Small and medium-sized enterprises (SMEs) can be deceptively complex organisations to manage. This complexity can raise a broad range of challenges (Huang and Brown, 1999), central to which are issues relating to owner-managers, employees and the employment relationship. The International Small Business Journal (ISBJ) has played an important role in publishing research and debate in this area and this Virtual Special Issue of ISBJ highlights five key papers that demonstrate the breadth and insight of this work. This introduction will outline these five papers in context, why they are important and why they should be (re)read by academics, students and practitioners.

When we discuss ‘employment relationships’ in SMEs, we are talking broadly about the ways that firms hire, manage, train, reward, handle disputes with and separate from employees as well as the broader relationship between employers and employees (Marlow and Patton, 1993; Ram, 1999). Some authors featured in this Virtual Special Issue write about ‘human resource management’ (HRM) to indicate a formal approach to managing these issues (e.g. Sheehan, 2013) while others report on contexts where more informal arrangements are in use (e.g. Nadin and Cassell, 2007; Ram, 1999). The distinction in terminology can have important implications for how we understand the practices in SMEs but it is more important to focus on how employment relationships operate in SMEs rather than the labels used to characterise types of relationship.
SMEs’ employment relationships are not only dependent upon the specific nature of the firm but are also influenced by external factors and the turbulent environments in which they often find themselves (Gill, 1985; Rainnie, 1989; Kinnie et al., 1999; see also Edwards et al., 2010). For example, SMEs may be dependent upon larger customers that may make demands on how the SME is managed, indicating particular policies or practices be put in place. However, these external influences must still be interpreted and responded to by those inside the organisation and neither owner-managers nor their employees are passive in this interpretation (Ram, 1994). So, while acknowledging the potential opportunities and constraints presented by the external environment, it is the ongoing, everyday negotiation of employment relationships within the firm that is the focus of this Virtual Special Issue.

In attempting to understand the dynamics of employment relationships it is important to acknowledge that SMEs are not only different from one another but also differ from larger firms in several important ways (Torrès and Julien, 2005; Curran, 2006). SMEs are less likely to have collective bargaining or trade unions (Dundon et al., 1999), they lack internal labour markets (Westhead and Storey, 1996) and tend to have more centralised decision-making (Rodwell and Shadur, 1997). Their cultures are shaped, at least initially, by owners whose goals and desires are communicated directly to employees in a context of close spatial and social proximity (Marlow and Patton, 1993; Jennings and Beaver, 1997), which also fosters informal relationships and working practices that are generally flexible and quick to change and adapt (Nadin and Cassell, 2007; Gilman and Edwards, 2008). Consequently, concepts developed to understand
employment relationships in large firms may not be applicable in SMEs (Verreynne et al, 2011), creating a need for research to understand and evaluate SMEs on their own terms rather than against implicitly large firm norms.

An important early paper on this topic, published in ISBJ and included in this Virtual Special Issue, is a research note by Marlow and Patton (1993). This paper gives a valuable overview of the history of research in this area, beginning with the recognition of SMEs as an important source of economic growth and job creation in the 1970s. SMEs were, at this time, characterised in policy discussions as harmonious and paternalistic, suggesting a 'small is beautiful' conception of such businesses (Schumacher, 1973). However, an alternative ‘bleak house’ perspective began to highlight power asymmetries in SMEs' employer-employee relationships (Curran and Stanworth, 1981) where union representation and other forms of collective bargaining are minimal and employees are therefore vulnerable to exploitation (Dundon et al., 1999).

These competing, polar interpretations can be criticised for paying insufficient attention to the ways in which employment relationships might feature combinations of competing interests, reflecting a need for more balanced, context-sensitive understandings of the nuances of employment relationships in SMEs (Ram and Edwards, 2003). Marlow and Patton's paper emphasises the importance of the often under-valued contribution of employees in SME success and thus the need for effective management and employment relationships. In response to these challenges, they discuss the potential value of HRM within SMEs.
Subsequently, ISBJ has published a range of interesting research into HRM in SMEs, for example in entrepreneurially-oriented young firms seeking growth (Messersmith and Wales, 2013), in e-commerce businesses (Dietz et al., 2006), in transition economies such as Vietnam (Nguyen and Bryant, 2004) and in terms of the external provision of human resources and employment support (Jarvis and Rigby, 2012). Among other insights, these studies have traced the adoption of HRM as firms grow and encounter new people-management challenges, although this picture is far from straightforward (Rodwell and Shadur, 1997).

Verreynne, Parker and Wilson (2011: 2) argue that the ‘scarcity of resources drives diversified and divergent employment systems’ in smaller firms, especially in their early stages of development. Their research on Australian SMEs uses a mixed-methods design and engages both with firms’ CEOs and their employees, focusing on the practices and employment systems of high- and low-performing small firms. The practices reported in the better-performing firms resembled the bundles of practices associated with formal High-Performance Work Systems found elsewhere in the HRM literature, but with a greater emphasis on employee participation.

Employees in the high-performing firms, citing examples such as flexible working practices, ‘viable career paths’, high involvement and good communication, were much more positive in their views of HRM-related practices than those in low-performance firms, who reported inflexible working conditions, limited career paths, poor communication and a lack of involvement (see Verreynne et al., 2011: 18). More generally, employees were said to understand how employment practices could be
used to improve organisational outcomes. This contrasted with their CEOs who, removed from the ongoing, everyday practices of their organisations, showed little sensitivity to the relative effectiveness of the HRM practices in their businesses. Verreyenne et al., therefore emphasise that, while moves towards more formal HRM practices appear to benefit small firms, this formalisation should be balanced with retaining scope for employee voice and participation on a day-to-day basis. Even in SMEs, owner-managers cannot see and understand everything in their businesses and should be open to the involvement and support of their employees.

In a new paper, Sheehan (2013) demonstrates HRM’s positive enhancement of sustained competitive advantage over time. The paper builds on the resource-based view of the firm (Barney, 1991) and associated work to argue that employees represent an important source of sustainable competitive advantage for SMEs. From this position it follows that the HRM policies implemented in SMEs should have a positive impact on a firm’s performance. Taking a novel, longitudinal approach, Sheehan provides evidence that the adoption of HRM practices increases an SME’s performance, demonstrating a causal link in terms of profitability, innovation and a lower turnover of labour. The suggestion from Sheehan’s study is clear: investment in particular ‘bundles’ of formal HRM practices will generate returns for the firm.

However, as Sheehan acknowledges, there is scope for informal practices to interfere with or undermine formal HRM policies and intentions. While many medium-sized firms may have implemented HRM practices, differentiated work functions and job roles, many small firms may be too small for formal HRM practices. Replacing informal
and flexible practices that meet the current needs of a small firm with more rigid HRM structures can give rise to tensions (Gilman and Edwards, 2008) and disrupt the employment relationship more generally (Marlow et al., 2010; Mallett and Wapshott, 2012).

Ram’s (1999) paper looks at small professional service firms (sPSFs), in an attempt to provide a different perspective from the traditionally predominant focus on industrial sectors, again emphasising the heterogeneity of SMEs. A greater freedom and autonomy in a flat, open structure was seen in these firms as compensating for relatively low wages, although the employees did not always view the arrangement in this way. This approach allowed for a greater degree of flexibility and accommodated the demands on owner-managers’ time that often took them away from employee issues to more immediately-pressing business concerns. However, this also caused problems as the firms sought to grow and introduce more layered structures with staff no longer reporting directly to the owner-manager but to a line supervisor with a greater focus on employees’ daily activities.

The degree of autonomy varied for different employees, requiring them to be managed accordingly. In this context, issues such as training, job roles and performance assessment were negotiated informally and on an individual basis. For sPSFs to function effectively, there is a need for co-operation and, as order is negotiated in an informal, close-proximity environment, this is unlikely to derive from formalised management strategies. Ram (1994: 186) suggested that ‘despite the informality of the negotiating process [...] exchanges can, over time, develop logics of their own and may
lead to a situation where they threaten they (sic) basis of the social order itself. These adhocratic improvisations develop into informal mechanisms, routines and tacit understandings (see also Brown, et al., 2010) that come to shape the nature of the company rather than a coherent strategy. It is in this way that owner-managers and employees come to mutually adjust and accommodate one another in a context of employer/employee antagonism and cooperation (Ram, 1999; Wapshott and Mallett, 2012).

Mutual adjustment provides a useful approach to understanding the dynamics of how SMEs’ employment practices are structured, imbued with a sense of power, conformity and resistance (Dietz et al., 2006; Nadin and Cassell, 2007), revealing far greater complexity and ambiguity in employment relationships and working practices than permitted by traditionally polarised accounts of working life in SMEs. This helps to counteract the emphasis on the influence of either external factors or powerful owner-managers, to create a more nuanced understanding of the informally negotiated working relationship of everyday organisational life (Ram, 1999).

Providing important insight into this perspective, Nadin and Cassell (2007) conducted in-depth interviews with owner-managers of small firms to explore the nature and influence of the psychological contract in their firms. The psychological contracts, the unspoken obligations and expectations between employers and employees, found in SMEs may differ significantly from larger firms owing to the close working environment, resource constraints and the prevalence of informal management practices. Nadin and Cassell highlight the important overlaps between potentially
intensified employment and personal relationships in smaller firms and the influence of short-term ‘pick n mix’ approaches to HRM practices.

The owner-managers interviewed by Nadin and Cassell felt that the psychological contract helped to overcome some of the limitations of the formal, written contract, related to areas such as employee flexibility, loyalty and a willingness to take responsibility. The small size of the firms and resultant close social and spatial proximity also led to increased accountability, for example in terms of personal contribution, and the owner-managers were generally happy to stay small, seeing this as more efficient. Many owner-managers felt that employing more staff meant more potential problems. These perceived problems could be related to a lack of effective management practices in these firms and, importantly, to a lack of engagement with or management of the psychological contract or employees’ needs and obligations.

Nadin and Cassell also draw out the mutuality of obligations and respect that inform the processes of formal and informal negotiation and mutual adjustment between managers and employees. While structural conditions influence and potentially constrain the employment relationship they are not deterministic and there is scope for movement within the structural frame, both for owner-managers to seek forms of control and consent but also for employees to resist these attempts. Workers are not helpless, ‘passive recipients of management control’ (Ram and Edwards, 2003: 721) but may draw on various resources to actively ‘bargain’ with their employers. In contrast to accounts of owner-manager dominance in small firms, some managers in Nadin and Cassell’s study reported a reluctance to be overly-prescriptive with employees, not
wanting to limit their autonomy, ultimately, for fear staff would simply leave. This again helps to highlight the importance of studying employees and employment relationships in SMEs.

In collating this Virtual Special Issue, and through our introduction, we have sought to represent the body of work concerning employment relationship in SMEs featured in ISBJ. Important contributions have been made in terms of recognising the ways in which SMEs may differ from visions of management derived from larger organisations and what this means for understanding employment relationships in these smaller firms. This is not to draw a crude distinction between ‘small’ and ‘large’ firms but rather simply to recognise that, by degrees, SMEs may be more informal and adhocratic than larger organisations and to acknowledge that such characteristics have implications for employment relationships that need to be understood. Despite the progress made to-date, there remains a need for further research and debate, not least in relation to the ways in which SMEs cope with formalising aspects of their employment relationships during business growth and how SMEs can foster organisational resilience through effective employment relationships.
References


**The authors:**

**Dr Oliver Mallett** (*corresponding author): Durham University Business School, Ushaw College, Durham, DH7 9RH. oliver.mallett@durham.ac.uk [https://www.dur.ac.uk/business/faculty/staff/profile/?id=8643](https://www.dur.ac.uk/business/faculty/staff/profile/?id=8643)

Oliver is a Lecturer in Management at Durham University Business School. His research focuses on follower-centric approaches to leadership, considered as a socially constructed process, and how these relate to personal and social identity within organisations. He is also involved in ongoing research exploring informality and employment relationships in small firms.

**Dr Robert Wapshott:** University of Sheffield, Management School; Centre for Regional Economic and Enterprise Development. rwapshott@sheffield.ac.uk [http://www.shef.ac.uk/management/staff/wapshott](http://www.shef.ac.uk/management/staff/wapshott)

Robert is a Lecturer in Entrepreneurship at the University of Sheffield and he is also a board member of the Institute for Small Business and Entrepreneurship. Robert’s two main areas of research relate to employment relationships in small firms and exploring entrepreneurship and social exclusion.