

## ‘Growing pains: managing the employment relationship in medium sized enterprises’

Susan Marlow  
Professor of Entrepreneurship and Small Business  
Dept of HRM  
De Montfort University  
The Gateway  
Leicester  
LE1 9BH  
(+44) 0116 2577236  
[smhum@dmu.ac.uk](mailto:smhum@dmu.ac.uk)

Amanda Thompson  
Principal Lecturer  
Dept of HRM  
De Montfort University  
The Gateway  
Leicester LE1 9BH  
(+44) 0116 2577234  
[athompson@dmu.ac.uk](mailto:athompson@dmu.ac.uk)

### Abstract.

Since the early 1990s, growing attention has been afforded to employment relations in smaller firms. Generally, such organisations are more likely to adopt an informal approach to labour management facilitated by the proximity between employers and employees, idiosyncratic intervention by firms owners and a reluctance to employ professional HR managers. However, as firms grow, this approach is difficult to sustain as the employment relationship becomes increasingly intricate. This paper explores the management of employment relations within growing firms. Using a qualitative approach to explore how change is managed as firms become more complex, owners, Chief Executives, managers, HR managers and employees from six medium sized firms have been interviewed at length to ascertain their experiences and views upon this process.

### Introduction.

There is now a growing body of literature pertaining to the management of labour in small and medium sized enterprises (SMEs), defined in accordance with DTI and EU criteria as those with fewer than 249 employees (DTI:2004). However, the bulk of this attention has been afforded to small firms i.e., those with fewer than 50 employees. Accordingly, it has been noted that the extant literature pertaining to labour management in small firms represents, ‘a key exemplar of analytical advance (where) research has made empirical and analytical progress’ (Ram and Edwards, 2003:719). Drawing upon the growing body of evidence regarding labour management in such firms (Holliday, 1995; Moule, 1998; Ram et al. 2001; Marlow 2003; Ram and Edwards, 2003; Marlow et al. 2005), whilst mindful of heterogeneity within the sector, it emerges that there is a noticeable tendency towards informality within the management of the effort wage bargain. It has been argued that such informality arises and persists due to the spatial and social proximity between employers and employees. Additionally owner/managers tend to possess poor awareness or regard for formal policy and practice which in turn, leads to a devaluing of HR management and a consequent

reluctance to delegate labour management to professionals (Ram et al. 2001; Marlow, 2002; Mazzorol, 2003; Marlow et al, 2005).

Recent Workplace Employment Relations Survey (WERS) have also afforded some attention to SMEs in recent years with the 1998 survey including firms with more than 10 employees and the most recent study including firms with as few as five employees. The findings from these surveys also indicate that within the SME sector, whilst the extent of formalisation varies both within and across sectors, in general, formality increases with organisational size, (indicated by employee numbers and financial performance) (Cully et al., 1999; Kersley et al. 2006). This is hardly surprising as it is relatively easy for most smaller firms to rely upon informality because of the social and spatial proximity noted above however, this dissipates with growth so, whilst still able to embrace degrees of informality, larger organisations tend towards a more bureaucratic, formal ordering of the employment relationship in order to operate effectively, efficiently and lawfully.

When reviewing contemporary analyses of the employment relationship, it is apparent that there is a well established conceptual framework and robust body of evidence pertaining to large organisations and a growing seam of literature focused upon small firms. However, little attention has been afforded to independently owned and managed medium sized enterprise – those having more than 50, but fewer than 250, employees even though they employ approximately 12 percent of the labour force (DTI, 2004). This segment of the economy is worthy of further scrutiny as it might be expected that these organisations will have grown too large to depend upon informal management approaches but are unlikely to have fully adopted sophisticated, formal bureaucratic systems. Moreover, if independently owned and managed, unlike the small multiples featured in WERS 1998, they will not be subject to external influence or expertise. So, independently managed medium sized organisations are likely to differ from both their smaller and larger counterparts having a distinct approach to labour management which may still demonstrate degrees of informality whilst having to become more cognoscente with a professional approach to labour management. This process has been illustrated within the literature where it has been noted (Wynarczyk et al, 1993; Wilkinson, 1999; Mazzorol, 2003) that as a firm grows, the processes required to effectively manage labour becomes more sophisticated, indeed a common reason given by owners for avoiding growth is a reluctance to either delegate labour management or alternatively, deal with the ensuing complexity themselves. So, the 20 employee threshold is considered to be particularly critical in the life of the organisation where it is argued that once beyond this number, maintaining and supporting informal social relations becomes an increasingly difficult task (Wilkinson, 1999).

Nevertheless, quite clearly, many independently managed firms do grow beyond the 20 employee threshold and are faced with the problems of managing increasing complexity within the employment relationship. This is not only related to regulatory compliance but also the challenge of managing a growing and increasingly diverse group of both managers and employees in terms of ensuring an efficient and effective employment relationship. It has been noted (Wynarczyk et al, 1993; Marlow and Patton, 2002; Taylor, 2006) that professional HR managers are not a priority appointment for many SME owners given their reluctance to delegate labour management and the relatively poor status and value afforded to HRM as a managerial function. Consequently, it might be expected that managing labour in medium sized firms, whether undertaken by owners, general managers or HR professionals has particular challenges quite different from those identified in the small firm where informality in a context of proximity is feasible and indeed, considered rational in context (Taylor, 2006).

Furthermore, the formal, bureaucratic systems approach evident within large organisations is unlikely to be found in firms where owners, uninformed and/or unskilled in labour management still maintain prerogative over the employment relationship. There are a number of implications to be explored here, particularly how owners and managers address the increasing complexity of dealing with an expanding work force and manage the process of implementing more formal and professional policies and practices.

To explore these issues, this paper is organised as follows, firstly a conceptual framework using the notions of informality and formality within the employment relationship will be explored and established; the relationship between these concepts and firm size will be considered, particularly how firm growth will influence the dynamic of informality. Secondly, these arguments will be investigated empirically using the findings from a qualitative study of six medium sized firms where owners, managers and employees have been interviewed at length to ascertain their views and opinions upon the process of growth and change and finally, the implications of these findings will be discussed in broader terms.

### **Conceptual Framework: Informality and formality in the management of labour.**

As noted above, considerable attention has been afforded to the informal nature of labour management in small firms since the 1990s. Ram et al., (2001:846) define informality as, 'a process of workforce engagement, collective and/or individual, based mainly on unwritten customs and the tacit understandings that arise out of the interaction of the parties at work'. Marlow et al. (2005: 5) suggests that an informal approach is, 'largely emergent, flexible and loosely structured'. Within small firms, for informality to become the norm it is usually the case that the employment relationship is managed by the owner or a general manager so there is a lack of professional personnel input and formalised systems. Rather, there is an intrusion of idiosyncratic perspectives and an engagement with practices on the owner/managers terms rather than adherence to normative prescription and policy. This approach to ordering the employment relationship might be compared to a formal stance where the terms and conditions of employment are laid down within written policies and are articulated through professional practitioners, as Marlow (2002: 4) notes, 'both labour and management have recourse to a set of rules, should they feel it appropriate to use them'.

Care must be taken however, not to suggest simplistic dichotomies between informality and formality where these notions can be uncritically associated with small and large firms respectively, as this would be overly simplistic (Marlow et al., 2005). As Ram et al. (2001:846) argue, informality and formality are dynamic constructs which co-exist in differentiated forms in time and space such that 'informality in small firms is a matter of degree and not kind'. So, for example Cully et al. (1999) and Kersley (2006), find that small firms do adopt formal procedures and this is particularly evident in the case of discipline and grievance policies where almost all survey respondents, even in many of the smallest firms, claimed to have written policies. Rather, it is the case that on balance, smaller organisations are likely to have *fewer* policies and practices in place than their larger counterparts but, it is the exception where there is a complete absence. Some care must be afforded to the utility of survey evidence regarding the presence of formality in small firms however, qualitative studies of labour management in such firms across sectors (Bacon et al. 1996; Marlow, 2002; Gilman et al. 2002) has identified a notable degree of 'over claiming' and 'mock formality' regarding the use of formal policy and practice. So for example, Bacon et al. (1996) found that some thirty percent over claiming by survey respondents in terms of the adoption of HRM practices, whilst Marlow (2002) found that her respondents did indeed have formal,

written policies in their filing cabinets, but that was usually where they remained, even when problems arose. Most owners preferred to maintain their own idiosyncratic approaches to managing the employment relationship so rarely consulted or used formal procedures. Research has also revealed that there are a range of influences upon the propensity of firms to formalise of which size, whilst important, is one of several so for instance, in their work upon the adoption of National Minimum Wage, Arrowsmith et al. (2003) identified how sector influences formality. Bacon and Hoque (2004) meanwhile, draw attention to the impact of the internal context such as the demand for skills and influences from the external context such as key customers upon promoting formality whilst Kinnie (1999) emphasises supply chain influences upon managerial practice.

However, it is also too simplistic to assume that large organisations operate in a purely formal, bureaucratic manner. From the wealth of qualitative research which has been undertaken within large organisations, it is evident that whilst the employment relationship is defined through formal policy and bureaucratic systems, custom and practice abounds (Elger and Smith, 1998; Webb and Palmer, 1998). This is usefully illustrated in a critical analysis of recruitment and selection practices by Taylor (2006) who draws attention to the fact that even though the selection process in large firms is highly regulated, given the need to amalgamate the requirements of the organisation with government imposed ethical standards, informality still exists. It is noted that during selection in particular 'managerial agency allows for interpretation and contestation of norms; in other words, tools such as interview and psychometric testing are filtered through managerial politics, individual preferences and prejudices, organisational or local cultures and instrumental demands' (Taylor, 2006:4). As such, managers in large organisations are still navigating between rationality, formality, personal preference and idiosyncrasy. In assessing informality and formality in relation to firm size, Marlow (2002) suggests that key differences lie in the legitimacy of informality to order the employment relationship. As such, in large organisations, custom and practice may be tolerated and indeed, its efficacy in smoothing the path of production fully appreciated however, the effort-wage bargain will be formally defined and bounded. It has to be; where managerial authority is delegated down through hierarchies, systems must be in place to make a co-ordinated and planned production process possible. However, within this process employees and managers will make 'room to manoeuvre' and this has been recognised and analysed through notions such as 'manufacturing consent' and the well established concept of sharing control in order to gain employee consent to be managed (Flanders, 1968; Buroway, 1979). However, when questions, challenges, tensions and/or disputes arise within the employment relationship, as the line manager does not possess the ultimate authority of the employer and the employee is not embedded within a paternalistic relationship with the owner (and may also have representation through a trade union), recourse to formality is essential for both parties. Moreover, areas and issues of tension and dispute can also be delegated to, or overseen by HR managers, which can assist in dissipating personal animosity between groups. Thus, as Marlow et al. (2005:7) note, 'informality in large firms, although an enduring feature of the employment relationship, is a more subversive activity ...it is only ever discretionary'.

This situation can be contrasted to that within small firms where informality strengthens social ties and supports an environment of social obligation. As Taylor (2006) argues, blurring the divisions between employers and employees supports cultural continuity within the organisation and facilitates the persistence of a family analogy suggesting that all are working towards similar and shared goals. Of course, as Ram (2001) notes, informality also works to disguise highly exploitative employment relations and should not be taken to be synonymous with a harmonious employment relationship. Informality is however, seen to be

more legitimate because of flatter structures, social and spatial proximity and a presumption of shared ambition.

Whilst the simplistic dichotomy between informality and formality and firm size has been challenged, it can not be denied that there will be a range of variables that combine to influence the manner and pace whereby firms adopt more formal procedures, as organisations become more complex, an increasingly sophisticated and formal managerial approach will be required. What this discussion has highlighted is that as concepts, formality and informality are dynamic and are shaped by context, in essence, 'all firms combine formality and informality just as they combine control and consent. The balance differs as conditions vary', (Ram et al. 2001:859). The interest of this paper is in exploring how the balance of formality and informality shifts as firms grow. It has already been acknowledged that the SME sector is heterogeneous such that it cannot be presumed that there will be a smooth, positive correlation between firm growth and encroaching formality. However, whilst recognising that there will be differences in the degree and extent to the adoption of formality, as firms grow and become more complex, such that managerial functions are delegated and the social relations of production become stretched by hierarchical and spatial distance, organisations will be obliged to adopt and utilise greater formality. This will challenge prevailing norms and relationships and it is this process and related tensions which are of interest.

It is not suggested that the adoption of formality has an overwhelmingly detrimental impact upon an organisation. As firms grow and become more hierarchical and bureaucratic, greater formality is essential to ensure that managerial systems and processes are utilised appropriately and efficiently. Equally, in the case of the employment relationship, as employee numbers grow, formal systems are required to enable the delegation of labour supervision and management. Moreover, many aspects of the regulation which now shapes the employment relationship in the UK are triggered by firm size in relation to employment numbers – for instance the Employment Relations Act (1998) and the Information and Consultation of Employees regulation (2004). Consequently, to ensure that employers and employees comply with such regulation, a professional approach to policy and practice is essential. So, the elasticity informality is useful for smaller firms but will act as an impediment to growth as organisations go beyond the bounds of personalised and idiosyncratic managerial approaches unless underpinned by formal policy and process.

In comparison to the literature upon labour management in small firms, there is relatively little attention afforded to medium sized organisations or, there is a tendency to amalgamate all smaller firms together as SMEs which effectively supposes similarities between firms with 10 employees and those with 249 which is overly sweeping. Consequently, the focus here is upon identifying changes which can be associated with growing formality, considered to be the presence and use of written policy and procedure. Furthermore, how and why change has been introduced and ensuing tensions arising during this process are all of interest. As Ram et al. (2001:846) argues, limited attention has been afforded to how informality evolves over time, 'the tendency has been to treat it as an essentially unchanging way of oiling the wheels, but we also need to consider in what direction the wheels are heading'. To explore this process of change, findings from in depth interviews with owners, Chief Executives (CEs), HR managers and employees from six independently owned and/or managed medium sized firms are now described.

## **Methodology.**

This research explores the process whereby growing firms adopt greater formality within the employment relationship and in so doing, considers what motivates the adoption of formality; the challenges and tensions associated with such changes and how these are perceived and understood within the organisation. Consequently, in operationalising the research question it is necessary to identify proxy indicators of formality; in previous studies (Kinnie, 1999; Cully et al. 1999; Heneman et al. 2000; Bacon and Hoque, 2004; Kersley, 2006) a commonly used measure has been the number of formal policies and practices an organisation has in place to manage the employment relationship. This can be problematic for a number of reasons; if a survey approach is used there is some danger of the respondent, (particularly if it is the firm owner given the desire to offer a positive impression), over reporting the extent and complexity of policy. This was evident from work undertaken by Bacon et al. (1996) using a triangulated approach and a qualitative study of regulatory compliance by Marlow (2002). Moreover, there has been some tendency to conflate formality and HRM practices however, the former might be indicated by the use of written policy and procedure whilst the latter may be used to presume a level of strategic engagement and complexity within the approach to labour management. The problem of searching for, and finding, HRM in smaller firms has been critically explored by Taylor (2005) and Marlow (2006) who argue that a HRM approach is not synonymous with employment relations and the term should be used with care, particularly in respect to smaller firms. So, in this instance, the proxy for formality is the presence and consistent use of written policy and procedure within key areas of the employment relationship. Again, this study is not concerned with how many of these policies and procedures are in place as an indication of sophistication, fairness or equity within the employment relationship. Rather, the aim is to explore if, when, why and how formal policy has been introduced and to what degree they have become embedded within the normative approach to managing the employment relationship.

To explore the issues under consideration here, a qualitative approach has been adopted. The difficulties of reliance upon survey evidence have been noted and Blackburn (2005:58) argues that they 'are methodologically inadequate to unearth the real nature and processes of employment relations in the workplace and offer an overly simplistic picture of the complexities of employment relations in the workplace'. Dickens et al. (2004:34) also draw attention to the need for more qualitative research in the field of employment relations to, 'help identify and assess the role of mediating factors... it can investigate the actual as opposed to the espoused, capturing the reality of workplace practice for example, on the presence or absence of a formal procedure'.

Owners, CEs, managers and employees from six medium sized firms contributed to this study, the characteristics of the firms are described in Table One and those of the respondents in Table Two. The respondent firms are in the smaller end of the medium category (between 50 and 100 employees). This was a deliberate stance as it was considered that within this size band changes to the employment relationship would be more evident as the 20 employee threshold had been far exceeded but the firms were not yet so large that the process of developing formal policy would be forgotten or dismissed. Moreover, the firms had experienced employee related growth during the last two years hence the dynamics and challenges associated with change could be readily discussed.

**Table One: Firm characteristics**

| Firm    | Size        |     | Size        |     | Sector          | Turnover         | Turnover         | Age |
|---------|-------------|-----|-------------|-----|-----------------|------------------|------------------|-----|
|         | 2006<br>f/t | p/t | 2004<br>f/t | p/t |                 | 2006<br>millions | 2004<br>millions |     |
| BoxCo   | 72          | 6   | 38          | 3   | Manuft'ing      | 5 +*             | 4.1              | 12  |
| HaulCo  | 75          | 4   | 45          | 4   | Haulage         | 5 +*             | 3.8              | 13  |
| IntelCo | 68          | 10  | 48          | 12  | Training<br>org | 5 +*             | 3.1              | 9   |
| WomCo   | 58          | 25  | 36          | 10  | Support org     | 3.3              | 2.7              | 9   |
| PropCo  | 84          | 8   | 50          | 6   | Developer       | 15               | 12               | 16  |
| ChefCo  | 64          | 4   | 47          | 5   | Manuf'ing       | 5 +*             | 5+*              | 12  |

\*turnover not specified but given as more than five million pounds.

**Table Two : Characteristics of Respondents**

| Firm    | Management Respondent | Employee Respondent      |
|---------|-----------------------|--------------------------|
| BoxCo   | Owner                 | Production Employee (1)  |
| HaulCo  | Owner's PA, Owner     | Administrative Staff (2) |
| IntelCo | Chief Executive       |                          |
| WomCo   | Chief Executive       | Administrative Staff (2) |
| PropCo  | Owner                 | Administrative Staff (2) |
| ChefCo  | Owner and HR Manager  |                          |

It has been noted that getting 'into' smaller firms as a researcher is difficult given the resistance of owners to external scrutiny and the more mundane issue of time pressures (Scase, 1995; Curran and Blackburn, 2001). To overcome this problem, within this study, key employees were identified who then established the credentials of the researchers. Such employees were identified through the 'snowball' system of using personal contacts and a self employed book-keeper known to the researchers who specialised in completing VAT and tax returns for SMEs in the region. Trust and access was then gained through the credibility of the key contact who was able to vouch for the researcher. By focusing on just six firms, the findings within this study cannot be generalised to a whole population and indeed, this is not the aim. Rather, the purpose is to add to the understanding of the dynamics of formality and informality in the employment relationship and particularly, to explore the fluidity between these concepts during a time of firm growth. Hence, as Ram et al. (2001:849) note, 'we are not seeking to generalise to a population but to examine 'soft' processes and dynamics . . . we

generalise to the level of theory rather than any notion of representativeness’.

To explore the process of change within the employment relationship, respondents were asked to describe contemporary policy in a range of practices spanning from recruitment to dismissal. To assess change over time, respondents were encouraged to consider and discuss how such practices had developed as the firm had grown and to add to this narrative, a critical incident approach has been adopted (Cope and Watts, 2000). This approach is useful as the incident itself is memorable so forms a pivotal point for discussion particularly in terms of how the event prompted change. In this case, we were concerned with incidents which the respondents felt had affected the approach to labour management and specifically, had caused the owner or management team to adopt greater formality. Respondents were asked to ponder upon the causes and consequences of such events. From the six firms, 15 respondents contributed to the study which ensured a wealth of data focused around the critical elements of the employment relationship; these themes are now described within the findings.

## **Findings.**

Given the depth and detail of the interviews, much information was generated. In anticipation of this, whilst the questionnaire was designed to encourage discursive answers, the question and discussion points were organised into distinct sections to facilitate clarity in describing outcomes. As such, it is possible to describe notable trends which have emerged whilst also observing areas of difference in order to establish context. For the purposes of this discussion however, the focus is upon the critical incident described by the respondents. Not surprisingly, a key area of focus was to what extent the organisation had become more formal as it had grown; within the discussion above it is noted that this is being gauged by the presence and use of formal policies to manage the employment relationship. In the first instance however, owners, managers and employees were asked to what extent, if any, greater formality per se had been adopted over time as the firm has grown. In the one organisation (ChefCo) where a professional HR manager was present, formality was associated with changes in performance and labour management issues, *‘the firm is much more efficient, people feel more secure as we have better communication and systems’*. Yet, when the owner of the firm was asked the same question, he associated formality with change in the social relations of production, *‘it has become much more formalised. It has become much more difficult to treat people as individuals, they are much more legal entities, you have to be very careful what you say and do and I think that you have to create a formal structure, it has dehumanised a lot of work relationships which is a shame’*. Indeed, this was a common sentiment from owners and managers that formality was strongly associated with an erosion of social relations so, *‘at one time, I knew all of my staff members personally and now I couldn’t tell you 50 percent of their names on sight, it means I have to delegate control and you lose the personal touch, it does upset me’*, (Owner, PropCo). There was some agreement that in general, formality meant doing things ‘properly’ with due recognition of rules and regulations rather than depending upon intuition and idiosyncrasy. It was interesting to contrast these views with those of the employees as some differences did emerge. For instance, when asked to comment on changes in the organisation as it had grown, an employee at PropCo claimed, *‘Well, I think they have carried on trying to do things the same way but just making adjustments here and there to try and make it carry on working but it does fall apart’*. Despite her employer stating that formality was established within the organisation, an accounts clerk at HaulCo felt things were quite chaotic and ended her interview with the comment, *‘they are trying to get things better, getting rid of the relatives but it is still bad; I really hope it gets better, I really do’*.



When asked to specifically comment upon formality within the employment relationship, the respondents were asked about policy and practice in key areas such as recruitment and selection, training and development, appraisal, reward, employee voice, employment regulation, discipline and grievance. Finally, the respondents were asked to comment upon any 'critical incidents' which they felt have changed the employment relationship in a significant way. Again, it was possible to draw some general observations regarding the management of these processes, how they had changed over time and also, in response to firm growth. It was notable that the one organisation which employed a dedicated, CIPD qualified, HR manager (ChefCo), had a broad range of policies in place and used them as a norm. This was apparent when the HR Manager was asked to describe how specific elements of the employment relationship were managed and clear examples and instances of formal management practices were given. In a subsequent interview, the owner of the firm agreed that he no longer interfered in labour management issues and these were delegated to the HR manager entirely, although he emphasised his regret regarding encroaching formality as he felt this had changed the culture of the business.

Embedded formality was not so evident in the other firms where none had a professional HR manager but in each instance, the owner or Chief Executive and a dedicated manager – usually the PA – took joint responsibility for the employment relationship. When asked to discuss how employees were managed, it was claimed that formality had encroached into this relationship but upon closer examination, a rather fluid notion of formality was revealed. So, when discussing broad policy issues related to HR practice and policy, the intersection of formality and informality was revealed. The case of recruitment and selection acts as a useful example of this, all of the firms used formal recruitment methods such as advertisements, the job centre or agency referrals. None mentioned using grape vine tactics or relying on family members as applicants, a common practice in small and micro firms. However, selection was less rigorous; in the case of WomCo, whilst much was invested in formal advertising when it came to interviewing it was agreed that the approach was poor as no one really had the necessary expertise. In fact, there was a high dependency on an agency employee who, because she was assertive and seemed informed, had been leading on selection interviews for permanent members of staff. When asked about this practice, the agency employee commented, *'well, they are all a bit hopeless, it's not rocket science, ask appropriate questions, assess if they can do the job and if they are not obviously bonkers they will probably be alright'*. In the case of IntelCo, the Chief Executive, who had been previously been a professional HR Director, found that in one of the branches, whilst recruitment and selection appeared to be formally managed, the person responsible, *'placed proper adverts but it is amazing how people end up there, he words it in such a way that he gets the people he wants'*. What is interesting to note is that whilst there was a general lack of awareness and expertise regarding selection, all the firms claimed to have equal opportunities policies which also covered recruitment and selection practices so the owner of PropCo remarked, *'we do believe we offer equal opportunities, yes I think I treat every one equally as long as they do their job'*.

Similar instances of the sliding interface between a policy of formality and more idiosyncratic practices were evident in most firms. One particular policy area where this might be expected to be more problematic is within that of grievance and discipline. The literature notes that in small and micro firms, handling such issues can be more easily managed by the close proximity of employer and employee in that a bantering approach can be used or employers exploit the more intimate social relationship to address any problems or, simply ignore them

in the absence of formal voice mechanisms (Ram, 1994; Marlow, 2002). However, as the firm grows this approach is no longer so effective and indeed, it has been of some concern to the government that so many Employment Tribunal cases for unfair dismissal arise from the SME sector. In an attempt to address this problem, the Employment Act (2002) laid down the requirement for firms to have formal discipline and grievance procedures. The degree to which these firms complied with the regulation was explored in some depth. Indeed, all of the firm had formal, written grievance and discipline policies in place but used them in rather different ways. Not unsurprisingly, the HR manager at ChefCo managed all such issues and encouraged the line managers to bring all issues, however minor to her attention. This might be contrasted with the situation at WomCo where policies were in place but, *'they are not really used, the line managers generally sort it out there and then'*; equally, this was the response from PropCo and HaulCo. Only at BoxCo was more consideration given with the owner reflecting that, *'one day I came across a section manager having a row with one of the blokes, he can be a bit bolshie and the manager was on for it. I did calm it down and actually, the bloke had a fair point so I organised a meeting and impressed the need to use the policies, in the past a bit of chat and banter might sort it out but not now, we're too big and it's too risky'*. This was agreed with the employee from BoxCo who could not recall any grievance issues but did comment that regarding discipline or dismissal, *'if someone is in trouble, they are less likely to sort it out there and then now, in fact it usually gets taken upstairs and sorted properly, we don't get to see it'*. The situation was a little different in IntelCo as the CE had struggled with various members of management to introduce change and had himself, been subject to the grievance procedure. This was felt to be somewhat ironic as prior to this, the CE claimed that such policies had never been used noting that, *'prior to that, we just got rid of people, I don't know how we did it'*.

Finally, we asked the respondents if they could describe a critical event which had changed the manner in which the firm was managed and also, impacted upon the employment relationship. In each case this was possible, so for instance, the reason why ChefCo embraced formality and sought to embed policy and practice as the norm stemmed from the recognition that previous poor management practice and in-fighting was constraining performance. A management consultant was employed to analyse the cause of the problems, his key recommendations were the appointment of a dedicated HR manager and the need for greater delegation of responsibilities down through the managerial hierarchy. The current HR manager was previously the owner's PA but grasped the opportunity to study for a professional qualification in HRM and introduce a formalised approach to labour management within the organisation. Creating the role of HR Manager at ChefCo has in effect, diluted and deflected the idiosyncratic and autocratic influence of the owner, enabling a more professional approach to emerge and become embedded as the norm. The HR Manager suggests that initially her appointment caused some problems as some senior managers were reluctant to 'let go' but she now notes, *'I've done this for a few years now, the new people coming in only know me as the HR manager so, they come to me first; it is very formal now, the CE (owner) and managers were quite bullying and we had tribunal cases we were lucky to win and we weren't doing well. Now though, it's different, the CE has backed off and we are doing well'*.

In effect, during the period of change there was some battling for position as the newly appointed HR manager established her authority over the employment relationship. This was not without difficulty; during the transition period it was clear that her determination to retain ownership of the HR role was influential. It was not only that the owner and other senior managers were reluctant to step back from managing employees, it was also the case that certain employees established relationships with certain managers and so, preferred to use

these channels to address employment relations issues. The HR manager felt that she has only established her role by constantly referring to the consultants report and so linking her job to firm performance and also, by seeking and achieving the support of the firm owner to introduce formal policy. Once greater formality had been introduced, her specific role as HR manager became easier to protect and defend as the complexity of the systems introduced made it more difficult for other managers to either interfere or act independently in labour management decisions.

At IntelCo, it was partially the attempt by the CE to introduce formality which created a crisis. Other members of the management team had established niches for themselves in different branches of the organisation so when financial incompetence came to light as procedures were tightened, the prevailing management structure and culture came under scrutiny. Great resentment ensued and, as noted above, a grievance case against the CE was orchestrated, objecting to his 'interference' and 'manner'. The grievance was unsuccessful however, during this period of unrest other areas of the business were neglected and consequently IiP accreditation was lost. The CE describes this chapter in the organisation's history as 'character forming'. Subsequent to these events management redundancies have been made and the structure of the business has been re-formulated. Early indications suggest the business is slowly turning around, although it is recognised that managing culture change has been very difficult, particularly the introduction of greater formality within employment relations. As the CE reflected, *'I had to break down barriers, take the staff with me, we went through two years to sort it out but unless you put it in(formality) and bed it down and enforce it, it slips back to the old ways'*. To guard against this, the CE now employs the services of a professional HR consultant to visit the firm on a regular basis to update policy and practice and to deal with any specific HR issues. Interestingly, so far IiP accreditation has not been regained. In this case, it appears that the rationale for greater formality was not understood nor was the social dynamic which shaped the prevailing employment relationship. Thus, in this instance, the introduction of formality actually had a detrimental impact upon the performance of the organisation.

Two of the firms, WomCo and PropCo had been threatened with employment tribunal applications from disgruntled employees, this prompted changes. When asked to discuss these events the CE of WomCo remarked, *'how long have you got?'*. To summarise a long story, a Director was found to be systematically bullying staff, this caused great stress to all concerned but, it appeared that no one really knew how to deal with the situation; policies were not in place and no one felt they had the authority to challenge the person involved. Eventually, a formal complaint was made, the Director resigned but she then threatened to go to tribunal which resulted in her being paid compensation. Since that time, she has not been replaced and all senior staff are 'acting up' to another post. Consequently, the organisation is very dependent on agency staff to fill gaps at lower levels but this has led to high labour turnover and associated costs. Whilst it is still too soon to fully evaluate what the implications of this event might be, the organisation is now planning to appoint a HR manager to *'turn it all around, to make sure this never happens again, we have all talked about the necessity of changing things but it is just finding the time'*.

At PropCo the owner had been accused of sexual harassment and threatened with a tribunal application, *'I suppose this made us realise we needed proper procedures to deal with these events when we can't settle informally. Until then I really would have said it was like a family here, I thought everyone got on and if there were any problems, they would be talked through. This hit like a bolt from the blue; it was resolved with apologies and the person left*

*with a deal, but to be honest, I was very upset – it made me realise that you can't have a bit of fun, we went for IiP to tighten up our procedures. I'd like to think that wouldn't happen again.* What is interesting here is that the owner frequently referred to the IiP accreditation as proof of formality and doing things properly yet, when the employees were asked to comment, a rather different picture emerged. It was claimed that bullying was still a feature of the organisation and a recent case was cited where the owner's PA had tried to encourage adherence to formal policy and practice but this had caused friction with another Director. An employee respondent told how, *'she went away on holiday, came back for her appraisal and was told she was leaving, A (the director) had gone to C (the owner) and just complained all the time so, she was told to tell us she was being made redundant but that's a lie, she was really upset and I know they have had to pay her off'*.

HaulCo and BoxCo shared a similar event, the loss of a major customer. For BoxCo, this created problems as they had to make people redundant but were unsure of the process. ACAS advised and the situation was resolved but this had exposed a weakness, both in customer dependence and also, labour management. As the owner remarked, *'we are moving away from every one knowing each other to recognising the importance of doing things properly, people still just do their own thing without thinking of the consequences, I try and explain you just can't but it is a hard slog'*. At HaulCo, the response to the crisis of losing their key customer was more ad hoc, redundancies had been made but this appeared to be relatively unproblematic. Given the level of labour turnover, currently at about 50 per cent per year, it was quite easy to 'let people go'. The real impact had been felt on the financial side and there was some uncertainty whether the firm would survive the crisis but the owners had eventually invested personal funds to prevent failure. Whilst the main focus had been upon the financial implications of this crisis, now the firm was growing again, greater attention had to be given to labour management and costs. The PA responsible for the employment relationship quite candidly stated that the biggest problem was the owner, *'stopping the MD from still doing everything and undermining other managers, it's difficult as he owns the place! Also, we need to get a professional tier of managers in, which we have started to do, and get rid of the family; we need the right people in the right jobs'*. Just recently, the firm had employed two new managers at considerably larger salaries than existing staff with the express aim of professionalizing the business to facilitate growth. However, it was recognised that they would also have to be professionally managed if they were to be retained. The employees were not quite so positive about the extent of change, as the accounts clerk revealed, *'every one here is on weekly pay because they can't afford a monthly pay roll; the new managers earn loads more than the others, there will be hell to pay if they find out and I feel sorry for G (the PA), she is really trying but the old guard here, they don't like it, they make her job so hard'*.

## **Discussion and conclusions.**

Since the early 1990s a robust body of evidence has developed regarding management of the employment relationship in small and micro firms (those with fewer than 50 employees), however, there is very little literature or evidence pertaining to labour management in medium sized firms and particularly how it differs from that within small and large organisations. Research focussed on small firms has established that although there is great heterogeneity within the sector with respect to approaches to managing labour, there is a trend towards informality, but, as firms grow, increasing complexity challenges this tendency (Cully et al. 1999; Kersley et al. 2006). To develop this debate, this paper has focused upon independently managed medium sized firms to consider if, when and why they adopt more formal

employment policies to manage labour.

From the evidence here, the owners found themselves 'pushed' towards formality by increasing size and regret the distance which grows between them and their employees. This regret is, to some degree, a personal issue as the sense of a common focus is lost but there is also a considerable reluctance to delegate the supervision of labour to others and to rely on policy rather than instinct. Consequently, there is some evidence for what Marlow (2002) refers to as 'mock bureaucracy' as the owners and managers frequently refer to, and describe, policy and practice which they then do not actively use at appropriate times. Utilising employee perspectives has been particularly useful in attaining a different view of the employment relationship which reveals how good intentions from managers become lost in the daily need to manage and produce. In terms of assessing formality, all of these firms could be described as having a formal policy framework in place for key employment issues. However, clear differences are apparent in the manner and extent to which these policies have become embedded into practice. The presence of a HR manager, determined to take ownership of the personnel function, supported by a professional management consultants report, has enabled the successful incorporation and acceptance of formality at ChefCo. This might be compared to HaulCo where the PA is trying to introduce and adhere to formal policies but is in fact, being undermined by the firm owner and also, other family members of management; her task is far more difficult. Using the critical incident technique has been useful as it has revealed how crisis has forced not only change but realisation of the need for change. In the example of BoxCo, the firm is on the path towards formality as the owner recognises that the employment relationship is becoming too complex to be effectively managed by non-professionals.

However, even though critical events in all of these firms had indicated the need to adopt greater formality, the task of instituting changes to labour management processes in growing firms was definitely not easy. For example, the Chief Executive of IntelCo had been rounded upon by his own management team when he tried to instigate a more formalised approach. Although this problem had been addressed by the time our research was conducted and many of the old management team had since left, the CE still sensed that he needed to constantly be 'on patrol' to keep order and prevent slippage back to old, informal ways of managing labour. The PA at PropCo who the employee saw as a key instigator of change had in fact lost her job altogether due to resentment from other members of senior staff. Consequently, it does not appear that there is an unproblematic positive correlation between growth and formalisation.

To some extent, given the attention within the literature afforded to the 20 employee threshold as one which prompts the adoption of formality, these findings are a little startling. Using the proxy for formality adopted within this paper of not only having policy in place but using it as a matter of practice, it appears that most of the firms here are not engaging willingly or consistently with a formal approach. It might have been imagined that formality would have been more embedded, particularly as all of the organisations have over 65 employees and were ambitious to grow further. It is important here to recognise the difference between the presence of formal policies and their acceptance as the norm within the organisation; this is a critical difference which has not been clearly acknowledged within the literature but appears to be evident within this exploratory research. The key elements to facilitate transition to *embedded* formality would seem to be a critical incident related to labour management, the willingness of the owner to delegate responsibility but also, support from other managers and employees in observing and engaging with formality. What is of particular interest here is the dynamic nature of the adoption of formality. It is clearly not just a case of employing HR staff

and developing policies which comply with regulation and reflect good practice. Quite clearly, owner, managers and employees themselves have to accept and embrace formality. Whilst the literature does acknowledge the reluctance of owners to adopt and support greater formality, employee compliance is also essential if processes are to become embedded as custom and practice. It is notable that the greatest evidence of such embeddedness was drawn from the one organisation in the sample with a HR manager however, achieving this has not been easy and persistent reference to performance issues had been essential for acceptance.

This paper contributes to the analysis of informality and formality within labour management and adds to the extant evidence in the medium sized firm sector, a sector within the economy which has hitherto commanded little attention. From this research there is a sense that whilst the need for greater formality is recognised and appreciated as firms grow in size, making the transitions towards it is challenging. Informality is stretched and moulded to fit the needs of these firms largely through a combination of ignorance and idiosyncrasy but its dynamics are hidden by the presence, if not the use of, formality. The study has generated in-depth qualitative information on the management of a wide spectrum of HR processes in medium sized organisations and has enabled broad discussion pertaining to the nuances between formality and informality in the conduct of employment relations. There are number of ways in which this research could be developed further including replicating the research exercise with a sample of slightly larger medium sized firms; say those organisations employing between 100 and 150 people to see if a size threshold begins to emerge at which firms tend to both recognise the need for formality *and* take action to embed it. There are further opportunities to conduct micro examinations of informal and formalised approaches to particular HR practices (for example, employee voice, recruitment and selection, training and development) from the information gathered to date. Of considerable interest here, and largely ignored in the literature, was the role of employees themselves in facilitating or resisting formality if this challenged established social networks. This warrants further attention. Consequently, there is much scope for further research within this area.

## References.

- Arrowsmith, J. M., Gilman, P., Edwards and Ram, M. (2003) 'The impact of the National Minimum Wage in small firms', *British Journal of Industrial Relations*, 41(3):435-56
- Bacon, N., Ackers, P. Storey, J. and Coates, D. (1996), 'It's a small world: managing human resources in small businesses', *The International Journal of Human Resource Management*, 7,1, 82-100
- Bacon, N and Hoque, K (2004), HRM in the SME Sector: valuable employees and co-ercive networks', *International Journal of Human Resource Management*, 16, November, 1976-1999.
- Blackburn, R (2005), 'Researching the employment relationship in small firms: what are the contradictions from the employment relations and small firms literature', in Marlow, S., Patton, D. and Ram, M. *Managing Labour in Small Firms*, London, Routledge
- Blackburn, R and Hart, M (2003), 'Small Firms' awareness, knowledge and access to information on employment rights', DTI Research Monograph No.14, August.
- Buroway, M. (1979), *Manufacturing Consent: Changes in the labour Process under Monopoly Capitalism*, Chicago, University of Chicago Press.
- Cope, J. and Watts, G (2000), 'Learning by Doing: An Exploration of Experience, Critical Incidents and Reflections in Entrepreneurial Learning', *International Journal of Entrepreneurial Behaviour and Research*, 6(3):104-24

Cully, M., O'Reilly, A., Millward, N., Forth, J., Woodland, S, Dix, G. and Bryson, A. 1999, *The 1998 Workplace Employee Relations Survey*, London, Routledge

Curran, J., and Blackburn, R. A. (2001) *Researching the Small Enterprise*, London, Sage

DTI (Department of Trade and Industry), (2004), *SME Statistics of the UK 2003*, Small Business Service, [www.sbs.gov.uk/content/statistics/stats2002.xls](http://www.sbs.gov.uk/content/statistics/stats2002.xls).

Dickens et al (2004)

Elger, T and Smith, C (1998), 'Exit, Voice and Mandate: Management Strategies and Labour Practices of Japanese Firms in Britain', *British Journal of Industrial Relations*, Vol. 36, no 2, 185 - 208.

Gillman, M, Edwards, P., Ram, M. and Arrowsmith, J. (2002), 'Pay Determination in small firms in the UK: the case of the response to the National Minimum Wage', *Industrial Relations Journal*, Vol. 33, no.1, 52-68.

Hart, M. and Blackburn, R. (2005), 'Labour regulation and SMEs: a challenge to competitiveness and employability, in Marlow, S., Patton, D. and Ram, M. *Managing Labour in Small Firms*, London, Routledge.

Heneman, R., Tansky, J. and Camp, M.(2000), 'HRM Practices in Small and Medium Sized Enterprises: Unanswered Questions and Future Research Perspectives, *Entrepreneurship, Theory and Practice*, Fall, 11-26.

Holliday, R. (1995), *Investigating Small Firms, Nice Work?* London, Routledge

Kersley, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G., and Oxenbridge, S (2006), 'Inside the Workplace; First findings from the Workplace Employment Relations Survey 2004', London, Department of Trade and Industry.

Kinnie, N., Purcell, J., Hutchinson, Terry, M., Collinson, M and Scarborough, H. (1999), 'Employment Relations in SMEs: market driven or customer shaped?', *Employee Relations*, 21, 3, 218- 35.

Marlow, S. (2002), 'Regulating Labour Management in small firms', *Human Resource Management Journal*, 12, 3, 285-95.

Marlow, S. (2003), 'Formality and informality in employment relations', *Government and Policy; Environmental Planning C*, 21, 531- 47.

Marlow, S. and Patton, D. (2002) 'Minding the gap between employers and employees: the challenge for smaller manufacturing firm owners', *Employee Relations*, 24, 5, 523- 39.

Marlow, S., Patton, D. and Ram, M., (2004), *Managing Labour in Small Firms*, London, Routledge.

Marlow, S., Patton, D. and Ram, M. *Managing Labour in Small Firms*, London, Routledge

Mazzarol, T. (2003), 'A model of small business HR growth management', *International Journal of Entrepreneurial Behaviour and Research*, 9, 1, 27 – 49.

Moule, M. (1998), 'Regulation of work in small firms: A view from the inside', *Work, Employment and Society*, 12, 4, 635-53.

Ram, M. and Edwards, P. (2003), 'Praising Ceasar not burying him: what we know about employment relations in small firms', *Work, Employment and Society*, 17, 4, 719-30

Ram, M. Edwards, P., Gilman, M. and Arrowsmith, J. (2001), 'The dynamics of informality: employment regulations in small firms and the effects of regulatory change', *Work, Employment and Society*, 15, 4, 845 – 61.

Scase, R. (1995) 'Employment Relations in Small Firms', in Edwards, P. (ed), *Industrial Relations, Theory and Practice*, London, Blackwell.

Taylor, S. (2005) 'HRM in small firms; Hunting the Snark?', in Marlow, S., Patton, D. and Ram, M., *Managing Labour in Small Firms*, London, Routledge.

Taylor, S (2006), Acquaintance, meritocracy and critical realism: Researching recruitment and selection processes in smaller and growth organisations, *Human Resource Management Review*, forthcoming.

Webb, M. and Palmer, G. (1998), 'Evading Surveillance, Making Time: an ethnographic view of the Japanese factory floor in Britain', *British Journal of Industrial Relations*, 36, 4, 611 – 28.

Wilkinson (1999), 'Employment Relations in Small Firms', *Employee Relations*, 21,3, 206 – 217.

Wynarczyk, P., Storey, D., Short, H. and Keasey, K. (1993), *Managerial Labour Markets in Small and Medium Sized Enterprises*, London, Routledge.