions in SMEs, perhaps because of the emphasis in the literature on informal approaches to conflict resolution. The most commonly cited

evidence is on the propensity for employees to apply to Employment Tribunals which, although it is not restricted to the private sector, shows that employees in medium-sized organizations are most likely to make such applications, followed by employees in small organizations and finally those in large organizations (Hayward *et al.*, 2004: Tables 2.4 and 2.5).

In respect of employee grievances, WERS 2004 asked whether any grievances had been raised in the past year, whether formally or otherwise. The figure was highest among workplaces in medium-sized firms (47 per cent), followed by those in large firms (38 per cent) and small firms (34 per cent) (Table 7.1). The figure was lowest (30 per cent) in the smallest firms with less than 10 employees. Since the survey did not ask about the total number of grievances, the higher incidence of grievances in medium-sized firms is likely to be at least partially due to the larger average size of workplaces in such firms (see Chapter 2), since a larger group of employees will be more likely to generate at least one grievance over the course of the year than a smaller group. In fact, the differences across firm size were no longer significant after controlling for workplace size.

Pay and conditions were a common cause of grievances in SMEs and large firms: 16 per cent of workplaces belonging to SMEs reported that employees had raised a grievance over pay and conditions in the past year. Other common types of grievance related to relations with supervisors or line managers (9 per cent of SMEs), physical working conditions or health and safety (7 per cent), working practices (7 per cent), working time or annual leave (7 per cent) and promotion or career development (6 per cent). These were each common causes of grievances in large firms, although job grading and bullying also featured prominently in larger firms.

If an employee believes that their employment rights have been infringed, they may take the issue outside of the workplace by making an application to an Employment Tribunal. In keeping with the pattern of claims noted earlier, WERS showed that the rate of ET claims was highest in medium-sized firms. On average, 3.3 claims were brought per 1,000 employees in medium-sized firms, compared with 2.6 per thousand in large firms and 2.1 per thousand in small firms (Table 7.1). Overall, 9 per cent of workplaces in medium-sized firms had been subject to a claim in the year preceding the survey, compared with 7 per cent of workplaces in large firms and 3 per cent in small firms. None of these differences were statistically significant, however.

Turning to consider disciplinary sanctions, WERS asked managers about the use of a range of different sanctions, comprising verbal warnings, written warnings, suspension with or without pay, deduction from pay, internal transfer and dismissal. The evidence suggested that formal sanctions were less commonly applied in small firms. Two-fifths (37 per cent) of managers in workplaces belonging to small firms reported having used one or more of these sanctions in the year preceding the survey, compared with 52 per cent in workplaces belonging to medium-sized firms and 54 per cent in workplaces belonging to large firms (Table 7.1). The rate of sanctions per 100 employees was 5.0 in small firms, compared with 5.9 in medium-sized firms and 6.7 in large firms. The difference in rates between small and large firms was statistically significant,

but only at the 10 per cent level. There was no difference within small firms between the rate of sanctions in workplaces with full-time owner-managers and those with other forms of management.

As well as having a similar rate of sanctions overall, medium-sized and large firms also applied the various forms of sanction to very similar degrees. Focusing only on those workplaces that had applied at least one of the specified forms of disciplinary action, it was notable that workplaces belonging to small firms were just as likely as those in medium-sized and large firms to have issued verbal warnings (82 per cent, compared with 81 per cent) or to have made a deduction from pay (5 per cent, compared with 8 per cent). However, they were less likely to have issued formal written warnings (52 per cent, compared with 68 per cent), suspended an employee (20 per cent, compared with 39 per cent), transferred an employee internally within the firm (3 per cent, compared with 15 per cent), or to have dismissed an employee (41 per cent, compared with 55 per cent). These patterns may reflect a reluctance to move beyond verbal warnings, but they may also partly reflect the lower overall number of sanctions applied within small firms.

### *Grievance and disciplinary procedures*

Whilst grievances and disciplinary actions have been shown to be less common in smaller firms, the evidence presented above showed that substantial minorities of SME workplaces had still experienced one or other of these individual expressions of conflict in the year preceding the survey. The recent introduction of a prescribed framework for internal dispute resolution – mentioned in the introduction to the chapter – also highlights the importance of the way in which managers in SMEs handle such matters. This section focuses first on the presence of formal procedures for handling grievances or disciplinary matters, but then moves on to consider the practical aspects of dispute resolution in SMEs, irrespective of whether a formal procedure was in place.

The incidence of formal grievance procedures varied markedly by firm size. Around three-fifths (63 per cent) of workplaces in small firms had a formal grievance procedure, compared with 87 per cent of workplaces in medium-sized firms and 99 per cent of workplaces in large firms (Table 7.2). The incidence was particularly low in micro firms (50 per cent), rising to 72 per cent among firms with between 10 and 49 employees. The dominance of firm size over workplace size in determining the incidence of formal procedures is indicated by the fact that, in large firms, 99 per cent of workplaces with fewer than 50 employees had grievance procedures. Within small firms, workplaces with a full-time owner-manager were less likely to have formal grievance procedures than those with other forms of management (57 per cent, compared with 81 per cent), but no such difference was apparent in medium-sized firms.

The incidence of formal disciplinary procedures followed a similar pattern to that of grievance procedures, although formal disciplinary procedures were a little more common overall. Around two-thirds (69 per cent) of workplaces

Table 7.2 Grievance procedures

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Formal procedure	81	68	63	87	99	
<i>Reason set out in writing:</i>						
Yes, always	37	25	22	40	54	
Yes, sometimes – depends on the issue	27	26	26	25	29	
No	35	49	52	35	16	
<i>Employee asked to attend a meeting:</i>						
Yes, always	62	51	49	62	75	
Yes, sometimes – depends on the issue	25	26	27	24	23	
No	14	23	25	14	1	
Employee has right of appeal	91	85	82	97	98	
<i>Summary measure:</i>						
All three elements	34	22	19	37	51	
All three, but depends upon the issue	28	24	24	24	32	
One or two elements only	35	48	50	39	17	
None of the three elements	3	6	7	0	0	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,676 (all private sector), 603 (all SMEs), 379 (small firms), 224 (medium-sized firms) and 1,060 (large firms).

in small firms had a formal disciplinary procedure, compared with 92 per cent of workplaces in medium-sized firms and 99 per cent of workplaces in large firms (Table 7.3). Again, the incidence was particularly low in micro firms (54 per cent), rising to 79 per cent among firms with between 10 and 49 employees. And again, within small firms, workplaces with a full-time owner-manager were less likely to have a formal procedure than those with other forms of management (68 per cent, compared with 85 per cent).

Of course, formal procedures may not always be followed (Kersley *et al.*, 2006; Earnshaw *et al.*, 1998). This fact, together with the absence of formal procedures in a substantial minority of SME workplaces, means that it is particularly interesting to examine how grievances and disciplinary matters are actually handled within workplaces. Three specific aspects were covered in the survey: whether the employee (or the employer, in the case of a disciplinary matter) is required to put their concerns in writing; whether employees are asked to attend a formal meeting; and whether employees have a right of appeal against the final decision. The level of formality may depend upon the gravity or complexity of the matter in question and, to reflect this, managers were asked in respect of the first two of the three items whether any such requirements

Table 7.3 Disciplinary procedures

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Formal procedure	84	73	69	92	99	
<i>Reason set out in writing:</i>						
Yes, always	74	64	60	81	87	
Yes, sometimes – depends on the issue	14	16	17	11	10	
No	13	20	22	8	2	
<i>Employee asked to attend a meeting:</i>						
Yes, always	80	72	70	82	91	
Yes, sometimes – depends on the issue	12	16	16	14	8	
No	8	12	14	4	1	
Employee has right of appeal	92	88	85	99	98	
<i>Summary measure:</i>						
All three elements	67	55	50	76	82	
All three, but depends upon the issue	15	18	18	16	13	
One or two elements only	16	24	28	9	2	
None of the three elements	2	3	4	0	0	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,689 (all private sector), 608 (all SMEs), 382 (small firms), 226 (medium-sized firms) and 1,068 (large firms).

applied in all circumstances or only sometimes, depending upon the issue. The incidence of each arrangement is shown in Tables 7.2 and 7.3. Overall, workplaces in smaller firms were found to be less likely to apply each of the three elements when handling grievances or disciplinary matters, and where formal requirements were in place, they were more likely to be applied only in certain circumstances than was the case in larger firms. It was also apparent that workplaces in smaller firms had fewer requirements in their handling of employee grievances than in their handling of disciplinary matters.

A summary measure showed that one fifth (22 per cent) of SME workplaces applied all three elements of grievance handling in all cases, whilst one in twenty (6 per cent) did not apply any of the three.<sup>1</sup> Among workplaces in large firms, the equivalent figures were 51 per cent and less than one per cent. Over one half (55 per cent) of SME workplaces applied all three elements in all disciplinary cases, with four-fifths (82 per cent) of workplaces doing so in large firms. This may perhaps result from a greater tendency to try to resolve grievances informally at an early stage, or from an acknowledgement that disciplinary actions which do not follow set procedures are more liable to result in penalties should the case come before a Tribunal.



There were also distinct differences in practice by firm size within the SME category. In respect of both grievances and discipline, there was a lower degree of formality in small firms than in medium-sized firms. In respect of grievances, there also appeared to be a lower degree of formality among microfirms – only 12 per cent of firms with between 5 and 9 employees applied all three elements in all cases of an employee grievance compared with 23 per cent of firms with between 10 and 49 employees – but the difference was not statistically significant. There were also no statistically significant differences between SMEs with owner-managers and those managed in other ways.

Analysis of the summary measures for the handling of grievances and disciplinary matters clearly illustrates that those workplaces without formal grievance or disciplinary procedures were not commonly applying each of the three steps in their informal handling of individual disputes. Among SME workplaces with a formal grievance procedure, 29 per cent applied all three steps in all cases and 31 per cent did so for some issues. But among those SME workplaces without a formal grievance procedure, the figures were 5 per cent and 11 per cent respectively, with most of the remainder (69 per cent) applying only one or two of the steps. The picture was similar in respect of discipline. Among SME workplaces with a formal disciplinary procedure, 67 per cent applied all three steps in all cases and a further 20 per cent did so on some occasions. But among SME workplaces without a formal grievance procedure, the figures were 19 per cent and 11 per cent, with a further 58 per cent applying only one or two of the steps.

At the beginning of the section, the discussion highlighted that substantial minorities of workplaces in SMEs had experienced either an employee grievance or a disciplinary action in the year preceding the survey. These were, to some extent, the workplaces that were more likely have formal procedures. However, only half of those SME workplaces in which a grievance had been raised in the preceding year (52 per cent) operated all three steps at least some of the time, although all but 2 per cent reported at least one of the three. Among those issuing a disciplinary sanction, 78 per cent operated all three steps at least some of the time, with all but 2 per cent again reporting at least one step. In large firms, only 15 per cent of workplaces that had experienced a grievance did not operate all three steps at least some of the time, and the same was true of less than one per cent of those issuing a disciplinary sanction.

### **Other potential indicators of discontent**

Collective disputes, grievances and disciplinary sanctions are the most overt and least contentious indicators of conflict in the workplace. However, employees may also show their discontent by being absent from work or, ultimately, by resigning from their position. Naturally, there may be other explanations of why an employee is absent, or of why an employee may choose to leave the firm. But studies have indicated that either form of behaviour may be used by employees to express discontent when more overt forms of expression are either unavailable or unappealing (Handy, 1968; Sapsford and Turnbull, 1994). The

absence of collective labour organization in most SMEs and the uneven availability of formal grievance procedures raise the prospect that such forms of expression may be particularly relevant to employees in this sector.

Nevertheless, rates of absenteeism were actually lowest in small firms. Small firms lost an average of 3.2 per cent of working days per year to employee absence, compared with averages of 4.7 per cent in medium-sized firms and 5.1 per cent in large firms. It is conceivable that such a pattern may result from lower rates of sick pay in small firms: only two-fifths of workplaces belonging to SMEs provided sick pay in excess of statutory requirements to their core group of workers, compared with around three-quarters of workplaces in medium-sized and large firms. However, there was no clear relationship between the provision of extra-statutory sick pay and rates of absence. An alternative explanation is that a greater level of interdependence between employees in small firms may limit levels of absenteeism, either because of peer pressures or greater monitoring.<sup>2</sup> Monitoring (or at least, the fear of monitoring) might feasibly be greatest in owner-managed firms, but again there was no clear association with absenteeism rates. The greater level of understanding among managers in SMEs about work-life balance issues may play a role (see Chapter 8). But it remains a possibility that lower rates of absenteeism in smaller firms may at least partly reflect lower levels of employee discontent.

Voluntary resignations were also lower in smaller firms, but here the distinction was between SMEs and large firms. Overall, 13.8 per cent of those employed in SMEs one year prior to the survey had left voluntarily during the year, compared with 17.1 per cent of those employed in large firms. The relationship with unit size is not entirely straightforward, however, since Kersley *et al.* (2006) note that resignations tend to be lower in large *workplaces*. Furthermore, whilst Kersley and colleagues note a negative relationship between the presence of a recognized trade union and voluntary resignations (following the 'exit-voice' hypothesis (Freeman, 1980)) this would not appear to play any role in explaining the lower rate of resignations in small firms, given the comparatively low incidence of collective labour organization in the sector (see Chapter 5).

A third and final set of potential indicators of discontent come in the form of questions asked of employees in order to gauge the extent of their subjective belief in the benevolent intentions of their managers within the employment relationship. Employees were asked whether managers: could be relied upon to keep their promises; were sincere in attempting to understand employees' views; dealt with employees honestly; and treated employees fairly.<sup>3</sup> Responses were invited on a five-point scale from 'strongly agree' to 'strongly disagree'. Employees in smaller firms were more likely to agree, and less likely to disagree, with each of the four statements (Table 7.4). The main differences were between the ratings of employees in small firms and the ratings of those in medium-sized and large ones. The ratings of employees in medium-sized and large firms differed most in respect of the last item (perceptions of fair treatment). Within the small firm category, ratings were also better among employees in smaller firms, with the highest ratings of all being apparent among employees in micro firms.

Table 7.4 Employees' trust in workplace managers

	All private sector	Size of firm				Col %s
		All SMEs	Small	Medium- sized	Large	
<i>Managers here ...</i>						
<i>... can be relied upon to keep their promises:</i>						
Strongly agree / Agree	50	59	65	49	46	
Neither agree nor disagree	26	24	21	28	28	
Strongly disagree / Disagree	23	17	13	23	27	
<i>... are sincere in attempting to understand employees' views:</i>						
Strongly agree / Agree	56	63	69	55	52	
Neither agree nor disagree	24	21	19	25	25	
Strongly disagree / Disagree	20	16	12	20	23	
<i>... deal with employees honestly:</i>						
Strongly agree / Agree	58	66	73	56	53	
Neither agree nor disagree	24	21	17	27	26	
Strongly disagree / Disagree	18	13	10	17	21	
<i>... treat employees fairly:</i>						
Strongly agree / Agree	58	67	72	59	53	
Neither agree nor disagree	23	19	16	23	25	
Strongly disagree / Disagree	19	14	12	18	22	

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees (minimum): 14,724 (all private sector), 4,485 (all SMEs), 2,337 (small firms), 2,148 (medium-sized firms) and 10,177 (large firms).

As a corollary, managers were also asked whether employees at the workplace sometimes tried to take unfair advantage of management. Responses were very similar among managers in small, medium and large firms. The main difference was that managers in smaller firms were more likely to strongly disagree that employees sometimes tried to take unfair advantage. One-in-six managers in workplaces belonging to SMEs (16 per cent) strongly disagreed that this was the case, compared with one tenth of managers in workplaces belonging to large firms. The figure was 22 per cent among managers in workplaces belonging to micro firms with between 5 and 9 employees.

Comparing across each of the various indicators presented in this section, the evidence suggests that – to the extent that each of the measures does indeed provide some indication of the level of discontent among employees – dissonance may be lower in smaller firms. These additional indicators therefore line up with the more traditional indicators of overt conflict, and the qualitative ratings of management-employee relations, in suggesting that relations are somewhat better, on average, in smaller firms.

## Summary and conclusions

This chapter has examined the incidence of a variety of different manifestations of workplace conflict. It has considered some of the familiar measures of overt conflict, such as employee grievances, alongside other potential indicators of discontent, such as voluntary resignations, and more qualitative indicators of the state of management-employee relations. It has also looked at the incidence of various procedures for the resolution of individual and collective disputes.

Differences by firm size in the incidence of specific forms of overt conflict were relatively small. Industrial action was rare in all types of firm, partly reflecting the paucity of collective labour organization (see Chapter 5). And whilst employee grievances or Tribunal claims and employers' disciplinary sanctions were more common, the observed differences between small, medium-sized and large firms were generally not statistically significant.

The opposite was true in respect of procedures for resolving collective and individual disputes, as the incidence of a procedural approach rose sharply with firm size. Differences in unionisation are likely to be one factor, but even workplaces in the smallest firms commonly had formal procedures for handling grievances or disciplinary matters. The presence of a formal procedure provided a good signal as to the way in which disputes would be handled in SMEs, with those workplaces that had formal procedures being much more likely to follow each of the three steps outlined in the statutory framework, at least for some issues. It was also apparent that the majority of SME workplaces that had recently either experienced a grievance or issued a disciplinary sanction were likely to apply each of three steps for at least some issues. However, SMEs were much more likely to adhere to the framework in their handling of disciplinary matters than in their handling of employee grievances. This was also the case in large firms.

Although there were no notable differences in the extent of overt conflict by firm size, other qualitative indicators of workplace conflict or dissonance indicated that relations did appear to be somewhat better, on average, in smaller firms. Employees in smaller firms generally gave better ratings of the state of management-employee relations and were more likely to trust managers to: keep their promises; be sincere in attempting to understand employees' views; deal with employees honestly; and treat employees fairly. The principal distinction, however, was between employees in small firms and those in medium-sized or large firms; ratings were little different between the latter two categories. Relations appeared best in micro firms. Furthermore, levels of absenteeism and voluntary resignations were also lowest in small firms, a pattern that does not neatly fit with the notion that a better quality of relations pertains in small firms because disaffected employees withdraw instead of expressing their discontent.

Whilst making these points, it is important to note that a minority of employees in small firms did not rate relations with managers in a positive light. Just over one-in-twenty considered that management-employee relations were either poor or very poor and around one-in-eight did not consider that managers could be trusted on each of the four areas covered in the survey. Nevertheless, each of these proportions were higher among employees working in medium-sized and large firms.

# 8 Equality, diversity and work-life balance

## Introduction

The way in which firms respond to workforce diversity is as important in SMEs as it is in larger firms. Whether small firms are less likely to have formal employment policies than larger firms has been subject to debate (Ram *et al.*, 2001). However, the availability of data on employee perceptions of fair treatment and management understanding of responsibilities outside of work in WERS 2004 makes it possible to observe whether employees regard their treatment differently in firms of different sizes and provides a measure of perceived equality, independent of the existence of formal policies. Also, questions directed to managers and employees on the availability of flexible working and arrangements to support employees with caring responsibilities do, to some extent, capture the likely availability of practices to employees on an ad hoc or informal basis.

The first part of this chapter is devoted to the ways in which firms seek to ensure equality of opportunity in the workplace. The chapter then moves on to consider access to a range of practices designed to assist work-life balance, from flexible working arrangements to practices specifically aimed at employees with caring responsibilities. Variations in working hours between firms of different sizes are assessed as one of the factors which can have an impact on work-life balance. The chapter concludes by looking at the views of managers and employees on the relationship between working life and responsibilities outside of the workplace.

## Promoting equality of opportunity

There was less formality in practices to ensure equality of opportunity for employees in small firms than in larger firms. Slightly more than one third (36 per cent) of workplaces within small firms had a formal written equal opportunities policy, compared to around two-thirds (69 per cent) of those in medium firms and 93 per cent of workplaces located in large firms. Where the workplace did not have a formal written equal opportunities policy, the manager was asked why no such policy existed. Almost three-fifths of SME workplaces without a formal written equal opportunities policy (57 per cent) did not feel that a policy was needed. This was the most common reason for workplaces within SMEs to not have a policy, whilst workplaces which were part of large firms were most likely to respond that they had a policy, but had not written it down (46 per cent). Workplaces in SMEs were less likely than those in large firms to say that they had a policy that was not written down (21 per cent), or that they aimed

to be an equal opportunities employer (17 per cent, compared to 33 per cent), and were more likely than workplaces which were part of large firms to have not considered developing a formal equal opportunities policy.

Table 8.1 shows that, in the main, the likelihood that the workplace had a formal written equal opportunities policy which mentioned specific grounds for discrimination rose with the size of the firm. Eighty-nine per cent of workplaces with an equal opportunities policy within large firms reported that this covered gender, race and disability, compared to 67 per cent of those which were part of SMEs. Two-fifths (41 per cent) of SME workplaces with a policy reported that it covered gender, race, disability and the grounds covered by recent and forthcoming extensions to discrimination legislation (namely sexual orientation, religion/belief and age). The equivalent proportion among workplaces belonging to large firms was two-thirds (66 per cent).

Where the workplace did have a formal written equal opportunities policy, managers were asked how the policy was communicated to employees. The most common method of communicating the equal opportunities policy in workplaces which were part of SMEs or large firms was through the staff handbook (57 per cent and 74 per cent), whilst a similar proportion of workplaces in SMEs and large firms referred to the policy in the contract of employment (45 per cent and 39 per cent). SME workplaces tended to use a smaller number of ways of communicating the policy than those which were part of a larger firm, so that they were less likely to communicate the policy in the letter of appointment, as part of the induction programme, in the staff handbook, by noticeboard, through the supervisor or line manager or on the intranet. However, this perhaps reflects

Table 8.1 Topics covered by equal opportunities policy

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium- sized</i>	<i>Large</i>	
No policy	37	58	64	31	7	
Sex/gender	52	31	28	50	81	
Race	51	30	25	50	81	
Religion or belief	47	28	24	45	75	
Marital status	39	21	18	37	63	
Disability	50	28	24	46	79	
Age	39	21	18	34	63	
Sexual orientation	41	22	19	39	67	
Trade union membership	24	11	9	20	41	
Other type of discrimination	10	6	4	13	16	
Our policy does not specify particular groups	8	8	7	16	7	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers: 1,692 (all private sector), 615 (all SMEs), 391 (small firms), 224 (medium-sized firms) and 1,064 (large firms).

general differences in communication methods between firms of different sizes. For example, small firms may be less likely to have an induction programme or staff handbook.

Having a formal written equal opportunities policy does not guarantee that equality of opportunity prevails in the workplace, whilst even where no such policy exists, the employer may take action to promote equality in the workplace. The remainder of this section focuses on two specific types of action that employers may take to provide equality of opportunity between employees; by trying to identify pay inequalities, or ensuring that the workplace is accessible to staff with a disability.

Workplaces which were part of SMEs were less likely to have a formal job evaluation scheme than those which belonged to large firms (7 per cent did so compared to 24 per cent of those in large firms). Where the workplace did operate a job evaluation scheme, SMEs were much less likely to use a points-rating scheme than large firms. Only just over one quarter (26 per cent) of SME workplaces with a job evaluation scheme used the points-rating method (an analytical approach, which allocates points to each element of the job), compared to more than half (54 per cent) of workplaces in large firms. This suggests that even where job evaluations were carried out by SMEs, they were potentially more vulnerable to an equal value claim than those undertaken by large firms, given that an analytical job evaluation scheme can be used as a defence against such a claim.

Managers were asked whether the workplace had ever been formally assessed for accessibility to employees with a disability. Although a smaller proportion of SME workplaces had carried out a formal assessment than those which were part of large firms (38 per cent and 49 per cent respectively), workplaces in medium-sized firms were far more likely to have conducted an assessment than those in small firms (58 per cent, compared to 33 per cent). Assessments in SMEs were more likely to have identified accessibility problems for disabled staff, with almost three-fifths (59 per cent) of assessments in SME workplaces finding difficulties with accessibility, compared to only around two-fifths (43 per cent) of assessments in workplaces which were part of large firms. Despite this, SMEs were less likely to have made adjustments to the workplace to accommodate disabled employees (15 per cent, compared to 23 per cent).

### **Monitoring equal opportunities practices**

The chapter now turns to the ways in which employers sought to measure the impact of their equal opportunities policy and whether they monitored employment practices to see whether they resulted in equality of opportunity or outcomes in the workplace, or reviewed how practices were working. Among those workplaces with a formal written equal opportunities policy, there was little difference in the proportion which sought to measure the effect of the policy on the workplace or employees between firms of different sizes. Only 11 per cent of private sector workplaces had tried to measure the impact of the policy, and because of the small numbers of workplaces doing this, it was not

possible to observe any significant differences between SMEs and larger firms in the observed impact of the policy.

Managers were asked whether the workplace monitored recruitment and selection, reviewed recruitment and selection procedures to identify indirect discrimination, monitored promotion, reviewed promotion procedures to identify indirect discrimination, or reviewed relative pay rates, by gender, ethnic background, disability or age. Table 8.2 shows the proportion of workplaces which carried out any of these forms of monitoring or review by firm size. Workplaces which belonged to SMEs were significantly less likely to monitor recruitment and selection procedures by gender, ethnic background and disability than those located in large firms. They were also less likely to review recruitment and selection procedures, to monitor promotions, or review promotion procedures by gender, ethnic background, disability and age. In addition, reviewing relative pay rates by gender and ethnic background was more common in workplaces which were part of larger firms. Four-fifths of all workplaces which were part of small firms did not carry out any monitoring or review activities, compared to 67 per cent of those in medium-sized firms, and 64 per cent of those in large firms.

### Perceptions of fair treatment

In addition to collecting information from managers on the equal opportunities practices used in the workplace, the employee questionnaire asked employees whether they felt that managers at the workplace treated employees fairly.<sup>1</sup> Despite the positive association between firm size and the prevalence of equal opportunities practices, employees who worked for SMEs were more likely to 'strongly agree' that managers treated employees fairly than those who worked for large firms (23 per cent, compared to 13 per cent). In total, around two-thirds (67 per cent) of employees who worked for SMEs agreed or strongly agreed that managers treated employees fairly, compared to just over half (53 per cent) of employees who worked for large firms. The proportion of employees

Table 8.2 Monitoring and review activities

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium- sized</i>	<i>Large</i>	
<i>By gender, ethnic background, disability or age:</i>						
Monitor recruitment and selection	21	17	15	25	27	
Review recruitment and selection procedures	15	11	9	17	21	
Monitor promotions	6	4	3	6	10	
Review promotion procedures	7	4	3	7	11	
Review relative pay rates	6	4	4	3	10	

Base: all private sector workplaces with 5 or more employees.

Figures are weighted and based on responses from the following numbers of managers (minimum): 1,690 (all private sector), 617 (all SMEs), 389 (small firms), 227 (medium-sized firms) and 1,060 (large firms).



reporting that managers treated employees fairly declined with the size of the firm, consistent with Harris and Foster's study of small service sector firms, which found that although managers appeared reluctant to develop formal policies, they were concerned to ensure equity between employees (Harris and Foster, 2005: 38).

The chapter now moves on to consider access to a range of practices which potentially affect the employee's perception of work-life balance. This includes flexible working arrangements, practices to support employees with caring responsibilities, such as extra-statutory leave and financial assistance, and the length of working hours.

### Flexible working arrangements

Previous studies of small firms have found a preference among managers for informal flexible working arrangements, which tend to develop in an ad hoc way (Harris and Foster, 2005: 24, 27). The WERS 2004 Management Questionnaire asked whether any employees were entitled to use a range of flexible working practices, thus potentially reflecting practices available to individual employees, as well as the existence of formal policies. In addition, employees were asked whether they thought that they would be able to use certain flexible working arrangements if they needed them. This provided a measure of the likelihood that such practices would be made available to employees on an informal basis. Table 8.3 shows the proportion of employees who expected that they would have access to each of the arrangements. A large proportion of employees did not state whether or not they would have access to each practice (between 16 and 36 per cent of employees working for private sector workplaces, with little variation by firm size), and so the figures presented in Table 8.3 are expressed as a proportion of all employees, rather than just those who responded 'yes' or 'no' to the question.

Table 8.3 Perceived availability of flexible working arrangements, as reported by employees

	<i>All private sector</i>	<i>Size of firm</i>			
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>
					<i>Cell %s</i>
Reduced hours	30	28	31	24	31
Increased hours	33	33	35	30	33
Change working pattern	29	25	27	21	32
Flexitime	36	39	43	33	35
Job-share	15	16	18	14	15
Homeworking	14	15	17	13	13
Term-time only	8	9	10	7	8
Compressed hours	20	18	21	15	20

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees: 15,327 (all private sector), 4,683 (all SMEs), 2,438 (small firms), 2,245 (medium-sized firms) and 10,578 (large firms).

Management reports suggested that generally employees who worked in SME workplaces were less likely to have access to flexible working arrangements than those who worked for larger firms. By contrast, a fairly similar proportion of employees believed that they would have access to flexible working arrangements in both small and large firms. This apparent discrepancy between the findings of the management and employee surveys might be explained by a greater availability of informal flexible working arrangements in small firms, so that employees expected that they would be able to use these arrangements if needed, even where managers reported that they were not available.

Where managers reported that the workplace did allow some employees to reduce their hours, they were asked whether this was restricted to particular groups of staff, or was available to all. Regardless of firm size, it was unusual for there to be any restrictions on the employees able to reduce their working hours, although SMEs were more likely to impose some restrictions than large firms, with 28 per cent of SME workplaces which allowed some employees to reduce their hours limiting this to particular groups, compared to 15 per cent of workplaces in large firms. Overall, 35 per cent of workplaces within SMEs allowed all employees to reduce their hours, compared to 66 per cent of large firms, whilst 52 per cent of SME workplaces did not allow any employees to reduce their hours, compared to 22 per cent of workplaces in large firms. Of those workplaces which did impose restrictions on the employees able to reduce their hours, SMEs were more likely to exclude full-time staff than those in large firms. One quarter (26 per cent) of SME workplaces did not allow full-time staff to reduce their hours, compared to 11 per cent of large firms, whilst 11 per cent of SMEs did not allow non-managerial staff to reduce their hours, compared to just 1 per cent of workplaces in large firms.

Managers were also asked whether flexitime was available to all employees, where flexitime was offered in the workplace. As with reduced working hours, SMEs were more likely to restrict this to selected groups of employees than large firms. More than one third (36 per cent) of SME workplaces which offered flexitime restricted the availability, compared to 22 per cent of workplaces in large firms. However, there was no significant difference in the proportion of workplaces from SMEs and large firms that allowed either all, or no, employees to work flexitime. From those workplaces which did restrict access to flexitime to particular groups of employees, SMEs were much less likely to limit this to non-managerial employees than large firms. Almost three-fifths of large firms with flexitime schemes did not allow managerial employees to work flexitime, compared to only 16 per cent of SMEs.

## **Arrangements to support employees with caring responsibilities**

### *Childcare facilities and financial support*

Only 1 per cent of private sector workplaces had a workplace nursery, or a nursery linked with the workplace, and so there was little variation in provision between workplaces belonging to firms of differing sizes. However, workplaces

which were part of a large firm were more likely to provide financial help with childcare than workplaces within SMEs. Just two per cent of SME workplaces provided such help, compared to seven per cent of workplaces in large firms. In total, two per cent of SMEs provided either of the two forms of childcare assistance, compared to nine per cent of large private sector firms. In addition, two per cent of employees working for SMEs believed that they would be able to make use of a workplace nursery or receive help with the cost of childcare if they needed it, compared to 5 per cent of employees in workplaces which were part of a large firm. This picture of employees being less likely to believe that they would have access to childcare assistance in SME workplaces also held when employees without pre-school age children were excluded from the analysis. Four per cent of employees with pre-school age children in workplaces which were part of SMEs expected that they would be eligible for childcare assistance, compared to 8 per cent of those in workplaces which belonged to large firms.

Woodland *et al.* (2003: 188) found that when workplaces of different sizes within firms of the same size were compared, the provision of childcare assistance was more common in larger workplaces. This is perhaps explained by the viability of a workplace nursery depending upon a critical mass of employees with pre-school age children at the workplace, thus making it less likely that small workplaces provide on-site childcare. There was no firm evidence to suggest that within large firms, large workplaces were more likely to provide a workplace nursery than small workplaces. However, within large firms, large workplaces were significantly more likely to provide financial help with the cost of childcare than smaller workplaces.

### *Maternity leave*

Where the workplace had some female employees, managers were asked whether any employees going on maternity leave were entitled to their full pay for any of this period, and therefore whether the employer made more generous provision than required by statute. SME workplaces were less likely to offer full pay for any of this period than workplaces in large firms, although 44 per cent of all SMEs did offer some maternity leave on full pay, compared to 59 per cent of large firms. There was little difference in the number of weeks of maternity leave on full pay between SMEs and large firms among those workplaces that gave a period of fully-paid maternity leave, with a mean average of 16 weeks pay provided by firms of either size, and a median of 15 weeks for SMEs and 14 weeks for large firms.

### *Paternity leave*

Since April 2003 male employees have had a legal entitlement to up to two weeks' of paternity leave on reduced pay, provided they meet certain qualifying requirements. Respondents to the WERS 2004 Management survey were asked to list the ways that male employees usually took time-off around the birth of their child. Half of all SME workplaces with some male employees provided

paternity leave, defined as a specific period of leave for fathers around the birth of their child. The likelihood that a workplace offered paternity leave increased with the size of the firm, so that 85 per cent of workplaces within large firms offered paternity leave. Around two-fifths (42 per cent) of SME workplaces with some male employees provided either paternity leave or time-off at the employer's discretion on the full rate of pay, compared to three-fifths (61 per cent) of large firms. There was very little difference between firms of different sizes in the amount of fully-paid paternity leave or discretionary leave available where fully-paid leave was offered, SMEs providing a mean average of 9 days leave and a median of 10 days, compared to a mean of 8 days and a median of 9 days for large firms.

Whilst a similar proportion of workplaces in SMEs and large firms offered paternity or discretionary leave which was partly-paid (28 per cent and 29 per cent respectively), around one third (30 per cent) of SMEs provided no paid paternity or discretionary leave at all, compared to one-in-ten large firms. Workplaces which were part of a small firm were three times as likely as those in medium or large firms to report that the situation of employees requesting paternity leave had never arisen (18 per cent, 6 per cent and 5 per cent respectively).

### *Other assistance for carers*

Parents of children under the age of five or disabled children up to the age of 18 have had a right to take unpaid parental leave if they have one year's continuous service, since December 1999. Table 8.4 shows that employees were

Table 8.4 Perceived availability of paid parental leave and forms of emergency leave, as reported by employees

	<i>All private sector</i>	<i>Size of firm</i>				<i>Cell %s</i>
		<i>All SMEs</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Large</i>	
Paid parental leave	9	8	8	7	10	
<i>Forms of emergency leave</i>						
Use paid holiday	36	34	31	38	38	
Use special paid leave	7	6	6	6	8	
Take time off and make it up later	17	18	20	15	17	
Go on leave without pay	13	15	16	14	11	
Take sick leave	3	3	3	2	4	
Some other way	4	5	5	5	4	
Couldn't take time off	2	1	1	1	2	
Doesn't apply to me	15	17	17	16	14	
Not answered/multi-coded	3	3	2	3	3	

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees: 15,327 (all private sector), 4,683 (all SMEs), 2,438 (small firms), 2,245 (medium-sized firms) and 10,578 (large firms).

slightly more likely to believe that they would have access to paid parental leave if they needed it in workplaces which were part of a large firm than in those which were part of an SME. Employees with dependent children were more likely to express a view on whether the employer was likely to provide paid parental leave, and were slightly more likely to believe that it would be available to them if required, than employees without dependent children.

Employees were also asked how they would usually take time-off work at short notice if they needed to look after children or a family member. Table 8.4 shows that a slightly higher proportion of employees who worked for SMEs said that this situation did not apply to them than employees who worked for large firms, despite the fact that the proportion of employees with dependent children was similar for SMEs and large firms, and a slightly higher proportion of employees who worked for SMEs had other caring responsibilities (15 per cent, compared to 13 per cent). The most common way of taking emergency leave was to use paid holiday, although employees who worked for small firms were less likely to do this than employees of medium or large firms. Employees in small firms showed a greater tendency to say that they would take the time-off and make it up later than employees who worked for larger firms, but they were also more likely to expect that they would have to go on leave without pay.

No SME workplaces in the WERS sample provided financial help with the care of older adults, and this was offered in less than 1 per cent of workplaces which were part of large firms. However, 8 per cent of workplaces within large firms provided leave for the care of older adults, compared to just 1 per cent of SME workplaces, so that overall, 1 per cent of workplaces in SMEs provided either of these forms of support, compared to 9 per cent of large firms.

## **Working hours**

The average number of hours, including overtime, worked by employees did not vary significantly by the size of the firm. However, the mean average number of overtime hours was lower in SME workplaces than in large firms (three hours, compared to four). The mean average hours worked by part-time employees and full-time employees and the average overtime hours of either group also did not vary with firm size, so that part-time staff worked 17 hours a week, with around two hours of this consisting of overtime, whilst full-time employees worked 42 hours a week, including four hours of overtime. Small firms made greater use of part-time staff, with a significantly higher proportion of employees working less than 16 hours a week, and less than 30 hours a week. Given the lower number of overtime hours worked by part-time workers, this probably explains why average overtime hours were lower in SME workplaces than in workplaces which were part of a large firm.

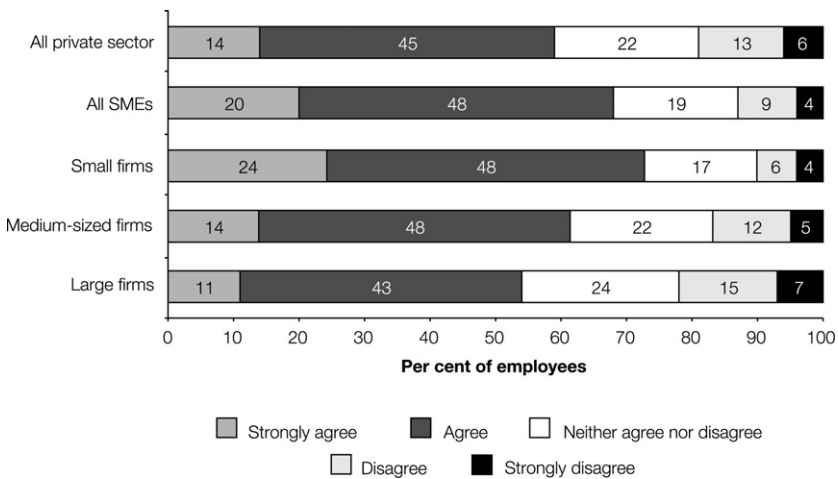
Employees were also asked how often they had worked more than 48 hours a week over the past 12 months. Full-time employees in SME workplaces were slightly more likely to say that they had never worked more than 48 hours a week than full-time staff in large firms (45 per cent, compared to 41 per cent). Among SMEs, there was no difference in the proportion of full-time employees

who never worked more than 48 hours a week between workplaces with a full-time working owner and those either controlled by a single family or individual but without a full-time working owner, or those not owned by a single family or individual. However, full-time employees of SMEs were more likely to work in excess of 48 hours a week every week where the workplace was owned by a single family or individual, either with or without a full-time working owner, than where the workplace was not controlled by a single family or individual (14 per cent, 16 per cent and 9 per cent respectively). A similar proportion of full-time employees from firms of all sizes reported that they worked more than 48 hours a week every week (12 per cent of all full-time employees of private sector firms). Whilst one fifth of managers who worked full-time in the private sector worked more than 48 hours a week every week, compared to only one-in-ten full-time non-managerial employees, this proportion remained stable as firm size increased.

### Responsibility for managing work-life balance

The attitude of managers towards family responsibilities might be expected to have an impact on the availability of flexible working arrangements, and practices to support employees with caring responsibilities, as well as working hours. Managers were asked whether they believed that it was up to individual employees to balance their work and family responsibilities. They were much more likely to believe this to be the case in SME workplaces than in those which were part of a large firm. Managers in nearly three-quarters (73 per cent) of SME workplaces felt that it was up to the individual to balance their work

*Figure 8.1* Management understanding of employees having to meet responsibilities outside work, as reported by employees



Base: all employees in private sector workplaces with 5 or more.  
 Figures are weighted and based on responses from the following numbers of employees: 14,667(all private sector), 4,471 (all SMEs), 2,335 (small firms), 2,136 (medium-sized firms) and 10,136 (large firms).

and family responsibilities, compared to three-fifths (61 per cent) of those who worked for large firms. Despite this, employees who worked for SMEs were much more likely to report that managers were understanding about employees having to meet responsibilities outside of work than employees who worked for large firms. One fifth of employees who worked for SMEs strongly agreed that managers were understanding, whilst a further 48 per cent agreed with the statement (Figure 8.1). By contrast, just over one-in-ten employees (11 per cent) of large firms strongly agreed that managers were understanding, with a further 43 per cent agreeing with the statement. Employees were most likely to strongly agree with the statement where they worked for a small firm (24 per cent).

## Summary and conclusions

This chapter has shown that, in general, workplaces which were part of SMEs appeared to make less use of equal opportunities practices than those which were part of large firms. They were less likely to have a formal written equal opportunities policy in place, to have carried out a job evaluation or an assessment of the accessibility of the workplace to disabled employees, and despite being more likely to have identified access problems, were less likely to have made adjustments to the workplace. It was also less common for SME workplaces to carry out a range of monitoring or review activities to assess whether employment practices had any discriminatory effects.

Whilst managers' reports suggested that workplaces which were part of SMEs were less likely to allow employees to use flexible working practices than workplaces within large firms, employees generally felt that they were more likely to have access to flexible working arrangements in workplaces which were part of SMEs. These perceptions may reflect a greater prevalence of ad hoc arrangements, developed in response to requests from individual employees, in small firms, observed in other studies (Harris and Foster, 2005). Other arrangements to support employees with caring responsibilities were less in evidence in SME workplaces than in large firms, whilst average hours appeared to be similar between firms of different sizes, and managers who worked in SMEs were more likely to believe that it was up to the individual to balance their work and family responsibilities.

Despite the fact that equal opportunities practices seemed to be less common in SME workplaces, arrangements to support employees with caring responsibilities were less widespread, and greater responsibility for managing work-life balance appeared to be on the shoulders of the individual, employees of SMEs were more likely to believe that managers treated employees fairly, and that managers were understanding of their family responsibilities. This suggests a number of possibilities. It is perhaps the case that even though there is a lack of formality in equal opportunities practices in small firms, employees are actually more likely to experience fair treatment in these workplaces than in larger firms. A second option is that employees who work for small firms have lower expectations of fair treatment or the extent to which managers should be understanding of their family responsibilities than employees who work for

large firms. Finally, it is possible that employees who do not experience fair treatment, or find managers understanding, are more likely to quit small firms, perhaps because it is more difficult to avoid the negative impact that this may have on career progression in a smaller firm, lack of opportunities for career progression being an important cause of labour turnover in small firms (Harris and Foster, 2005). The lower levels of voluntary resignations in smaller firms, and the even distribution of employees with caring responsibilities across firms of different sizes would argue against the latter hypothesis. However, these competing explanations for the lack of association between employment practices and employee perceptions in smaller firms suggests an area for future study.



## 9 Summary and conclusions

Small and medium-sized firms are considered by many to be a vital part of a healthy economy, creating jobs, promoting innovation and sustaining notions of competition and opportunity. Whilst the policy emphasis on SMEs is not without its critics, the numerical importance of SMEs cannot be understated. In 2004, private sector firms with fewer than 250 employees accounted for 94 per cent of all employers in the UK economy and 36 per cent of all employees. These figures alone mean that the nature and practice of employment relations in such firms are worthy of investigation.

Nevertheless, there remains little nationally-representative statistical evidence on employment relations in SMEs. The literature is instead overwhelmingly qualitative in nature, ably depicting the complexities and subtleties of particular cases and situations, but limited in its ability to generalize to the wider population. The most extensive survey-based investigation of employment relations in Britain – the Workplace Employment Relations Survey series – has historically been limited in the extent to which it can contribute in this area, because the early surveys in the series surveyed only larger workplaces and tended to focus on issues that were more salient for larger workplaces and firms. This changed in 1998 when the workplace employment threshold was lowered to 10 employees and substantial alterations were also made to the survey instruments. Further opportunities arose in 2004 when the scope of the survey was extended to incorporate workplaces with 5 or more employees.

The aim of this report was to utilise this extended sample by presenting a descriptive mapping of employment relations in SMEs in some of the areas covered by WERS. The analysis was based on data collected from both managers and employees. It took advantage of both the scope and the scale of the survey by considering a wide range of data items covering various aspects of the employment relationship, and using the large samples of workplaces and employees to make comparisons both within the SME sector and across to large firms. One limitation of WERS 2004 is that it does not include the smallest workplaces (those with fewer than 5 employees), and thereby covers only 26 per cent of all SME workplaces. However, it is nonetheless representative of 76 per cent of all employees in SMEs.

The brevity of this volume and the emphasis on descriptive analysis of key features of employment relations mean that it has not been possible to explore issues in great detail. Where space permitted it, the analysis attempted to indicate variations between small and medium-sized firms, between those with owner-managers and those managed under other arrangements, and so on. But further analysis will be needed to tease out all of the complexities and to gain a

more detailed understanding of the importance of factors such as firm size and ownership in shaping employment relations across the private sector. With this point in mind, this final chapter does not attempt bold conclusions. Instead, it focuses primarily on presenting a short summary of the findings presented in earlier chapters, noting some of the key points that have emerged in the preceding discussion.

Chapter 2 used contextual information collected in WERS to examine some of the basic characteristics of SME workplaces and their employees. It showed that, in small firms, the workplace and the firm were usually one and the same, whilst this was true of only a minority of workplaces in medium-sized and large firms, where most workplaces were branch sites of a larger firm. The relationship between firm size and workplace size was therefore not straightforward, with the proportion of small workplaces being lowest in medium-sized firms. Family-ownership was, not surprisingly, much more extensive in SMEs than in large firms, but the incidence was only slightly higher in small firms than in medium-sized firms. The chapter pointed to the variety in the industrial activities of SMEs and in the ways that they competed in product markets. It also showed the reliance of smaller firms on single products and customers, and indicated that workplaces in SMEs were more likely than those in large firms to operate in turbulent or declining markets. Nevertheless, the degree of competition facing workplaces in SMEs was slightly lower, on average, than that facing workplaces in large firms. There were few points to distinguish the profile of employment in smaller and larger firms, with some of the differences that were apparent being explained by industrial activity or workplace size.

Chapter 3 considered some of the structures of people management in SMEs and the approach that was taken to involving employees in the management of workplace change. There were substantial differences between workplaces in firms of different sizes in terms of who ultimately managed employment relations and how they did so. Employment relations issues in workplaces belonging to SMEs were more likely to be dealt with by an owner-manager rather than a personnel specialist. That person was also slightly more likely to be male than in large firms. The managers of employment relations in workplaces belonging to SMEs tended to have more career experience of such a role, but had fewer relevant qualifications – a reflection of the lesser degree of specialisation. Nevertheless, one fifth of employment relations managers in SME workplaces had a formal qualification in personnel management or a closely-related subject. Employment relations managers in SMEs spent less time on such issues than their equivalents in large firms, with the comparison between small and medium-sized firms being more pronounced than the comparison between medium-sized and large firms. Even so, two-thirds of employment relations managers in small firms spent 10 per cent or more of their time on personnel issues. The frequent absence of a wider organizational structure or workplace assistants meant that managers in smaller firms tended to be responsible for a wider range of personnel issues. It also meant that they were more reliant on advice from external bodies, such as Acas. However, the greatest users of external advice were managers in workplaces belonging to medium-sized firms,

perhaps reflecting these firms' intermediate position in having a greater number of personnel issues to handle than small firms but not yet having the fully-developed personnel structures of large firms. When managing workplace change, managers in workplaces belonging to SMEs were more likely than those in workplaces belonging to large firms to involve employees in decision-making. Employees in smaller firms were also more satisfied with the extent of their influence over decisions. However, there was a notable degree of heterogeneity in employees' opinions, with a substantial minority of employees in firms of all sizes rating their managers as poor at including them in the decision making process.

Chapter 4 looked at recruitment, training and work organization. In respect of recruitment, a similar percentage of workplaces in each category reported the use of at least some informal methods, such as word of mouth. Smaller firms were less likely to use formal channels, but this was partly related to the lower incidence of personnel specialists. One third of SME workplaces used performance tests in recruitment, but only one tenth used personality tests. Smaller firms were also less likely to place importance on references and applicant availability, and more likely to consider age important. But workplaces in SMEs were only slightly less likely than workplaces in large firms to engage in positive action to encourage applicants from disadvantaged groups. In respect of training, workplaces in small firms were less likely than those in medium-sized and large firms to provide off-the-job training and less likely to have performance appraisals that led to an identification of training needs but, where training was available, the average number of days provided was similar. The survey did not cover on-the-job training, which may go some way towards explaining why employees in small firms were more likely to say that managers encouraged employees to develop their skills. There were no substantial differences in the extent of over or under-skilling by firm size. In respect of work organization, there was lesser use of team-working arrangements, problem-solving groups and functional flexibility in smaller firms, but workplace size appeared to be the more important determinant. Employees' ratings of job quality were highest in small firms, with employees recording greater degrees of job autonomy and influence, lower levels of work intensity and higher levels of general well-being. Employees in small firms also reported greater levels of job security and organizational commitment.

Chapter 5 considered the prevalence of arrangements for direct communication and employee representation, and also looked at the extent of information sharing. The analysis starkly illustrated the scarcity of union representation in workplaces belonging to small and medium-sized firms. Very few workplaces in SMEs had substantial numbers of union members and unions were recognized in only a small minority of sites. Managers in smaller firms did see trade unions in a less positive light than managers in larger firms, and the overall level of demand among employees appeared relatively low. But in small firms in particular, the small average size of workplaces and the lack of a wider organizational structure were also salient factors in determining the prevalence of representative structures. Direct communication was much more common, with a degree

of formality in the mechanisms for communicating directly with employees evident in workplaces belonging to even the smallest of firms. Smaller firms were less likely to provide regular information to their employees but, in contrast to employees in medium-sized and large firms, the majority of employees in small firms agreed that managers in their workplace were either good or very good at keeping employees informed about changes to the running of the business, changes in staffing and changes in their job. Even so, only two-fifths of employees in small firms considered that their managers were good at keeping them informed about financial matters, with owner-managers seemingly the most reluctant to share this type of information.

Chapter 6 mapped the extent of joint regulation, identifying how pay and other terms and conditions are set in small, medium-sized and large firms. It quantified the well-known absence of trade unions from pay setting in SMEs, showing that only one-in-twenty employees had their pay set by collective bargaining, although the proportion did rise to one-in-eight among employees in medium-sized manufacturing firms. The pay of over four-fifths of employees in SMEs was set unilaterally by management. For one tenth it was set by individual negotiations between managers and employees, compared to less than one-in-twenty in large firms. The chapter also showed that pay reviews were less regular in SME workplaces than in workplaces belonging to large firms, and managers had less knowledge of external comparisons. Variable payment systems were reasonably common, with one third of all SME workplaces using payment-by-results or merit pay, and one quarter having profit-related pay; but the proportions were approximately double among workplaces in large firms. In respect of pay levels, the most notable differences were between small firms and medium-sized or large firms, with the latter two categories of firm having less low pay and more high pay. Yet employees' satisfaction with pay was lower, on average in workplaces belonging to larger firms, which may be related to a greater degree of pay dispersion. In common with patterns of pay setting, there was less joint regulation of non-pay terms and conditions in SMEs than in large firms and less consultation over redundancies.

Chapter 7 considered a variety of indicators of conflict and dissonance, and also looked at procedures for resolving individual and collective disputes. Disputes of a collective nature were rare in workplaces belonging to SMEs, reflecting the lack of collective labour organization noted above. Individual disputes were more common, with employee grievances and employer disciplinary sanctions each seen in around two-fifths of all SME workplaces. Grievances and disciplinary actions were just as common in workplaces belonging to SMEs as they were in large firms, but procedures for resolving individual disputes were much more prevalent in workplaces belonging to larger firms. Nevertheless, workplaces in even the smallest firms commonly had formal procedures for resolving individual disputes. They also commonly followed at least some of the steps laid down in the new statutory framework, although few followed all of them, this being the norm in workplaces belonging to large firms. Firms of all sizes were more likely to follow these steps when issuing disciplinary sanctions than when handling employee grievances. Qualitative indicators of the

state of management-employee relations and the degree of trust between managers and employees suggested that relations were somewhat better, on average, in smaller firms. There were naturally some employees in firms of all sizes who did not rate relations positively. But the best ratings tended to come from employees in the smallest firms. Rates of absenteeism and voluntary resignations were also lowest in workplaces belonging to small firms, running counter to the notion that better relations might arise because discontented employees tend to leave rather than expressing their discontent.

Chapter 8 completed the descriptive analysis by looking at equal opportunities practices and work-life balance. It showed that workplaces in smaller firms were less likely to have formal equal opportunities policies, but that they were also unlikely to have reviewed specific activities, such as recruitment or promotion, to identify potentially discriminatory practices. SME workplaces were not unusual in this latter respect though, as such practices were also uncommon in workplaces belonging to larger firms. In the area of work-life balance, managers in workplaces belonging to smaller firms were less likely than those in larger firms to report specific arrangements to support employees with caring responsibilities. They were also more likely to believe that it was up to employees to balance their work and family responsibilities, with agreement coming from almost three-quarters of managers in workplaces belonging to small firms (compared with around three-fifths of those in medium-sized firms and just over half in large firms). Even so, employees in small firms were most likely to consider that they would have access to various forms of flexible working if required and were most likely to believe that managers were understanding about their responsibilities outside of work. They were also most likely to consider that managers treated employees fairly.

Having summarised some of the main points emerging from the earlier chapters, the report concludes by briefly considering two points that are familiar in the broader literature on employment relations in SMEs. The first concerns the tendency towards informality in smaller firms. The second concerns employees' experience of work.

The analysis indicated that formal practices were generally less extensive in smaller firms, as one would expect. As firms grow, the tendency to introduce practices that ensure rational and consistent behaviour is likely to increase in response to the decentralisation of managerial control and the greater distance between owner and employee. Thus, it was apparent that larger firms were more likely to: use formal recruitment channels; have arrangements for employee communication and consultation; have procedures for resolving disputes; have formal equal opportunities policies; and offer specific arrangements to facilitate flexible working and to support employees with caring responsibilities.

Nonetheless, the degree of formality will also inevitably depend upon other factors, and this was indicated in the analysis by the extent to which the degree of formality varied between firms in the same size category. For example, among workplaces belonging to small firms, two-thirds provided formal off-the-job training to core employees and half always applied the 'three steps' when issuing disciplinary sanctions. Among workplaces in large firms, around

one fifth did not conduct regular performance appraisals for non-managerial staff and almost one-in-ten did not have a formal equal opportunities policy. The analysis also suggested some of the factors, besides firm size, that affect the degree of formality. Workplace size was shown to be important in determining the nature of arrangements for communication and consultation since, even in the largest firms, structured arrangements will be required to a lesser degree at small sites. In addition, the degree of specialised knowledge held by managers was a factor in determining the extent to which certain formal recruitment channels were used in smaller firms. Context is also fundamentally important, as illustrated by the extent to which workplaces used procedures available for resolving individual disputes only in particular situations.

Turning to consider employees' experience of work in small, medium and large firms, it is first evident that there was not a straightforward relationship between employees' experiences and the degree of formality in the practice of employment relations. Although the existence of formal practices may influence employee experience in some situations, the general pattern was of better ratings among employees in small firms. This might support the idea that the development of formality comes, to some extent, as a response to specific situations that identify a need (illustrated by employers' reactions to Employment Tribunal cases (Hayward *et al.*, 2004: 61–62)).

It was also notable that, on almost all of the aspects covered in the report, employees in small firms rated their experiences of work and management higher, on average, than did employees in medium-sized and large firms. This is apparent from Table 9.1 which indicates the proportion of employees reporting some disaffection across 22 of the items covered in the analysis. On some items, there was a gradient, with the incidence of disaffection being higher among employees in medium-sized firms than among employees in small firms, and higher still among employees in large firms. But this was not always the case and, on a number of items, there was little difference between employees in medium-sized and large firms. So whilst only a minority of employees noted dissatisfaction on any one item, irrespective of the size of the firm, the proportions were lowest of all in small firms. A broad sense of this is obtained by the index score at the bottom of the table, which provides a count of the number of items (out of 22) on which each employee noted disaffection, averaged over all employees in each size category. The mean score among employees in small firms (2.90) was lower than the mean score among employees in either medium-sized firms (4.39) or large firms (4.87), with the differences being statistically significant in both cases.

One obvious suspicion might be that the pattern of results could have been generated by biases in the survey of employees, if responses were less likely to be received from disaffected employees in small firms. This cannot be ruled out. However, there was no indication that employees in small firms were more likely to be denied the opportunity to participate in the survey.<sup>1</sup> Also, response rates among employees in small firms were only slightly below those obtained among employees in medium-sized and large firms.<sup>2</sup>

A further question is whether the patterns come as the result of a minority of small-firm workplaces in which relations were particularly good, with the

Table 9.1 Employee needs index

	All private sector	Size of firm			Cell %s
		All SMEs	Small	Medium-sized	
<i>How satisfied are you with the following aspects of your job?</i>					
The sense of achievement you get from your work	10	7	6	9	12
The scope for using your own initiative	10	7	6	9	11
The amount of influence you have over your job	13	9	7	12	15
The training you receive	22	18	15	22	24
The amount of pay you receive	39	33	31	36	42
Your job security	13	9	9	11	15
The work itself	9	6	5	8	10
Overall, how satisfied are you with the amount of involvement you have in decision-making at this workplace?	20	16	13	21	23
<i>In general how good would you say managers at this workplaces are at keeping employees informed about...</i>					
Changes to the way the organization is being run	24	22	18	27	25
Changes in staffing	26	21	17	26	28
Changes in the way you do your job	18	15	12	19	20
Financial matters, including budgets or profits	27	28	25	31	26
<i>Overall, how good would you say managers at this workplace are at...</i>					
Seeking the views of employees or employee representatives	25	21	18	26	27
Responding to suggestions from employees or employee representatives	25	20	16	26	28
Allowing employees or employee representatives to influence final decisions	30	25	19	32	33
In general, how would you describe relations between managers and employees here?	14	10	7	14	16

(Continued on next page)

Table 9.1 (continued)

	All private sector	Size of firm			
		All SMEs	Small	Medium-sized	Large
<i>Now thinking about the managers at this workplace, to what extent do you agree or disagree with the following? Managers here...</i>					
Can be relied upon to keep their promises	22	17	13	22	26
Are sincere in attempting to understand employees' views	20	15	12	19	22
Deal with employees honestly	17	12	9	16	20
Understand about employees having to meet responsibilities outside work	18	12	9	16	21
Encourage people to develop their skills	18	15	12	18	19
Treat employees fairly	19	14	11	18	22
Index score (from 22 items)	4.38	3.50	2.90	4.39	4.87

Base: all employees in private sector workplaces with 5 or more.

Figures are weighted and based on responses from the following numbers of employees (minimum): 15,327 (all private sector), 4,683 (all SMEs), 2,438 (small firms), 2,245 (medium-sized firms) and 10,578 (large firms).

*Proportion disagreeing or strongly disagreeing:*



remainder being less distinguishable from workplaces in medium-sized and large firms. This was not the case. The issue was examined by computing the mean value of the index in each workplace, and looking at the distributions of these means among workplaces belonging to small, medium-sized and large firms. In fact, the 25th, 50th and 75th percentiles of the distributions of workplace means were each lower among workplaces belonging to small firms than among workplaces from medium-sized and large firms.

One might also wonder about the extent to which the variations in [Table 9.1](#) can be explained by other characteristics. However, simple multivariate analysis showed that the index score remained lower, on average, among employees in small firms after controlling for a limited number of basic workplace and employee characteristics.<sup>3</sup> The pattern therefore remains of considerable interest and would benefit from further analysis in order to establish more clearly the true association with firm size. But this task must take place outside the confines of this report.

In conclusion, this chapter and those that came before it have considered a wide range of data from WERS 2004 that relate to many aspects of employment relations in workplaces belonging to small, medium-sized and large firms. By mapping these data, it is hoped that we have begun to reap some value from the extension in the coverage of the survey, and further demonstrated the worth of the extensive changes introduced into the survey series in 1998. But primarily, it is hoped that the new statistical evidence presented here will in some way complement the existing literature, raising new interest in the nature of employment relations in SMEs and stimulating further quantitative and qualitative research that will contribute to understanding in this area.

# Appendix A

## The 2004 Workplace Employment Relations Survey (WERS 2004)

### The nature and conduct of WERS 2004

The 2004 Workplace Employment Relations Survey (WERS 2004) is the fifth in a series of surveys that aims to provide a nationally representative account of the state of employment relations and working life inside British workplaces. The survey series is jointly sponsored by the Department of Trade and Industry (DTI), the Economic and Social Research Council (ESRC), the Advisory, Conciliation and Arbitration Service (Acas), and the Policy Studies Institute (PSI). Previous surveys were conducted in 1980, 1984, 1990 and 1998.

The purpose of each survey in the series has been to provide large-scale, systematic and dispassionate evidence about numerous aspects of employment relations across almost every sector of the economy in Britain. This evidence is collected with the following objectives in mind:

- to provide a mapping of employment relations practices in workplaces across Great Britain, and to monitor changes in those practices over time;
- to inform policy development, and to stimulate and inform debate and practice;
- to provide a comprehensive and statistically reliable dataset on British workplace employment relations that is made publicly available for research.

In broad terms, the scope of WERS 2004 extends to cover all but the smallest workplaces in Great Britain. It covers both private and public sectors and almost all areas of industry. The principal unit of analysis is the establishment or workplace. A workplace is defined as comprising the activities of a single employer at a single set of premises. Examples include a single branch of a bank, a car factory or a school. The central focus of the survey series has been the formal and structured relations that take place between management and employees at the workplace, although this focus softened somewhat in WERS 1998.

In keeping with its predecessors, WERS 2004 contained both a cross-section and a panel element. The WERS 2004 Cross-Section Survey was based on a random sample of workplaces in existence in 2004, and thus provided a snap-shot of employment relations at that time. The survey is representative of all workplaces with 5 or more employees, located in Great Britain (England, Scotland and Wales) and engaged in activities within Sections D (Manufacturing) to

O (Other Community, Social and Personal Services) of the *Standard Industrial Classification (2003)*. The survey covers both private and public sectors. The sample was taken from the Inter Departmental Business Register (IDBR), maintained by the Office of National Statistics.

The 2004 Cross-Section Survey contained the following five components:

- Self-completion questionnaire for the main management respondent about the composition of the workforce (four pages).
- Face-to-face interview with a main management respondent (average two hours)
- Face-to-face interview with union and non-union employee representatives, where present (average 45 minutes).
- Self-completion questionnaire distributed to a random selection of up to 25 employees (eight pages).
- Self-completion questionnaire for the financial manager about the financial performance of the workplace (four pages).

Fieldwork began in February 2004 and came to a close in April 2005. The median management interview took place in July 2004. Interviews were conducted with managers in a total of 2,295 workplaces from an in-scope sample of 3,587 addresses, representing a response rate of 64 per cent for the main management interview. A total of 1,203 eligible employee representatives were found to be present in 1,072 of the 2,295 workplaces; interviews were achieved with 984 of these employee representatives, representing a fieldwork response rate of 82 per cent. Permission to distribute the Survey of Employees Questionnaires was given by managers in 1,967 (86 per cent) of the 2,295 workplaces that participated in the WERS 2004 Cross-Section Survey, although managers appear to have actually distributed the questionnaires in 76 per cent of all workplaces. Around 37,000 questionnaires were distributed in these 1,733 workplaces. Some 22,451 were completed and returned, representing a fieldwork response rate of 60 per cent. The mean number of completed questionnaires returned in each workplace was 13, covering a mean of 29 per cent of the total workforce in each establishment. The Financial Performance Questionnaire was placed in 2,076 workplaces and 1,070 questionnaires were returned. When expressed as a proportion of those placed, this represented a response rate of 51 per cent, whilst the response rate expressed as a proportion of productive management interviews was 47 per cent.

The 1998–2004 Panel Survey in WERS 2004 returned to a random selection of the 2,191 workplaces that participated in the 1998 Cross-Section, with the express purpose of investigating the changes that had taken place in those workplaces over the preceding six years. Some 1,479 workplaces from the 1998 Cross-Section were selected to be traced for re-interview in 2004. The survey, with a response rate of 77 per cent, yielded an achieved sample of 938 continuing workplaces.<sup>1</sup> The remaining 712 workplaces were contacted by telephone to establish whether the establishment had survived over the period and, if it continued in existence, to establish the current number of employees.

## Data used in this report

The analysis presented in this report is based upon the subset of private sector workplaces from the WERS 2004 Cross-Section Survey. This subset provides management interviews from 1,706 workplaces and completed questionnaires from 15,327 of their employees. Adopting the categorisation of firm size described in Chapter 1, the sub-sample provides data from 392 workplaces and 2,438 employees within small firms (5–49 employees), 229 workplaces and 2,245 employees within medium-sized firms (50–249 employees) and 1,072 workplaces and 10,578 employees within large firms (250 or more employees). Observations from within SMEs therefore total 621 workplaces and 4,683 employees. A further 13 management interviews and 66 employee responses are included within the overall private sector sample but are not allocated to a sub-category because of missing data on firm size.

The report does not make use of data from the Cross-Section Survey of Employee representatives, since interviews with employee representatives were conducted in only 59 workplaces belonging to SMEs. The exclusion of workplaces with 5–9 employees from the 1998 Cross-Section Survey and the 1998–2004 Panel Survey also means that neither of these data sets are used and the report does not comment on change over the period.

## Publications and data files

The primary analysis of WERS 2004 has been reported in two stages. A free 40-page booklet of First Findings were published by the DTI in July 2005 (Kersley *et al.*, 2005), whilst the full report (Kersley *et al.*, 2006) is published by Routledge simultaneously with this publication. Both publications are based on workplaces with 10 or more employees. Tables showing the profile of workplaces with between 5 and 9 employees, along with frequency tables for all workplaces with 5 or more employees for all the cross-section variables are available on the WERS 2004 Information and Advice Service website (see below). Further information about the conduct of the survey is provided by Chaplin *et al.* (2005).

The publicly available data files from WERS 2004 are available from the UK Data Archive at the University of Essex (<http://www.data-archive.ac.uk>). The data deposited at the UK Data Archive have been anonymised to protect the identity of individual respondents and participating workplaces. To add further protections, region identifiers and a detailed industry classification are also being withheld from general release until April 2007 and, prior to that date, data from the Financial Performance Questionnaire will be available only via the Micro-Data Laboratory operated by the Business Data Linking section at the Office for National Statistics (<http://www.statistics.gov.uk/about/bdl/>).

The Economic and Social Research Council has funded the establishment of an Information and Advice Service for users of WERS 2004 (<http://www.wers2004.info>). This service is lead by John Forth and based at the National Institute of Economic and Social Research.

# Appendix B

## Sampling errors

The use of weights in WERS 2004 ensures that estimates are unbiased: that is, free from any sample-selection biases and known non-response biases. However, in common with any other sample survey, the figures obtained from WERS remain only *estimates* of the true population parameters, since any survey estimate can be expected to vary under repeated sampling. Statistical theory allows us to quantify the degree of likely variation – labelled the ‘standard error of the estimate’ – and thus to construct confidence intervals around any estimate from the specific sample that has been drawn.

Standard errors can often be computed using standard formulae. However, these formulae assume that the survey has been conducted using simple random sampling. WERS 2004 includes a number of departures from this approach: stratification of the population prior to sampling; unequal sampling fractions; non-replacement of sampled units; post-stratification; and, in the case of the Survey of Employees, the clustering of observations within workplaces. Whilst stratification prior to sampling and non-replacement of sampled units can improve the precision of survey estimates in comparison with simple random sampling, the other departures listed here tend to reduce the level of precision (Lohr, 1999: 240), and generally do so to a much greater degree. Thus, standard formulae will almost always yield standard errors that are too small.

To help identify the precision of estimates from WERS 2004, the true standard errors for a range of estimates have been approximated using the Stata statistical software package.<sup>1</sup> These standard errors are listed individually in Tables 8A-8C of the WERS 2004 Technical Report (Chaplin *et al.*, 2005). To ascertain the precision of any particular estimate presented in this report the reader is advised, where possible, to identify its standard error from those tables, referring to the columns presenting the standard errors of estimates within the sample of workplaces with 5 or more employees. However, in order to provide a guide to the likely precision of estimates from WERS 2004, Tables B1 and B2 indicate the likely standard errors for various percentages based on different numbers of observations from the Cross-Section management and employee surveys. These are based on a calculation of the extent to which the various features of the WERS sample-design inflate standard errors in comparison with a simple random sample (termed the ‘design factor’), averaged over a range of variables. The combined effects of the various features of the sample designs serve to increase estimated standard errors by an average (median) of 57 per cent in the Cross-Section survey of managers and an average (median) of 59 per cent in the Cross-Section survey of employees, when compared with simple

random samples of equivalent size. It should be noted that the mean design factors for the management and employee surveys were different from the median values (45 per cent and 79 per cent respectively), indicating in particular that the estimates in [Table B2](#) are likely to substantially under-estimate the standard errors of a small number of estimates from the survey of employees.

*Table B1* Approximate standard errors for estimates derived from the WERS 2004 Cross-Section Survey of Managers

	<i>Number of observations (unweighted)</i>									
	100	250	500	750	1,000	1,250	1,500	1,750	2,000	2,250
<i>Estimate:</i>										
10%	4.7	3.0	2.1	1.7	1.5	1.3	1.2	1.1	1.1	1.0
20%	6.3	4.0	2.8	2.3	2.0	1.8	1.6	1.5	1.4	1.3
30%	7.2	4.6	3.2	2.6	2.3	2.0	1.9	1.7	1.6	1.5
40%	7.7	4.9	3.4	2.8	2.4	2.2	2.0	1.8	1.7	1.6
50%	7.9	5.0	3.5	2.9	2.5	2.2	2.0	1.9	1.8	1.7
60%	7.7	4.9	3.4	2.8	2.4	2.2	2.0	1.8	1.7	1.6
70%	7.2	4.6	3.2	2.6	2.3	2.0	1.9	1.7	1.6	1.5
80%	6.3	4.0	2.8	2.3	2.0	1.8	1.6	1.5	1.4	1.3
90%	4.7	3.0	2.1	1.7	1.5	1.3	1.2	1.1	1.1	1.0

Assumes a design factor of 1.57

*Table B2* Approximate standard errors for estimates derived from the WERS 2004 Cross-Section Survey of Employees

	<i>Number of observations (unweighted)</i>									
	1,000	2,500	5,000	7,500	10,000	12,500	15,000	17,500	20,000	22,500
<i>Estimate:</i>										
10%	1.5	1.0	0.7	0.6	0.5	0.4	0.1	0.4	0.3	0.3
20%	2.0	1.3	0.9	0.7	0.6	0.6	0.2	0.5	0.4	0.4
30%	2.3	1.5	1.0	0.8	0.7	0.7	0.2	0.6	0.5	0.5
40%	2.5	1.6	1.1	0.9	0.8	0.7	0.2	0.6	0.6	0.5
50%	2.5	1.6	1.1	0.9	0.8	0.7	0.2	0.6	0.6	0.5
60%	2.5	1.6	1.1	0.9	0.8	0.7	0.2	0.6	0.6	0.5
70%	2.3	1.5	1.0	0.8	0.7	0.7	0.2	0.6	0.5	0.5
80%	2.0	1.3	0.9	0.7	0.6	0.6	0.2	0.5	0.4	0.4
90%	1.5	1.0	0.7	0.6	0.5	0.4	0.1	0.4	0.3	0.3

Assumes a design factor of 1.59

# Notes

## 1 Introduction

- 1 Authors' calculations from data provided in [Table 1](#) of Small Business Service (2005). Private sector enterprises here include public corporations and nationalised bodies; they do not include non-profit organisations and central or local government. SMEs with no employees are excluded from the totals. The percentages are based on the whole economy (including enterprises with no employees and those in the public sector).
- 2 In a small proportion of workplaces (16 per cent) no-one on-site had responsibility for such issues, because all personnel matters were dealt with at a regional office or at head office. In these cases, the interview was conducted with the regional or head office manager who took responsibility for the site. Many of these were small workplaces belonging to large public sector organisations or multi-site firms.
- 3 Single independent workplaces included 47 that were the sole UK workplace of a foreign organisation. These are treated as stand-alone workplaces because they had no other sites within the UK. Some 30 of these workplaces were finally categorised as SMEs; they comprised 4 per cent of the total weighted sample of SME workplaces.
- 4 Public sector workplaces were those categorising themselves as: government-owned limited company, nationalised industry or public trading corporation; public service agency; other non-trading public corporation; quasi-autonomous national government organisation; or local or central government (inc. NHS and local education authorities). This means of distinguishing the private and public sectors differs slightly from the one used in official SME statistics, which includes public corporations and nationalised bodies within the private sector but excludes all non-profit organisations. The categorisation applied in this report is consistent with that used throughout the WERS series.
- 5 Firms with fewer than 5 employees accounted for a further 70 per cent of workplaces and 21 per cent of employees in SMEs. Workplaces with fewer than 5 employees in firms with 5 or more employees accounted for 4 per cent of all SME workplaces and 2 per cent of all SME employees. Figures computed using data provided by the Department of Trade and Industry and derived from the Inter-Departmental Business Register. The data on which the figures are based differ from those used in official statistical releases from the IDBR by including units that are not VAT-based, since such units are included within the sampling universe for WERS.

## 2 A profile of workplaces belonging to SMEs

- 1 Financial Services does, of course, have a relatively high proportion of very small businesses, but these fall outside of the survey population.
- 2 The remaining 4 per cent of workplaces in large firms were either administrative offices or supplied goods or services only to other parts of their organisation. The same was true of just one per cent of workplaces in SMEs. These are excluded from the remainder of the section on the competitive environment and the subsequent section on business strategy.

- 3 Surprisingly, the figure did not differ significantly between workplaces in small and medium-sized firms.
- 4 The intermediate points on the scale were not labelled.
- 5 The under-representation of men or women in management grades is determined by comparing the gender composition of employees in managerial occupations with the gender composition of the workforce as a whole.
- 6 The question in the Survey of Employees was identical to that used in the 2000 Census of Population. Non-white ethnic groups comprise: Asian or Asian British; Black or Black British; Mixed background; and Chinese or Other.
- 7 The comparatively high rates of self-employment among some ethnic minority groups, and the apparent importance of unpaid family labour (Jones *et al.*, 1994), may go some way towards explaining these differences. WERS contains no data on the ethnicity of business owners.

### 3 The management of employees

- 1 In 13 per cent of cases in the private sector the survey was conducted outside the workplace – for instance, higher up in the organization. These cases are excluded from analyses where the primary goal was to understand the nature of the employment relations personnel and function within the workplace. Where the survey interview was conducted at the workplace, 94 per cent of respondents in workplaces belonging to medium-sized and large firms said they were the person primarily responsible for employment relations at the workplace compared to 90 per cent in workplaces belonging to small firms.
- 2 The term 'specialist' refers to managers who are designated as employment relations specialists by their job title.
- 3 Confining the analysis to those who said they were the person 'primarily responsible' for employment relations at the workplace makes little difference to the results.
- 4 Among those managers designated as employment relations specialists by their job title SME managers were less likely to say employment relations was their major responsibility than managers of workplaces belonging to large firms: 22 per cent of designated specialists in workplaces belonging to small firms identified employment relations as their major responsibility compared to 45 per cent of those in medium-sized firm workplaces and 58 per cent of those in workplaces belonging to large firms.
- 5 The incidence of non-managerial employees with supervisory responsibilities, such as line managers, did not differ markedly by firm size: in workplaces belonging to small firms, 72 per cent of non-managerial employees had such responsibilities, compared to 76 per cent of non-managerial employees in workplaces belonging to medium-sized firms and 79 per cent in workplaces belonging to large firms. Where they existed there were no big differences in the degree of authority they had in making decisions in relation to pay, recruitment and dismissals.
- 6 Among micro-firms the figure was 73 per cent. The difference between workplaces belonging to small firms and those belonging to large firms was statistically significant at a 95 per cent confidence level but the difference between workplaces belonging to small and to medium-sized firms was not significant.
- 7 Factor analyses for all 10 attitudinal items indicated that only two of the three items loaded on the same principal component and the three items together had a low Cronbach alpha reliability score. They cannot therefore be treated as measures of a similar underlying concept and are therefore treated separately in the analysis. For an analysis of the ten attitudinal items for workplaces with 10 or more employees see Kersley *et al.* (2006).

### 4 Recruitment, training and work organization

- 1 Using the common definition of part-time as work of less than 30 hours a week.



## 5 Information and consultation

- 1 Article 19 of the Directive offered member states the alternative of applying the legislation to all establishments with at least 20 employees. This would have brought many small, single-site firms within the scope of the regulations in the UK, providing a further indication that the European Commission does not consider information and consultation as an area that is solely a concern for employees in large firms.
- 2 The proportion of public sector managers expressing a preference for communication via trade unions was 27 per cent.
- 3 The difference between managers in small firms (12 per cent) and those in medium-sized firms (18 per cent) was not statistically significant.
- 4 The figure was 25 per cent among SME workplaces with a full-time working owner, compared with 17 per cent among other SME workplaces, but the difference was not statistically significant.
- 5 A question on organisation size was discontinued in Winter 2003. Within the population covered by WERS, 35 per cent of employees in SMEs work in firms that have multiple sites. For these employees, the LFS categorisation of employment size may often constitute an under-estimate of firm size.
- 6 In manufacturing, union density stood at 8 per cent in small firms, 13 per cent in medium-sized firms and 39 per cent in large firms. In services, the equivalent figures were 6 per cent, 9 per cent and 24 per cent respectively.
- 7 Three-fifths (61 per cent) of unionised workplaces in SMEs had membership density of less than 25 per cent, compared with one third of unionised workplaces in large firms.
- 8 Each of these figures was similar in large firms.
- 9 The figure for workplaces belonging to SMEs is based on 49 observations.
- 10 The alternative options provided on the questionnaire were: myself, another employee or somebody else.

## 6 The determination of pay and other terms and conditions

- 1 Collective bargaining coverage is derived using three sources of information from the managerial questionnaire. First, it uses information provided by the manager on the pay determination method used for each occupation at the workplace. Second, it uses information on the most recent pay settlement for core employees at the workplace. In instances where there is a recognized trade union and this settlement involved negotiation with trade unions, but the occupation-level data do not identify any collective bargaining, the coverage data are altered to afford bargaining coverage to core employees. Coverage is also assumed to extend to other occupations in that workplace sharing the core employees' occupation-specific pay determination code. Third, the derivation used to derive coverage calls upon a banded estimate of coverage obtained by asking managers to estimate the 'proportion of all employees here [who] have their pay set through negotiations with trade unions, either at this workplace or at a higher level?'. Where there is a recognized union and this variable identifies covered workers, but the occupation-level data do not, collective bargaining coverage is imputed using the mid-point of the banded estimate. All data items have been edited to account for instances in which managers in the public sector mistake collective bargaining for pay setting by an Independent Pay Review Body, and vice versa. Full details are available on the Routledge website at: <http://www.routledge.com/textbooks/0415378133>.
- 2 The collective bargaining coverage figures are lower than those for Table 6.1 because they rely solely on managerial responses to questions about occupation-level pay setting, whereas Table 6.1 adjusts the figures to take account of a banded overall estimate of collective bargaining coverage at the workplace.
- 3 These were: multi-employer collective bargaining; organization level collective bargaining; workplace-level collective bargaining; set by management at a higher level in the organization; set by management at this workplace; negotiation with individual

employees; Pay Review Bodies; and 'Other'. Pay Review Bodies are only relevant in the public sector so private sector managers had a choice of seven options.

- 4 These findings are in line with earlier research based on the 1998 WERS (Gilman *et al.*, 2002) and WIRS90 (Bryson and Millward, 1997)
- 5 The percentage of low-paid employees was the same in firms with fewer than 20 employees as it was in workplaces belonging to small firms with 20–49 employees.
- 6 Responses from managers indicated a slightly lower incidence of low pay in SMEs than employee reports.
- 7 The twelve terms and conditions were: pay, hours of work, holiday entitlements, pension entitlements, recruitment or selection of employees, training, grievance procedures, disciplinary procedures, staffing plans, equal opportunities, health and safety and performance appraisal.

## 7 Conflict and dissonance

- 1 This is not to say that workplaces without each of the three elements do not have other arrangements not covered by the survey.
- 2 See Heywood and Jirjahn (2004) for a discussion of the potential impact of formal teamworking on absenteeism.
- 3 Employees were also asked whether managers understood about employees having to meet responsibilities outside of work (see Chapter 8) and whether managers encouraged people to develop their skills (see Chapter 4).

## 8 Equality, diversity and work-life balance

- 1 As this question does not explicitly refer to equality of opportunity, it is also examined in Chapter 7.

## 9 Summary and conclusions

- 1 Some 88 per cent of employees in small firms worked in establishments where managers agreed to participate in the survey of employees, compared with 83 per cent in medium-sized firms and 84 per cent in large firms.
- 2 Of those questionnaires that were left by interviewers to be distributed at the workplace, 48 per cent were returned among employees in small firms. The figure was 53 per cent both in medium-sized and large firms.
- 3 After controlling for workplace size, the presence of an owner-manager, whether the workplace was part of a larger organisation, industry sector, employee gender and occupation, the difference between employees in small firms and those in medium-sized and large firms remained significant at the 5 per cent level.

## Appendix A

- 1 Eighteen cases from the initial sample of 956 continuing workplaces were dropped prior to analysis because of concerns about the consistency of the definition of the establishment in 1998 and 2004.

## Appendix B

- 1 Most statistical software packages do not allow for all of the departures from simple random sampling to be taken into account when estimating true standard errors, and Stata is no exception. However, the estimated standard errors reported here take account of the most important departures, namely: the stratification of the population prior to sampling; the use of unequal sampling fractions; and the clustering of employee observations. Variances are estimated using linearization methods (Lohr, 1999: 290–93).

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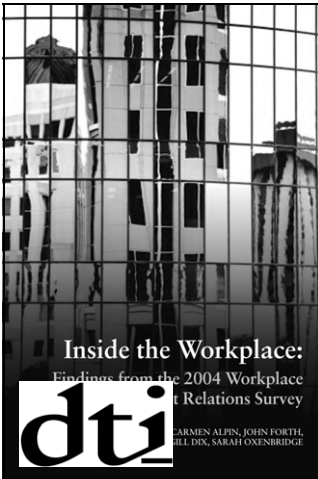
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# INSIDE THE WORKPLACE

## Findings from the 2004 Workplace Employment Relations Survey



*Inside the Workplace* provides an in-depth exploration of the findings from the 2004 Workplace Employment Relations Survey (WERS 2004), the fifth in the series of surveys conducted by the Department of Trade and Industry (DTI), the Economic and Social Research Council (ESRC), the Advisory, Conciliation and Arbitration Service (Acas), and the Policy Studies Institute (PSI). The WERS series is widely regarded as providing one of the most authoritative portraits of contemporary employment relations at the workplace in Britain.

Across Britain, managers and worker representatives were interviewed in over 3,000 workplaces. Over 20,000 employees returned completed questionnaires. The survey links the views from these three parties, providing a truly integrated picture of employment relations within workplaces.

As well as providing an up to date account of the state of employment relations in Britain, this book will also provide information on the changes that have occurred since the last survey was conducted (1997/8). Eagerly anticipated, *Inside the Workplace* will highlight change in a number of areas affected by government policy, including the Working Time Directive, equal opportunities, work-life balance, workplace conflict and statutory trade union recognition procedures.

*Inside the Workplace* provides a unique contribution to the study of employment relations and an invaluable resource for students,



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This report presents a descriptive analysis of employment relations in **Small and Medium-sized Enterprises (SMEs)** using data from the 2004 Workplace Employment Relations Survey (WERS 2004). WERS 2004 is the fifth in a series of surveys that are regarded as one of the most authoritative sources of information on employment relations in Great Britain. The report is based on a subset of interviews with managers in around 600 private sector workplaces that belonged to SMEs. It also draws on a survey of around 5,000 employees working in these establishments. Linking these responses, the survey provides a truly integrated picture of employment relations.

An analysis is provided of the key features of employment relations and working life in British SMEs. The topics covered range from methods of employee consultation and dispute resolution, through to employers' attitudes towards work-life balance, employees' experiences of work and the state of management/employee relations. The report uses the large samples of workplaces and employees to make comparisons both within the SME sector, and between SMEs and large firms.

The researchers were **John Forth**, from the National Institute for Economic and Social Research, and **Helen Bewley** and **Alex Bryson**, from the Policy Studies Institute.