# THE RELUCTANT EMPLOYER:

# AN EXPLORATION OF THE FIRST EMPLOYMENT

# DECISIONS AND EARLY EMPLOYMENT EXPERIENCES

# OF SMALL BUSINESS OWNER-MANAGERS

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A thesis submitted to
The University of Gloucestershire
in accordance with the requirements of the degree of
Doctor of Philosophy
in the Faculty of Business, Education and Professional Studies

**December 2013**

**ACKNOWLEDGEMENTS**

**ABSTRACT**

The broad aim of the research presented in this thesis was to explore the process by which small firm owner-managers become employers, their early experiences as employers and the impact of these experiences on their subsequent management decisions. The research topic derived from the researcher's interests and experience in human resource management and small business and was designed to contribute to a richer understanding of early employment in small firms, as there was a lack of published research in the field.

The study used an interpretive, qualitative approach. The research design derived from an analysis of four pilot interviews, in which issues emerged that were then explored in the literature review. These issues included motivation to become an employer; the use of social capital within networks as an alternative to employment; the experiences and learning process of the owner-manager during and after the decision to become an employer; and subsequent employment policy and behaviour. The main fieldwork comprised a further fifteen semi-structured interviews with micro-business owner-managers, eight of whom had become employers and seven who had not.

 The analysis of both the pilot and subsequent interviews was conducted through thematic analysis that gave rise to approximately fifty themes. These were then reduced on the basis of inter-case frequency to ten key issues. A 'thick description' of these was presented and used as the basis for the development of a model of the process, as presented in Chapter Five.

The findings highlighted the use of social capital as an alternative to initial staff employment, that once exhausted led to the hiring of first employees by members of the 'employer' sample, most of whom could be characterised as 'reluctant employers'. Contrary to expectations, the first employment experience was not of high salience to the majority of these owner- managers. Instead, the later experiences of employment were perceived by the employers to be of greater significance, in particular the emergence of skilled and trustworthy employees enabling the gradual development of early formal structures in the firm.

In some cases, such an employee was perceived as significantly contributing to the business and its growth potential - one who in the thesis is referred to as 'first line manager' These positive experiences of employment tended to be self-reinforcing, leading to further enhancement of the owner-managers' self-concept as employers and bringing some stability and formality to employment relations practices within the firm, with the characteristics of these employees tending to become informal templates for further employment decisions.

In developing the model, an understanding is advanced of the various tensions to which owner-managers were subjected in becoming employers. These included finding a balance between the use of social capital versus employment, the desire to recruit versus perceptions of the risk of needing to terminate employment, the benefits of additional human capital versus the costs and other risks, and different degrees of formality in employment practices.

The implications of these insights are profound, in the light of the need to facilitate employment in small firms. They point to ways that support practices might be better tailored to meet the needs of this significantly large group of owner managers. It is suggested that through sustained engagement and mechanisms which serve to support owner-managers in the development of social and business networks, both social and economic benefits will be accrued.

**DECLARATION**

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed …………………………………………………………… Date ………………………………………………………….

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| | |
|---|---|
| **CNO** | Collaborative Network Organisation |
| **ER** | Employment Relations |
| **ESE** | Entrepreneurial Self-Efficacy |
| **EU** | European Union |
| **FLM** | First Line Manager |
| **HRM** | Human Resource Management |
| **IR** | Industrial Relations |
| **OM** | Owner-Manager |
| **SME** | Small to Medium Size Enterprise |
| **UK** | United Kingdom |

## 1. Introduction

This research study explores the first and early employment experiences of owner-managers and the ways in which they contribute to later employment practices in the firm. This introductory chapter provides a rationale for this work and will demonstrate the contribution that the research will make to the wider body of knowledge that has emerged at the intersection of Human Resource Management (HRM) and small firms. Section 1.2 explains the evolution and development of the research topic. Sections 1.3 and 1.4 establish the study aim and objectives and the research questions respectively. Section 1.5 provides definitions of 'employers', 'employees' and 'workers', which will be used to consider the role of the respondents selected in the primary research. The introduction concludes with an outline of the structure of this study.

### 1.1 Human Resource Management and Small Firms

It has been recognised that, despite the 'growing literature' at the intersection of HRM and small firms, there remains 'much to say about the contribution of HRM to small and entrepreneurial firms' (Barrett and Mayson, 2008, p1). Marlow (2000) had earlier noted that in the field of employee relations in small firms there was a 'paucity of empirical evidence or theoretical debate' (Marlow, 2000, p301). Marlow and Patten (2001, p524), recognising the 'seminal' influence of Braverman (1974), stated that primary research at that time and subsequent academic debate in the area of labour management was based on studies of large firms. However, over the past decade, studies of HRM in small firms have gradually increased in number, with a body of research developing in an area that could be categorised as 'entrepreneurship and HRM' (see, for example, Carter and Jones Evans, 2000; Tansky and Heneman, 2006; Barrett and Mayson, 2008).

Prior to this, studies leading up to the 1990s and early years of the last decade were most commonly, though as will be seen in the literature review, not exclusively, focused on the personal characteristics and backgrounds of owner-managers (McClelland, 1961; Rotter 1966; Brockhaus, 1980; Deakins and Freel, 1998); the factors that motivate owner-managers to start ventures (Gilder, 1971; Kirzner, 1978; Curran and Blackburn, 1993; Timmons, 1994; Ram and Deakins, 1995); and the networks established by business owner-managers in the early and later stages of business growth (Smeltzer and Fann, 1989; Fadahunsi et al, 2000; Taylor and Thorpe, 2004).

Although wider business theory as it is conventionally explored in the majority of management literature is not generally appropriate to the small firm, Curran (1996) recognises that some contiguity between mainstream literature and the small firm sector did begin to emerge in the mid-1990s. Despite this, he is critical of some of the early small firm specific theories in that they had inherent shortcomings, such as an extraneous focus ('stage' models) that offered non testable hypotheses or an 'entrepreneurial' focus that rely on a vague understanding of the meaning of 'entrepreneurship'.

Chell (1985; 2008) is also critical of other early approaches to the understanding of entrepreneurial behaviour, including 'trait' theory, which attempted to determine the set of personality traits that distinguished entrepreneurs from managers. She argues that this may be problematic where business development, as is likely, takes place over a long period of time and the original owner manger may have reduced or changed their role. Chell (2008) notes that that few trait studies have sufficient longitudinal scope. While recognising these limitations, she does note that such approaches may be developed in the future as the evidence base grows around the 'cognitive and affective dimensions of risk' (Chell, 2008, p28).

Marlow (2000, p137) argues that, since the design school was the 'dominant theoretical context' in management literature through to the early 1990s, it thus led to the development of models of strategic management that were inappropriate to 'all but a few small businesses'. The limitations of time, knowledge, abilities to forecast markets beyond the short term, funding, scale benefits and management expertise prevented small firms from either making sense of or being able to implement plans based on such models. Indeed, the time that sophisticated forecasting techniques require, result in the neglect of more intuitive approaches to strategy and the lessons of lived- experience, so important to firms that rely on a small number of people (Marlow, 2000).

Both Curran (1996) and Marlow (2000), note that critiques of the design school eventually allowed the development of a more contextually useful paradigm that could be applied to HRM in SMEs. In the broader literature, the development of emergent theory, most notably the work of Mintzberg (1989; 1994) exploring emergent strategy, is useful to understanding the small firm and this, combined with a gradual growth of small firm specific theory into the new millennium, allowed the development of a conceptual understanding of the sector.

Chell (2008) argues that in recent years, an examination of the concept of human and social capital and the development of work on business networks (explored here in the literature review in section 2.5) has further enabled the understanding of the process by which owner-managers acquire and develop knowledge, together with their means to access key skills from beyond the organisation. Such approaches support the examination of the nature of small firm relationships which is central to a wider understanding of HRM matters in such contexts (Barrett and Mayson, 2008).

**1.2 Evolution and Development of the Research Topic**

This study sought to make an original contribution to this body of knowledge at the intersection of HRM and entrepreneurship and this topic area reflects the researcher's interests as a university lecturer. This was the first broad objective of the research at the very outset. The later, more precise development of research objectives then emerged from preliminary interviews that were conducted as a pilot study. These first interviews were therefore used to generate the research questions, which is consistent with the wider methodological approach of thematic analysis, involving a thorough search for themes within a rich body of data and relating this to extant literature (Braun and Clarke, 2006). A detailed examination of the process by which this is achieved is carried out in the methodology section 3.3.2, where this is framed within the ontological and epistemological considerations of this study.

The sporadic and limited conceptual development in the area of employment practices in micro firms suggest that this field of study is relatively under-researched and this supports the exploratory approach undertaken in this research study. Flick (2003) states that, in areas such as this, an interpretivist approach to the research will allow the researcher to consider the complex area in context - namely the highly individualistic experiences and decision processes of owner-managers.

A sample of four owner-managers were selected for the pilot study, using a criterion of 'purposeful sampling' (Creswell, 1998), which allowed the identification of a sample that might most effectively enable the generation of an issue or issues for further exploration. It was decided that two of the owners would be experienced employers and two yet to employ in order to examine their different perspectives on the use and availability of human resources.

The literature suggested that beginning the interviews around an open ended discussion of these human resource practices and the associated, informal networks of the owner-managers (see for example, Kotey and Sheridan, 2004; Taylor and Thorpe, 2004; Larson and Starr, 1993) would generate rich data and help focus the research aim. The four respondents were therefore asked questions about the early development of their businesses, the people who had helped them in this process and, in the case of the two employers, the ways in which they managed their employees.

These initial findings, which are reported in the findings chapter in section 4.1, support existing research that identifies that owner-managers seek out skills and advice from their social network (see for example Birley, 1985; Shaw, 1997; Shaw and Conway, 2000; Pena, 2002; Davidsson and Honig, 2003; Casson and Della Guista, 2007; Cope et al, 2007). This literature is also explored in detail in section 2.

Following the pilot interviews, four research questions were identified that would provide a clear focus for the study. These were underpinned by a need to explain why owner-managers wish to employ, given the constraints of employment and that less costly support that is already available to them. The study sought to examine the role that broad business networks play in the first and early employment decisions. It also sought to discover whether there are other factors that may be considered as motivators to employment and the extent to which they influenced the employment decision.

Much has been written about the formality or informality of employment relations practices in small firms, and these debates are examined in detail in the literature review (Goss, 1991; Goss et al, 1994; Duberley and Walley, 1995; Benmore and Palmer, 1996; Ram, 1999; Ram et al, 2001; Marlow and Patton, 2002; De Kok et al 2003; Reverley et al, 2004; Kotey and Sheridan, 2004; Bacon and Hoque, 2005; Martin et al, 2008; Gilman and Edwards, 2008; Marlow et al 2010; Saridakis et al 2013). This study therefore also sought to examine the influence of early experiences of employment on these practices. The primary research was conducted from the perspective of the owner-manager alone and the views of other stakeholders and employees were not examined.

**1.3 Research Aims and Objectives**

The research topic was then formulated into an over-arching study aim that would guide the further selection of literature and the primary research. This allowed the development of four objectives. The aim and objectives are established below:

**1.3.1 Aim**

To explore the influencing factors on the first employment decisions and early recruitment and employment experiences of micro firm owner-managers.

**1.3.2 Objectives**

1. To analyse the factors which influence the first employment decision of owner-managers.

2. To explore the approaches that business owner-managers take to recruiting their first employees.

3. To examine the ways in which the early employment experiences inform employment strategies adopted by owner-managers.

4. To contribute to an understanding of the early employment decisions of owner-managers with the development of a conceptual framework.

**1.4 Research Questions**

The established aim and associated objectives will enable this study to address the following research questions:

1.      What factors influence owner-managers' decisions to become employers?

2.      What approaches do owner-managers take to recruiting their first employees?

3.      What is the nature of early employment experiences of business owner-managers?

4.      How do early employment experiences inform employment strategies adopted by owner- mangers?

## 1.5 Defining Employers, Employees and Workers

In order to provide boundaries for this study, it was necessary to consider the definition of 'employee' and 'employer' that would be used. Section 230 of the Employment Rights Act 1996 defines employees as follows:

> In this Act "employee" means an individual who has entered into or works under (or, where the employment has ceased, worked under) a contract of employment.
>
> (2) In this Act "contract of employment" means a contract of service or apprenticeship, whether express or implied, and (if it is express) whether oral or in writing.
>
> <div align="right">www.legislation.gov.uk</div>

The act distinguishes between an 'employee' and a 'worker, with a worker defined as follows:

> (3) In this Act "worker" (except in the phrases "shop worker" and "betting worker") means an individual who has entered into or works under (or, where the employment has ceased, worked under)—
>
> (a) a contract of employment, or
>
> (b) any other contract, whether express or implied and (if it is express) whether oral or in writing, whereby the individual undertakes to do or perform personally any work or services for another party to the contract whose status is not by virtue of the contract that of a client or customer of any profession or business undertaking carried on by the individual; and any reference to a worker's contract shall be construed accordingly.
>
> <div align="right">www.legislation.gov.uk</div>

It defines an employer as follows:

> (4)In this Act "employer", in relation to an employee or a worker, means the person by whom the employee or worker is (or, where the employment has ceased, was) employed.
>
> <div align="right">www.legislation.gov.uk</div>

The law is open to interpretation regarding the precise roles and rights that employees have as a result of their contract, which, as is noted in the Act, does not have to be written. Workers have legal rights to receive the national minimum wage; protection against unlawful deductions from wages; a statutory minimum level of paid holiday; a statutory minimum length of rest breaks; not to work more than 48 hours a week, or to opt out of this right if they choose; protection against unlawful discrimination; not to be treated less favourably if they work part time and protection for whistleblowing (www.gov.uk). Employees have additional rights to

statutory sick pay; maternity, paternity and adoption leave pay; minimum notice periods if their employment will be ending; protection against unfair dismissal; the right to request flexible working; time off for emergencies; and statutory redundancy pay (www.gov.uk).

At first glance, it may appear that anyone who undertakes remunerated work for a small business may be considered a worker but, significantly for this study, the UK Government advises that workers may be considered to have such rights where most of the following apply:

- they occasionally do work for a specific business

- the business doesn't have to offer them work and they don't have to accept it - they only work when they want to

- their contract with the business uses terms like 'casual', 'freelance', 'zero hours', 'as required' or something similar

- they had to agree with the business's terms and conditions to get work (either verbally or in writing)

- they are under the supervision or control of a manager or director

- they can't send someone else to do their work

- the business deducts tax and National Insurance contributions from their wages

- the business provides materials, tools or equipment they need to do the work

www.gov.uk

Many of these provisions do not apply to work undertaken by members of an owner-manager's social network. Particularly, even where remunerated, such work is unlikely to be 'under supervision or control' and 'business terms and conditions' are unlikely to apply. Further, while workers 'occasionally do work for a specific business' they may, as is evident in the pilot interviews, do so as part of their own limited company, in which case they may be considered 'clients' rather than 'workers'.

The Equality and Human Rights Commission (EHRC) recognises this difficulty in defining who may or may not be termed an employee and suggest that an employer-employee relationship exists:

- where an individual works under the control of the employer

- where an employer is obliged to offer the individual work and the individual is obliged to accept it

- where tax and National Insurance contributions are deducted through PAYE

- Where an individual is expected to carry out his or her work themselves

For the purposes of this study, no distinction was made between 'worker' and 'employee' and the UK Government and EHRC guidelines, derived from the Employment Rights Act 1996, was used to consider whether or not the owner-managers considered in the main sample were, or were not, employers. In order to maintain this distinction, the 'non-employers' were those that reported no relationship as outlined above and the 'employers' were those that reported that they conformed to those relationships.

Further, the study made no specific distinction in the discussion between part-time and full-time employees. The precise number of employees attributed to the firm in question, which are profiled in section 3.6 of the methodology, were calculated according to the European Union definition of 'full time equivalent' (FTE) employees (www.europa.eu). In this case, the calculation was based on a working week of 40 hours, so that an employee working 20 hours a week was considered to be 0.5 FTE. The number of FTE's attributed to the firm was ascertained prior to the interviews.

## 1.6 Structure of the Thesis

This study is divided into six chapters, which are outlined below.

Chapter One provides an introduction to the topic and explains how the specific research questions and aims and objectives were formulated. This supports a wider justification for the study in the context of emerging literature at the intersection of Human Resource Management and Entrepreneurship.  It also provides a further definition of the scope of the study in terms of definitions of employment, employees and workers.

Chapter Two presents the literature review and is split into five sections which examine extant literature within the field of the study. These sections respectively provide; a brief overview and

definition of a small business; an exploration of employment in small firms and the disputed role of small firms in job creation; an examination of issues at the intersection of Human Resource Management (HRM) and entrepreneurship research; a consideration of the constructs of human capital and social capital and an examination of how these are linked to the development of the networks established by owner-managers; and an examination of entrepreneurial learning, developing the construct of trust and effectuation in relation to employment.

Chapter Three consists of the methodological underpinnings of this study. It outlines the philosophical positioning of this research, which then informs the methods that were utilised. This also explains the analytical process, ethical considerations and potential limitations of the chosen approach.

Chapter Four presents the findings as they emerged from the primary research, using the thematic analysis technique. They are presented without reference to wider literature at this stage but with specific reference to the research aim and objectives. Common experiences across the cases are examined, with initial outcomes reported prior to further analysis.

Chapter Five analyses the findings in more detail with reference to the concepts explored in the literature review. This section distinguishes between employment experiences and identifies key motivators and de-motivators to employment. These, together with significant common experiences of employment, are contextualised in a conceptual framework, which is developed in relation to both the primary research and extant literature.

Chapter Six concludes the study with a representation of the findings of the study and how they relate to the aim and objectives. This section emphasises the study's contribution to knowledge, particularly in terms of new insights into the first employment decisions and early employment experiences. The limitations of the completed study are discussed and related to opportunities for further research. The implications for policy are considered briefly and personal reflections on the study itself, from the perspective of the researcher, are provided.

**2. Literature Review**

This review is carried out in five main sections. Section 2.1 provides a brief overview and definition of a small business. It is not the intention to review debates about small business size in detail, as it is clear that the focus for this study is primarily on the first and early employees, which self-selects the size of firm for the later research. Instead, this section establishes key definitions of the small firm that are currently in use.

Section 2.2 explores employment in small firms, the disputed role of small firms in job creation and includes a review of what constitutes the small firm labour market. This section will establish constructs for use in later analysis, including the threshold levels of employment that are reached as the firm grows and a discussion of labour market challenges that are unique to SMEs.

Section 2.3 develops a discussion of issues at the intersection of Human Resource Management (HRM) and entrepreneurship research. It examines the likely formality and informality of HR practices in small firms and uses the issue of training and development as a detailed exemplar. It then explores three currently developing areas of research in entrepreneurship and HRM, namely; employment relations and small firms; recruitment approaches of small firms; and the entrepreneur's approach to management and leadership.

Section 2.4 considers the constructs of human capital and social capital and examines how these are linked to the development of the networks established by owner-managers. The discussion explores the interchange between human and social capital and the extent to which this understanding informs the growth process of the small firm.

Section 2.5 concludes this review with an examination of entrepreneurial learning. While the learning process of owner-managers during small firm development and growth is implicit throughout the discussion of human and social capital, this section examines it as a separate conceptual process. The developing construct of trust and effectuation is explored, together with the concept of entrepreneurial self-efficacy.

**2.1 Definitions of the Small Firm**

Given the diversity and heterogeneity of the small firm sector, there is no single definition of what constitutes a small firm (Storey, 1994; Brooksbank, 2000; O'Regan and Ghobadian, 2004). Firms that may be regarded as small, relative to competitors in one industry sector may be considered of average size in others (Storey, 1994). Storey (1994, p9) notes that the Bolton Committee, which reported on the small firm sector in 1971 categorised firms as small if they:

- had a relatively small share of their market place;
- were managed by owners or part owners in a personalised way and not through the medium of a formalised management structure;
- were independent, in the sense of not forming a part of a large enterprise.

Storey also highlights the range of criteria that were used to statistically classify small businesses, as follows:

**Table 2.1- Bolton Definition of Firm Size By Number of Employees**

| Sector | Definition |
|---|---|
| Manufacturing | 200 employees or less |
| Construction | 25 employees or less |
| Mining and Quarrying | |
| Retailing | Turnover of £50,00 or less |
| Miscellaneous | |
| Services | |
| Motor Trades | Turnover of £100,000 or less |
| Wholesale Trades | Turnover of £200,000 or less |
| Road Transport | Five vehicles or less |
| Catering | All excluding multiples and brewery managed houses |

Source: Bolton (1971) in Storey (1994, p9)

Storey (1994) critiques these mixed definitions for their variety across sectors; for their inherent problems in comparison between sectors; for their monetary values which render them less useful over time with inflation; for failing to take account of increases in productivity in terms of output per head; and for the implicit and flawed assumption that the small firm sector is homogenous.

The 1985 Companies Act defined small and medium business as follows, in table 2.2:

**Table 2.2- Companies Act 1985 Definition of SME**

| A small company must satisfy at least two of the following criteria: | Medium sized company must satisfy at least two of the following criteria: |
|---|---|
| a turnover of not more than £2.8 million; | a turnover of not more than £11.2 million; |
| a balance sheet total of not more than £1.4 million; | a balance sheet total of not more than £5.6 million; |
| not more than 50 employees | not more than 250 employees |

Source: Adapted from www.dti.gov.uk/sme4/define.htm

However, it is noted by O'Regan and Ghobadian (2004, p65) that 'in the absence of a definitive classification, a consensus has developed around the European Commission criteria for SME (small to medium size enterprise) classification'. This is measured primarily in terms of employee number, with turnover and balance sheet totals providing additional information. Table 2.3, below, sets out the current (2012) criteria:

**Table 2.3- European Union Definition of Firm Size By Turnover and Number of Employees**

| Company Category | Employees | Turnover | Or | Balance Sheet Total |
|---|---|---|---|---|
| Medium Sized | < 250 | ≤ 50 m Euro | | ≤ 43 m Euro |
| Small | < 50 | ≤ 10 m Euro | | ≤ 10 m Euro |
| Micro | < 10 | ≤ 2 m Euro | | ≤ 2 m Euro |

Source: ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/

The European Commission undertook a review of these definitions in 2012 and considered that, while they may require updating in time with changes in inflation and productivity, this was not urgent and that they reflect the current conditions within the EU. These measures are not without criticisms, not least that of O'Regan and Ghobadian (2004, p66) who argue that:

> the emphasis on "intangible" factors is likely to increase as production continues to move from being labour intensive to capital intensive, and as firms rely to a greater extent on knowledge and information technology for competitive advantage.

Nonetheless, for the purposes of this study, which focuses primarily on micro-firms, the EU employee-number definition is sufficient.

**2.2 Employment in Small Firms**

The following section examines the role of small firms in job creation and considers the employment profiles of such firms and the related labour market.

**2.2.1 The Disputed Importance of Small Firms in Job Creation**

Curran and Blackburn (2001) state that the diffuse and complex interactions between small numbers of people are difficult to quantitatively analyse and, prior to the Bolton Report (1971), the small business sector had not been seen as sufficiently economically important to justify detailed study. Following the Bolton Report, and in America, the work of Birch (1979), academic interest in small firms began to develop.

The importance attached by policy makers to the role of small firms in employment creation (see section 2.4.6 for a more detailed discussion), together with its centrality in urban and social policy during the 1990s, justifies academic examination of the sector (Storey 1994). The 1978 Expenditure Committee report stated that, 'If each small business could take on one more employee, the unemployment problem would be solved' (Storey 1994, p160). Furthermore, the conflicting interests of small business employers, their employees and the objectives of governance require a contextually specific understanding that is neither solely focused on the perspectives of the business owner nor on the macroeconomic impacts of the small firm sector (Storey, 1994).

Atkinson and Storey (1994) add that UK government policy toward the end of the twentieth century was heavily influenced by the perception that small firms could contribute to the growing unemployment problem and wider economic issues by creating employment. The small business sector indeed constitutes a significant proportion of the entire private sector. A survey for the Department for Business Innovation and Skills (DBIS, 2011) found that small and medium sized enterprises (SMEs) employing between 0- 249 employees in the UK constituted 99.9% of the total 4.5 million registered businesses and employed nearly 60% of all private sector employees (see table 2.4).

It can be seen that in the UK in 2011, of those firms categorised as SMEs, 74% had no employees at all, 21% employed between 1 and 9 employees, 3.8% employed between 10 and 49, and 0.7% between 50 and 249.

**Table 2.4- Private Sector Population (UK)**

| Size of Firm | No of Enterprises | Employment (thousands) | Employment (percent) | Turnover (£ millions) |
|---|---|---|---|---|
| All enterprises | 4,542,765 | 23,391 | 100 | 3,052,558 |
| SMEs (0- 249 employees) | 4,536,445 | 13,760 | 59 | 1,489,255 |
| All employers (excluding sole traders/ partnerships) | 1,178,745 | 19,707 | 84 | 2,850,127 |
| 0 employees (sole traders and partnerships) | 3,364,020 | 3,684 | 16 | 202,431 |
| 1-9 | 948,545 | 3,651 | 16 | 403,871 |
| 10-49 | 173,405 | 3,469 | 15 | 460,500 |
| 50- 249 | 30,475 | 2,957 | 13 | 422,454 |
| 250 or more | 6,320 | 9,631 | 40 | 1,563,302 |

Source: adapted from Department for Business, Innovation and Skills: Business Population Estimates For The UK and Regions, 2011

The fact that micro firms employ 32% of the private sector workforce supports at first glance a government policy focussing on micro firm growth. Yet, Perren (1999) notes that there is a distinction between policy makers' desires for small firm job creation and the indifference of small firm owners to such aspirations. Indeed, he recognises that owner-managers are reluctant employers, stating that 'employees are viewed as a burden by owner-managers, who worry about generating enough demand to employ workers fully and ensure that they can be paid' (Perren, 1999, p221).

Further, Storey (1994, p172) argues that, while the employment growth of small firms makes a significant and consistent contribution to net job creation, the behaviour of large firms has a disproportionate effect on the overall growth rate of employment and that:

> …periods of employment growth (coincide) with when the large firm sector exhibits rapid employment growth, and the slowest growth (occurs) when the large firm sector declines.

Thus there may be an over-estimation of the importance of small firms to job creation and economic growth, although the nature of that contribution remains disputed.

Earlier work by Birch (1979) found to the contrary that small firms played a significant role in creating jobs in the United States. His work was based on data gathered by the company Dun and Bradstreet, originally for the purpose of credit rating. Given the vast amount of data, some 12 million company records gathered between 1969 and 1976, with a research team, Birch was able to analyse trends during this time period. A key finding of the research was that 'two thirds of the increase in employment in the USA… was in firms with less than twenty workers' (Atkinson and Storey, 1994, p4). The work has been open to criticism, particularly because of the fact that the data had not been gathered for the purpose to which it was put and because there was some difficulty in replicating the results with later samples (Landstrom, 2005).

Davis et al (1994) strongly critique Birch's analysis, particularly in terms of job creation and destruction. They argue that it may be the case that small firms create more jobs but it is also the case that they destroy jobs at a faster rate and, once destroyed, are less likely than larger firms to re-create them. They add:

> …bigger employers offer greater job durability. Regardless of employer size, however, new jobs are much less durable than the typical existing job… In a nutshell, both existing and newly created jobs are less secure at small businesses than at large businesses, and once lost, small business jobs are less likely to reappear. Thus, in terms of job durability, larger employers outperform smaller ones.
>
> Davis et al, 1994, p21

Informed by Birch's (1979) approach to longitudinal analysis, Neumark et al (2008) carried out a similar study of the National Establishment Time Series (NETS) database which recorded all Californian businesses between 1989 and 2004. They conclude that, in common with Birch and taking account of Davis et al's (1994) examination of net job creation, 'small establishments (and small firms as well) create more jobs' (Neumark et al, 2008, p24). However, they add that, in terms of net job creation, the difference between large and small firms is much smaller than that found by Birch.

Hijzen et al (2010, p 622) examine the trends in job creation and destruction in the UK between 1997 and 2008. The work used the UK Inter-Departmental Business Register, which records all live businesses in the country. In direct contradiction of Davis et al (1994), they state that:

> … regardless of measurement issues, small firms contribute a greater proportion of job creation than their employment share, and a slightly greater proportion of job destruction… the jobs created by small firms are no less persistent than those created by large firms, despite the fact that small firms are more likely to exit.

They account for these differences because they included in their analysis firms in the service sector, whereas Davis et al (1994) focused mainly on manufacturing. Hijzen et al (2010) state that the rate of job destruction in the service sector is similar to the manufacturing sector but that job creation rates are much higher in the service sector. An underestimation of net job turnover is therefore likely, given the fact that the service sector is expanding and the manufacturing sector contracting in both the US and UK.

In common with Storey (1994), Ayyagari et al (2011) argue that, while small firms make a greater contribution to overall employment levels than large firms, large firms make a greater contribution to productivity growth. This is reflected by the fact that in the UK, 0.1% of firms in the private sector - those employing more than 250 people - account for just over 50% of the entire turnover of the sector.

The precise contribution of small firms to net employment is therefore disputed, as is the value of the jobs that are created. However, it is clear that the macroeconomic impact of the role of small firms should not be understated and requires further exploration, hence the arguments here for the value of small firm research. Furthermore, there is also an argument for a focus on the small firms at the level of the micro firm that is not directly related to economic or employment growth but to the fact that small firms are fundamentally different in employment profile to large firms (Curran and Stanworth, 1979) and that further understanding of this is also required.

### 2.2.2 Employment Profiles in Small Firms

Curran and Stanworth (1979) identify that employee profiles in the small firm sector have a higher representation of workers under the age of 24 who are less likely to be skilled than in large firms. Although historic data is not consistently available, researchers have more recently supported this view (Scase and Goffee 1987; Storey 1994; Scase, 1995; Marlow 2000).

The quality of jobs in small firms is also poorer than in larger ones. Small firms may recruit workers on lower wages (Ingham 1970; McNabb and Whitfield, 2000) and may employ workers with limited opportunities elsewhere, such as young, low qualified, married female or ethnic

minority workers in order to account for high employee turnover in the sector (Blyton and Turnbull, 2004). In addition to lower wages, the quality of the job may also be lower than that available in firms employing over 250 employees (Storey, 1994; Storey and Atkinson, 1994).

In some cases, owner-managers may recruit from immediate and connected family to 'deter unionisation as well as control the labour process', and in such cases, family members are likely to take trusted roles in the firm (Blyton and Turnbull 2004, p296). The labour pool available to small firms is therefore qualitatively different to larger firms (Stanworth and Curran, 1986) and the converse is also the case, with those within the labour pool unable to find jobs elsewhere (Blyton and Turnbull, 2004).

A study by the University of Westminster (2013) cited the 2004 Workplace Employment Relations Study (WERS), which found that female and part time workers were more prevalent in small firms. This survey identified that 35.4% of workers in firms employing 5-24 people were part-timers compared to 22.3% in firms employing more than 500 workers. It also identified that 55% of workers were female in small firms compared to 44.8% in large ones.

A later ONS Labour Force Survey (2007), while identifying a similar trend, also found that firms with no employees were more than 70% male owned and that such firms had a higher representation of people aged between 50 and 65 (22.5%) compared to employees in firms of over 250 people (11%).  It has also been argued that there is an underestimated 'heterogeneity' within employment profiles and in approaches to labour management in the small firm sector and that generalisations fail to take this into account (Marlow, 2000; Marlow and Patton, 2005).

**2.2.3 SME Labour Market and Employment**

In a quantitative study, Atkinson and Meager (1994, p28), argue that historically the 'operation of the labour market has not been a central focus of the small business literature'. They further postulate that studies that have investigated the small firm labour market have a tendency to focus on employment outcomes such as the number of jobs generated rather than how the small firm interacts with the labour market.

The authors identify a need for a deeper understanding of how the firm decides to recruit and how it resolves employment difficulties. Further research has developed in the meantime (see for example, Cully et al 1999; McNabb and Whitfield, 2000; Ram et al 2001; Rainnie and Barrett,

2002), but this has been sporadic and understanding of the small firm's engagement with the labour market lacks a consistent thematic narrative.

Prior to this, Stanworth and Curran (1986) had identified that samples of small firm employees have different backgrounds to those of large firm counterparts. They note that small firm employees are unlikely to be unionised, are on average nine years younger and were 'less well qualified, less experienced and had a higher frequency of unstable previous employment histories… even after age differences were allowed for' (Stanworth and Curran, 1986, p29).

The authors suggest that most small firms were based in the service sector and small firm owner-managers were more likely to recruit from such a different pool of labour because of their less bureaucratised administrative practices and due to the fact that such labour was cheaper to hire. The type of employee recruited and the behaviour of that employee in the workplace will affect the employer's view of the labour market, the process and value of recruitment and subsequent approaches to employee development and organisational growth.

Harrison and Sum (1979) identify the concept of dual labour markets, which posits that there exists a core and periphery labour market. The former is characterised by firms with strong market power, high profits and reasonable wages levels in which workers value their jobs and the latter by characteristics that 'contrast in every respect with the core' (Harrison and Sum, 1979, p160). This has been described elsewhere as primary and secondary labour markets (Goldsmith et al, 1997). Indeed, Goldsmith et al adapt dual labour market theory to include characteristics that have been thus far discussed as typical of the small firm. These are outlined in table 2.5.

In their study, Atkinson and Meager (1994) recognise that some small firms have great difficulty accessing the primary labour market and attribute this problem to company size. This contention is supported by the dual labour market theory. Atkinson and Meager (1994) identify four thresholds to employment that are crossed as the firm grows. It may be proposed that this growth may provide the firm with the characteristics required to cross from the secondary and into the primary labour market.

The thresholds identified by Atkinson and Meager (1994, p33) are described as; the first

**Table 2.5 Primary and Secondary Labour Markets**

| Primary Labour Markets | Secondary Labour Markets |
|---|---|
| Jobs supplied by large, highly profitable firms | Jobs supplied by mainly small firms where profitability is not assured |
| High capital to labour ratio and high productivity | There is low capital to labour ration and productivity tends to be low |
| Production large scale in nature and based on substantial proactive investment in technology | Production is small scale, intensive and in commercial personal service industries; investment in technology is need driven |
| Stable demand for products arising from national and international markets | Demand for products and services is subject to irregular and/ or seasonal fluctuations rooted in local and regional markets |
| Wages and skill levels relatively high | Wages and skill levels are low |
| Opportunities exist for training and advancement | Training opportunities are limited as are opportunities for advancement |
| Employment is stable | Employment is unstable |
| Unionisation is often high | Unionisation is low or non-existent |

Source: adapted from Goldsmith et al, 1997, p17

employment decision, labelled the entry threshold; the appointment of a first line manager, labelled the delegation threshold; the formalisation and standardisation of recruitment practice, labelled the formalisation threshold; and the appointment of a manager responsible for common HR functions, labelled the functional threshold.

These are deemed to be relevant only to labour market behaviour and not 'the whole portfolio of corporate behaviour'. Perhaps Harrison and Sum's (1979) earlier analogy of the core and the periphery is more useful as this suggests less of a distinct boundary between primary/ secondary markets and more a gradual move away from the periphery and towards the core, as described by each of the Atkinson and Meagher (1994) thresholds.

Atkinson and Meager (1994) also suggest that size of the firm is the most important influencer on employment decisions. They argue that firms with fewer than ten employees are less likely to express an intention to recruit and thus less likely to experience problems engaging with the labour market, with only half of the firms questioned in their study having recruited in the previous year. Larger firms would be more likely to experience these difficulties however, as 95% of the firms employing ten or more workers had recruited in the past year. Furthermore, the authors identify a level of 50 employees at which labour market difficulties begin to ease, suggesting that this is the point at which firms begin to move beyond the formalisation threshold and become sufficiently organised in order to develop a recruitment strategy.

The authors identify four other factors that may have a strong but lesser influence on employment decisions. These are the age of the business; the sector in which the business is situated; the managerial approach and organisational structure; and the personal characteristics of the owner-manager. The last variable is considered by the authors to have been explored in very much depth in entrepreneurship research and so is not a significant area of focus in the study (Atkinson and Meager, 1994). The factors are identified as part of a framework, as shown in figure 2.1.

**Figure 2.1- Environmental Characteristics of Small Firms**
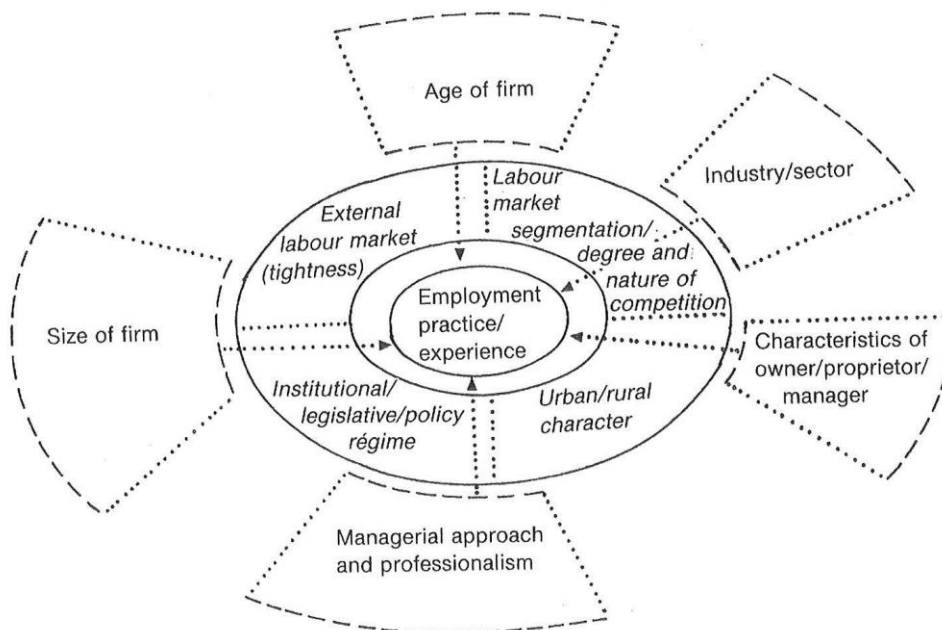


Source: Atkinson and Meager (1994, p37)

In a quantitative study linking profitability and employment growth in small firms in Wales, Foreman-Peck et al (2006) concur with this analysis, identifying a 'threshold difficulty of employment' (p317) which is most dependent on firm type and sector.

Unlike Atkinson and Meager (1994), Foreman-Peck *et al* (2006) do not explicitly identify a specific number of employees at which employment growth is likely but they confirm the argument that for different firms, there exists a critical number of employees at which employment growth begins to accelerate.

The authors argue that firms in the finance sector, with computerised accounts and a marketing plan, and therefore some formalised systems, are more likely to grow. They also suggest that firms with management older than 46 years of age are less likely to grow, arguing that 'with time and an increasing awareness of finitude, management may be more inclined to discount the future more heavily, choosing immediate gains rather than future growth' (Foreman-Peck et al, 2006, p313). Owner-managers generally, but older ones in particular are more likely to sacrifice future profits for current security. The significance of this is graphically demonstrated in figure 2.2.

**Figure 2.2- Employment and Small Firm Profitability**
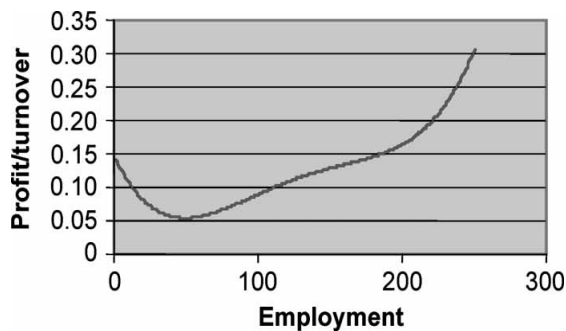


Source: Foreman-Peck et al, (2006, p316)

Foreman-Peck et al (2006) found that, for a sample of 1,600 Welsh businesses from a cross section of business sectors, profitability dips from the recruitment of the first employee to around the 50th employee.

It is only at that level that profitability begins to rise again and only returns to the level at which it dipped after the first recruitment at around the 190th employee. However, in faster growth sectors this threshold will likely be lower and for all firms the subsequent increase in profitability is accelerated. The variables that are identified by Foreman-Peck et al (2006), including age and size of firm and industry sector, are largely coterminous with those identified

twelve years earlier by Atkinson and Meager (1994) and confirm the environmental characteristics that were identified in their framework in figure 2.1.

In 2007, the Observatory of European SMEs report (www.ec.europa.eu) examined the economic performance of 15,533 SMEs in the European Union, of which 907 were based in the UK. The report found that in the UK, 91% of firms were dependent on the regional labour market and did not recruit beyond the immediate geographical area in which they were based within the country. The greatest labour recruitment problem, cited by 27.1% of UK firms was the scarcity of skilled labour in the region in which they operated. It is likely that this immobility of firm and labour add to the difficulties associated recruitment and may be included as a further sixth factor that affects small firm engagement with the labour market.

**2.3 Management Theory, Human Resource Management and Entrepreneurship**

This study intends to focus on the intersection of Human Resource Management (HRM) and entrepreneurship. The next section explores the development of research in these areas and examines contemporary knowledge regarding HR practices in small firms.

**2.3.1 Human Resource Management**

Before considering human resource management theory and practice in the context of small firms, it is first necessary to consider the more widely contested view of HRM as applied in a more general sense. For example, Wright and McMahan (1992, p297), note that early theoretical developments in the field were 'generally reflecting the identifiable functions of HR departments in organisations' which themselves were representative of larger organisations.

Salaman et al (2005, p3) argue that since then HRM has developed in two ways, the first being an attempt to 'identify key causal connections and to assess their impact on the capability of the organisation and on the behaviour, attitudes and skills of staff' in order to improve organisational performance. The second approach to HRM examines the 'ideas underpinning prevalent practices' (Salaman et al 2005, p4) and, given the changing trends in people management practice, this creates difficulties in providing consistent definitions.

Three approaches have been identified by Guest (2009) that may correspond with Salaman *et al*'s (2005) first definition, specifically by which HRM seeks to improve corporate performance.

Respectively, these are; high performance work systems, which encourage worker performance by systemically linking employee selection and training and worker discretion to motivation and reward; the high commitment model which involves reciprocal commitment between management and employees in a strong organisational culture; and the strategic fit model which seeks to link HR practices with corporate strategy and is contextually specific (Guest 2009). He argues that each of these approaches are flawed in that the approaches either ignore the worker or subjugate the workers interests to those of the organisation. He calls for a new understanding which considers the role of the worker first, prior to organisational concerns.

The argument that these three approaches neglect the role of the worker may account for the division that has been identified between human resource management and concepts of industrial relations (IR) (Edwards, 2005). Indeed Marlow (2006) argues that there is a form of managerialism inherent in dominant HR theory that further divides HRM and IR. Further, she notes that the link between the notion of HRM as a set of strategic practices, encompassing employee commitment and performance, is not strongly supported by empirical evidence. This leads her to criticise HRM as encapsulating a variety of theories that do not correspond directly with empirically observed practice and she borrows Maruksen's (1999) term to critique HRM as a 'fuzzy concept'; namely one in which different researchers may be attaching different meanings to the same term.

Janssens and Steyaert (2008) cite Paauwe's (2008) argument that HRM theory should contribute to an evaluation of performance that consists of more than simple economic performance. Janssens and Steyaert (2008) suggest that performance should be measured in terms of social and ethical performance that takes account of the role of workers and the wider societal context. To this end, they propose a process of 'reconstructive reflexivity' in HRM research that embraces the complexity of the practices associated with HRM and moves beyond positivist/anti-positivist traditions. Such a reflexive approach is undertaken by 'reconstructing and reframing by bringing in issues of alternative paradigms, perspectives, and political values' in order to 'illuminate what is left out and marginalized' in HRM research (Janssens and Steyaert, 2008, p144).

While such an approach may not claim to bridge a gap between IR and HRM literature, it may allow for HR theory development to incorporate the diversity of contexts, not least the less understood practices in the heterogeneous small firm sector, and provide an approach that avoids problems of attributing causality, recognised as a key criticism of strategic HRM research

(Mayson and Barrett, 2006). According to Janssens and Steyaert (2008, p152), a reflexive approach is 'inherently connect to learning' and therefore more likely to lead to the generation of knowledge from different contexts.

**2.3.2 HRM and Small Business Management**

Cardon and Stevens (2004) carried out a review of the then extant literature on the application of HRM in small firms. They found 'that very few studies focus on issues concerning emerging firms, and instead focus on HR within small yet established organisations' (Cardon and Stevens, 2004, p319). Heneman et al (2000) also reported this 'problematic' lack of such developed theory, particularly internationally beyond the United States. They argue that that this occurred partly due to the fact that SMEs can be hard to access in order to gather data and that SMEs do not allow the efficient collection of quantitative data, necessitating qualitative approaches which tend not to be so easily accepted in mainstream publications.

There has been a polarisation of the literature on small firms and HR practices into 'small is beautiful' which emphasises the 'harmonious' and 'flexible' relationships in small firms; or 'bleak house' which emphasises the low pay, low involvement and poor working conditions in the small firm sector (Wilkinson, 1999, p208-9). Further collections of research have since emerged, which supports the unique and contextually specific conceptualisation of small firm HR practice (Tansky and Heneman, 2006; Barrett and Mayson, 2008).

Marlow (2000, p140) cites the work of Legge who found that even in organisations that follow a human resource plan, the implementation of such is 'largely ad hoc, opportunistic and fragmented'; this is referred to as 'informal' HR practice in Section 2.3. In addition, owner-managers attempting to take responsibility for the various functions of a business can suffer from 'managerial overload' as the firm takes on more staff and generates more business (Curran, 1996). Such arguments justify the fact that a lack of research constituted an important gap, given the fact that early HR decisions and practices could have implications for the small firm's later success or failure (Cardon and Stevens, 2004).

Barrett and Rainnie (2002) found that this lack of research extended to employment relations in small firms and that there was a tendency in such literature to treat small firms as an homogeneous group, which directly contradicts the argument that there is a great deal of heterogeneity within small firm profiles (see section 2.3.5 for a wider discussion of employment

relations in small firms). Wilkinson et al (2007) found that such problems extended to studies of employee involvement, which tended to place such practices within the context of best practice or high commitment HRM, areas which, as has already been noted, have their own empirical problems (Guest, 2009).

Studies have emerged examining the impact of high performance works systems (HPWS) within small firms (Way, 2002; Gilman and Edwards, 2008; Messersmith and Wales, 2011). The latter studies particularly involve an HPWS focus on high growth, high tech firms, with HPSW defined as:

> practices related to structured and comprehensive approaches to recruitment and selection, pay-for-performance and other incentive-based compensation plans, information sharing, rigorous performance appraisal processes and training in both generic and company-specific skills.
>
> Messersmith and Wales, 2011, p116

While this is an undoubtedly useful examination of HPSW in high growth firms, the majority of small firms are service sector based and contribute low productivity growth (Curran et al 1996; Aayagari et al, 2011) and so by extrapolation are unlikely to employ such systems. Messersmith and Wales (2011) argue that firms employing HPSW practices may benefit from increased growth and a high degree of 'entrepreneurial orientation' (EO), referred to as an increased proclivity toward innovation and proactive risk taking. However they also recognise that this is a 'chicken and egg' situation (Messersmith and Wales, 2011, p130) in which a firm with a high EO may choose HPSW as a matter of preference - returning to problems of attributing causality inherent in the mainstream HRM literature (Marlow, 2006).

In an attempt to provide a model that takes account of the broader small firm context, Harney and Dundon (2006, p48), have recognised that an 'open systems' approach to the examination of HR practices in SMEs:

> helps facilitate a move beyond mere recognition of the complexity and heterogeneity of HRM in SMEs, towards an understanding, accommodation and explanation of particular environmental factors.

Such an approach recognises that small firms 'depend on and are influenced by flows of personnel, resources and information from the outside' (Harney and Dundon, 2006, p51). With this in mind, the authors developed a conceptual framework (figure 2.3) which enables the

development of understanding of the key environmental influences on small firm employment behaviour and allows for the 'emergence' of HRM theory which is appropriate to the small firm.

This review will consider the key areas within the framework which are most apposite to the research question and conform to the scope of this study. These are the relative informality and formality of HR practices, the role of the owner-manager in developing those practices, the impact of legislation on the employment decisions and employment relations, including the role of trade unions and employees. Issues of the labour supply have already been addressed in the preceding sections of this review, in Section 2.2. The study aim for this research, namely an examination of the first and early employment decisions, indicates that a focus on the micro firm sector is appropriate as non- rapid growth firms are those most likely to take employment decisions incrementally.

**Figure 2.3- Influences on Small Firm HR Practices**



EXTERNAL INFLUENCES (DEPENDENCE)

PRODUCT/ MARKET STRUCTURE
Marchington and Parker,1990; McMahon, 1996; Hendry and Pettigrew, 1986

HR SUPPLY
McMahon, 1996; Wilkinson, 1999; Carroll, *et al.*, 1999

INDUSTRY SECTOR
Curran and Stanworth, 1979

VALUE CHAIN
McMahon, 1996; Rainnie, 1989; Kinnie *et al.*, 1999

TECHNOLOGY
Gunnigle and Moore, 1992

LEGISLATION
McMahon, 1996; Osterman, 1994; Hortsman, 1999

FEEDBACK

HRM SME

Emergent HRM

REALISED HRM OUTCOMES

Labour Productivity

Flexibility

Social Legitimacy
(Boxall and Purcell, 2003)

Informality/Formality of Relations
(Penn *et al.*, 1998; Bacon *et al.*, 1996; Carroll *et al.*, 1999, Ram *et al.*, 2001)

INTERNAL DYNAMICS
- OWNERSHIP
- MANAGEMENT STYLE/IDEOLOGY
(Cassell *et al.*, 2002; Dundon *et al.*, 2001; Entrialgo, 2002; Goss, 1991; Matlay, 1999; Rainnie, 1989: Reid and Adams, 2001)
- TRADE UNION PRESENCE
(Dundon *et al.*, 2001; Gunnigle and Brady, 1984; Rainnie, 1989; Wager, 1998)
- SIZE
(Kaman *et al.*, 2001; Little, 1986; Robinson and Pearce, 1984)
- EMPLOYEES
(Guest, 2001; Nadler and Tushman, 1997)

Source: Harney and Dundon, (2006, p54)

### 2.3.3 Formality and Informality of HR Practices in Small Firms

An understanding of the degree of informality or otherwise of HR practice in small firms may be a useful conceptual lens through which to explore small firm specific HRM. De Kok (2003, p3)

refers to formal HRM practices as those 'that are thought to stimulate employee competence and commitment'.

Ram et al (2001, p846) describe 'informal' practice 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.

Such formal HRM practices may correspond to those examined in Section 2.2.1 above, namely those that underpin specific functions, roles and intend to lead to specific and desired outcomes.

The extent to which models of 'formal' HR theory may be applied to small firm HRM behaviour may be limited due in part to the understood informality of such practices in small firms. Indeed, various authors have examined the extent to which the HR process could be described as 'informal' in small firms (Goss, 1991; Goss et al, 1994; Duberley and Walley, 1995; Benmore and Palmer, 1996; Ram, 1999; Ram et al, 2001; Marlow and Patton, 2002; De Kok et al 2003; Reverley et al, 2004; Kotey and Sheridan, 2004; Bacon and Hoque, 2005; Martin et al, 2008; Gilman and Edwards, 2008; Marlow et al 2010; Saridakis et al 2013).

Reveley et al (2004) explore issues of control and interpersonal relations in a small professional service firm and conclude that a high degree of informality replaces the more formal systems and procedures that are common in large firms. Yet Ram et al (2001) contend that such informal practices are context specific and change with the experiences of the firm's owner, employees and management team. In addition, they argue that large firm HR practice may not be seen as entirely 'formalised', since such tacit understandings are bound to exist even where codified rules and procedures are in place.

Goss et al (1994) provide an early disputation of the argument that 'formal' or strategically consistent, internally focused and performance linked models of HR practice could not be applied to small firms simply because of their size and heterogeneity. In an analysis of the introduction of the Investors in People scheme in four companies, employing between eight and three hundred people, they argue that, while informal HR practices are likely, the assumption that informality is inevitable in small firms is not the case and that, particularly as a firm

expands, a structured approach to HRM may be possible. Ram et al (2001, p846) also argue that:

> a sharp distinction cannot be drawn between the formal and the informal aspects of employee relations, given widespread managerial reliance on informal understandings… Informality in small firms is therefore a matter of degree and not kind, and its nature may vary as much between firms of a given size as between large and small ones.

Further, it is argued that informality is not a permanent characteristic of small firms. Instead, processes and procedures may be introduced over time in an evolving fashion as external legislative or economic effects influence the organisation. Ram et al (2001, p859) state that shifts toward formal systems are the product of a combination of 'vision and opportunism' and are further influenced by the characteristics of the labour market.

Supporting the argument that informality is likely but not inevitable in small firms, De Kok et al (2003) find in a quantitative study of over 600 SMEs that, while formality of HR practice was more likely in larger firms, formality of practice was also influenced by the preferences of the CEO and the influence of stakeholders, which then diminished the influence of firm size on formality. The study also found that an increase in firm size was most likely to influence an increase in formality of recruitment and retention practices and likelihood of the firm having an established HRM department. However, the sample used in the study was dominated by firms employing more than 20 people and it was not clear how many were micro firms employing less than 10 people. Furthermore, the research does identify a trend towards increasing formalisation with firm size.

Considering variables other than simply firm size, Bacon and Hoque (2005), in an analysis of the 1998 WERS survey, found that small firms employing skilled rather than unskilled labour were more likely to introduce HR practices designed to enhance performance. They also found that firms with trade union representation were more likely to develop formal HR policies around disciplinary and grievance but that the unions had less influence on the development of performance management policies.

Ram et al (2001, p845) cite Goss (1991) who identifies the egalitarian 'fraternal' relationship between the owner-manager and skilled employees who become trusted stakeholders in the firm. This view is supported by Marlow and Patton (2002, p527) who argue that owner-managers 'develop close social and spatial working relationships with their employees'.

Atkinson and Meager (1994) note that the need for this close relationship is a direct consequence of the smallness of the firm - the fewer employees, the greater the relative importance of individuals to the firm's economic destiny. Thus, it could be said that the collegial atmosphere emerges naturally as each team member perceives their influence.

Informality may therefore manifest itself in the form of emergent rather than deterministic hierarchical social and working relationships between the employer and employed (Ram, 1999) and may have detrimental effects on business performance (Marlow and Patton, 2002). For example, Marlow and Patton (2002) note that empirical evidence that suggests that owner-managers of small firms tend to be reluctant to discipline their employees. Yet, given the influential position of employees it is likely that, where divisions of opinion occur, they may present a significant threat to the harmony of the organisation.

The owner-manager's 'informal' approach to discipline may result in such challenges remaining unchecked as the employer seeks to remain part of the team. The situation may only be finally resolved by the eventual dismissal of the employee by the employer, by which time much damage has been done to team morale and may explain a higher incidence of industrial tribunals in small firms (Marlow and Patten, 2002).

The authors also note that the employees' view of their position in the team is often tempered by the fact that they are consistently aware of the authority of the owner-manager, although the owner-managers were less aware of this distinction and the effect that it would have on the team ethos.

In a qualitative study of four small professional service firms, Ram (1999) noted that this informality can be seen in work roles. In this case however, it was found that senior employees gained a negotiated autonomy. These employees were responsible for meeting pre-negotiated targets but made their own decisions on how those targets were met. Ram recognises that this process is managed through a further informal mechanism of 'mutual adjustment', in which employees communicated their progress to one another and made the necessary changes to their work patterns.

In a quantitative study, Kotey and Sheridan (2004) argue that informal processes become increasingly formalised as the firm grows. The study examines three categories of firm, these being the micro-firm (mean 1.9 full time employees), the small firm (mean 6.8 full time

employees) and the medium firm (mean 23.6 full time employees). The transition from informal to formal practice and behaviour can be seen in a movement from flat to hierarchical management structures, a delegation of responsibilities from owner-managers to middle managers and an introduction of documented policies on 'human resource related issues' (Kotey and Sheridan, 2005, p 475).

The authors argue that this transition process occurs gradually, more rapidly at the early stages of growth than later and is more pronounced at the operational level than the managerial level. The latter point may be due to the increasing distance between the owner-manager and operational employees as the firm expands. These findings support the views of Ram (1999) who also recognised that there was less autonomy and discretion enjoyed by 'non-senior' staff. These members of staff were also more likely to identify a hierarchical structure than senior managers. Kotey and Sheridan (2004) do concede that 'HRM still remains informal in the majority of firms, particularly at the small level' (Kotey and Sheridan, 2004, p484).

Gilman and Edwards (2008, p550) expand upon Harney and Dundon's (2006) examination of HR practices within SMEs to explore HR behaviours in firms in 'similar sectors', namely four high tech, non-family owned firms employing between 38 and 62 people. Gilman and Edwards (2008) identified tensions between the desire to retain the informal practices that encouraged individuality and flexibility and the need to develop rules and policies that codified the employer's obligations.

It is notable that these firms were near the point at which Atkinson and Meagher (1994) had identified that formality becomes necessary (see section 2.2, above). The findings of Gilman and Edwards (2008) appear also to find some consistency the arguments of Kotey and Sheridan (2004). While there is no clear formalisation threshold, the tensions between formal and informal practice are clearly pronounced and become more so with the development and growth of the firm.

Marlow et al 2010 dispute the fact that formality or informality must be mutually exclusive in small firms. In a qualitative study, they instead argue that there is a dualism in place, where both aspects are co-dependent and that 'degrees of informality and formality coexist within all organizations, and that analysis should be oriented towards understanding this interplay' (Marlow et al, 2010, p956). As such, formal and informal practices occur on a spectrum and organisations and their members can shift over time between formal and informal practices;

Marlow et al (2010, p960) label this a 'fluid notion'. It is also a matter of perspective, with owner-managers and employees holding different views of the nature of informality:

> …during the introduction and implementation of (formal) changes, owners and managers in particular expressed a sense of regret and nostalgia for the loss of what they presented as benign fraternalism or 'friendly' social relations of production. Employees were, on the whole, less convinced this had disappeared. There was recognition of, and some adherence to, formality but the desire in both managers and owners to retain informal control over the employment relationship ensured that embedding formality as unquestioned normative policy was an uneven process.
>
> Marlow et al 2010, p964

Thus, even the idea of what constitutes formal behaviour varies according to the stakeholder that perceives it. Introduction of formal policy does not signal a leap toward formality, as there is equally likely to be a continuation of informal practice in day to day behaviour. Marlow et al (2010) are clear that they do not dispute the view that large firms exhibit more formality than smaller ones, but that the process that leads to greater formalisation is uneven and recursive.

In a quantitative study, Saridakis et al (2013) examine the effects and value of introducing such formal practices in SMEs. They found that there were benefits to be had from formal practices for organisations exhibiting low levels of employee job satisfaction. Conversely, where job satisfaction was already high, the benefits of introducing formal practices were negligible. Further, in support of the view of Marlow et al (2010), Saridakis et al (2013, p455) also suggest that 'blending elements of informality and formality to create 'structured informality' in SMEs with low employee satisfaction'. Such approaches would justify a shift towards greater formalisation with firm growth but without precluding the dualism that is likely in reality.

**2.3.4 Exploring Informality: Training and Development in the Small Firm**

It is recognised that training and development is less likely to be addressed in small firm contexts that exhibit a high degree of informality (Taylor 2008). Matlay (2000) found that owner-managers have limited awareness of the availability of external sources of training, despite their abundance and, at that time of writing, knowledge among policy makers of specific training needs of owner-managers was in need of review.

Storey and Westhead (1997) argue that there is a low incidence of training in small firms compared to larger ones because there is little motivation for an owner-manager to train and develop their staff. This is accounted for because the owner-manager may be fearful of

spending on training and then losing those trained staff to larger firms that can offer higher salaries. Furthermore, such training is encouraged by an internal labour market, whereby employees engage with it in order to progress in their managerial careers within the firm; such opportunities are clearly limited in small firms.

In a quantitative study that examined take up of training in the tourism sector, Jameson (2000, p43) found that a 'relatively unsophisticated management style characterise the approach taken toward recruitment and training' in the sector and that an 'informal' approach towards HRM was also common. Further, she found that staff development was particularly excluded from extant training provision and that such approaches hindered the development of an internal labour market in small firms, which is consistent with the findings of Storey and Westhead (1997). Jameson's (2000, p45) research is significant because the majority of her sample were 'independently owned single outlet' businesses and were therefore more likely to examine behaviours in under researched micro- firms.

Storey and Westhead (1997) also argue that, since small firms do not benefit from economies of scale, engaging in training is relatively more expensive. Taylor (2008, p437) is critical of the argument that limited take up of training in small firms is due purely to 'market failure' and recognises that there are a variety of small firm specific training programmes available free of charge, provided by government or publicly funded initiatives to support small firm training. Indeed, Matlay (2002, p4) states:

> …in relation to both scope and availability of funding, government-sponsored initiatives could represent the most important and consistent source of training for small business owner/managers. Typically, this kind of training opportunity is widely available, well-resourced and is supported by specialist expertise as well as an extensive administrative and marketing base.

The most recent UK government initiatives also extend to supporting the use of experienced business owners as mentors for new start-ups and an attempt to seek out, encourage, train and support graduates wishing to start fast growth businesses (Department for Business, Innovation and Skills, 2013; www.entrepreneurfirst.org.uk).

In a study examining the outcomes of eight entrepreneurship training programmes in five European countries, supported by a longitudinal analysis of the experiences of 35 entrepreneurs over a three year period, Henry et al (2003, p188) argued that such interventions were worthwhile, particularly given the high representation of small firms in the European private

sector. Their recommendations were rigorous and involved a three stage programme of intervention, consisting of a 'pre programme' process that tested potential participants; a 'during programme' process that involved incubation, mentoring, training and access to 'seed capital'; and a post programme evaluation that tracked outcomes and offered follow up support (Henry et al, 2003, p189). It appears that the Entrepreneur First programme has utilised a similar approach but it is too early in its execution for the development of meaningful empirical research.

Yet, while acknowledging the limited amount of research into training in micro- firms, Matlay (2002) found that the take up of government funded Industry Training Organisations (ITOs) were limited, with 9.79% of 4,737 micro firm respondents reporting use of such training. In a later paper, Henry et al (2005) note that the confusion surrounding differences between fast growth entrepreneurial ventures and small business training and the difficulty in measuring outcomes, particularly in terms of finding agreement on longer term benefits. This has not encouraged uniformity in the development of entrepreneurial training programmes and may account to some extent for the limited utilisation of such programmes.

Kotey and Sheridan (2004) note that small and medium firms, in an attempt to maintain an organisational culture, were 'more likely than micro firms to provide orientation training for new employees' (Kotey and Sheridan, 2004, p481). Their study also found that while on the job training was carried out by either owner-managers (in micro-firms) or supervisors (in small and medium firms), little externally based training was considered. It appears from this study that as the firm grows the owner-manager becomes preoccupied with middle management training as opposed to operational level training.

Bacon and Hoque (2005) found that firms with unskilled labour were less likely to consider training and development than those with skilled employees and note that small firms, particularly micro firms, are more likely to employ the former than the latter. Patton and Marlow (2002) support this argument and further suggest that, as small firms are short term focused, they are less likely to include training as part of any Human Resource Development plan. Indeed, their study of twenty manufacturing firms that had invested in training found that training was often undertaken in reaction to an emergent problem rather than being seen as a strategically beneficial, preventative measure.

Where training could be seen as proactive and strategic at a senior management level, there was a dichotomy in the motives for that training. Whereas the owner-manager introduced proactive training to 'improve current management processes in the business', managers employed by the business owners proposed different kinds of training that would 'strengthen their personal profiles' (Patton and Marlow, 2002, p267). The latter kind of training was more likely to be personally developmental and long term. This would indicate that there is a difference in objectives between the owner-manager as an employer and his or her employees. This further supports the division identified by Bacon and Hoque (2005) between training offered to skilled and unskilled employees.

### 2.3.5 Small Firms, Regulation and Employment Relations

Administrative procedures associated with legal reporting requirements have been identified as having a greater financial burden for small employers than for larger firms, who are able to take advantage of economies of scale (Chilton and Weidenbaum, 1982; Chrisman and Fry, 1983; Peterson et al, 1984). Some of the wider critiques of employment legislation that gained prominence in the 1980s were strongly ideological in origin, decrying government policy that curtailed liberty in the name of social justice (Hayek 1979). Others, though emerging from the ideological right, were more practical in outlook and called for the removal of legislatively created barriers to the market mechanism, which were said to be creating unemployment (Epstein, 1984; Minford and Ashton, 1985).

Deakin and Wilkinson (1999, p2) argue that 'deregulatory' practices and the 'encouragement of labour market flexibility' were common in 'most advanced economies in the 1980s and 1990s'. Indeed, successive UK governments have sought flexibility in labour markets and the last thirty years have seen a rescission of laws protecting collective bargaining and a concurrent decline in trade union power. Dickens and Hall (2006, p338) state however, that approaches to regulation since the election of the UK Labour Government in 1997 'not only represent a marked change in policy but also extend legal regulatory norms into areas of the employment relationship which previously had been largely a matter for voluntary determination'. This has led to legislation guaranteeing rights for individual employees, including a minimum wage, maternity and paternity leave, working time and employee rights (Blyton and Turnbull, 2004; Employment Relations Act 1999; Equality Act 2010).

These regulatory changes, though arguably an extension of individual rights and an incremental rather than a fundamental shift in ideology (Blyton and Turnbull, 2004), were marked by a distinctly anti-Hayekian belief that social justice and economic efficiency are not mutually exclusive (Dickens and Hall, 2006). While not a step back to collective bargaining, the approach signifies a willingness to regulate to achieve limited societal benefits. Furthermore, in spite of attempts to introduce labour market flexibility, the UK legislative requirements for firms are complex and multifaceted, influenced by a multi-level polity of EU and national law-making (Marks and Hooghe, 2003).

The regulatory landscape is therefore not easily navigated by small firms but it remains questionable as to whether owner-managers object to the principle to employment regulation and whether this has a singularly negative impact on the success of the firm (Kitching et al, 2013). Rainnie (1989) is critical of the argument that small businesses are uniformly and negatively affected by legislative burdens, which is an assumption that fails to take account of the heterogeneity and variability of the small business sector.

In a survey of over 16,000 small firms, Carter et al (2009) found while owner-managers reported dissatisfaction with regulatory burdens, the competitive environment and informal practices mediated their cost impact, thus creating a gap between the perception of the owner-manager and reality. However, Peck et al (2012) argue that the negative consequences of regulatory burdens are not only associated with cost but should be considered in terms of the business owner's anxiety, concerns about the threat of litigation and future uncertainty.

Further, Thorpe et al (2006, p243), in an examination of the effects of immaturity as a constraint on entrepreneurial behaviour, cite owner-manager respondents to their survey, who complained about the 'rather pedantic, regulatory nature' of work created by rules and regulations. They also found that business advisors, who may be constrained by a policy agenda or set of business practices, may impose frustrating structures on owner-managers that cause them to revert to practices that they had learned to avoid. Thus, even if the direct financial impact of regulatory practice is limited, it may have further psychological effects on the owner-manager and regulatory impact should not be underestimated.

Some of the unease and objections by owner-managers to increasing employment regulation may however be more attributable to their 'lack of knowledge' of specific and changing legislation rather than 'any fundamental objection to restricting employer autonomy' (Harris,

2000, p354). The informality of HR practices in small firms may account for the greater proportion of employment tribunals and subsequent cases lost by small firms compared to larger ones. Harris (2000, p297) argues that:

> the expansion of employment law and the escalating costs of litigation question the sustainability of this informal approach. Achieving a balance between formal procedures and informal relationships presents a particular challenge to a sector with less access to internal human resource expertise.

She finds no significant objection to the principle of employment regulation by owner-managers but the lack of HR expertise results in a culture of minimal compliance, although this greatly depends on the experience, values and expertise of the owner-manager and the extent to which the business has a trade union presence. Harris notes that the sample of six organisations used in her study had an 'untypically high trade union presence' (Harris, 2002, p303).

Blyton and Turnbull (2004) use Rainnie's (1991) typology of small firms to explore the variability of approaches to employment relations in small firms. The typology frames the relationships between small firms and larger ones, with the SMEs dependent on, dominated by or isolated from large firms. A fourth categorisation, that of the innovative firm, identifies that smaller companies can exploit specialist markets but are required to compete with larger firms for required talent. Blyton and Turnbull (2004) found that, counter-intuitively, unionisation is more likely in innovative firms than the other three.

Barrett and Rainnie (2002, p427) argue that a debate cannot focus on any single one issue from 'ownership structures, management style, family ideologies and the control of labour', all of which provide a cynosure for small firm employee relations literature. Instead, the debate should take the form of a dialectic, occurring in the wider context of the 'totality of the small firm's economic relations'. This can be achieved by taking account of 'both structure and human agency', which 'requires a consideration of the influence of the owners and managers upon the firm as well as structural determinants' (Barrett and Rainnie, 2002, p427).

This echoes Chapman's (1999) earlier critique of deterministic modelling of behaviours that identified small firm specific strategies of management and neglected human agency. Analysis of small firm employment relations requires a consideration of the behaviour of human agency; people who can influence and are influenced by the wider environment; and the influence of specific small firm structure, ownership and labour management strategy.

**2.3.6 The Owner-manager, Management and Leadership**

A detailed examination of leadership and management literature is beyond the scope of this review. Instead, it would be useful to briefly examine research that may help the understanding of the owner's management behaviour.

O'Regan and Ghobadian (2004) examine the influence of firm size on strategic planning, leadership, and organisational culture in a mixed method analysis based on responses from 194 SMEs and a further 20 interviews with owner-managers. They find that while some managerial activities, such as HR processes, become formalised, size of firm is not a significant influence on the three aspects of organisational behaviour they examined. It may therefore suggest that there is a value to qualitative examinations of small firm activity in order to explore these issues in more detail.

The behaviour of owner-managers and their approach to the management of their employees is examined by Chell and Tracey (2005), who propose a model to explain the relationship between owner-managers (OM) and their non-shareholding first line managers (FLM). They argue that the analysis of relationships within organisations should be measured by factors other than organisational performance, since the latter may be beyond the control of individual actors. In the development of their model they instead concentrate directly on the views of the key actors, in their case the owner-manager and first line manager.

The authors state that the appointment of a FLM is a method by which the OM can maintain control and delegate responsibility as the firm expands. The establishment of the FLM role initially supports the view of increasing formalisation of roles as proposed by Kotey and Sheridan (2004). Yet, in common with ideas examined earlier, Chell and Tracey (2005, p583) also argue that there is 'less formality and standardisation than in large firms', and this itself leads to role negotiation and individual autonomy. This suggests that the formalisation of roles in the small firm remains incomplete and fragmented, even resulting in the formation of more social and informal relationships, which is a factor in their model. This would support Marlow et al's (2010) contention that informality and formality are dualistic rather than mutually exclusive.

The outcome of the Chell and Tracey (2005) research indicates that the OM-FLM dyad is complex and the Oms are the main, though not singular beneficiaries of a strong relationship. It can be seen from the model that an effective relationship requires a shared comprehension and

conceptualisation of the competitive environment. It also requires role clarity, meaning a clarity regarding what the office holder is supposed to do; and role complementarity, where role conflict is more likely to occur when the FLM has one or more of their roles clashing with other roles - for example being both an employee and a relative of the OM. These are termed 'core factors' and must be met for effective relations between the OM and FLM (Chell and Tracey, 2005).

For effective interrelating between the OM and FLM, there may be either democratic/ participative or non-democratic/ authoritarian conditions and there may or may not be a shared vision for the company. These are variable 'contingent' factors and change, depending on the nature of the relationship, therefore accounting for specific conditions. The model also recognises the emotional dimension of 'mutual respect and trust between two parties' (Chell and Tracey, 2005, p606) that causes the FLM to carry out actions that are beyond reasonable expectation. The authors identify an OM who had a debilitating illness and an FLM who had been given a 'second chance' by an OM.  This research produces a complex and situation dependent view of the relationship but does identify key factors that contribute to its effectiveness.

The role of the entrepreneur as a leader has been explored by Kempster and Cope (2010), in a qualitative study of nine entrepreneurs. This work examines the process by which the entrepreneur learns to lead their firm during its development, combining several different and distinct roles on the way in order to achieve success:

> …whilst the business is at a micro-stage then the entrepreneur is more than just a leader, s/he is also a marketer, a sales representative, a public relations officer, a financial controller and so on, occupying numerous roles and wearing many different hats simultaneously
>
> Kempster and Cope, 2010, p8

Yet they find in their research that entrepreneurs do not commonly identify themselves as leaders, even going so far as to view the term pejoratively, in spite of the fact that their actions fitted extant concepts of leadership. Further, the business owners interviewed for the study had limited organisational experience and existing experience did not provide them with positive leadership role models. Indeed, some leadership role models were so negative that they were discouraging to the owner-mangers.  The leadership skills that owner-managers had learned emerged from the experiences of running the organisations that they had created and the dominant role models they discussed were close family.

The clear outcome of this work is that the entrepreneurs were focused on their skill or product rather than aspiring to a particular societal role such as a leader, which limits reflective learning about leadership practice (Kempster and Cope, 2010). This may further explain the preference for informality within the business exhibited by owner-managers. A quantitative study of 5710 firms by Wang and Poutziouris (2010) appears to confirm the tendency of the nature of the business itself to determine the style of leadership, rather than the profile of the owner-manager.

Cope et al (2011, p271) contend that distributed leadership within small ventures is curtailed by the very characteristics that inspire business owners to start up, stating:

> The commitment and energy of the founding entrepreneur shaping and controlling resources, which reflect the success ingredients of survival, become the nemesis to growth… There is a necessity to change the approach to leading, to change the nature of the leader–follower relationship…

As such, it is difficult for the owner-manager to allow others to take on leadership roles within the firm, which is a necessary pre-requisite for business growth. It is also likely that the nature of small firm relations, which form a 'leader follower' model as a result perhaps of the dominant role of the owner, do not encourage employees to seek distributed leadership. Cope et al (2011, p280) also recognise the 'dearth of research on entrepreneurship leadership generally' which has not led to a developed understanding of leadership in such contexts.

### 2.3.7 Recruitment and Selection Practices in Small Firms

Taylor (2006, p479) argues that 'recruitment and selection are a priori central to the management of human resources in growing firms' and that pressures of growth means that recruitment requirements may become 'urgent'. As has been noted, Atkinson and Meager (1994) state that firms already employing more than ten people are more likely to recruit than those employing fewer.

Recognising the limitations in small firm specific HR literature (already discussed in the introductory chapter in section 1.1), Taylor (2006, p482) advocates an 'empirically informed and theoretically grounded' approach to understanding recruitment and selection practices in SMEs. He adds that such a perspective should eschew functionally comparative approaches that seek to judge effectiveness against an industry standard, since small firms tend to confound standard expectations.

Far from being inefficient and inferior versions of large firm behaviours, recruitment practices may be understood in terms of the interaction between 'structures (such as legislation or HRM) and managerial or employee agency' (Taylor 2006, p487). Thus, knowledge regarding these practices can be developed through an interpretative approach. Further, while the specific recruitment decisions may be strongly influenced by the whims and prejudices of the owner-manager, recruitment and selection in SMEs is not an unstructured process. Indeed, Taylor (2006) posits that the social networks in which the owner-manager operates (discussed in depth in section 2.4, below), particularly those involving family, provide the labour pool, information and decision making capability which allows the selection of employees appropriate to the needs of the firm.

Vinten (1998) examines practices in six companies provided as 'case study' examples. He notes that these firms advertise within the local area and have a preference for word of mouth recommendations. Pay levels were set in terms of the skills and abilities of the potential employee and the perceived value of the job. Vinten (1998) also recognises that, unlike in larger companies, the pay level of the previous incumbent were not an important factor in setting the pay for the new employee. This reflects the argument of Cassell et al (2002) that HR practices in small firms are driven by need - referred to by Taylor (2006) as urgency - and therefore emerge from the day to day requirements of the business.

Williamson (2000) recognises that early recruits may emerge from the owner-manager's social network but adds that if long term growth is to be sustainable, then there will be a point at which the organisation will need to recruit 'strangers'. He argues that the recruitment of strangers puts the business in direct competition for labour with other similar organisations and as a result, it requires a recruitment advantage in the labour market. This could arise through the organisation achieving 'employer legitimacy' (Williamson, 2000, p30) which is dependent upon the employer behaving according to accepted practice within the industry. Since large employers dominate, they will likely set the norms by which employment practice is seen to be legitimate.

Williamson (2000, p31) suggests that in order to gain employer legitimacy, a small firm may therefore practice 'strategic isomorphism' which results in those small firms adopting formalised recruitment practices similar to the dominant firms.

Given the large number of micro firms and the strong (though, as has been argued, not inevitable) tendency toward informality in such firms, Williamson's (2000) arguments may be problematic. However, he also recognises that firms employing more than fifty employees are ones more likely to require strategically isomorphic practices and that such experienced employers are most likely to understand their relevance and use them effectively. It is therefore consistent to suggest that strategic isomorphism in terms of recruitment practice is most likely in a firm that is beyond the stage at which social networks are supporting employment growth and at a point at which more general HR practices tend to be formalised.

Fadahunsi et al (2000), examine ethnic minority enterprise development and note that social networks provide a pool of labour for ethnic minority business owners. These are likely to be unskilled family members or close friends in the start-up phase, with further informal recruitment from 'co ethnic groups' taking place later (Fadahunsi et al, 2000, p233). The nature of social networks is explored further in section 2.4. It can be seen that the importance for the owner-manager of this type of firm is the low cost, convenience of access to and locality of the labour pool, rather than more standardised and qualification based requirements of larger established firms or experience based selection carried out in small high technology professional service firms, as noted by Ram (1999).

More recent studies that exist tend to explore specific scenarios but also serve to demonstrate the limited and sporadic nature of existing empirical work. Wyatt et al (2010) carry out a useful analysis of the application of selection tools in an SME employing 60 people and makes recommendations for development of prescriptive HR practices in this context.

Ofori and Aryeetey (2011) examine selection preferences in Ghana, specifically identifying the fact that SMEs there may be prepared to recruit graduates but that those graduates rarely remain with the business for more than three years. Yaacob and Then (2012) examine the behaviour of small travel agencies in Malaysia and highlight the informal and inexpensive methods common to small scale ventures.

Yet, despite Taylor's (2006) call for empirical action, there is little more written about specific recruitment practices within small firms, beyond the recognition of semi-structured, bounded informality.

**2.4 Social and Human Capital and Small Business Networks**

In an examination of appropriate areas of research that might contribute to a conceptual understanding of small business start-up, Deakins and Whittam (2000) identify four key theoretical areas, namely human capital approaches; finance; motivations and networks of social capital. Any detailed examination of the owner-manager's approach to the financing of their business is beyond the scope of this study. However, it would be useful to examine the concept of human and social capital and the role these concepts play in the start-up business and their connection to the development of business networks.

The development of literature on social capital owes much to Granovetter (1973, p1360) who formulated the idea that 'it is through (interpersonal) networks that small scale interaction becomes translated into large scale patterns and that these in turn feed back into small groups'. The relationships between actors in the network are referred to as 'ties' and therefore ties can be seen to be strong or weak. He also notes that weak interpersonal relationships can build more cohesive communities within a macro-economic whole than stronger ones, as the latter tends to lead to clique behaviour, fragmentation and inaccessibility between cliques. Granovetter (1985) also explores the concept of 'embeddedness' and posits that social networks are responsible for the development of reciprocal relationships even where there exists a strong market mechanism. This is explored further in section 2.4.2.

Elsewhere, social capital has been said to emerge from the 'socio-intellectual systems' that allow the passing of knowledge between individuals, while the 'network' is the vehicle by which that information is transferred, though not always efficiently (Beyerlein and Lin, 2010, p154). Social capital is further defined by Baker et al (2011, p23) as a 'dynamic' concept which consists of the expertise held by people within a community and which is constantly evolving and developing as the networks themselves develop and change. In spite of this, as will be seen in section 2.4.3, attempts have been made to distinguish forms of social capital.

The concept of human capital, and specifically investment in human capital in order to enhance capability and subsequently earnings, was developed by Becker (1962). Deakins and Whittam (2000, p116) describe human capital as the 'accumulation of knowledge, skills and experience' by the owner-manager. They refer to this in terms of the owner-manager's own capabilities in the early stages of business development but this could equally apply to those held by future employees at later stages of growth.

It can be argued therefore than human capital refers to the knowledge and skills held by the individual and social capital refers to the extent to which that individual can gain further benefits from the knowledge that exists in their environment (Davidsson and Honig, 2003) Concepts of human and social capital have since been adapted as a concept to understand the behaviour of the nascent entrepreneur and their business network (Bates, 1990; Pena 2002; Davidsson and Honig 2003; Sequeira et al 2006; Diochon, 2008; Lee and Jones, 2008; Karlsson and Wigren 2012).

**2.4.1 Small Business Networks**

Shaw and Conway (2000) note that the personal network of the owner-manager may be seen as a significant contributor to the effective performance of the small firm and the development of social capital. They define such networks as (p369):

> …constructs which conceive of the environment in which small firms exist as forming a network structure of overlapping relationships. More specifically, small firm networks can be defined as the composite of the relationships in which small firms are embedded and which serve to link or connect small firms to the environments in which they exist and conduct their business.

Casson and Della Giusta (2007, p224) add that:

> The defining feature of a network is 'connection'. A set of 'elements' that are connected to each other form a 'network'. The elements are the 'members' of the network. The connection is created by some kind of 'relationship' between the elements. Every pair of members is connected, either 'directly' or 'indirectly'; indirect connections are effected through other members of the network.

Thus, such networks play an important role in enabling the business owner to access social capital. Networks also provide information about the industry in which the businesses operate, information about the behaviour of businesses within that environment and they enable business owners to make use of social capital through the enhancement of problem solving capabilities (Shaw, 1997; Fuller-Love and Thomas, 2004).

Cope et al (2007, p214) argue that networks develop from personal relationships, or strong ties, but expand over time to include 'formal contractual arrangements, including strategic ties with other companies'. Further, information and support provided by such weak ties are necessary for the later development and growth of the firm. Indeed, Sorenson et al (2008, p617) refer to

the development of networks as 'collaborative network orientation' (CNO) and state that such approaches demonstrate:

> a preference to build collaborative relationships among networks made up of customers, family members, community members, and, inside the organization, employees. Outside the organization, CNO managers tend to cast a relatively broad net when establishing themselves as the hub of collaborative networks.

Shaw and Conway (2000, p377) also distinguish between formal and informal networks, with the former consisting of 'joint ventures, licensing agreements and supply chain linkages' and the latter simply described as 'personal relationships'. These are, respectively, broadly similar to the weak and strong ties to social capital.

Birley (1985, p107) is critical of the role that strong or, in her terms 'informal' aspects of social networks play in the development of the business. She argues that a reliance on 'informal' networks tended to reaffirm possible erroneous beliefs about the choices open to the venture. This is supported by evidence that found that firms that relied purely on these networks exhibited a tendency not to consult more formal sources of expertise, or weak ties, such as banks, accountants, lawyers and chambers of commerce. Thus, informal or strong networks acted as a barrier to formal or weak networks.

Larson and Starr (1993) enhance the understanding of the role of the network with a three stage model of entrepreneurial networking activity that examines the exchange processes between actors in their environmental contexts. The model aims to explore these relationships through the emergence and growth of the firm. The first stage of the model examines the early stages of relationships that are formed by the business owner. It appears that these early relationships are socially based on existing, strong linkages with family and friends who may have a resource or set of resources useful in the establishment of the new venture. These relationships are pared down to the most useful to the business at the end of stage one.

Stage two leads to the overlapping of social and business relationships as the exchange becomes two way and economic in nature, corresponding to weak ties. New economic relationships (for example with suppliers) may also become social in nature and thus the participants gain personal understanding and a trust and deeper knowledge of one another. This would suggest that the first stage informal networks or strong ties, criticised by Birley (1985, p116) as a 'barrier', is one that can be overcome.

An analysis of small service firms in the UK by Shaw (1998) would suggest that weak ties at this stage would be most effective and have a positive impact if the networks are diverse with a wide membership and with a large amount of information being shared. Conversely, a too narrow or strong network can be damaging, exhibiting the problems noted by Birley (1985).

The third stage of Larson and Starr's (1993) model leads to a deeper financial commitment from the investors in the owner-manager's business, a return on previous investments and a sharing of ideas leading to cooperative research and development. At this stage, the process becomes formalised, in that management of many relationships are delegated to subordinates and the actors have become organisational stakeholders; this is in common with the discussion of OM-FLM relationships in section 2.3.6. This model appears to suggest a long-term stability in the relationships that the owner-manager forms in the early and later stages of the business. The authors refer to this as a crystallisation at the 'critical mass of dyads that establish the organisation as a new entity' (Larson and Starr, 1993, p 10).

Taylor and Thorpe (2004) argue that networks are also vital to the experiential learning process that guides the owner-manager in the establishment and development of the business. The authors suggest that networks can provide an opportunity for learning in the absence of formalised government initiatives and training programmes. By exploring relationships within and outside the firm, the social, historical and cultural contexts of learning can be taken into account and every individual that the owner-manager has contact with may influence his or her decision making and behaviour.

The authors use a qualitative biographical approach in the gathering of data, described elsewhere as critical incident technique (Cope and Watts, 2000). They identify a series of crises faced by an owner-manager and analyse their stories following semi-structured interviews. The authors find that certain actors in the owner-manager's network had strong relationships with each other, while others had weaker relationships. This leads to the formation of a clique of significant actors who have more complex long term relationships, although they state that there is no evidence of a greater intensity and direction of support among this group when compared to the non-clique.

The differentiation between strong and weak ties again supports Granovetter (1973), who argues, as has been recognised, that weak relationships are able to transcend cliques and

therefore it would be expected that these could provide as useful support and advice as strong relationships. Therefore non-clique actors are as important and relevant as cliques.

As an example of the influence of both strong and weak ties, Taylor and Thorpe (2004) recognise that a decision by the entrepreneur to sell shares to raise capital was influenced by a fellow commuter and through formal relationships with his solicitor and tax inspector. The authors acknowledge the limitations of this study but suggest that historical, cultural and social influences can have an influence on the owner-manager's experiences, decision making and network involvement (Taylor and Thorpe, 2004). This research also provides further evidence that there need not always be a barrier between informal and formal networks.

In a quantitative study, examining social networks of a total of 588 owner-managers in four countries (USA, Norway, Italy and Sweden) Greve and Salaff (2003) found commonalities in entrepreneurial networking behaviour across those nations. They identify three distinct phases in the establishment of a business that led to different ways in which the entrepreneur used their social capital. Phase 3 is split between those who establish a new firm and those who take over an existing firm (3a/3b), although networking behaviour was not significantly different. Table 2.6 below represents the phases and approaches by the entrepreneur.

These findings appear to complement the work of both Larson and Starr (1993) and Taylor and Thorpe (2004) in that the social capital available to the owner-manager will shape the decisions that are made in the early stages of business development.

**Table 2.6- Owner-managers' Use of Social Capital With Firm Development**

| Phase | Use of Social Capital |
|---|---|
| 1- Motivation to start a business | Discussion limited to closest relations |
| 2- Planning a new business | Enlargement of network, effort expended in building and maintaining relationships |
| 3a- Establishment of new firm | Slight reduction in network size, less time spent building new relationships |
| 3b- Taking over a firm | |

Source: adapted from Greve and Salaff (2003)

Greve and Salaff (2003, p17) also state that:

> … age, gender, and having a self-employed parent do not affect… network size or the time entrepreneurs spend discussing their enterprise with others… (entrepreneurs have) a high proportion of family members in their networks, and those with the highest proportion rely less on outsiders. Females with self-employed parents to a larger extent than males draw on kin in their discussions of establishing and running a business.

The latter point regarding female owner-managers relying on family is justified by the argument that females may have restricted access to more diverse but male dominated networks. This is supported by earlier work by Smeltzer and Fann (1989) who found that women were unlikely to use the same networks as men and that they were more likely to seek advice from other women.

Sorenson et al (2008) found in their study that women were more likely to establish a broad collaborative network organisation (CNO) than men but that, because of the likelihood of a beneficially diverse gender balance in a CNO, male owner-managers would derive greater business success from it. In spite of the comparative differences between researchers, there appears to be some agreement that broad, mixed gender networks lead to better firm performance.

Further, Greve and Salaff (2003) argue that the approach to network development is similar across cultures, but this does not preclude arguments advanced earlier that ethnic minority business owners have specific networks (Fadahunsi *et al*, 2000) since although the approach to network development may be similar, the networks that emerge may be contextually specific.

In a qualitative analysis of small manufacturing firms in Australia, Hanna and Walsh (2008) find that inter firm networking can expand into inter-firm co-operation. The firms were able to use inter-firm co-operation to diversify and access new markets, providing that such activity did not affect their core business. Hanna and Walsh (2008, p308) also recognise that such close networking activity was possible because firms noted the 'mutual benefit' and 'were willing to relinquish ultimate control for the opportunities this brings them'. They note that firms found that:

> By working with appropriate peers they could array skills for which the market would pay a premium, for example the ability to design and install equipment or to deliver a complete range of components in a manner to suit the customer or to deliver a complete subassembly and thereby reduce the number of suppliers a company deals with.
>
> Hanna and Walsh, 2008, p307

The authors note that partners were chosen carefully and avoided co-operation with competitors. This also required a degree of trust that the partner would not behave opportunistically and this risk in trusting was taken because the alternative of subcontracting also contained risks. A more detailed examination of entrepreneurial trust is undertaken in sections 2.5.3 and 2.5.4.

### 2.4.2 Human and Social Capital and Business Start-Up Success

As has been noted, networks are the vehicles that enable the development of human and social capital. Cope et al (2008) recognise that social capital is a consequence of inter dependence and social relationships but that its value as an asset is contested. As will be seen, the same can be said for the role and value of human capital. The following discussion examines both concepts in relation to the wider network.

Bates (1990) examined the longevity of business established between 1976 and 1982 and specifically those that were still active in 1986. He found that the level of education of the owner-manager, the entrepreneur's human capital, was strongly linked to the likelihood of the survival of the firm. He also finds that while 'managerial uncertainty does typify firm start ups', those business owners with four or more years in college were more likely to own a firm that survived to 1986 (Bates, 1990, p552). It also appeared that these owners would start their business with a higher level of financial capital, which also contributed to longevity. Given the uncertainty associated with running a new venture, knowledge and the means to acquire knowledge were important to firm survival.

Pena (2002) further enhances this understanding with an examination of the role that both human and social capital play in firm start-up and survival. Pena (2002) finds that the combination of three factors contribute to an enhanced chance of success from start-up, namely; human capital of the entrepreneur; organisational capital; and relational capital. Organisational capital refers to the ability of the firm to adapt to environmental changes and relational capital to the ability to develop effective networks and access important advice from external stakeholders. This latter definition is closely related to the concept of weak ties to social capital. The three elements together form 'stocks' of intellectual capital and the success of the business relies on the way in which information flows between them (Pena, 2002, p183).

For the purposes of his study, Pena (2002, p188) split the firm development period into three areas; 'ex-ante' which refers to the early stages of business development; 'gestation', which refers to the firm creation and the development of associated organisational and relational capital; and 'consolidation' which refers to the subsequent likelihood of either firm growth, stability, decline or failure. His study was based on an examination of the employment, profit and sales success of 114 firms who had been trading for three to four years and were 'struggling to overcome the gestation period' (Pena, 2002, p188).

The contribution of these flows to the development of the business is summarised in his model, represented in figure 2.4.:

**Figure 2.4- Intellectual Capital Framework for Business Start-Up**
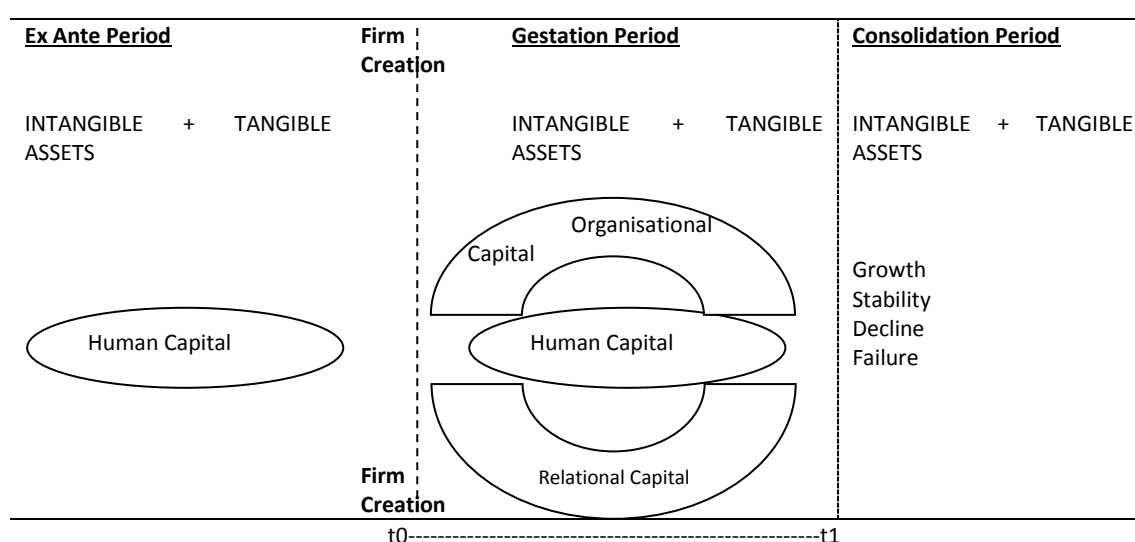


Source: Pena, (2002, p 187)

The author emphasises the importance of the learning period experienced by the business owner, the speed and development of which contributes to the information flows between the three areas.

Pena (2002) finds that, in terms of human capital, the most successful businesses that proceed to growth were those whose owner mangers had college degrees, prior managerial experience and devoted more than 50 hours per week to the business. In terms of organisational capital, he found that those firms that were able to respond swiftly and flexibly to changes in market conditions were most successful, adding that:

intra-firm learning, structural flexibility and business strategies are relevant components of intellectual capital embedded in a firm, which seem to influence new firm survival and growth

<div align="right">Pena, 2002, p 192</div>

Finally, in terms of relational capital, it was those firms that were able to seek advice from a broad range of sources across a wide geographical area demonstrated the greatest chance for success.

In a separate quantitative study examining the early business development behaviours of Swedish business start-ups, or what they termed 'nascent' entrepreneurs (coterminous with Pena's 'gestation' stage), Davidsson and Honig (2003), found that social capital had a stronger influence than human capital on the ability of the entrepreneur to develop a business idea into a fully established firm. Further, Davidsson and Honig (2003, p301) found that 'only one aspect of social capital', described as 'being a member of a business network' had positive effects on the further growth of the firm, including the first sale and profitability. While human capital influenced the amount of activity prior to start-up, its influence diminished significantly during gestation. This directly contradicts the earlier view of Bates (1990).

Davidsson and Honig (2003, p310) also differentiate between 'bonding' and 'bridging' social capital. Bonding social capital has much in common with Granovetter's (1973) 'strong' ties and bridging with his 'weak' ties, as discussed above. Davidsson and Honig (2003, p310) add:

Examples of bonding social capital based on strong ties may include having parents in business, being encouraged by family or close friends, and being married. Examples of bridging social capital based on weak ties may include membership in organizations, contacts with community agencies, business networks and the development of friendships with other businesspersons.

In terms of the importance of social capital to business start-up and growth, the differences between the findings of Pena (2002) and Davidsson and Honig (2003) are of degree. Furthermore, both determine the influence of human capital in the very early stages of business development. Yet Davidsson and Honig (2003) place far more importance on the role of social capital and far less on human capital to later business development, whereas Pena (2002) states that interactions of social capital and human capital are both required for growth.

Diochon (2008) broadly support the findings of Davidsson and Honig (2003) in an examination of the success of Canadian nascent entrepreneurs, with social capital playing a more significant

role in the success of the firm. However, they did find that one specific aspect of human capital, that of financial management capability, contributed to business growth.

A systematic review by Macpherson and Holt (2007) of extant empirical research examining transfers of knowledge and the relationship to growth in small firms found that growth was either constrained or facilitated by social capital and the associated networks that enabled knowledge transfer. They argue, following the review, that:

> Social capital is limited by prior experience and an often restricting preference for informal and social contacts. In order to be beneficial in the long term, networks need to be extended beyond local social and industrial contexts.
>
> Macpherson and Holt, 2007, p180

Sequeira at al (2006), through an examination of literature and with particular emphasis on immigrant entrepreneurs, establish a series of propositions that is generally consistent with this argument and the wider effects of human and social capital discussed thus far. They posit that early strong ties (bonding social capital) within an immigrant enclave will have positive effects on a business start-up but that weak ties at this stage (bridging social capital) may have negative effects. As the business moves into the development and growth stages, these effects are reversed, particularly where there is an exclusive reliance on strong ties.

Further, and in common with Pena (2002), Sequeira *et al* (2006) argue that human capital will have a moderating effect at the growth stage, thus reducing the negative effect and enhancing the positive effect of bridging social capital. A key argument for the moderating effect of human capital is that those immigrant entrepreneurs with language proficiency (an aspect of human capital) will be better able to develop and utilise weak ties ('bridging' social capital). Thus, in such a context, human capital will play a role in later development of the firm, albeit an indirect one.

Huang et al (2012) carried out an investigation of the impact of human capital on organisational innovation and performance in a Chinese context through a quantitative survey of 222 Chinese and Taiwanese businesses. They found that, in common with the research discussed thus far, the mediating role of business networks was hugely important to the success of the firm. This is likely to be reinforced by the Chinese culture which relies heavily on the development of relationships throughout business activities. However, Huang et al (2012, p 324) also found that the owner-manager's human capital, in the form of 'expertise, management skills and

experience' had a significant effect on the start-up performance, again supporting the view that human capital is important at the early stage of business development.

Lee and Jones (2008) add the construct of 'cognitive' social capital to concepts of structural and relational capital. They argue that:

> the actual development process of combining experience and commonalties that boost potential collaboration among entrepreneurs is facilitated by shared communication
> Lee and Jones, 2008, p562

and that:

> those directly involved with the provision of entrepreneurial training must pay greater attention to building better communication skills, face-to-face and electronic, among those who have low levels of human capital.
> Lee and Jones, 2008, p585

Cognitive social capital, where knowledge is developed through shared communication, means that communication skills, an aspect of human capital are vital for the successful interaction. This provides a further argument for the development of human capital as a facilitator or mediator in the enhancement of social capital. Here, as in the research of Sequeira et al (2006), it is not that human capital is important for its own sake (for example knowledge about how to write a business plan) but as a tool to access social capital networks (for example in utilising effective communication skills).

It is therefore the case that research that explores the role of human capital may dismiss its importance as a direct influence on business success in the later stages of growth but it is necessary to consider both the nature of the human capital and the nature of the interaction between human and social capital. For example, Karlsson and Wigren (2012) examine the likelihood of university academics starting a business. They found that academics with prolific peer reviewed business output were less likely to start a business than those who were able to report their research in 'popular' and more widely accessible scientific journals. They state:

> researchers who are able to package their knowledge, so it is communicable for the audiences of the popular science outlets, are more successful in commercializing research
> Karlsson and Wigren, 2012, p308

Further, in terms of human capital they add that:

> our study indicates that the tacit knowledge indicated by being able to help a colleague
> to start a business had a positive impact on start-up propensity, while explicit human
> capital variables such as academic position and our control variable age, and the
> amount of research time someone had negative correlations with business start-ups.

> Karlsson and Wigren, 2012, p308

Therefore, when measuring human capital in explicit terms, for example qualifications or research output, it would appear to have a limited effect on business start-up and growth but when measured in terms of the use to which that capital is put- particularly it's interaction with social capital, it appears to have a more significant impact. Thus, the interactions identified in Pena's (2002) model, (figure 2.4) which itself takes account of tangible and intangible assets, and the role of human capital in the gestation stage leading to a growth or decline effect, does appear to be supported by later research.

## 2.5. Experience and Learning in Small Firms

In their systematic review, discussed in the preceding section, Macpherson and Holt (2007, p186) conclude:

> That human and social capital, structures and systems and networks influence learning
> and growth seems to be unequivocal, but these remain somewhat abstracted concepts
> if they are unaccompanied by analysis of the learning experiences through which sense
> is made of them.

Indeed, examinations of constructs of leadership, networks and human and social capital in small firms undertaken earlier in this review make reference to the learning processes of owner-managers (Pena 2002; Davidsson and Honig, 2003; Lee and Jones, 2008; Kempster and Cope 2010; Cope *et al,* 2011). Recent literature exploring learning within small firms ranges from the owner-manager's recognition and exploitation of opportunity (Corbett, 2005; Ravasi and Turati, 2005; Foo *et a*l, 2009) to learning in specific small firm contexts such as family business (Hamilton 2011) or in minority ethnic owned firms (Ekanem and Wyer, 2007).

Beach (1980) cited in Gibb (1997, p15) defines learning as 'the human process by which skills, knowledge, habit and attitudes are acquired and altered in such a way that behaviour is modified'. Similarly, Cope and Watts (2000, p105) cite Huber (1991) who suggests that 'an entity learns if, through its processing of information, the range of its potential behaviours is changed'.

Both definitions agree that learning involves a change in an individual's behaviour or potential behaviour.

In a review of literature examining the skills and knowledge of small firm owner-managers, Down (1999, p267) similarly notes that small firms are 'interdependently and inexorably' connected to other stakeholders within their environment and that this forms the arena for learning to take place. This supports the argument that examining micro-firm behaviour without reference to the wider network in which they operate, will not provide suitable explanations of the owner-manager's learning processes. It is therefore the case that 'there is a need to research owner-manager learning in greater depth from the qualitative paradigm' in order to gain this contextual understanding (Down, 1999, p278).

### 2.5.1 Small Firms and Organisational Learning

In a study examining extant literature in the area of general strategic management, small business management and organisational learning, Wyer *et al* (2000) contend that the application of learning organisation theory to small firms is problematic, given the substantial differences between large and small firms and the behaviours of their owners and employees. The reluctance of owner-managers to delegate responsibility, to give way to a learning based control and the constraints of a limited small firm labour market, discussed in Section 2.2, lead to constraints on the sharing of knowledge within the firm and this process is not addressed helpfully by 'learning organisation' theory that has been generally applied to the large firm.

In a qualitative study exploring the cognitive processes of entrepreneurs, Keh *et al* (2002) argue that successful business growth arises from owner-managers identifying then exploiting opportunities that are overlooked by others. They quote Shane and Venkataraman's (2000) definition of opportunity as an occasion when 'a bundle of resources can be sold at a higher price than the cost to package and deliver this bundle' (Keh *et al*, 2002, p 125). As with Corbett (2005), this study examines the relationship between risk and opportunity evaluation. They argue that four independent variables affect an individual's perception of risk and this subsequently affects the opportunity evaluation. Where risk is perceived to be high then the individual will develop a negative evaluation of opportunity.

The independent variables identified in their model are worthy of consideration as they may indicate the extent to which the decision maker is making a well calculated estimation of risk

and thus enables the consideration of 'cognitive bias'. The variables are; overconfidence and the treatment of assumption as fact; belief in the law of small numbers whereby small samples are believed to be representative of the whole population; planning fallacy whereby past experience is not considered relevant to the present; and illusion of control whereby an individual perceives that they have a higher level of control over a situation, resource or outcome than they in fact have (Keh *et al*, 2002, p 130-132).

The latter two variables are oddly contradictory when considered in relation to 'entrepreneurial self-efficacy' as espoused by Chen et al (1998, explored in section 2.5.5) and indeed the authors note that the research is exploratory in nature. Nonetheless, the consideration that the greater these specific variables are exhibited by the individual then the less risk the individual is likely to perceive provides a useful framework by which to examine propensity to opportunity exploitation. It also helps consider the likelihood that an individual may underestimate the level of risk involved in an activity. Keh et al (2002) add that the consideration of the influence of these variables should be constrained by the counter effects of non-cognitive variables such as access and acquisition of market data.

Foo (2011) draws on the earlier work of Baron and Markman (2003) and Baron (2008) who argue that non cognitive variables can help develop an understanding of the entrepreneur's perception of risk. In a dual study, Foo (2011) examines the influence of state emotions (those caused by a specific scenario) among a group of students and of trait emotions (those considered to be inherent to the personality of the individual) among a group of entrepreneurs. He found that among the first group 'participants induced to anger and those induced to experience happiness, both emotions with underlying appraisal tendencies of certainty and control, reported lower risk estimates for a new venture' (Foo, 2011, p381). Among the second group, he found that those entrepreneurs with a propensity to the traits of anger and happiness would select 'more uncertain' riskier options when it came to financial choices.  This would suggest that the stronger those emotions, the higher the entrepreneur's propensity for risk taking.

Foo (2011) recognises the limitations of this research, not least the split sample in that one group were non entrepreneurs (students) and the other were entrepreneurs, which itself reflects a similar criticism made by McGee et al (2009) of studies of the concept of Entrepreneurial Self-Efficacy (ESE), examined below. The study also did not include a 'manipulation check' that tested the students' self-perceptions of their emotions so as not to

allow labelling to alter the experience of the emotion. Furthermore, the choices offered to the entrepreneurs were simple, limited and forced. These limitations serve to reflect the exploratory nature of the study and the incipient field that is emotion and cognition, particularly when applied to entrepreneurial learning.

**2.5.2 Experiential and Reflective Learning in Entrepreneurial Firms**

Politis (2005) also addresses the problem of examining learning processes specific to entrepreneurial firms in a study that identifies learning as an experiential process. He argues that career experience has an influential effect on the success of ventures established by entrepreneurs. He notes that early studies of entrepreneurial learning attempt to establish a direct causal link between experience and success, citing studies by Bailey, 1986; Box, White and Barr, 1993; Lamont 1972 and Sapienza and Grimm, 1997 as examples of this approach.

However, Politis (2005), in common with Wyer *et al* (2000) argues that factors exogenous to the firm, such as market segmentation, positioning and location may also play a simultaneously influential role in venture growth and therefore make it difficult to establish the extent to which early experiences have also contributed. In attempting to overcome this problem, he argues that such learning is rarely causal in as much as prior experiences directly influence firm performance. Instead, he argues that experiential factors influence the development of knowledge of owner-managers, which then influences the strategic choices they make and subsequently leads to a change in venture performance.

Rae and Carswell (2000) have also noted that entrepreneurship is learned primarily by experience and discovery. They argue that 'the entrepreneur's own story is rarely heard' and, with this in mind, they carried out a series of in-depth 'life story' interviews with thirteen entrepreneurs from a diverse range of ventures with the aim of producing a conceptual understanding of entrepreneurial learning. The entrepreneurs were asked to tell their story, from childhood to the present, with a timeline constructed during the interview whereby the respondent could revisit events and themes in more depth.

The conceptual model subsequently developed by Rae and Carswell (2000) links learning and achievement through the acquirement of confidence and self-belief. They argue that a number of experiential factors are essential for the development of confidence and self-belief in the learning stage, namely relationships, known capabilities, personal theory, and active learning.

Relationships with parents, managers and employees may be said to be essential in allowing the entrepreneur to gain skills and insights early in their careers, which they later passed on as mentors to others. The term 'known capabilities' is used to refer to the ability of entrepreneurs to recognise their own strengths and weaknesses, which contributes to a degree of self-belief. The entrepreneur also develops personal theories about the way things should be done, allowing the formation of individual mission statements. Active learning refers to the importance an entrepreneur places on the learning gained from the experience of success and failure and the need to keep trying.

The result of this process is a self-belief and confidence that releases the ability to determine personal values and to set and achieve ambitious goals. Rae and Carswell (2000) argue that, without one of the experiential factors in the learning stage, the likelihood of significant achievement is reduced. Indeed it may be that, as argued by O'Dwyer (2002), because owner-managers have such a strong belief in their own ability, they are reluctant to accept advice that may later lead to the development of knowledge. This can also be related to the cognitive bias of over-confidence, examined in the study by Keh *et al* (2002) and discussed above.

Chaston and Sadler-Smith (2001) make the case that businesses that are classified as entrepreneurial are more likely to experience higher order, double-loop learning, a prerequisite of which is the sharing of information within the organisation and its environment. If this is to occur then the value of reflective practice and the sharing of insights within and outside the firm must surely be recognised. It is equally conceivable that such entrepreneurs may have experienced the process identified by Rae and Carswell (2000), but that this has had the negative effect of reinforcing self-belief to such an extent that reflection on action does not take place (Chaston and Sadler-Smith (2001).

The importance of critical reflection is similarly emphasised by Clarke et al (2006), who explore the role of action learning within SMEs. This work identifies and examines the benefits of a critical learning approach that might encourage and enable strategic thinking by owner-managers, who spend much time engaged with operational activity. Too much time engaged in the latter sphere of activity may enable the manager to learn but in an 'adaptive' manner that leaves the owner-manager 'unable to recognise... the contribution of their learning for work' (Clarke et al, 2006, p443).

Instead, 'generative' learning should be encouraged, which requires 'engagement and argument with others in context' (Clarke *et al*, 2006, p445). This view supports the role of aspects of social capital, examined in section 2.4.2, as a catalyst for reflective and critical learning. The authors' qualitative study, guided by a social constructionist philosophy, found that such social activity enables owner-managers to envision their own activity through discussion. It also discovered that more diverse groups, of experienced and non- experienced owner-managers, added more, valued, criticality to the learning process. The social aspect to the activity allowed a 'disengagement' from the day to day business, which provided a further, long term strategic emphasis to the learning (Clarke *et al*, 2006, p449).

This emergent, socially constructed process of learning is supported by Higgins (2009), who agrees that social interaction is significantly important to the generation of knowledge. He further argues that such situational knowledge becomes an act of 'knowing' when acquired through 'social interaction' and 'participation' (Higgins, 2009, p85). Knowing is therefore a socially constructed consequence of action, interaction and discourse. Higgins adds that, as a result of this, knowing has a 'specific time and space' and that the constituent 'accomplishments, transient effects and dynamic alignments' associated with knowing 'bear their own demise' (Higgins, 2009, p92). Such an argument would suggest that it may be possible to explain how knowing develops, but, if it is to be considered transient and contextually specific, capturing and codifying knowledge generated by SME activity is a far more challenging, perhaps even futile task.

**2.5.3 Learning to Trust**

Trust as a concept used to understand an individual's expectations of behaviours of others has recently emerged within entrepreneurship literature (Goel and Karri 2006; Howorth and Moro, 2006; Welter and Smallbone 2006; Sarasvathy and Dew, 2008; Goel and Karri, 2008; Nguyen and Rose, 2009; Stratling et al 2012). Such literature examines the concept in terms of the entrepreneur's expectations of the behaviours of others with reference to the difference between expected and actual outcomes (Welter and Smallbone; 2006).

The analysis of trust in this context proposes that it may be a necessity in many cases, for example where limited market knowledge is available or market failure occurs; although empirical research is emerging that proposes that the entrepreneur may choose to trust, even where it may not be necessary, such as in the example of inter- firm relationships (Nguyen and

Rose, 2009). These authors recognise that trust may be a factor of the societal background in which organisations are based, referring to high and low trust cultures; or that it may alternatively be a result of the institutionalisation of individual businesses, which have a dominant set of legal and functional parameters by which to operate and therefore do not need to resort to opportunistic and predatory behaviour, although they found this to be a 'weak form of trust' (p179).

Nguyen and Rose (2009, p177-8) in a mixed method study, examine the behaviours of six Vietnamese entrepreneurs through a process of observation and use a supporting survey of 61 businesses. The authors note that the societal context is a particularly useful one, given that Vietnamese culture is one of closed but internally supportive networks that are difficult for new business to access. Thus, by examining the extent to which such businesses were able to build relationships, they were able to hypothesise about the degree and distribution of trust and particularly about the extent to which entrepreneurs engaged in trust relationships through choice rather than necessity.  The authors (Nguyen and Rose, 2009, p178) found that:

> Establishing personal rapport, sharing business information and practices, and looking for informal third party endorsements appear to be viable means of enhancing trust between firms. These intentional trust development strategies are possibilities of actions to managers…. These strategies require substantial investment and a considerable faith in the truster. This is a learning process where the truster takes a proactive step to demonstrate the willingness to cooperate and expect a return of the favour.

The study also found that relationships built on trust encouraged entrepreneurial learning, particularly about the motives of business partners. This contributed to the development of a social network and allowed the business owner to access more opportunities, so important to the development of the business as noted in section 2.4, above. It also appears that trust is dependent on past experience and present and future actions, although the research makes little reference to risk, which may be associated with issues of trust.

**2.5.4 Effectuation and Over-Trust**

These findings largely support the work of Goel and Karri (2006, p477) who argue that 'entrepreneurs need to trust each other and serve as trustees in order to form and grow their organisations' and thus imply that without the element of trust, it would be impossible to acquire the network of social capital required to develop a business venture.

This study develops from the principle of 'effectuation' as applied by Sarasvathy (2001) to entrepreneurial behaviour, which suggests that trust may play a part in bridging information gaps and aiding decision making where there is limited knowledge and a requirement for a business owner to take action in times of uncertainty. Effectuation would involve a period of adjustment through assessing the outcomes of various decisions until a preferable outcome is achieved. In these terms, the process of finding an appropriate level of trust in others, given the uncertainties of human behaviour, is difficult to achieve and an effectual process allows learning to inform these adjustments over time.

Goel and Karri (2006) consider the owner-manager's attribution of risk and find that a reliance on effectual logic can lead to 'over-trust' by entrepreneurs, which can then be damaging for the business; although this is not a certain outcome as their proposition is 'value neutral'. However it is likely that such over-trust would occur where insufficient learning has taken place about the motivations of other business owners and where those entrepreneurs, acting on limited knowledge, avoid considering the future consequences of trust placed in others.

This over-trust outcome is a common risk associated with new venture creation and is deemed an acceptable one by non-risk-averse entrepreneurs. Trusting in others is therefore seen as an inevitable necessity in the development of networks important for the growth of the firm.

Goel and Karri (2006, p488) develop a series of propositions which they term 'a model of why entrepreneurs may over-trust'. This model is replicated in table 2.7. As can be seen from the model, Goel and Karri (2006) propose that the effectuation process, interacting with entrepreneurial characteristics, behaviours, context and experiences helps explain why the entrepreneur may over trust. In a direct response to the authors, Sarasvathy and Dew (2008) critique this argument and posit that the model appears to predict levels of trust. Given that effectuation occurs where there are high degrees of uncertainty, they argue that it is not possible for an effectuation process to predict, nor assume, a degree of trust or over-trust.

Sarasvathy and Dew (2008, p729) state explicitly that 'effectual logic is non-predictive'. They further argue that effectual logic does not suggest that entrepreneurs, in the circumstances described by the model, are predisposed to 'over-trust' but that the networks of the entrepreneur, which may develop sporadically and opportunistically, inform the choices that

**Table 2.7 Why Entrepreneurs May Over-Trust**

| Entrepreneurial characteristics |
|---|
| Proposition 1- Entrepreneurs with a high degree of non- conformity are more likely to over-trust |
| Proposition 2- Entrepreneurs with a high self-efficacy are more likely to over-trust |
| Proposition 3- Entrepreneurs with a high achievement orientation are more likely to over-trust |
| Proposition 4- Entrepreneurs with a preference for innovation are more likely to over-trust |
| **Culture- contributor to over-trust** |
| Proposition 5- Entrepreneurs in collectivist cultures are more likely to over trust than do entrepreneurs in individualistic cultures |
| Proposition 6- Entrepreneurs with low uncertainty avoidant values are less likely to over trust than do entrepreneurs who are high uncertainty avoidant |
| **Past experience- contributor to over-trust** |
| Proposition 7- Serial entrepreneurs with positive experiences from trusting others are more likely to be prone to over-trust |
| Proposition 8- Entrepreneurs with prior negative experiences in trust- based relationships combined with diversified trust relationships are prone to over-trust |
| Proposition 9- Entrepreneurs may commit more cross domain errors leading to over-trust |

Source: Goel and Karri (2006), p488

they make. Certain circumstances may lead to the strategic decision to accept that there may be a risk in a trust based relationship and a certain degree of risk is acceptable given the potential outcome.

Fundamentally, the decision to trust in an associate is based on an educated assessment of the likely outcomes and some acceptance of the fact that there may be an initial benefit to the associate but a loss to the entrepreneur but that the longer term outcome may be beneficial to the latter. Sarasvathy and Dew (2008) propose that knowledge about when to trust depends on experience and, as a corollary, experienced business owners are able to use effectual logic more effectively than the less experienced.

They also suggest that the term 'entrepreneur' is a misnomer as any human can use effectual logic with enough experience of scenarios and growing expertise - which itself describes a learning process available to all. Thus, it can be said that the changes that people experience with time and in different contexts means that it is difficult to categorise them as simply 'entrepreneurial'. Sarasvathy and Dew (2008) argue therefore, that Goel and Karri (2006) have overemphasised a trait based approach to understanding the behaviour of owner-managers.

In terms of trust, those business owners adept at effectuation may appear to 'over-trust' when examined empirically but this may in fact be based on a rational judgment to accept a loss in the expectation that a beneficial outcome is likely and is thus not 'over' trusting as such but rather 'intelligent altruism' (Sarasvathy and Dew, 2008, p 734). They add that such intelligent altruism will encourage similar behaviour in those exposed to it and is thus mutually beneficial. This behaviour has been described elsewhere as the characteristic of the 'mature' entrepreneur, one who has 'the audacity to know' and 'is someone who is acutely aware of the situation in which they find themselves' but can 'adopt sufficient critical distance to see how it might be otherwise' (Thorpe et al, 2006, p239).

Responding to the Sarasvathy and Dew (2008) critique, Goel and Karri (2008, p740) argue that they were not advocating a trait based approach but that such an approach can make a useful contribution to the understanding of behaviour providing that it was not considered 'to the exclusion of everything else'. They further argue that the concept of 'over-trust' is appropriate and, rather than enabling the entrepreneur to predict an outcome, instead enables them to 'create resources that they could not create under a causal scenario' and thus enables them to 'generate options subject to… affordable loss' (p741). Therefore, the term 'over-trust' is appropriate to effectuation.

The authors do not dispute the likelihood of entrepreneurs behaving as intelligent altruists but they argue that such an approach to transactions is so common among entrepreneurs as to have become a cultural norm. Such behaviours leave selfish individuals isolated and unable to access entrepreneurial networks. They argue that this is a more convincing account than the argument proposed by Sarasvathy and Dew (2008) that intelligent altruism is a rational behaviour because it encourages such behaviours in an entrepreneur's stakeholders.

Goel and Karri (2008) also defend their model which seeks to explain why entrepreneurs may over trust (table 2.4, above). Rather than espouse a trait based approach, they state that their

model identifies key areas of expertise that are necessary for development if the entrepreneur is likely to be successful in their venture. Thus the model considers those skills that may develop as the business owner becomes more adept at their role. This implies learning, which is required for the problem solving capacity of effectual logic, and the authors subsequently associate this with propensity to trust, or over-trust. They argue that this does not preclude and indeed may encourage changes in beliefs and attitudes, which accounts for a dynamism not present in a singular application of trait theory.

In spite of the complexities of this debate, there appears to be common ground between Goel and Karri (2008) and Sarasvathy and Dew (2008). Both appear to agree that business owners exhibit a tendency to seek a trade-off between affordable risk and allocation of trust, although the latter authors dispute the term 'over-trust' and prefer 'intelligent altruism'. Nonetheless, it can be seen that the consideration of the allocation of trust is important to the business owner and a series of experience- dependent adjustments allow for a modification in their trusting behaviour.

Goel and Karri (2008, p746) conclude that those entrepreneurs that choose to trust or over-trust are willing to 'trivialise the risk inherent in (over) trusting to achieve non trivial benefits'. Thus, they are able to rationalise their behaviour by accepting a degree of affordable short term loss in return for long term gain. This does not appear to be predictive of specific outcomes and therefore does appear to respond well to the Sarasvathy and Dew (2008) critique. The debate helps frame an understanding of trusting behaviour by the owner-manager and may be useful when exploring the attitudes of employers to their employees. Most usefully, the discussion provides a dynamic understanding of the allocation of trust that may be applied to a company experiencing a period of employment growth.

### 2.5.5 Entrepreneurial Self-Efficacy

The experiential effect upon the decision making of the owner-manager has been explored in other contexts. Bandura (1997) has established the social psychological construct of self-efficacy. Perceived self-efficacy refers to 'a judgement of one's ability to organise and execute given types of performances' (Bandura, 1997, p 21). The author has applied this concept to managerial decision making, recognising that managers have to take many decisions in the short term, often with results becoming evident in the long term.

Thus cognitive factors suggest that managers who have had past successes in a certain field will, over time, have a higher self-efficacy in that same field and that in a complex managerial environment, future choices are bound to be highly subjective. However, self-efficacy is also affected by environmental factors and other personal factors such as 'affective and biological events' and behaviour in a reciprocal arrangement (Bandura, 1997, p6). A person with high self-efficacy is more likely to perceive themselves as being successful at certain tasks. Bandura (1997) argues that self-efficacy can be applied to specific contexts to explain individual likelihood of success.

Chen et al (1998) recognise that this sociological construct has a useful application to the field of entrepreneurship research and have further developed the idea of Entrepreneurial Self Efficacy (ESE) (Chen *et al*, 1998). This development stems from a dissatisfaction with previous analyses of personality based assessments of entrepreneurial behaviour. In the complex process of business development and growth, ESE allows consideration of task and situation specific occurrences in a way that personality assessments do not.

Chen et al (1998)'s study took place in two parts, the first establishing the ESE of 140 higher education students from psychology, entrepreneurship and organisational behaviour classes. The second study sampled a mix of business people who had established their own business (termed 'entrepreneurs') and those who did not (termed 'managers'). Measures of ESE were based on five tasks, these being marketing, innovation, management, risk taking and financial control.

The authors found, among the second sample, that those who were more likely to establish and grow ventures and to become serial entrepreneurs had a higher ESE. In the first sample, the entrepreneurship class scored a higher ESE than the organisational behaviour class, which subsequently scored higher than the psychology class. This suggested that the environmental and cognitive aspects of the construct did affect beliefs about likelihood of success. Among the students, the highest ESE was in the area of marketing, financial control and management, whereas among the business people, risk taking and innovation differentiated the 'managers' from the 'entrepreneurs', suggesting that experiential and environmental inputs would alter the person's perceived ESE in relation to specific ability (Chen *et al*, 1998).

Forbes (2005) has examined the concept of ESE further in a quantitative study that tested four hypotheses. The first of these hypotheses stated that a decentralised decision making process

would positively affect the entrepreneur's ESE. The second stated that external participants in the firm's decision making process would positively affect the entrepreneur's ESE. The third hypothesis stated that the comprehensiveness of a firm's strategic decision making process would positively affect ESE and the fourth that the degree to which a firm utilises current information would positively affect ESE (Forbes, 2005, pp 604- 607).

The research found that hypotheses one, three and four were supported but number two was not. This supports the findings of Chen et al (1998) who noted that entrepreneurs who had parents or siblings who had started businesses did not necessarily have a higher ESE, suggesting that the social networks accessed by entrepreneurs may not affect ESE. It would appear that the ESE construct offers an alternative model of learning and strategic planning to that of effectuation (Sarasvathy and Dew, 2008).

Effectuation is not considered to be a causal process and is particularly useful where information is limited, whereas Forbes (2005, p606) argues that enhancing 'the degree to which organisations systematically scan, plan and analyse when making decisions' can have a positive effect on the ESE of owner-managers. It may not be the case that causal and effectual practices are mutually exclusive, however, as Thorpe et al (2006, p236) argue that 'entrepreneurial enactment is… a blend of causal reckoning… and effectual action'.

While recognising that 'the literature on ESE is quite robust', McGee (2009, p966) has criticised three impediments to the further development of the theory and its consistent application:

> First, disagreement exists as to whether the ESE construct is more appropriate than general self-efficacy (GSE). Second, there is inconsistency in the manner in which researchers attempt to capture the dimensionality of the ESE construct. Third, ESE researchers appear to be overly reliant on data collected from university students and practicing entrepreneurs.

In a mixed method study McGee (2009, p982) argues that a more nuanced understanding of ESE is required, labelling it a 'multi-dimensional' construct which includes six key dimensions. These are; searching, which requires confidence in product development; planning, which includes demand estimation; marshalling, which includes networking and building alliances; implementing - people, which includes recruiting employees; implementing - finance which includes keeping financial records; and attitude toward venturing which assesses the perceived value of the intended venture.

This research also recognises the difference between the nascent entrepreneur and the general population, noting 'that nascent entrepreneurs feel more confident about operating across all stages of the entrepreneurship process than do those individuals in the general population who have not fully pursued entrepreneurial endeavours' (McGee, 2009, p982). It can be expected therefore that owner-managers in the early stages of a venture, by the very nature of their occupation, will have a higher ESE than non-owner-managers.

As McGee (2009) recognises, these studies of ESE remain in their infancy and are largely exploratory. In addition, the methods used are largely quantitative and it could be argued that, since ESE is a construct that is highly specific to the individual, further qualitative development is required.

**2.6 Summary**

The preceding discussion has examined extant research that contributes to a contemporary understanding of the HR and employment relations issues facing small firms. It has been recognised that such firms have access to a markedly different pool of labour compared to large companies. The available labour pool is likely to contain lower skilled, younger and less experienced workers, will have a slightly greater proportion of female workers and workers more willing to work part time. The concept of a core and periphery labour market, with the smaller firms drawing on the periphery, suggests that owner-managers face challenges in finding employees who are able to adapt to their requirements.

Employees themselves also face difficulties, in that owner-managers are unlikely to have well developed employment relations practices, such as disciplinary and grievance procedures, strategic training and clearly defined roles. There exists a mix of informal and formal approaches in these areas and there is a degree of uncertainty as to which practices may be formalised and which not, depending to some extent on the choices of the individual owner-manager.

It has been noted that employment comes at a cost, which may help explain, at least in part, a reluctance to employ on the part of the owner-manager. This, together with the associated bureaucracy of labour law, regulatory requirements and the owner-manager's need to maintain control of their company, means that employment may be an option of last resort. There is a significant lacuna in the literature concerning recruitment and selection practices in small firms and particularly when considering the first and early employments. These first interactions with

the labour market are sporadically explored and there is a need for a broader conceptual understanding here.

The far more developed literature on the role of human and social capital in small firms helps explain the development of networks of social capital when the boundaries of the owner-manager's own human capital are reached. Social capital, in its early bonding or strong form or later bridging or weak form, enable owner-managers to access skills and knowledge that enhances their core business and sustains the development of the business past the gestation phase. Collaborative bridging networks appear to be the hallmark of the maturing firm, with such firms more able to exploit markets and develop their products and services beyond the immediate locality of the owner-manager. However, such capital may be harder to access than the strong, bonding ties to friends and family.

The understanding of the value of these developing relationships is further underpinned by an exploration of the learning processes of owner-managers. Experiential, reflective and critical learning appear to be important approaches in the developing phase of a firm and the owner-manager's discoveries about business practices are contextually specific and difficult to predict. It also appears that valuable learning takes place through social interaction with actors from outside of the small firm and this enables the acquisition and development of knowledge that cannot be easily accessed using strong, bonding ties to social capital alone. If the manager is to gain competitively useful knowledge then the development of weak bridging ties are important.

The owner-manager may also utilise effectual logic when starting and growing a venture and this approach may lead to the rationalisation of risky behaviours and the development of a sophisticated decision-making process where information is scare and unreliable. Owner-managers become more adept at using effectual logic as they become more experienced in running the firm. There remains some evidence of causal processes in decision-making but the predictive capacity of these practices are limited, given the wider and concurrent utilisation of effectual logic.

The literature explored here will be used to help place the findings into context and provide additional explanatory support to the emerging themes that are presented in the findings section. The literature will also be used in the analysis and discussion section, in conjunction with the primary research, to develop a conceptual framework that will contribute to the resolution of the research aim and form an original contribution to contemporary knowledge.

**3. Methodology**

This study aims to explore the influencing factors on the first employment decisions and early recruitment and employment experiences of micro firm owner-managers. The following methodology seeks to explain the methodological positioning of the work and will demonstrate that the research questions have a pragmatic influence on the ontological and epistemological positioning of the research, which itself informs the selected analytical approach.

The discussion will begin by briefly outlining two alternative perspectives of research philosophy but only in order to develop a deeper discussion of the methodological choices. The reasoning behind the selection of the chosen method, thematic analysis, is explained with reference to its practical application to the data gathered. In doing so, the methodology will consider ethical issues, the role of the researcher in the process and the method of data sampling that was used. The reliability and validity, together with the limitations of the research are considered implicitly in the discussion but are also explicitly summarised and addressed at the end.

**3.1 Philosophical and Theoretical Foundations of the Research**

**3.1.1 Methodological Context**

Creswell (2009, p5) argues that it is necessary for the researcher to 'make explicit the larger philosophical ideas they espouse' in order to underpin the research approach with a wider 'worldview' that examines the beliefs that support the actions taken in gathering, organising and analysing data.

Collis and Hussey (2009, p61) cite Morgan and Smirchich's (1980) case for qualitative research and their examination of the subjectivist/ objectivist debate. Collis and Hussey (2009) identify research philosophies ranging from the strongly objective positivist to the strongly subjective phenomenological perspective. Saunders et al (2009) also consider philosophies as a range, namely positivist, realist, interpretivist and pragmatist perspectives, which correspond respectively to points on Collis and Hussey's (2009) spectrum.

Rather than provide a spectrum, Creswell (2009, p6) identifies 'four worldviews' regarding the nature of research and the researcher's orientation, namely post-positivism; constructivism;

advocacy/participatory and pragmatism. Nonetheless these definitions are to an extent coterminous with the spectra identified above.

For the purposes of this study, it would be useful to briefly examine the two extremes of the spectrum identified by Collis and Hussey (2009) before considering how the researcher's ontological and epistemological positions informed a philosophical positioning for this thesis.

### 3.1.2 Positivism and Post-positivism

Remenyi *et al* (1998, p32) state that:

> Being a positivist, or perhaps more correctly a logical positivist, implies that the researcher is working with an observable social reality and that the end product of such research can be the derivation of laws or law-like generalisations similar to those produced by the physical and natural scientists

This approach would therefore require a clear detachment on the part of the researcher from the research object(s) and, as recognised by Collis and Hussey (2009), would require the researcher to justify and maintain this objective distance. Derived as it is from the natural sciences, a positivist approach in a management context would designate such research as 'social science'.

Denzin and Lincoln (2000, p8) argue that the view that 'truth' can transcend opinion and personal bias' dichotomises research and creates 'political' behaviour in academe, with the implication that alternative approaches are less rigorous. Cassell and Nadin (2008, p72) argue critically that the dominance of positivist approaches in HRM research may be because they 'serve a legitimating function in terms of endowing HRM with the credentials of 'science''.

Yet Creswell (2009, p7) notes that such assumptions are challenged even within the positivist field, with post-positivists recognising that 'we cannot be "positive" about our claims of knowledge when studying the behaviour and actions of humans'. This modification of the positivist position is described by Easterby-Smith *et al* (2006, p32-33) as, 'internal realism', which recognises that facts 'are concrete, but cannot be accessed easily'. As such, these positions, though still requiring a measured degree of objectivity, recognise the difficulties of achieving absolute objectivity.

Nonetheless, positivism and post-positivism have in common a belief that objective reality can be measured and ultimately understood, though to the post-positivist, that understanding is imperfect. Creswell (2009) is critical of the research methods that are used to acquire this understanding and argues that to achieve such objectivity necessitates a reductionist approach and leads to the testing of a 'small, discrete set of ideas'. Such approaches clearly require an assessment of standards of reliability and validity in order to justifiably objectify the testing of hypotheses and their attendant variables.

### 3.1.3 Interpretivism

Fleetwood and Hesketh (2006, p1985) are highly critical of the use of 'scientific' methods in HRM research, arguing that such approaches may attribute causality but fail to provide what they term the 'explanatory dimension of theory'. Such approaches are intended to test beliefs or hypotheses and can be predictive but Fleetwood and Hesketh (2006) argue that they provide only 'emaciated' explanatory power and are lacking in robustness.

The phenomenological perspective is therefore identified by Collis and Hussey (2009,p 52-53) as the antithesis of positivism and is intended to provide these robust explanations. They state that 'it is assumed that social reality is within us; therefore the act of investigating a reality has an effect on that reality'. The authors note that such a philosophy depends on the belief that the social world is a product of the human mind and as such 'reality' can never be seen as truly objective, nor independent of the participant.

Cassell and Nadin (2008, p73) place the phenomenological perspective under 'the umbrella label of interpretivism', alongside, among others, constructivism. Crotty (1998) refers to constructivism as the assumption that meaning, which emerges from human interaction with the world, is derived from the researchers own interpretation of those interactions within the context of culture, history and society. As such, Creswell (2009, p8) recognises that the term has been widened to 'social constructivism' and he states that 'the goal of the research is to rely as much as possible on the participants' views of the situation being studied'.

Easterby-Smith *et al* (2006, p29) use the term 'social constructionism' but, in keeping with the preceding definitions, state that the philosophy 'focuses on the ways that people make sense of the world, especially through sharing their experiences with others via the medium of language'. This approach implies that the data gathered by the researcher are rich with meaning

and require inductive interpretation. This allows the creation of theories that may aid the understanding of a situation, scenario or series of cases.

Supporting this approach, Denzin and Lincoln (2000, p4) use the analogy of the bricoleur-specifically in their example an assembler of quilts, stating 'the interpretive bricoleur produces a bricolage, that is a pieced together set of representations that is fitted to the specifics of a complex situation'. This analogy also lends itself to the consideration of the development of theory through inductive analysis, thus considering theory to be constructed from many distinct concepts, themselves derived from social interaction, again supporting the term 'social constructionism'.

### 3.1.4 Ontological Perspectives

In spite of these debates, Silverman (2006) does not consider a division between polar extremes of positivism and interpretivism to be appropriate or helpful when designing a research approach. He notes that 'there are very few quantitative researchers who would accept' the term 'positivism' (Silverman, 2006, p38) but would prefer the less 'slippery and emotive' label of 'science'. Furthermore, he argues that it is more important to consider the appropriateness of the research method to the research question and that in some instances, for example when attempting to establish causality, a qualitative 'interpretivist' approach may not be suitable.

From Silverman's perspective, it is more useful to consider the research question and the extent to which the relationships between or within phenomena are explicable and complete. Such an understanding will allow the researcher to choose either a 'scientific' method that involves sifting of quantities of data or an approach that requires the interpretation of qualitative data. Such an approach is referred to by Creswell (2009, p7) as the 'pragmatic worldview', which allows the researcher to select methods appropriate to the research context. In adopting a pragmatic approach, it is useful to understand the ontological implications of the research question before designing, selecting or refining a research method.

For the purpose of this research, it is therefore worth considering the extent to which the research question, 'what factors influence owner-managers' decisions to become employers?', implies an objectively or subjectively perceived reality. Saunders *et al* (2009) note that an objective perception of management behaviour depend on the social entity (in this case the organisation) operating independently of the social actors (in this case the owner-manager). In

such an instance, it might be argued that organisational roles are similar across organisations and that these can be separated from the behaviours and beliefs of the actors themselves. As such, clear, unambiguous and objective conclusions can be drawn from the examination of actors across a sample of organisations.

Alternatively, a subjective ontology would hold that 'social phenomena are created from the perceptions and consequent actions of social actors' and that 'this is a continual process in that through the process of social interaction these social phenomena are in a constant state of social revision' (Saunders et al, 2009, p111). Given that the focus of this research is very much upon the perceptions, beliefs, attitudes and behaviour of the owner-manager and how these change, subject to a variety of experiences and the concomitant learning processes, this would justify a subjective approach. Furthermore, in the case of a micro-firm, employing none or very few employees, the behaviour of the owner-manager cannot be clearly separated from the behaviour of the firm (Cassell and Nadin, 2008; Marlow, 2010). In this case the owner-manager, together with his or her attendant beliefs and behaviours, *is* the firm or organisation.

Given this complex and subjective relationship, Hill and McGowan (1999, p7) argue that:

> entrepreneurship is probably best understood as a process, the constituents of which are the entrepreneur, their persistent search for opportunities, usually grounded in the marketplace, and their efforts to marshal the resources needed to exploit those opportunities.

Elements of this definition are apt for this research, although the term 'marketplace' in this thesis may be better interpreted as the 'labour market'. The decision to employ for the first time is therefore a highly personal and subjective decision. It will depend on the desires, experiences of the owner-managers and it is likely that the influencing factors will have different consequences in each case.

Hill and McGowan (1999, p7) argue further that small firm decision making in such instances 'will be characterised as largely confused, chaotic, unstructured, certainly non-linear and definitely time-compressed' and that the heterogeneity of multiple enterprises creates multiple realities that cannot be meaningfully segregated and categorised because 'each individual constructs their own reality as they interpret and perceive their world' (p9). As the earlier literature review has demonstrated, there is no set pattern of initial employment and researchers such as Atkinson and Storey (1994, p3) have also recognised the 'complexities of the interaction between small firms and the labour market'.

These complexities would suggest that social reality in the case of the first and early employments is a product of the behaviours and perceptions of a great many individual owner-managers and their choices help construct this social reality. The reality experienced and interpreted from the perspective of one owner-manager may be very different to that of another and in this sense, it can be said to be both ontologically subjective and socially constructed, in keeping with the definitions expressed above.

### 3.1.5 Epistemological and Axiological Issues

Saunders et al (2009, p112) note that epistemology 'concerns what constitutes acceptable knowledge within a field of study' and thus requires the researcher to consider their relationship with the research field. They describe the alternative perspectives of the 'resources' and 'feelings' researcher, whereby the former may investigate external and categorical and quantifiable objects of study and the latter more esoteric social phenomena such as attitudes, behaviours and beliefs. The 'feelings' researcher may therefore become more subjectively involved in the field and will be likely to apply an interpretivist approach to the research.

Again, Hill and McGowan (1999) argue that this latter approach is particularly justifiable within the specific field of research into the small firm and especially at the level of the micro-firm. They go so far as to call for 'researcher immersion' (Hill and McGowan, 1999, p9) in the firm and the active minimisation of the distance between the researcher and the owner-manager. In axiological terms, this would require the researcher to report fully their own interpretation of these interactions, with very limited concern for bias.

Cassell and Nadin (2008, p75) strongly support this approach, arguing that earlier dominance of positivist, value free epistemologies create a mystique around the concept of entrepreneurial success that can be removed through 'in-depth narrative analysis' which allow the creation of rich theories of owner-manager behaviour and sense-making rather than objective explanations of causality. They cite their own exploration of the psychological contract in small firms (Nadin and Cassell, 2007, p77) and the fact that this enabled an understanding which was 'grounded in the experiences and interpretations of the participants'.

Such a 'grounded' approach is also supported by Douglas (2003, p50- 51) who argues that 'theory emerges from the researcher grappling with not only his/her own analytical

perceptions, but from empathising the ways in which respondents themselves construct their world'. This epistemological approach clearly invites the researcher to engage with the subject of the research in order to develop empathy and render phenomena interpretable; and thus to generate 'emergent' theory. In the case of the owner-manager and their expressed beliefs about employment and employees, this would require a clear relationship between the researcher and the owner-manager within their organisational context.

Examining debates around epistemological choices in work psychology, Johnson and Cassell (2001, p138) note that an 'over-reliance on positivism leads to 'epistemological conformity and a lack of reflexivity'. Taken from a pragmatic standpoint, that is not to devalue such approaches, but to suggest that, in the case of the small firm, the owner-manager makes choices that will affect the firm's very existence, or at least shape its immediate destiny to an extent that a large firm CEO or board of directors could not achieve. Thus, whereby a 'scientific' analysis of independent variables may be appropriate when examining the effects of corporate strategy in large and unwieldy organisations, such an approach is less useful when exploring the behaviours of owner-managers.

Furthermore, Johnson and Cassell (2001, p139) argue that an interpretive approach, avoiding the stance of the 'neutral observer', allows an exploration of 'how individuals in their accounts draw on particular discourses to explain or legitimize their experiences'. Thus, the beliefs, behaviours and choices of the owner-manager when considering and embarking upon the first employment must be accessed in such a way that allows an empathetic interpretation of these motivations in order to create knowledge that emerges from the small firm environment.

Given the exploratory nature of this research and the fact that it explores the attitude and behaviour of the owner-manager, a phenomenological, interpretative approach was selected, with a degree of subjectivity appropriate to the social constructivist paradigm. This choice was made on a pragmatic basis, given the nature of the specific research question and the intended generation of theory.

It was therefore not the intention of this research to test a series of hypotheses, requiring, as noted by Saunders et al (2009), a highly structured methodological approach that tests the limitations of existing theory. Such a deductive approach would necessitate elements of objectivity which have already been ruled out in the light of the open research question. This research instead builds theory from practice and through the interpretation of the data

gathered. According to Saunders et al (2009, p126), the value of the inductive approach is that it is 'likely to be concerned with the context in which events were taking place' and is thus more likely to facilitate the emergence of a theoretical framework.

### 3.1.6 Methodological Possibilities and Choice

Corbin and Strauss (2008, p12) argue that 'the research question should dictate the methodological choice' but add that 'committed qualitative researchers' include further justification for their methods. In particular, they argue that a qualitative approach is suited to a researcher who wishes to create order from disorder or wishes to develop argument from discoveries. Such researchers are attracted by the 'fluid, evolving and dynamic nature of this approach' (Corbin and Strauss, 2008, p12). Certainly such a methodological choice compliments a view of the first and early employment experiences as equally fluid, evolving and dynamic, leading to a process of personal discovery for the owner-manager and the firm.

Perhaps in more functional terms, given the clear ontological and epistemological positioning of this study, the selection of a qualitative approach is logically consistent with the nature of the research question. Creswell (2009, p4) notes that qualitative research 'involves emerging questions and... data collected in the participant's setting' and that such an approach is associated with interpretive analysis and inductive theory building.

While the earlier noted argument of Fleetwood and Hesketh (2006); that scientific, quantitative methods produce 'emaciated' explanations is a bold contention, particularly for a pragmatist, their argument that the 'why' question is better answered by a methodological choice that offers 'robust' explanation is consistent with this research approach. As already noted, this research was not concerned with hypothesis testing and prediction but with an explanation of complex phenomena, specifically the first and early experiences of employment and their influences on the growth of the firm.

That so little has been written about early experiences of employment, combined with the deeply personal and subjective nature of the first employment decision further justifies a research strategy that engages fully with the owner-manager in their own environment and with reference to their personal history. Although Saunders et al (2009) note that pragmatists might favour a mixed approach, combining qualitative and quantitative methods, the

exploratory nature of the research question and lack of existing knowledge supports the decision that was taken to adopt a purely qualitative approach.

## 3.2 Research Design: Data Collection and Analysis

In order to develop a sufficiently rigorous, or, in the words of Fleetwood and Hesketh (2006, p1981), explanatorily 'robust' process of analysis, it was necessary to carefully consider how the data was to be gathered and then to justify that choice in relation to the selected analytical approach. It is a contention of this thesis that the method of data collection and the method of data analysis must be demonstrably mutually informative and this is explained in more detail below.

## 3.2.1 Analytical Approach

It was earlier noted that emergent theory is a fundamental aspect of a 'grounded' approach (Douglas 2003; Nadin and Cassell 2007) to research. Such approaches have their roots in the early developments by Glaser and Strauss (1967) of 'grounded theory'. Most attractive to qualitative researchers is the process of coding rich data that enables a clear and rigorous process of analysis (Denscombe 2003; Henwood and Pidgeon, 1995; Lincoln and Guba, 1985). However, Heath and Cowley (2004) recognise that the division that occurred between Glaser and Strauss after 1987 led to the development of two different approaches to grounded theory with particular reference to coding procedures.

Braun and Clarke (2006, p81) note that, despite these differences, 'the goal of a grounded theory analysis is to generate a plausible - and useful - theory of the phenomena that is grounded in the data'. Corbin and Strauss (2008) develop their version of this technique in detail, with equally precise processes for analysis. As a result of this technical specificity, Braun and Clarke (2006, p81) argue that the use of grounded theory approaches are often qualified and 'do not appear to fully subscribe to the theoretical commitments of "full fat" grounded theory' and instead may be seen to be 'grounded theory lite'. In addition to the complication of the dual versions, this may be because of the very specific and precise theoretical frameworks, which novice researchers prefer to modify and simplify.

Indeed, Denscombe (2003, p128) recognises that Corbin and Strauss's systematic approach 'can be daunting in terms of the complexity of the process' and an incomplete or imprecise

technique can open the researcher to criticism. With this in mind, Braun and Clarke (2006) argue that it is justifiable to select an approach that borrows aspects of the grounded theory analytical technique without having to subscribe to every step of the Corbin and Strauss approach. Braun and Clarke (2006) state that this approach may be termed 'thematic analysis'.

According to Braun and Clarke (2006, p81), thematic analysis is an analytical method that allows the researcher to discern patterns across qualitative data 'within a social constructionist epistemology' and that it 'can offer a more accessible form of analysis, particularly for those early in a qualitative research career'. Attride-Stirling (2001) had also earlier recommended this method, and particularly the identification of thematic networks, as a 'robust and sensitive tool' for conducting qualitative research.

### 3.2.2 Thematic Analysis

Boyatzis (1998, p77) describes thematic analysis as 'a way of seeing' and more specifically, a process that enables the coding of data for analysis and the building of theory. Thomas and Harden (2008) cite the use of thematic analysis in a health benefit study and note that it allowed descriptive and analytical themes to emerge from the transcripts of a series of focus groups. They state that the research was 'carried out in a rigorous way that facilitates transparency of reporting' and that they were able to create 'abstract and formal theories' that were 'empirically faithful to the cases from which they were developed' (Thomas and Harden, 2008, p45).

Braun and Clarke (2006) are critical of Boyatzis's (1998) view of thematic approaches in that his approach, with for example its reference to dependent variables, may be implicitly positivist in its application. They propose a modified staged approach to thematic analysis that may be applicable to a variety of paradigmatic domains, including social constructionism. These are intended as a set of guidelines rather than rules and should form part of a 'recursive' rather than 'linear' process, meaning that the researcher may move back and forth through the phases as the analysis develops. The stages as established by Braun and Clarke (2006) are set out in table 3.1.

A key aspect of this approach to coding is to ensure that the themes are generated from across the data set and not from 'a few vivid examples'. With this in mind, the authors draw attention

**Table 3.1- Phases of Thematic Analysis**

| Phase | Description of Process |
|---|---|
| 1. Familiarising yourself with your data | Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas. |
| 2. Generating initial codes | Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code. |
| 3. Searching for themes | Collating codes into potential themes, gathering all data relevant to each theme. |
| 4. Reviewing themes | Checking that the themes work in relation to the coded extracts (level 1) and the entire data set (level 2), generating a thematic 'map' of the analysis |
| 5. Defining and naming themes | On-going analysis to refine the specifics of each theme and the overall story the analysis tells; generating clear definitions and names for each theme |
| 6. Producing the report | The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis. |

Source: Braun and Clarke (2006, p87)

to some of the disadvantages of the method, particularly that the research question must be appropriate to the method, an issue of pragmatism that has been addressed above.

Other disadvantages include the wide breadth of themes that may emerge from rich data and the need for a thorough theoretical framework in which to anchor the interpretations. Braun and Clarke (2006, p97) note that these problems can be overcome if the 'method (is) driven by both (the) research questions and (the) broader theoretical assumptions'. Therefore, in the context of this thesis, these disadvantages were overcome through the process of critical comparison of the emergent themes to the concepts explored in the literature review. The issue of the breadth of themes was addressed by clearly relating back to the study aim and research questions and operating within these boundaries.

Braun and Clarke (2006, p97), state that the method itself does not hold the same 'kudos' as discourse analysis or grounded theory. However, demonstrating its increasing contemporary acceptance as a qualitative method, thematic analysis has more recently been used in studies across a variety of disciplines and using different forms of data collection. Such examples

include Allen and Foulkes (2011) analysis of the consent forms used during cancer genome sequencing studies, in order to examine how participant data was used; Fade and Swift's (2011) examination of its use in nutrition and dietetics research, recommending methods consistent with those identified by Braun and Clarke (2006); Robinson *et al*'s (2011) use of the method to explore experiences of becoming retired and seeking retirement; and Johnson *et al*'s (2012) content analysis examination of work- family interactions among retired cosmonauts.

Braun and Clarke (2006, p97) also note that the method 'does not allow the researcher to make claims about language use, or the fine grained functionality of talk'. However, they argue that its simplicity and adaptability recommend it to the early stage qualitative researcher. Providing theoretical, ontological and epistemological rigour can be demonstrated acceptably, such a method would greatly aid the interpretation of the data required to address the research questions set by this thesis.

### 3.2.3 Instrument and Collection of Data

Corbin and Strauss (2008) recognise that a qualitative approach presents the opportunity to select from many sources of data. They cite such sources, among others, as interviews, observations, biographies, memoirs and historical documents. Thus far, it has been consistently argued that the research questions formed the fundamental basis for the methodological justification for this thesis. This itself informed a pragmatic identification of an interpretive ontology, subjective epistemology, and led toward the selection of a thematic analysis.

Given the selection of the thematic analytical method, together with the exploratory nature of the research itself, it follows that the vehicle for the collection of primary data would be one that facilitates a thematic coding process. According to Gubrium and Holstein (2002), interviews offer a clear opportunity for this. Noting that interviews allow the researcher to access the observations of others and to immerse themselves in a world that they cannot directly access, such an approach is consistent with the earlier epistemological discussion.  Silverman (2006, p109) argues that although interviews may act as a filter to the known or knowable facts, this is more of an issue to a positivist and that a social constructionist perspective allows the interviewer and interviewee to 'mutually construct' the discourse without concerns toward subjectivity.

Corbin and Morse (2003) note that an unstructured interview is most likely to allow researcher immersion, with this approach further providing a rich and 'dense' data set. Silverman (2006, p110) supports this, describing 'open ended' interviews as most likely to lead to rich data, providing the interviewer is able to engage in a process of 'active listening'.

Fontana and Frey (2003) suggest that the researcher conducting open ended interviews must resolve such issues as; how they present themselves; how they gain and maintain trust; and how they are able to establish a rapport. Corbin and Strauss (2008) further note that the novice interviewer must also consider how to resolve periods of silence or how to guide the interviewee so that the responses remain specific to the topic of the research. The researcher's approach to resolving these issues within the context of this thesis are discussed below.

**3.2.4 The Role of the Researcher**

Saunders et al (2009) discuss the role of the researcher in the research process and contend that gaining access to the research field concerns more than simply physical access to the data. They argue that the researcher must also obtain cognitive access in order to gather data that is worthy of further examination. Easterby-Smith *et al* (2006, p61) also argue that the experience of the researcher can affect the quality of the data, stating that 'personal background affects what the researcher can see: experience acts both as a sensitizer and as a filter for the research'.

In this case, the researcher had earlier experience of conducting primary research and this experience was further enhanced by the process of creating the pilot study for this thesis (see section 3.4.7 below). In addition to this, given the issues raised by Easterby-Smith *et al* (2006), there were some concerns that the researcher's role as a lecturer and later senior lecturer within a university may have created a perceptual distance between the owner-managers and the researcher himself.

Saunders et al (2009, p172) argue, however, that the 'competence and integrity and... ability to explain research clearly and concisely' enable the creation of a good rapport with the interviewee. Furthermore, they state that this also creates a perception of researcher objectivity in the interviewee and an acceptance that the researcher does not have an 'organisationally focused' agenda. It was therefore considered that an honest and open approach was the most straightforward way to conduct the research and each owner-manager

was informed about both the background of the researcher and the purpose of the research at the outset. Such an approach was considered to have been the best way to build a trusting relationship with the respondent.

## 3.3 Ethical Issues

Easterby-Smith (2006) recognises that a key ethical issue in qualitative research regards the control and use of the data obtained by the researcher. Silverman (2006, p323) identifies the possibility of deception and exploitation of the research subjects and that 'ethical safeguards' can be introduced to avoid this. Such safeguards include ensuring that the individuals participate on a voluntary basis; ensuring confidentiality of data; and ensuring a mutually trusting relationship is developed. Saunders et al (2009) add that harm can be caused to the respondents at the access stage and, later, during the reporting of data. They argue that the potential for such inadvertent harm can be minimised by considering the effects on participants at the research design stage.

With these issues in mind, an ethical strategy was designed to be applied throughout the research process for this study. It was decided that informed consent would be sought from the research subjects and there would be no persuasion nor pressure applied to take part. If a potential respondent said no to a request, this would be accepted. Additionally, all respondents would be able to withdraw from the research process at any time and any data gathered at that point returned to them.

Saunders et al (2009) identify particular risks with certain types of research such as observation studies and Silverman (2006) examines the risks in sensitive areas of research such as studies of poverty or illness. In the case of this research, the relatively simple interview approach and the focus on the behaviour and beliefs of the owner-manager alone would minimise these risks. Furthermore, Corbin and Strauss (2008, p29) recognise the ethical implications identified here but add that 'people have the right to let their voices be heard' and therefore that the researcher should also consider the positive effects of making views known.

The research subjects were assured that while their interviews would be analysed and used in the production of the report, the raw data including tape recordings and transcripts would remain in the possession of the researcher and would be shared only with the researcher's supervisor. Only analysed 'processed' data would appear in the final thesis. It was also decided

that the respondents would be anonymous and the location and names of their businesses would not be used. Therefore pseudonyms were used and only the business type and general location provided. Pseudonyms were also used for any staff members discussed in the interviews.

## 3.4 Sampling

The following section explores the criteria for the selection of the sample, together with a profile of respondents for both the pilot and main study.

### 3.4.1 Overview of Sampling Issues

The selection of the subjects for the interview process was again influenced by the development of the research question, which itself emerged from the researcher's initial foray into the field in the very early stages of the study. Aspects of this approach borrowed from Corbin and Strauss's (2008) concept of 'theoretical sampling' which proposes that the analysis begins as the very early data is gathered and continues until the data is 'saturated'- the point at which concepts are well organised and defined.

Heath and Cowley (2004) recognise the value in this approach of enabling the researcher, in the very early stages of the research, to narrow the breadth of the research topic. Silverman (2006) considers that there is little difference between theoretical and 'purposeful' sampling.

Corbin and Strauss (2008, p149) propose that theoretical sampling continues until the very end of the research process, stating that:

> Even when writing the findings, it is not unusual for a researcher to have new insights, discover that some categories are better than others, or uncover breaks in the logic that require the collection of more data.

However, the authors also recognise that theoretical sampling is possible, though more difficult, even after all of the data has been gathered. It was decided that for this study there would need to be a point at which the field research would end but the analysis continue and this approach is consistent with the views of Corbin and Strauss expressed here. It is also consistent with the method of thematic analysis, identified in Section 3.2.2.

With this in mind, Corbin and Strauss identify three key issues of sampling for consideration before engaging in primary research. These are that the researcher must decide the 'site or group of study; that the researcher must decide the 'kind of data to be used; and that the researcher must decide 'how long a site should be studied' (Corbin and Strauss, 2008, p151). The second of these issues has already been addressed in section 3.4.3, above. The first and third are examined below.

### 3.4.2 Sampling Approach and Pilot Study

The origins of this study have been briefly discussed in the introductory chapter. The researcher's background as a lecturer in entrepreneurship and HRM provided the general topic area for the study, the research questions were formulated through an initial decision to explore an HR issue that affected small firms. It was therefore decided, in agreement with the researcher's supervisor, that a set of early interviews would be undertaken in order to generate a more precise topic of research and subsequently develop the research questions.

The choice of respondents for this early stage of the research was guided by Creswell's (1998) definition of the concept of 'purposeful sampling', which requires a consideration of the subjects of research most likely to yield useful data. Silverman (2006, p306) supports this approach, explaining that it requires the researcher to 'think critically about the parameters of the population (they) are interested in and choose (the) sample carefully on this basis'.

Not every aspect of the sample selection need to be purposive, as Miles and Huberman (1994) argue; the researcher needs to consider four elements in their research planning, namely the setting, actors, events and process. Some of these factors, such as setting or location, may be influenced partly by convenience, as was the case for this study. The broad business environment setting was that nearest to the University in which the researcher worked (South East Wales).

The specific setting for the interviews were a little more purposively influenced, as it was decided that the researcher would meet the owner-managers in the places where they conducted their business, with business premises or home office generally the case. Thus, it was possible to achieve an element of 'researcher immersion' as identified in Section 3.1.5.

A fundamentally purposive element of the sample came in the consideration of the actors, events and processes. The 'actors' were small firm owner-managers operating within their setting and 'events' and 'process' required the discussion to be directed toward an HR related issue (event) and for which the actors were developing practices (process). The literature suggested that an open ended discussion around the informal networks of the owner-managers (see for example, Kotey and Sheridan, 2004; Taylor and Thorpe, 2004; Larson and Starr, 1993) would generate rich data.

Four owner-managers were selected and their profiles are summarised in table 3.2. They were all owner-managers of micro firms who had previously participated in short courses at the researcher's university. They are profiled below, although their names have been changed to maintain confidentiality.

**Table 3.2 – Profile of Pilot Sample**

| Name | Age | Business Type | Number of Employees | Owner-manager's Work History |
|---|---|---|---|---|
| Andrea Salman | 50s | Pottery | 0 | Arts and design/ sculptor/ potter |
| Barry Howell | 40s | Accountancy | 3 | Accountant |
| Guy Donald | 30s | Applied Biochemistry | 8 | Chemist |
| Roger Lewis | 50s | Shopping Service | 0 | Steel worker |

The outcome of this early research, which is discussed in section 4.1 of the findings chapter, led to a discussion of the owner-manager's self- concept and their continued reference to 'us' and 'we' even where they had no employees. This led to the formulation of the aforementioned study aim and objectives.

### 3.4.3 Main Study

The selection of the main sample was guided by the same principles of theoretical and purposive sampling that guided the pilot study. This time however, the events and process were centred on the first employment decision (event) and either the expectations of the owner-

manager of the first employment (process, non-employers) or the subsequent experiences of the owner-manager after becoming an employer (process, employers). It was therefore decided that the sample would consider a number of owner-managers who had not yet employed and a number who had experienced employment.

It was intended that the owner-manager sample would be guided by Atkinson and Meagher's (1994) 'thresholds' of employment. These thresholds are outlined in table 3.3, below.

**Table 3.3- Threshold Characteristics of Developing Firms**

| Threshold | Description/ Characteristics | Timing and Nature of Changes |
|---|---|---|
| Entry | First employment, informal and influenced by need | First full time employee, still very much controlled and influence by owner-manager |
| Delegation | Introduction of early managerial hierarchy, reduction in proprietary control | Uncertain timescale, influenced by behaviour and choice of owner-manager |
| Formalisation | Introduction of systematic procedures and movement away from informal practice | Uncertain timescale, dependent on behaviour and choice of owner-manager, nature of firm and relationship with labour market |
| Functional | Introduction of professional employment practices, specialist functions and market relationship with labour market | Late changes that characterise the movement toward medium and large scale business |

Source: Adapted from Atkinson and Meagher in Atkinson and Storey (1994, p31-32)

Given that this thesis intended to explore the very first and early experiences of employment, the sample would require micro firms at Atkinson and Meagher's (1994) 'entry' threshold. It may also be possible that some of the businesses may have operated at the 'delegation' threshold, given that the authors note that this point cannot be precisely located and may be at any point after the first employment. It was not intended to examine any firms at the 'formalisation' nor 'functional' thresholds as it would be likely that these firms would have advanced far beyond the early stages of employment.

### 3.4.4 Sample Size and Recruitment of Respondents

Patton (1990) notes that qualitative research samples may be of any size and their selection is reliant upon the research topic. The sample size has been driven here by the need to explore the influences on the early employment decisions. It was decided that there was a requirement to gather enough data to generate a richness of theory that would be 'explanatorily robust' (Fleetwood and Hesketh, 2006, p1981) but not so much that would make thematic analysis and coding an insurmountable task.

It has already been recognised that events and process were a fundamental influence on the sample selection; the first employment decision can be seen as a process that leads to subsequent further decisions and different actions. The sample selection therefore was therefore based 'around' the first employment or 'before' and 'after' the first employment decision. The selection of the sample size was thus partly pragmatic, given the time and resources of the individual researcher and partly driven by the need to generate knowledge based on a depth of evidence. It was decided that a sample size of fifteen respondents would enable this.

The respondents were recruited by the researcher, from two sources. The first was through the researcher's existing contacts at the University at which he worked. These were small firm owner-managers who had had previously volunteered to provide information for the development of programme documentation for a Masters programme in Business and Enterprise Development.

The second was through the business development unit of a nearby local authority who had provided a series of free short courses for a number of small businesses. As a result, the sample is located in South East Wales and Bristol.

### 3.4.5 Main Sample Profiles

The sample is profiled in tables 3.4 and 3.5. The respondents are anonymous, as noted in section 3.4.5. The sample is split into two sections, namely, the 'non employer' and the 'employer' groups.

**Table 3.4- Non-Employer Profiles**

| Name | Age | Business Type (Location) | Number of FTEs | Owner-manager's Previous Work |
|---|---|---|---|---|
| Aled DeVere | 50s | Ceramic Crockery (Mid Wales) | 0 | Artistic design/ photography/ cookery |
| Angela Smith | 30s | Walking Holidays (Welsh Valleys) | 0 | Administrator |
| Dai Leestone | 30s | Tattooist (Welsh Valleys) | 0 | Architect/ Artist |
| Michael Watson | 40s | Mortgage Advisor (Welsh Valleys) | 0 | Employed as a mortgage advisor in estate agency |
| Neil Leavis | 40s | Medical Services (Welsh Valleys) | 0 | Worked for similar company for 20 years |
| Robert Cain | 40s | Landscape Gardening (Welsh Valleys) | 0 | Garden centre manager for 30 years |
| Robert Dougall | | Building Company (City) | 0 | Bank manager/ small business owner |
| Sandra Keith | 30s | Book keeping (Welsh Valleys) | 0 | Accountant in HE institution |

**Table 3.5- Employer Profiles**

| Name | Age | Business Type (Location) | Number of FTEs | Owner-manager's Previous Work |
|---|---|---|---|---|
| Cathy Cole | 50s | Business Support (City) | 1 | Similar full time role in a university |
| John Stuart | 30s | Graphic Design (City) | 5 | Graphic design consultancy; university teaching |
| Peter Martin | 40s | Insurance Agent (Welsh Valleys) | 6 | Insurance agent in a large firm |

| Norman Daniels | 40s | Building Services (Welsh Valleys) | 9 | Builder and labourer in small firm and local authority |
| --- | --- | --- | --- | --- |
| Clive Holder | 40s | Hairdresser (Welsh Valleys) | 12 | Manager of superstores for large chain |
| Mike Hart | 40s | Two Retail Clothing Stores (City) | 15 | Worked in and bought business from previous owner |
| Neil Jones | 30s | Events Management (City) | 20 | Army private; senior manager in large US firm |

All of the firms had been established no longer than three years before the interview, with the exception of the businesses of John Stuart, Peter Martin and Mike Hart who had been running their businesses for seven, ten and twelve years respectively. FTE stands for Full Time Employee and this definition is important because some of the owner-managers had taken on temporary, part time or free labour to help with the business. Where it occurred, the impact of this casual employment was also explored in the research and the influence of this contributed to the conceptual model produced in chapter five.

## 3.5. Data Collection and Analysis

The following discussion explains how the thematic analysis was conducted, how the intention to apply this method affected the process of gathering the data and how it was subsequently coded in order to generate the themes and develop the conceptual framework. The process was very much informed by the thematic analysis approach recommended by Braun and Clarke (2006), discussed in section 3.3.2.

### 3.5.1 Development of Interview Process and Technique

Silverman (2006, p112) cites Rapley's (2004) open ended interview technique that is collaboratively produced, in which interviewers are active participants and the interview 'style' is dependent on the intuitive choice of the interviewer. With this in mind, it was decided that the interview approach would be based loosely around a discussion with the respondent and that the questions would be informed only by the specific research questions as outlined in the

introduction to this thesis. While this approach generated some extraneous data, where discussion appeared to meander from the topic, the interviewer was then able to redirect this back to the research question.

An example of how this was achieved is established in the interview excerpt from one of this study's main respondents, Michael Watson, below:

**Table 3.6- Interview Sample i.**

| MW | 932 | Most of my work comes from the referral route, Hefin, *I tried advertising in Tesco's and paid heavily for that, I've tried on various websites and nothing has come from …* |
|----|-----|------|
| HD | 933 | **I'm just thinking, from the point of view of those people who work for you, they are getting that business aren't they, what you need to be able to give them, though in the next six to twelve months is that firm business, so you need to be yourself building up that…** |
| MW | 934 | Correct |
| HD | 935 | …base, which you're then trading on |
| MW | 936 | Yes, I mean I'd be happy to say to them, look if you, you know, if anything comes through the door and I'm not available, you take it, you know, so |
| HD | 937 | But then it.. the book is then yours, the franchise is yours. |
| MW | 938 | Correct, yes.  I think that would be the ultimate goal at the end of the day |
| HD | 939 | **But you never technically become an employer**. |
| MW | 940 | No, margins are too tight margins are literally too tight.  I mean maybe in the.. I mean I would guess it's proportional um, even in the likes of the big cities where the house prices are higher, because what the banks,  I mean …. The way this country works with financial services, they want a Rolls Royce on a Ford Cortina budget, right, |

Here it can be seen that the respondent (MW) begins to discuss the marketing of the company (MW 932- italics) and the interviewer (HD) sensed that the topic was about to turn to company advertising. The interviewer therefore used a longer formulation to return to the topic of

employment (HD 933, in bold) and reiterated this later (HD 939, in bold). Such lengthy interventions were only used where such patterns occurred. In other sections, where the discussion was on- topic, the interviewer tended not to intervene to such an extent.

The pattern of the interviews were therefore open-ended, based on the study's research questions and guided intuitively by the interviewer, which itself would allow the generation of rich data for later coding. No distinct and pre-determined set questions were asked, although given the nature of the sample, similar questions were asked of different respondents. The later coding process would further allow for extraneous data to be sifted from the research and as this interview technique was applied consistently, much of the data was in some way useful.

### 3.5.2 Note Taking, Recording and Transcribing Data

It was decided that during the interviews, the researcher would take notes. Collis and Hussey (2009) argue that note taking allows the immediate recording of the researcher's observations and responses and Corbin and Strauss (2008) suggest that notes can also be used to capture additional information that may be shared after the tape recorder has been turned off. Despite this, Collis and Hussey (2009) strongly recommend that interviews be recorded in order to capture the discussion in full and allow the researcher to examine the data without the perceptual filter that note taking creates. It was therefore decided to tape record the interviews.

In addition to this, the coding process required data that could be easily processed. This led to the decision to fully transcribe all five of the pilot interviews and all fifteen of the main interviews. While this was a time consuming and occasionally frustrating process, the subsequent transcripts were invaluable in the process of coding. After transcription, the scripts were checked against the original interviews for accuracy.

### 3.5.3 Coding and Concept Search

Braun and Clarke (2006, p96) describe the coding process as 'systematic' and that it needs to be carried out across the entire data set. It was therefore decided that the data would first be organised into sections to allow for the code search and application. Data was organised according to the question and prompts of the interviewer and the responses of the interviewee.

An initial and number was given to each section of speech, as illustrated in bold in the sample below:

**Table 3.7- Interview Sample ii.**

| HD | 183 | How old is she? |
|----|-----|-----------------|
| PM | 184 | She's 30..34, and she'd been with him since she was 17, for years. |
| HD | 185 | When was this? |
| PM | 186 | This was going now, she's been with us now…eight years. |
| HD | 187 | So it was eight years was your first full proper experience of employment then. |

Since each interviewee had a different initial, every individual response had a unique code number- here PM 184 and PM 186. The advantage of this was that the data, once coded could then be easily relocated and, as will be seen, mapped against themes.

The next stage of the process was to identify the codes themselves. These would emerge as different concepts, which were tagged in handwriting against each code number. An example, from the same sample is illustrated in table 3.8, below:

**Table 3.8- Interview Sample iii.**

| PM | 180 | Yeah, but then T came on the scene then, um kind of my godsend, really because she's absolutely fabulous. | *Second (key) female employee*<br><br>*Employee type?* |
|----|-----|-----|-----|
| HD | 181 | How did she turn up? | |
| PM | 182 | She turned up, I had business with a big electrical contractor up in (location), although I knew T before, well she used to work in the office there, and I went to see him once and he said "Look, Peter, between me and you I'm being bankrupt. I owe the bank and tax loads of money, I'm not going to pay them, I'm going bankrupt". I said "That's a shame". I said, "well what's T going to be doing now then?" He said | *Experience of OM*<br><br>*Known socially*<br><br>*Social capital*<br><br>*Experienced employee*<br><br>*Ready-made employee* |

| | | | |
|---|---|---|---|
| | | "she's going to be out of a job". I said, "well, does she know that?" He said "No I haven't told her yet, she's going to break her heart. She's been doing this since she was seventeen". | *Recommended employee* |
| HD | 183 | How old is she? | |
| PM | 184 | She's 30..34, and she'd been with him since she was 17, for years. | *Trusted employee* |
| HD | 185 | When was this? | |
| PM | 186 | This was going now, she's been with us now…eight years. | |
| HD | 187 | So it was eight years was your first full proper experience of employment then. | |
| PM | 188 | Well I employed this girl before for a couple of years but this is when, really, this is when ..when I took on T this is when my business started to go really. | *Employee linked with business success* |
| HD | 189 | Right. Was that as a consequence of taking her on, or .. | |
| PM | 190 | Possibly, yes, because I was kind of muddling along really, earning money but not..nothing substantial. But I'd been in business then for a good few years and I'd started to get the agencies and things started to pick up then. So basically T finished working for R and then she started working for me. | *Importance of early employment on business success* <br><br> *Early antecedent of trust* |

The concepts were developed from the data by the researcher through an interpretive and subjective process. Yet this was also supported by the earlier literature review- see for example the discussion of trust (Goel and Karri, 2006; Sarasvathy and Dew, 2008; Goel and Karri, 2008) which has informed the emergence of the concept of trust here. Therefore the process can be said to be recursive. This process was applied across the data set so that every code number

(PM190 for example) had an associated code. A further benefit of this approach was to sift extraneous data and such areas contained markedly fewer codes.

### 3.5.4 Theme Definition

The next stage of the process was to identify the emergent themes. These were terms that could describe collated codes from across the data set. Here, the code numbering process proved to be particularly useful. Below is a sample of one of the themes that emerged, together with the associated codes from the data set:

**Table 3.9- Coding Sample**

| No | Concept | Codes |
|----|---------|-------|
| 4 | Trust in Employees | PM184; PM190; PM204; PM328; PM334; MW66; MW67; NJ274; MH62; MH64; MH66; MH104; MH106; MH108; MH116; MH123; ND530; ND538; JS62; JS138; JS140; JS142; RD254; RD266; |

Here, all of the codes that refer to that theme are listed and could be used to examine the extent to which the theme manifested across the data. While Braun and Clarke (2006) recommend a process of thematic mapping here, the number code/concept allocation could be seen to be a similar alternative.

### 3.5.5 Theme Consolidation and Refinement

Once the codes had been allocated to themes, a second sifting process took place. While fifty eight themes were identified in total, only ten of these were eventually used in the findings and analysis. The selection of the themes to be used in the discussion was based on a reference back to the research questions and study aim. The researcher considered whether the themes were helpful in answering the research question and addressing the aim. If not, the themes were not chosen for further analysis. This sifting allowed the development of a logically developed discussion, which can be found in the following findings chapter.

A further refinement took place by comparing these findings to the literature and using these to develop a conceptual model which sought to explain the early employment process (see section 5.8).   While the explanation of this method is required to be linear, the research process was

actually rather cyclical, with continual reference back and forth between the research questions, the literature and the data.

## 3.6 Research Credibility

Schwandt (2003) recognises the challenges facing qualitative researchers, particularly given the contested criteria by which the value of the research is measured and rendered credible. Creswell (2009, p190-192) identifies that validity in qualitative research 'does not carry the same connotations… as it does in quantitative research' and argues for the use of 'thick rich description' to convey the findings; spending 'prolonged time' in the field; and the use of 'peer debriefing' which requires review and discussion of the account with a second person. This methodology has provided consistent evidence to support the fact that the research in this thesis conforms to these processes.

Creswell (2009) also argues that there is a requirement for consistency in qualitative research that may be akin to the requirement for reliability in quantitative approaches. He cites Gibbs (2007) who emphasises the need for the consistent and rigorous coding of the data. This has been addressed in the preceding sections. Creswell (2009, p193) also argues for 'intercoder agreement' whereby a second person agrees that the codes used are consistent and would code in a similar way. This was achieved in consultation with the researcher's supervisor. The open-ended and sequentially conducted approach to the interviews allowed the development of consistent but also emergent concepts and themes.

As Corbin and Strauss (2008) recommend, rigorous analysis should be coterminous with the gathering of data. Furthermore, Braun and Clarke (2006) note that the thematic method should be recursive if it is to be demonstrably credible. In addition to the recursion between research questions, literature and data throughout the process, the researcher also produced an early report of the research after five of the main interviews were conducted and analysed. This was presented as a paper to the 2006 ISBE conference and then developed into a book chapter entitled 'Becoming an employer' (David and Watts, in Barrett and Mayson, 2008). The feedback provided, by Barrett in particular, allowed further development of the analysis of the data and provided further consistency.

**3.7 Summary**

The contribution of the research is to provide an explanation of the early employment decisions of the owner-manager and their consequences for the growth of the firm. It has been demonstrated in the earlier literature review that there is a lacuna in this area of research and this has been addressed by this thesis. The exploratory nature thus informed the selected methodology. However, the very fact that this is such an exploratory piece of work demonstrates its limitations. It does not seek to provide a generalisible account of the process and the conceptual framework only tentatively models the early employment experiences.

The preceding discussion has also identified a number of method- specific limitations but has sought to address these in the developing discussion. For example, the analytical method is recognised to be lacking in 'kudos' (Braun and Clarke, 2006, p97) but as an approach it has been adopted by contemporary researchers in a variety of fields of study (Allen and Foulkes, 2011; Fade and Swift, 2011; Robinson *et al*, 2011; Johnson et al; 2012). Cassell and Nadin (2008) also identify the wider challenges to qualitative HRM researchers and this issue has been addressed in the context of the method and the wider methodology.

This research develops from an interpretative, subjective and social constructionist ontological and epistemological position, which is a pragmatic recognition of the philosophical underpinning of the research, given the exploratory nature of the research questions. The research philosophy informed a qualitative, thematic analysis which was supported by the theoretical conceptual framework of the literature review.

This then led into a purposive sample which was coded and analysed in accordance with the techniques of thematic analysis. The research findings were developed from a recursive approach to the analysis which considered the context of the research subjects, the theoretical framework and the research questions. Thus the methodological approach could be said to be suitably credible and valid.

**4. Findings**

This chapter presents the research findings as they emerged following the process of thematic analysis. The findings of the pilot interviews are presented first and section 4.1 explains how they then informed the development of the research aim and objectives. Section 4.2 onwards examines the outcomes of the initial analysis of the main sample. This explores the first employment decisions and posits an early explanation for the reluctance to employ. The alternatives to employment are discussed, followed by the factors that encourage the owner-managers to consider employing their first recruits. A key outcome of this section is the relatively low salience of the first employment decision among the employer respondents. The chapter concludes with an exploration of the owner-managers' experiences and perceptions of trust and how they reacted to breaches of trust by their employees.

**4.1 Pilot Interviews- Emergent Findings**

The pilot and main interviews were examined according to the principles of thematic analysis, as explained in the methodology from section 3.5 onwards. The outcomes of the pilot interviews are discussed below, which were used to identify the subsequent research questions for the main study. The findings present the view of the firm from the perspective of the owner-manager and suggest that they perceive their firms as collaborative enterprises, even when they are sole traders; that they consistently seek support in their business network; and that employees are not the only source of knowledge and skills available to the owner-manager.

**4.1.1 The Business as a Collaborative Enterprise**

It appeared that the business owners conceived of their ventures as collaborative enterprises, with all four owners referring to specific business activities as being undertaken collectively. This was perhaps to be expected in the case of the employers, who referred to the roles that their employees played in daily operations. Both Guy Donald and Barry Howell noted the valued contribution of employees, including in helping the generation of new business and enabling the owner-managers to spend time focused on product and service development.

Yet it was also noted that the two non-employers referred to 'we' and 'us' when describing business activities. Andrea Salman, for example, said 'we got involved with the university' (Asa34) and later said, 'we sold the kiln and we built a bigger version' (Asa137). When asked

who she meant by 'we', she said, in the first instance, that she was referring to her husband and the help he gave and in the second she meant 'friends who are in business, in IT and finance' (Asa139). Similarly, Roger Lewis said of his business, 'we'll pay for the shopping ourselves… we deliver it' (RL33). When asked why he said 'we', his first response was that, 'it sounds more professional' (RL35) but it later emerged that he was also referring to the support he received from a representative of a nearby business support agency and to the help that customers gave him in referring his business to their friends. This would suggest that the owner-managers viewed their organisations as collaborations, even where they are sole traders and have no employees.

### 4.1.2 Consistent Evidence of Networks of Support

These initial findings support existing research that identifies that the owner-manager seeks out skills and advice from their social network. Table 4.1, below, demonstrates the extent to which the owner-managers interviewed for the pilot study identified support from others:

**Table 4.1 Pilot Sample and Networks of Support**

| Owner-manager | Nature of Support Network |
|---|---|
| Andrea Salman | Close friends; former teaching colleagues; friends in business (IT and finance); support agencies, regional development agency; industry associates met at craft fairs. |
| Roger Lewis | Close friends; local business support agency; voluntary sector organisations; customers. |
| Barry Howell | Industry contacts; multiple support agencies; local university and colleges; chartered bodies; friends and former colleagues of current employees. |
| Guy Donald | Similar companies and industry contacts; venture capitalists; local and regional support agencies; local and regional government contacts; regional development agency. |

It appeared that the non-employers were more likely to rely on close friends and their immediate local networks than the employers but there was evidence that all of the owner-managers had accessed some form of formal and established support such as development agencies and government sponsored business support agencies. The employers had established these links more extensively and over a wider geographical area. The employers had also been

able to make use of the contacts that their employees had brought to the company. It appeared therefore that the acquisition of employees also led to the broadening of support networks.

### 4.1.3 Sources of Knowledge and Skills and the Importance of Employees

It can be seen from the outcomes of the pilot interviews that employees are not the only sources of knowledge and associated skills available to owner-managers. While employees brought additional expertise to the business, the myriad of support and advice that emerged from the owner-managers' immediate networks enabled the business to expand operations even in the two companies that had no employees. It has been recognised that the recruitment of employees comes at a cost to the firm (Atkinson and Meagher, 1994; Foreman-Peck *et al,* 2006) and that owner-managers are reluctant employers (Perren, 1999).

If it is possible to develop the business without employees, it is reasonable to question why firms may consider employment at all, given these costs. These issues are explored in further detail in the literature review, together with a thorough examination of the contribution of human and social capital to the life of the firm. There are, however, limitations to this current research and the primary research conducted for this study provides an original contribution at the boundaries of existing knowledge.

### 4.2 Main Study

The following section examines the findings of the main study, which focused specifically on the research aim which has been established in the introductory chapter. This reports the findings as they emerged from the thematic analysis and are not yet examined in relation to extant literature. This further examination is carried out in the discussion and analysis chapter.

### 4.2.1 Felt Need to Become an Employer

The owner-managers commonly expressed a reluctance to employ. This was the case with the majority of respondents and was evident in both those that were employers and those that had yet to take on their first full time employee. The respondents were asked their views about the decision to become an employer and the following table 4.2, identifies the responses of all of the owner-managers.

**Table 4.2 Illustrating a Reluctance to Employ**

| Owner-manager | No of Full Time Employees | Response |
|---|---|---|
| Neil Leavis | 0 | I'd like one person. One, because I'm lonely anyway, (NL226). Not just that um, obviously I've got to take on the admin stuff, as well, so, as I'm trying to work at the moment, Monday to Friday, I mean, I work weekends (NL230). |
| Robert Cain | 0 | I think probably I had my fill of the joys of employment now I think long term, maybe I'll come back to it, but after you know the delights of um, er, you know, the previous twenty years … so I just .. I wanted to have a break from that. And, um, I'm avoiding um, employing. I could probably employ someone to help me on the computer (RC166) |
| Angela Smith | 0 | It's not about employment to me, no. I never really thought about it that way. At all (AS417). |
| Sandra Keith | 0 | … it would concern me, because even as I said, the person that I'd start employing would be my friend Denise, and that in itself is a problem, because really, I tell myself you shouldn't have an employee friend (SK264). |
| Dai Leestone | 0 | Yes, I'm just going to take my time (DL442). As I say, I'm only thirty, you know, there's no big rush for it, like, is there? (DL444) |
| Michael Watson | 0 | I don't aim to set the world alight I just want to earn a good living, and I can earn a good living... I'm working on very tight profit margins and it would be… the only way you could really progress in this industry is to take somebody else on, self-employed (MW840). You couldn't take them on employed. It just wouldn't pay (MW842). |
| Robert Dougall | 0 | There's certainly some value in them, but, experience…my experience with employees, they get complacent, they're a different animal completely (RD 254) |
| Aled DeVere | 0 | Well, I could maximise this, but I don't want to, because what am I in it for, if I've got enough money… to live and I've got very few responsibilities, the responsibilities that I might have are actually taken care of by the factory that …I'm the sort of cuckoo in the factory's nest. Um.. you know, why take on the responsibility myself, PAYE, you know, pregnancies, all that |

| | | |
|---|---|---|
| | | (AD292). |
| Cathy Cole | 1 | … I can't.. I don't risk. I can't afford to risk that much. I was um, I can take a little bit of a risk, but at the end of the day it's my money I'm paying now, so it…. There's whole issues now, I suppose when you are now working on your own, in terms of employing people (CC84) |
| John Stuart | 5 | Um….No, I needed to do it and um, it is odd when it's just yourself and you're employing, um.. It's just like the two of you (JS40). Um, you know, and once we'd made the decision.. we decided we needed someone and we started looking for them. It was a very long, painful process we went through (JS58). |
| Peter Martin | 6 | It did (worry me) at first but looking back it was the best move I ever made because I had somebody in the office who was doing all the rubbish, sorting out all the admin, I calculated that basically I only had to do one piece of new business every day to pay her wage so I thought in my head "right, if I can do three or four new cases a day it'll pay for my wage and pay for her wage, and that's what I did (PM140). |
| Norman Daniels | 9 | At that time (first business) I kept well away from it, because you know, it was difficult enough you know, to make a living on your own (ND70). Well some days I absolutely adore it (being an employer) (ND522)… And some days I'm absolutely… I get crippled with stress (ND524) |
| Clive Holder | 12 | I'm not reluctant to employ people, but, um, legislation and tax does stop me from employing people I want, (CH1258)… And managing them as individuals I don't fear at all (CH1266). |
| Mike Hart | 15 | I remember it because my wife was running the business, she, um, got pregnant and was obviously having to leave, to have the baby, and we decided to employ somebody, and it was terrifying, and let's be honest, because we had control of the business, … it was ours, you know, it was our little baby, and we were going to have to give it to somebody else (MH52). |
| Neil Jones | 20 | No, God, no, haha I don't think anyone wants to be an employer. Um, you know, I think there's something wrong if you ..that's an ego thing and um..so it's always out of necessity. (NJ82) |

### 4.2.2 Exploration of the Reluctance to Employ

It is clear from the various responses that none of the owner-managers felt any strong personal motivation to become an employer. Even in the case of those that that expressed a wish to employ, this was largely due to necessity - most often the need for someone to undertake 'administrative' tasks which kept the owner-managers away from the core business.

Far more prevalent was an aversion to employment. This was most common among those who had yet to employ anyone full time, although the employers also recalled similar feelings of reluctance before their first employments. As the owner-managers became experienced employers, they were more likely to recognise the benefits of employment but also more able to identify some of the practical barriers such as legal responsibility for employees.

Cathy Cole's risk aversion prevented her from seeking any more employees. Yet Cathy had a strong confidence in her own ability to manage her first and only employee, as she had acted as line manager to this employee in her previous employment. This employee had been doing the same job and had proven capable in that previous employment. The perceived future risk involved in this specific employment was minimal as the employee emerged from a pre-existent and supportive personal network.

Despite this, Cathy exhibited a most strongly expressed reluctance to employ anyone else. The risks associated with an unknown figure were perceived to be higher. In addition, her concept of employment as an experience was largely negative, possibly due to experiences she had when working in an employed role. She used the metaphor of the uncertainty associated with buying a house to describe the process of employment:

> How long do you spend looking at that house? You'll probably spend about half an hour if you're lucky looking through it. You don't know all the creaks and bangs and whether the central heating's going to break down when you go in. So it's the same with staff. You interview staff probably for a maximum of about an hour. First time you meet them the first few minutes are extremely important when you meet somebody, um, you're obviously looking for various things at the start but you don't know them. You know, people can put on an act, they might be very good at interviews, some people are terrible at interviews and might make the best employee you know. So, I think the actual recruitment process is very difficult…So, yes, it's difficult to get rid of staff, if you feel that they're not performing unless they make terr… a bad mistake, so you employ somebody for say two years and yet you're actually stuck with those for two years
>
> <div align="right">CC72</div>

In Cathy's case, the first employment decision was hugely influenced by her experiences as an employer and the only employee she would consider was one who had proven her value in a less risky environment. Her conception of those risks of employment, including not being able to 'get rid of' unreliable staff, meant that she would be very unlikely to employ anyone else and she had developed a concept of an alternative business model based on 'associates'.

There was a recognition among the non-employers that their reluctance to employ would form a barrier to significant growth of the firm but most provided personal justification for either avoiding employment or anticipating employing in the future. Both Aled DeVere and Robert Dougall had taken the decision not to recruit full time employees as their businesses provided sufficient income to support their chosen lifestyles. In both cases, this reluctance to employ was greatly influenced by personal history.

Aled had suffered a severe and life-threatening illness some twenty years previously and as a result had decided that he did not wish to engage with either the risk or the responsibility of employment. Robert had previously been employed as a bank manager for a large company and had been responsible for employees. This responsibility and his subsequent belief about the unreliability of employees had discouraged him from wishing to employ as an owner-manager. The most recently established owner-manager, Neil Leavis stated on two occasions during the interview that he would be partially motivated to employ one person due to loneliness but this was supplemented by a stronger need for support with administrative tasks.

Sandra Keith expressed a great deal of uncertainty about becoming an employer. She made several references through the course of the interview of the need for friendships that emerged from her business relationships. She recognised that in the future, if her business was to grow, she may not have much choice about employment, stating 'whether I want to (employ) doesn't come into it really because… I haven't got a choice' (SK316). For this reason and despite her expressed caution, Sandra had given some consideration to the first employment. She had even considered a potential employee. She stated:

> Now I have got someone, one of my friends, who might want a part time job… so I'm looking to her then, eventually when I'm ready.  She worked in the bank, she's got the same history as me, she worked in the (call centre), she was one of my colleagues in the (call centre) because I was I was a supervisor, I actually supervised her, so when I'm ready I've got a ready-built employee really… who fancies doing this now because the children are in school                                    SK182

The importance of friendship and close working relationships arose and it is notable that the potential employee, Denise, had been known to Sandra for the past twenty years. This added a degree of certainty to the employment decision though, as noted in quote SK264 (table 4.2) she also recognised that it may be a mistake to employ a friend.

Dai Leestone had considered employing full time but felt that, since he was relatively young and his business, a recently established tattoo studio, was likely to grow slowly he did not need to consider employment at the time of the interview. He had taken on a part time apprentice, Mary, who was paid little but appreciated the opportunity to learn. There was little cost or risk in this employment relationship. Similarly, Robert Cain noted that in addition to 'having his fill of employment' (RC166) he simply did not need to employ anyone at the time of the interview, explicitly stating, 'I can get away without employing people' (RC190).

Robert Cain identified previous experiences as a cause for his reluctance to employ. Although he stated that he may consider employment at an unspecified point in the future as he liked 'developing people' (RC166), he also saw his experiences as an employed manager as a demotivation for further employment. He said with irony, 'after, you know the delights of the previous twenty years' (RC166) that he would not be rushing into employment. This was due in part to the negative experiences of the 'politics' of employment relationships. He said:

> I didn't like that sort of um, again, that sort of, um, the creative side of me was being stifled by working for a big organisation, so .. I won't mention the politics which I don't handle well at all
>
> RC58

It appeared that these negative experiences may have enhanced his desire to retain control of their businesses and accounted, in his case, for a strongly felt need to avoid employment.

Given the expressed reluctance to employ, noted in Table 4.2, above, it is unsurprising that none of the respondents expressed a desire to achieve the status of 'employer' simply for its own sake. While non-employers such as Sandra Keith and Neil Leavis saw, in passing comments, the benefits of the social aspect of employment, all of them indicated that they would only employ were it to become necessary.

**4.3 Alternatives to Employment**

Given their explicitly expressed reluctance to employ, two of the owner-managers, Cathy Cole and Robert Dougall, had developed alternative strategies to employment that allowed them to expand their business to a limited extent whilst avoiding taking on new staff. A third, Robert Cain, did not rule out employment but identified clear reasons for seeking alternatives at the time of the interview.

**4.3.1 Business 'Associates' as an Alternative to Employment**

Cathy had established a firm offering support and start up advice to other companies and undertaking projects to encourage entrepreneurship, which was funded by EU grants. Her intention was to achieve this by forming relationships with other companies and she referred to these as 'associates'. She saw this as an alternative to employment and said:

> I'm not saying it's better, it's just that that's a different way. It was my original idea that I would have a business where we would have a number of associates. I wouldn't necessarily have an employee. I mean, yes, it is … I don't know I suppose it is preferable from the point of view that you don't have to do, um, all the salary, national insurance, tax, um, you don't have the employer responsibility or the employer legislation that you need as an employee.. for an employee as an employer. No, when you have an associate they are subcontracted, so they are responsible for their own administration
>
> CC120

Cathy felt that her approach would enable her to maintain a viable business, from which she could draw a reasonable salary and avoid employment for a substantial period of time. At the time of the interview, the business was in the early stages of development and so it remained to be seen whether this approach would continue to be effective for Cathy.

**4.3.2 Previous Experience and Alternatives to Employment**

Robert Dougall was in his early sixties at the time of the interview and running a partnership company that managed home building projects but did not have any employees. Robert's career history was long and disjointed but involved working as an employee in both a large corporate firm and smaller companies. At each stage of his career he was able to identify occasions on which he had been disappointed both by people he worked for and with; and which indicated early breaches of trust that did not involve employees.

In his early career, Robert worked for a national bank and was promoted to a management position. Robert did not enjoy his experience of working at a senior level in a large organisation because 'the politics took over' (RD182) and he felt himself to be 'too outspoken' (RD184). He left the company on bad terms shortly after, feeling tired and 'disillusioned' such that 'no way was (he) going back into corporate life' (RD210).

Robert described the occasion that he left the large organisation in vivid terms:

> The director who was detailed to get rid of me who I respected in the early days, and then fell out with him because he was such a bastard… said "I'd like to see you before you go, er, can I meet you somewhere?"  I said "Why would I want to meet you, you bastard, you've made my life a complete misery for the past six months?".  And he said "I know, but I would like to see you before you go to wish you all the best" and basically he said "I won't be far behind you… What has happened to you is an absolute disgrace". I said "That's good coming from you, considering you're the one that's put me through this".
>
> RD 204

Robert remained fairly angry some twenty years after the event. He perceived the director to have been in the wrong throughout, though he would not explain in detail exactly what had happened leading up to these events.

Robert also identified a difficult relationship he had with a business partner in a small building company he later joined.  He and his partner began to disagree over the future direction of the business and Robert left the company on bad terms. Robert stated of his former partner 'we didn't speak to each other for almost two years' (RD104).

Following this two year period, his former partner wrote to Robert to ask him for his help in another venture. Robert said that his earlier grave forecasts about the business were coming true. He said:

> I got a letter from him, "Robert, I understand if you never want to speak to me again after what happened, but, I could use your help".  I thought that was brilliant, actually
>
> RD108

Robert felt able to forget the earlier disagreement because of this approach and met with his former partner. Upon meeting, they agreed to start a new venture. Robert suggested involving three other business contacts, each with different expertise. Between them, the five partners had expertise in the area of quantity surveying, finance, building contracting and business consultancy. Given their expertise, they decided to operate their business as a property

development agency. At the time of the interview, the company had been operating for four years and the partners were the only staff members.

## 4.4. Motivators for Employment Among the Employer Group

The experienced employers viewed employment as necessary for the development of the business.  This 'necessity' of employment seems to have been an important motivator for these owner-managers but need had become vital to the continuation and future success of their businesses and had over-ridden the financial, legal and bureaucratic pressures that employment wrought.

One of the most experienced employers, Neil Jones, identified that employment was always 'out of necessity' (NJ82). Neil did not exhibit any fear toward employment, and indeed appeared to have a great deal of confidence in his own abilities as a leader, largely due to his personal history, which included time as a military trainee at Sandhurst and as senior director for a large publisher in the United States.

Mike Hart had to take on his first employee due to his wife's pregnancy. He also stated explicitly that 'experiences then and now have taught me that you need somebody' (MH68).  Peter Martin also noted that he needed someone to help him with what he termed 'the rubbish' of administrative tasks.

John Stuart stated that in his business he relied 'much more heavily on them (employees)' (JS120) than in a larger business. He added that he had 'never had any ambitions to grow the business in terms of numbers of people' (JS108). When asked whether he would employ more people he replied 'I don't need to… we don't need to' (JS 110).

Clive Holder started his hairdressing business while employed as a large supermarket manager in a different part of the country. He therefore had no choice but to employ, establishing his sister as a first line manager (FLM) and recruiting two hairdressers. Norman Daniels ran a building company which he established following the closure of a company in which he was an FLM. There were a number of on-going contracts that his new company agreed to honour and so he required employees to do the work.

The need to employ emerged from the requirement of the owner-manager to undertake tasks that are not necessarily integral to the core business of the firm but necessary for long term survival; ie, those administrative activities. The inconvenience of these tasks could not be fully overcome by the use of the alternatives to employment. The consequences of this need are examined further in the analysis chapter.

## 4.5 The First Employment Decision

It was anticipated that the first employment decision, when finally reached, would be a pivotal and significant experience in the life of the owner-manager and that there would be some opportunity to delineate the employment stage from the non-employment stage of the firm. This was not commonly the case however. The following discussion explores why the first employment appeared to be of limited salience to the owner-managers.

### 4.5.1 Problems Identifying the First Employee

Throughout many of the interviews, it was difficult to identify a specific moment when the owner-manager 'became' an employer. This was partly due to difficulties the owner-managers had recalling their first employment but also due to the fact that in many instances, there was no one single employment decision.

John Stuart found it particularly difficult to describe his first employment experience and when asked to explicitly identify when he took on his first employee he stated:

> Um, probably about 6 months, 9 months, something like that. Because it grew so gradually from sort of the part-time university stuff, and I only had 3 days a week dedicated to building the business so it went on for quite some time um..
>
> JS22

When pressed, he tried hard to recall the experience:

> Oh, um, that must have been the early 90s, about sort of 92, 93, something like that. Um..and then I took, as I say I was using freelance designers to help out if I got particularly busy or there was a particularly big job came in, what I would do is I would take somebody on for a period of a few weeks just to help push work through, but my first kind of appointment as it were as an employer was um taking someone on to really do the administrative side of things and new business development, sort of making cold calls and generating letters, and that kind of thing, mainly because I absolutely hate doing that side of the business. And I just felt it was more productive

> for me to spend time doing what I was probably better at, and then…so originally it was just part-time, I had somebody coming in, 5 mornings a week.
>
> <div align="right">JS 24</div>

Similarly, Peter Martin found it difficult to recollect his first employee, explaining:

> it was about 18 months into my business, then I employed my first person.  I'd had one or two on like government schemes just to answer the phone and when I was out of the office but…  like I said I hadn't actually employed anybody and the first girl, her name was Elsa, she was employed on a government scheme and then I took her on after that.  But like I said it was very difficult because all of a sudden I had to find a wage for her, which was 5 or 6 thousand pounds, good god
>
> <div align="right">PM 134</div>

Peter stated that he had a general idea of the kind of person he wanted to employ, but did not want to give that person a senior role in the business or let them have direct contact with a customer base that he served directly and personally.  He also indicated his recollection of the feeling of responsibility that he associated with the decision at the time.  John also knew he needed someone to take over some of the less enjoyable work and so felt a need to recruit full time rather than any desire to be an employer.

Mike Hart was in the unusual position of being both an owner-manager of his own clothes retailer (in partnership with his wife) and the first line manager of another slightly larger clothes retailer in another area. His employment as FLM required him to take responsibility for the management of three city stores and their employees.  He found it difficult to recall the first person he employed as an OM of the smaller store, citing two different people at two points in the interview. When pressed, he identified the first employee but hesitantly:

> No, not then… (pause) it was later on, no (pause) Jason, who we took on originally was great.
>
> <div align="right">MH 66</div>

This was significant as the second employee had proven to be untrustworthy, yet Mike originally confused him with the very reliable first employee.

## 4.5.2 Missing Concept of 'First Employee'

In some of the cases of those who were already employing, there was no instance of a 'first' employee. As has been noted above, Norman Daniels had first become an owner-manager-employer when starting his own building company after the failure of a venture in which he had acted as FLM. In this case he explained that he 'inherited some' (ND 418) of the employees from

<div align="right">108</div>

the previous company when he set up on his own. Mike Hart had a similar experience when he bought the larger city clothing retailer from the original owner and retained the staff already in place.

It is also the case that pre- employment respondents did not anticipate a clear distinction between being an employer and not being an employer. Neil Leavis expressed a need for an employee to help gradually expanding work orders for servicing medical equipment. Yet when he speculated on the nature of this he said he could 'maybe employ my wife or someone part time' (NL264). Later in the interview he mentioned that his son had carried out work for him in the past (NL296) and also stated that were he to need an employee, 'to start with it'll be someone I know like my son and my wife' (NL326). For Neil, becoming an employer would be a gradual process rather than a clear step into a new role.

When asked if she had ever considered herself to be an employer, Angela Smith, who owned a guided walking tour company with her husband, replied:

> Um, (pause) no, not really… I guess so yes… to a certain extent.
>
> AS163

The company required freelance guides who were mostly retired people in their fifties and sixties and who received only their expenses and the cost of the holiday in payment from Angela. These employees did not conform to the legal definition of employees or workers as identified in the introductory chapter (see section 1.6). Yet, when asked again whether she could be described as an employer, she paused to think and then replied:

> Yes, more so now, because we've had to develop sort of literature, and terms and conditions for guides and that sort of thing so I never thought I would have had to have done that before
>
> AS 165

> …what's expected of them, and, you know, like, kind of like a job description sort of thing
>
> AS 169

In her deliberation, Angela appeared, in her tone of voice, to express surprise at her reflections on her status as an employer. This was particularly notable in response AS163, above. It seemed that she had not considered this self-concept previously and the idea of being an employer had simply not occurred to her.

### 4.5.3 The First Permanent Administrative Employee

It is significant that for those employer-respondents the first employees were less than memorable and were employed rather opportunistically. For Peter and John, it was actually second or third employees that exhibited more perceived importance to the development of the firm because it released them from the need to engage in what they considered to be boring administrative activity. It may be said for both Peter and John that the first significant employment decision was the one to employ the first permanent administrative employee as opposed to the less memorable first employment experience.

Peter identified the first permanent administrative employee as of particular importance to the development of the business:

> Looking back, it was the best move I ever made because I had somebody in the office who was doing all the rubbish… so I thought… if I can do three or four new cases a day it will pay for my wage and it would pay for her wage.
>
> PM 140

Throughout the discussion however he seemed reluctant to dwell upon the experience. He talked at length about the operational and financial difficulties he faced in the first four years of his business, which perhaps reflects the marginal role he was willing to give the new employee. Despite this, the first permanent administrative employee was reliable and productive and remained with him for a number of years and enabled him to spend more time attracting new customers.

Similarly, the first permanent administrative employee was useful for John for a number of years and he said it 'worked out really well'. This productive working relationship ended only when the employee moved away.

Cathy Cole was able to clearly identify her first employment experience. She stated that she found the first (and in her case only) employment decision a relatively easy one; the first employee effectively generated her own salary as part of the European funded project that Cathy had successfully bid for. It may be argued that Cathy's first employee was in some ways similar to the first permanent administrative employees of John and Peter but with an additional and more senior role in the running of a specific project. Cathy's business had started directly after leaving a similar role in long term employment in a university and, she had not

embarked upon a business development stage that matched those of John and Peter but she had expressed a need for support with both administrative tasks and project management.

As already noted, for Cathy, the first employment was memorable as it coincided with the establishment of the business and centred on a single, trusted individual to whom she had acted as line manager in her previous employment. There is therefore a clear delineator between employed line manager and owner-manager employer and this was something that occurred over a very short period of time. However, closer analysis would suggest that the first employment was a continuation of an existing employment relationship rather than an identifiable step movement to a new one.

**4.5.4 Previous Experiences of Owner-Managers and Early Employment Decisions**

Two of the respondents became employers after a long period as FLM in large corporate firms, responsible for a number of staff. As a result of this experience, the expressed far less concern about the first employment in their newly established ventures, and they expressed little trepidation or concern about becoming employers. Despite this, they nonetheless experienced difficulties with their early employees.

Clive Holder had been a supermarket store manager for a number of nationwide firms prior to the opening of his first business. The opportunity arose when he had amassed £50,000 of savings and his sister, an experienced beautician, had expressed an interest in running a hairdressing shop. While continuing to work as a store manager for a large retailer, he bought, furnished and opened two hairdressing shops in two small villages near his home town. He installed his sister as the FLM for both and stated that 'we immediately started off the very first day with my sister plus two employees' (CH 702). When asked how he felt about this he stated 'I felt comfortable with it I think' (CH682). He did not reflect any further and his expression suggested that he did not feel that it was a particularly significant moment.

Within the first three months the shops were 'building a reputation very, very quickly' (CH746) and making enough money to require a rapid expansion in staff. Within the first year, a team of eighteen staff were employed on a mix of full time and part time contracts. Clive was still employed as a store manager and he viewed the challenges of running a small business as equal to anything he faced in his employed role. In addition, he entrusted the day to day running of the business to his sister as FLM and so was not directly concerned with employment issues for

the first year as an owner. This was to change later when his sister, 'had a bit of a meltdown' (CH764) and left the business suddenly and unexpectedly one day after a year as FLM.

Clive installed a new FLM, Doreen for a time but after two years, he decided to give up his job and he and his wife moved back to his home town. It was only at this point that he became a full time owner-manager, directly responsible for employees. Despite the fact that the business had been running for nearly three years by then, with a large number of employees, this was the first time that Clive really considered the implications of being an employer. When he reflected on this, he expressed trepidation for the first time, stating that 'it was very frightening, um to leave a very secure job' (CH808) 'on big money to come back to Wales to know nothing about hairdressing (CH 810).

Neil Jones had even more corporate experience than Clive and he expressed confidence about his role as line manager, to an even greater extent. Unlike Clive, he did not state that this confidence was shaken when taking full responsibility for employees as an owner-manager. His rich personal history both as an early owner-manager and an employed corporate director had a significant impact on the development of his self-belief. Indeed, unlike the other employers, Neil could recall in detail his first employment decision.

Neil left school at 16 to join the army and was one of the few state school leavers at the highly prestigious Royal Military Academy, Sandhurst. He was eventually encouraged to leave Sandhurst as his superiors felt he 'had the attitude of 'a great wartime officer but in peacetime I'd be a liability' and it was clear that his 'face didn't fit' (NJ28).

Neil's first experience as an owner-manager employer came at the age of 23 when he set up and ran an exhibition contracting business with his brother, similar to one that his stepfather had developed. Yet Neil was reticent about the nature of this first employment and he stated that he quickly moved on from this to go into employment with 'a number of large publishing companies selling advertising space' (NJ24). Neil worked in sales for several years before joining another multinational publishing group in the US as a 'Vice President for the East Coast'. He was responsible for multiple sites and 50 people and was required in this role to close down offices and make people redundant. When Neil left this job, he came back to the UK to set up another events management company. He said that due to his prior experience, at Sandhurst in particular, going on to employ people 'wasn't so scary really' (NJ48).

Contrary to the views of the other respondents, he took the view that, in his second start up firm, the first employment decision was one of the most important decisions he could make. He stated:

> I think the thing is, when your first person comes on it's really important because they're going to be part of and shape the culture. The second person they're going to be part of and shape the culture, the third person the same, but then when it comes to your 26th person um, unless they are an MD or senior person you're bringing in, they're going to have to fit in to the culture, um, so from a cultural point of view, from a fit point of view, it doesn't hugely matter.
>
> NJ 228

He reflected that following this, 'each time then, when you employ somebody, you end up being less deliberative' (NJ226). Neil's first employment decision in his second business was clearly based on a great deal of thought about the kind of person he wanted to attract. He perceived that it would be significant in the development of the company and believed that he could find the right person. Later decisions were less deliberative but an employee 'type' had become established in his mind and this is explored in section 4.6.

It may have been the case that for both Clive and Neil, becoming an employer was a less daunting prospect due to the vast leadership or management experience they had both had as corporate employees. The clear differences are that Clive experienced a degree of shock and uncertainty when moving from what he described as a 'superstore to a corner shop' (CH822). Neil did not experience this uncertainty as his past history also contained experience of owner-managing. Yet Neil seemed reluctant to reflect on his very early employment experiences in his first business, as opposed to later, although this may be due to the fact that he had trouble recalling them.

### 4.5.6 Entry to Employment

Atkinson and Meager (1994, p31) identified the 'entry threshold' of employment, stating that 'the decision to take on any employees is one which all small businesses must take'. They suggest that owner-managers 'put off' this step by 'deploying casual workers and family workers, buying in professional services, working longer hours themselves, etc...' and add that 'reticence towards taking on staff appears to extend considerably beyond the initial commitment' (Atkinson and Meager, 1994, p31). Certainly this reticence was exhibited by those owner-managers who were not employing and a reluctance to employ has already been noted among those who were employers.

The experiences of the respondents may to a significant extent support the Atkinson and Meager (1994) view of the alternative options to full time employment but their motives were not as simple as a decision to 'put off' the first employment. Instead they could be seen as part of the natural and developmental route towards full time employment and further that the route was hugely dependent on the personal experience and employment history of the owner-manager.

While it is certainly the case that early employment decisions had an emotional effect on the owner-manager, the interview discussions with the experienced employers revealed a far more complex, messy and often less memorable experience of the very first employment than implied by the concept of an 'entry threshold'. Several of the owner-managers struggled to recollect the precise moment they became an employer and indeed found it difficult to discuss the concept of the 'first employee'. This again may be due to the rich personal histories and developing confidence of the owner-managers, or because of the gradual nature by which the developing firms recruited their first staff.

## 4.6 Employee Profiles

Patterns of employment behaviour emerged among the owner-managers who were employers. There were repeated behaviours where employers sought employees with similar profiles to those who were already in employed in the firms. The examples of an 'employee profile' are outlined in the table below:

**Table 4.3: Employee Profiles**

| Employer | FTE | Business Activity | Common Employee Profile |
|----------|-----|-------------------|-------------------------|
| John Stuart | 5 | Graphic Design | Creative arts graduates |
| Peter Martin | 6 | Insurance Agent | Female employees, aged between 20s and early 40s |
| Norman Daniels | 9 | Building Services | Young, male, semi- skilled school leavers |
| Clive Holder | 12 | Hairdressing | Young, female employees |
| Mike Hart | 15 | Retail Clothing | Young, male and female fashion conscious teenagers |
| Neil Jones | 20 | Events Management | Aspirational graduates, mid to late twenties |

There is a clear preference for young employees in this sample, which may reflect their cost relative to older employees. There was also evidence that the employee choices reflected a

more personal need on the part of the employer, in that the employees appeared to reflect the values of the company and the owner-manager. John Stuart expressed this explicitly:

> I'm probably guilty when I employ people, of employing people who think like I do and possibly have the same values in terms of design as I do.  Clones of myself if you like haha.
>
> <div align="right">JS196</div>

In addition to their similarity to the owner-manager, young employees appeared to be more malleable and this suggested that the training and development process could be easier than with older employees.

Further evidence that recruitments were often informed by an idea that the owner-manager had of the kind of employee that they required was provided by Neil Jones. He explicitly described his 'ideal' employee:

> my ideal employee… is somebody that's got a family, um that's got a gambling habit, that's greedy that, you know one of the guys out there is into his cars and he's got an 8 grand sound system in his car and he's got these you know, sort of £4000 to put new wheels on it and um, you know, fantastic, you know.  More of that please... they've left uni, and they're 23, 24, 25, um so I've got people who are happy to earn 20 grand a year
>
> <div align="right">NJ184; NJ186</div>

This trend toward a specific profile may also have been guided by early experiences of successful employments. Peter Martin's claim that recruiting his first employee was the 'best move' (PM140) he had made demonstrated an increased perception of the value of employees. This first employee was female and in her mid- thirties. All of his later employees were female and aged in their 20s- 40s. When directly asked why he employed women he said:

> Put it this way.  I recently put an advert in the local paper for, um, er, an insurance adviser to work here.  I had this one fella, application forms on the floor there, uh under the radiator, right?  Those were the bad ones, really which weren't even worth looking at, and I interviewed 20 –odd people this week.  Out of those I would say there wasn't three applicants who were male. I did interview one male for the job, who wasn't suitable... he didn't have any computer experience.  To me, although he was a youngster, he was 22, not so much couldn't speak properly but um he didn't seem as if there was any go in the boy. The other one that applied was a bingo caller.
>
> <div align="right">PM162; PM164</div>

While the limited number of male applicants reflected the limited labour pool, it also demonstrated a strong reluctance to employ male workers. When talking about the female employee he eventually chose, Peter was much more positive:

In all fairness there were a few with experience, the three that I chose, there's Elise out there, she's a youngster… but you know she came here, I had a little chat with her, I knew her father, I got business with her father, but that wasn't the reason, but she sat here and asking me questions, full of go, whereby the rest of them just sitting there and I didn't even have to say to her "Do you want to ask anything?" She asked me questions so I thought I'd let this girl have a three-month trial period. You know, she earned that and the other girl I've employed is a 42 year old woman part-time, um, her kids have kind of grown-up, she doesn't want kids any more, which, not being sexist or a bit, um, I can't think of the word for it now, but… I don't want anybody really who's going to up and leave and go on maternity leave for a year or whatever. Ok, Emma might do it if she sticks with us but this lady now, Lis, she's really flexible, she can work any day you want her to, you know, Monday, Tuesday Wednesday or every morning, or whatever, she's worked in a post office, she's got good experience of it all, right?

<div align="right">PM168</div>

A number of complex and overlapping motivations were identified here, namely that Peter's choice of employee was influenced by; his relationship with the potential employee's father; the potential employee's inherent enthusiasm; the ability to offer a trial period to test the employee; the potential for development that the employee demonstrated. Further, it appeared that his approach to the employment of female workers was hindered by the loss of the employee during maternity and this influenced his consideration to some extent. These factors were however outweighed by the flexibility that female workers offered and the already noted positive perception that Peter had developed as a consequence of earlier experiences.

Across the cases, there was a consistent recognition by the owner-managers of the value of certain types of employee. This was a perception that changed with time and experience. This demonstrated that early beliefs about the prohibitive cost of employees that fed a reluctance to employ, could be overcome as experiences developed.

## 4.7 Trust and Employees

The issue of trust emerged as a theme during the interviews in that each of the owners reflected on the extent to which they could trust their employees. Goel and Karri (2006) suggest that entrepreneurs with high perceived self-efficacy are likely to over-trust their staff. Trust was certainly an issue that emerged in some form in all of the interviews, either explicitly identified or implied in their behaviour toward staff.

### 4.7.1 Trust in Employees Among the Employer Group

Five of the seven owner-managers who were employers at the time of the interview discussed the experiences of misplaced trust in their employees during the early stages of the

employment relationship. As has already been noted, the most inexperienced employer, Cathy Cole, expressed trepidation about the whole process of recruitment and finding reliable employees, which had prevented her from employing more than one trusted person and led to her seeking an 'associates' business model.

Peter Martin stated toward the end of the interview that 'there's only enough room for so many more people to employ kind of thing, right?' (PM 328), gesturing to the office space as he spoke. When asked if he had considered opening another premises on an additional site in order to expand his business, he replied:

> ...I tried that once two years ago, I opened an office over [location], with that friend of mine who I passed all my life business to, but I couldn't keep my finger on the pulse. One of the girls over there was pinching money and when ..only because there were only two girls working over there and when you're over there really and again, like I said, everyone's checking each another, you know. So and so looking in the cash book, you know it's impossible to fiddle in here. Impossible. The only way somebody could fiddle in here is if they were um writing cheques or whatever. The person that writes cheques are myself and Tina.
>
> PM334

For Peter, this breach of trust caused him to change his behaviour, requiring him to be able to monitor his employees and 'keep his finger on the pulse'. The result was that the growth of his firm in terms of employees was constrained by the physical limitations of the business premises and his ability to watch the employees. This, in keeping with his already expressed gradualist approach to growth, suggests that his firm would be unlikely to be grow much beyond his current employee base.

This experience did not destroy Peter's ability to trust entirely though, as he had earlier stated 'Tina had been there over six months or whatever, I knew that I could leave her, trusted her, you know, 110%, knew that I could leave her there' (PM 204). This trust had been earned by his FLM Tina before the breach by the other employee and so it may be questionable as to whether Peter would be as easily able to place the same trust in any future employee.

While Neil Jones did not have as stark an example of misplaced trust as Peter, he did express dissatisfaction with the general trustworthiness and reliability of his employees. He stated:

> I mean... the way I think people sometimes steal from you , um, you know... I've been away for a day, come back in and there hasn't been much activity – sales activity, now, um, so I get call sheets to see how many telephone calls have been made, that's one

way of measuring it, you know and you look at, ok Neil's in Monday, Neil's in Tuesday, Neil's in Wednesday, um there's 90%, Neil's not in on Thursday and it goes to 45%.

<div align="right">NJ 274</div>

Like Peter, Neil was able to equate his visibility with the reliability of his employees. Unlike Peter, Neil believed that the problem could, to some extent, be directly addressed if not fully resolved in a meeting with his employees:

> So I had everyone in the room and I put my wallet on the table, and I said I don't think anyone in this room would take money out of my wallet and "Of course we wouldn't, of course we wouldn't", and I said, well that's what you did yesterday. Because actually, you did because you weren't doing your jobs, and that's me that's paying for this, um, and then suddenly they start to realise that.
>
> <div align="right">NJ274</div>

Neil recognised that he had not always believed that his employees would behave in this way, arguing that 'you do get jaded by your experiences' (NJ272). Again, in common with Peter, he expressed the need to monitor his employees when he stated:

> I mean, and um, luckily we're not in a situation where people would be able to steal from us on any significant basis, you know we're not a cash business, we, you know I keep a pretty good track on, um whether there's any dodgy deals going on anywhere
>
> <div align="right">NJ274</div>

The implication here was that if he failed to 'keep a pretty good track', the 'dodgy deals' would occur. While Neil's view of the trustworthiness of his employees might not have constrained his employment growth to the same extent as Peter's, it would certainly have had an impact on the extent to which he could leave his employees unsupervised and would act as a limit to his personal resources.

Mike Hart also expressed disappointment that the trust he had placed in his second employee had been broken. He said that this occurred because he as an employer was 'giving too much' (MH62) and further that:

> he was a lovely guy, very nice, recommended to us, you know, and this was his dream to work in a shop, and we helped him out, gave him a certain day of, in the week because he had to do something, I can't remember what it was now, and we started to hear a bit of gossip around [location] that he was, you know, wearing a lot of clothes, you know, and when we went away on holiday there was stuff going out of the shop, and we didn't have a stock control system then, it was very much on trust, you know
>
> <div align="right">MH62</div>

<div align="right">118</div>

As he reflected on this incident, Mike's voice contained a tone of surprise at this point. He further explained the extent of the deception:

> …we found out that he was taking money, and he was doing it in a very clever way, you know, he was doing refunds, and sort of "somebody brought a pair of jeans back and I had to refund them".  We eventually traced it down, there was….nobody was bringing anything back, he was just refunding money to himself.
>
> MH 64

It is notable that it took Mike some time to uncover this deception as he implied that it had never crossed his mind that such an act would occur. Furthermore, Mike felt that he had been especially generous to this employee and so the act of betrayal was even more keenly felt. This first instance had occurred in a small shop he had opened with his wife. He later bought a chain of three stores in which he had previously acted as an FLM. As he gained experience as an employer, his view of the trustworthiness of employees changed. When asked how he felt as an experienced employer he reflected:

> funnily enough I've thought about it a quite a lot lately… I don't know why this is, but we've had quite an increase in sick leave, um…..and for.. I don't know whether it's because we have less members of staff, or less senior members of staff on the shop floor now, and um, it's almost like a culture within younger member of staff that they …..almost expect to have sick leave….um which I find quite bizarre, having, you know, I can't remember the last time I had, even when I was employed, I never took sick leave. The only sick time I had was when I had to go into hospital for a week and I think I actually took a week's holiday for that., but it's part of their culture now that they take sick leave, and I thought, you know, I thought "Well, they are letting people down, they're letting themselves down, they're letting their colleagues down, because It puts more pressure on them, and they're letting me down, because I pay sick pay, and we had to change the process, because it got so bad, we've had to change it, but, um, they think they're not letting anyone down…
>
> MH104

Mike emphasised the fact that, despite being prepared for this behaviour among his young employees he still felt 'quite hurt' (MH106) by their behaviour. This may be due to the fact that it was so starkly different to his own self-concept. These feelings may correspond with Neil Jones's feelings of anger that staff worked less hard when he was away. Like Neil, Mike took steps to address the problem through the establishment of what he called a 'key man policy' (MH108) whereby his FLM, a female called Sally, would monitor the behaviour and attendance of the younger staff members when he was away.

Mike further recognised the importance of individual staff members to the business. He said that he, again in common with Neil, addressed the issue directly with his staff, meeting with

them and explaining to them the consequences of their actions and the need for them to take responsibility. He stated that he needed to:

> …try and make them understand that we do rely on them, they're not just a little cog in a massive machine, you know, they're quite a big cog, you know, we work with a very small number of staff, and we rely on them all.  To work as a team, that's what we try and instil in them that they are part of a team…
>
> MH116

Mike gave the impression that this was an ongoing and time consuming task but he seemed to take a gentler approach to it than Neil's more direct and confrontational method. He also accepted that as his employees matured, they would begin to take more responsibility for their work and would become more trustworthy. He stated, 'they are learning… you can't be too hard on them… we understand' (MH123).

Norman Daniels made some reference to expectations of his own employees. He said that 'I don't want problems (from employees), I want solutions. But you won't get that in a perfect world, there's no such thing' (ND530). He was realistic about the limitations of his workforce, adding that 'my expectations have been too high' but implying that he had learned to moderate these expectations.

In contrast to the owner-managers who found that sub-contractors and associates enabled them to grow their businesses without employing people, Norman found that he had more problems with people not directly employed by him than those within his business. He gave a very specific example:

> Or somebody's just left a property, we had a situation yesterday, architect calls to the job in [location], two plumbers on site.  Qualified plumbers, draining the system down.  We've got a brand new oak floor there.  He pulls up and the water starts to spout through the pipes as he walks in.  The plumbers were having lunch.
>
> ND 538

Norman said that his own employees would not have had the same attitude because they were 'getting to know the standards and the way we work' (ND544). He indicated that the team working for him were much more worthy of his trust because of his close relationships with them.

Of the employers, John Stuart was a notable exception in that he expressed a wholly positive view of the trustworthiness of his employees and did not provide examples of occasions when

trust placed in employees had been unreciprocated.  Indeed, when asked directly if he was willing to trust his employees, he responded:

> Oh, absolutely, you've got to, absolutely got to.  No question, which again comes back to the whole appointment thing, why it is so crucial, you know, trust is absolutely total, you know.  Well, I go away on holiday for two weeks, I'm going in July, I can completely forget about the business, because I know that everyone here can,… they can deal with everything, you know …money with the business, Lucy knows far better than I do what's in the account….
>
> JS138

> …And the nice thing is, is that the trust is repaid, if you trust someone, you know, providing they're trustworthy, they'll repay you by taking on that responsibility then which they, kind of then deal with, positively.
>
> JS140

When asked if he had ever had any negative experiences, he responded with emphasis 'no, never really, no, no' (JS142). John's ability to trust his employees may be directly related to his long and deliberative recruitment process, which on one occasion took seven months to find the right employee for a design role. Furthermore, of his five employees, four had been working in his company for more than five years and his most experienced and trusted employee, Lucy had been with him for 'eight or nine years' (JS62).

John had been able to build a great strong degree of trust in these employees because he had taken a gradual approach to growth and had deliberately sought a culture of trust. He said:

> bringing an extra person in can have a huge effect on the dynamic of the business, both from a cultural point of view as well as from a normal business point of view.  Um, so finding the right person who not only has the requisite skills to do the job, the right experience, but who one believes will fit in well as a team member, and not upset the balance is more apparent in a small business…
>
> JS62

> …we've created this kind of culture whereby there is this mutual respect and people understand the different roles that people do, and how your role relies very heavily on them doing their role properly ..and it kind of works really well, which is why the appointment thing is so crucial
>
> JS64

The culture was clearly hugely important but it also created a very cautious approach to recruitment and prevented the firm from growing its employee base to any significant extent.

It can be seen that the perception of the trustworthiness of employees changed over time, dependent on the specific experiences of the owner-manager as they developed their employment relationships.

**4.7.2 Trust in Employees Among the Non-Employer Group**

Among the non-owner-managers however, it is notable however that, while all of them expressed some reluctance to employ, only one, Robert Dougall, had explicitly expressed his personal perception of the trustworthiness of employees. This was based on previous experiences of employment, both in an earlier small firm he had co-owned and as a manager of a branch of national bank.

Following his experiences in both large and small firms, Robert Dougall had a realistic and unsentimentally practical view of the role of employees within a company. He stated that 'there's certainly some value in them but… my experience with employees, they get complacent, they're a different animal completely' (RD254). Robert expressed very strong views on the reliability and the amount of trust that could be placed in employees. He stated:

> you give them a van, and you give them a petrol card, and you're going to give them this and that, you know, and by and large, over time, you're going to get ripped off, which is very foolish from their part... these are only arguably petty things, but it is an abuse of trust, and I've found, that's a small example of an abuse of trust, that employees … This can't possibly be a generalisation, and I don't mean it to, because I'm sure there are many, many loyal employees, but they're hard to find in my experience, they really are.  You know, they either duck and dive or they're ill more often than not…
>
> RD266

Robert felt that these employees would, through this 'abuse of trust' end up costing the company more than they were worth. Indeed, when he first entered into his earlier partnership, it was employing sixty people. While he didn't provide a specific timescale, he stated that 'over the years' (RD266) he introduced a process of office rationalisation that reduced that number to five people, including himself as director.

Robert gave reasons other than the potential (and in his view, likely) abuse of trust for the difficulties of employment. He said:

> They are a huge responsibility, because I feel personally responsible for someone that I employ, you know, I have a duty to them.  Um, I've got a duty to myself and we've got

> a duty to ourselves, but I'm not sure I want to be responsible for employees that are likely to let you down anyway.
>
> RD266

Here, the reluctance to employ was associated with his own view of 'duty' and responsibilities to the employees. This is very much in keeping with Mike Hart's view. Yet Robert expressed this far more negatively in that he believed that an attitude of responsibility towards employees was unlikely to be reciprocated. It seems that the perception of the trustworthiness of employees was hugely dependent on the degree of experience that the owner-managers had as employers.

## 4.8 Summary

The initial findings as they emerged from the preceding discussion are summarised below:

- A clear reluctance to employ could be discerned from across the sample, with even the most experienced employers recalling that early reluctance.

- The reluctance was assuaged by a need for regular support with day to day administrative activities to free the owner-manager's time for core business development.

- Employment, where it occurred was largely seen by the owner-managers as a necessity rather than through any innate motivation to become an employer.

- There was evidence among the non-employers of a need for socialisation and companionship which may have encouraged the desire to employ.

- Two of the owner-managers had organised their businesses to avoid employment by implementing 'associates' (Cathy Cole) and sub-contracting partnership (Robert Dougall) business models.

- The first employment decision was of limited salience and only one employer (Neil Jones) could recall his first employment, in his current business, with any degree of clarity.

- Later employment decisions appear to have been of higher salience, with the first permanent administrative employee seemingly a memorable recruitment for two of the employers (Peter Martin and John Stuart).

- In two cases, (Mike Hart and Norman Daniels), there was no 'first' employment. Instead, a number of employees were inherited when they acquired the firms in which they had previously worked.

- Previous experience as employees appeared to influence the behaviour of the owner-managers with regard to employment decisions. In the cases of Clive Holder and Neil Jones, this enhanced their confidence as employers. For Robert Cain, Cathy Cole and Robert Dougall, experience had the opposite effect and bolstered their reluctance to employ.

- Patterns of employment behaviour were emerging among the employers, with different owner-managers repeatedly recruiting employees of similar profile.

- The trustworthiness of employees was a key issue for non-employers and employers alike. Yet, where the employers had experienced breaches of trust, this had not caused them to significantly reduce their employee numbers.

These early findings act as the foundation for the next stage of the research. Further examination of this primary data and a more developed analysis, with reference to the key literature is undertaken in the following chapter. This will lead to the construction of a conceptual framework, which is developed throughout the next chapter and the complete framework can be found in section 5.8.

**5. Analysis and Discussion**

The purpose of this chapter is to organise the findings into a conceptual framework and to utilise extant research, examined in the literature review, to analyse the thematic outcomes of the primary research. Key concepts drawn from the literature include effectuation and trust; human and social capital; the cost of employment; and the relative formality or informality of small firm employment practices. The interpretative approach undertaken in the analysis has implications for the generalisability of the outcomes and this is discussed in depth in the concluding chapter. The following discussion is intended to present the outcomes from the perspective of the employers and non-employers recruited for this study.

The analysis begins with an exploration of the reasons for the reluctance to employ and how this reluctance may be overcome as the firm develops. It then examines how owner-managers may gain necessary support and advice, whilst avoiding employment. The limitations of this support are then posited as later reasons to employ, which may lead to the owner-managers making their early employment decisions. There are proposed motivators and de-motivators for employment, with the former classed as early 'weak' and later 'strong' motivators. The chapter concludes with a discussion of the consequences that early experiences of employment have on later employment strategies used by owner-managers.

**5.1 Further Exploration of the Reluctance to Employ**

A key outcome of the interviews with owner-managers was the commonly expressed reluctance to employ (see findings, section 4.2). This section will explore in more detail the reason for this reluctance and examine the extent to which this is supported by existing knowledge about early stage or 'nascent' entrepreneurs (Davidsson and Honig, 2003). Four clear and common reasons for the espoused reluctance emerged from the interviews. These were; the impact of employment legislation; the impact of the cost of employment; the owner-managers' views about the trustworthiness of employees; and the implications for the ownership and control of the firm. The following analysis will begin with an examination of the impact of legislation and bureaucracy.

## 5.1.2 Impact of Employment Legislation

The development of ideas about the impact of bureaucracy on small firm owner-managers was explored in the literature review (section 2.3.6). This examined the views of the new right in the 1980s that expressed concerns that legislation would burden small business with regulatory requirements that would discourage business growth (Hayek 1979; Epstein 1984; Minford and Ashton; 1985). Later, more empirically based micro analysis, exploring the heterogeneity of the small business sector found that while regulatory burdens did not raise costs to a level that prevented growth (Carter et al 2009), they did increase uncertainty and anxiousness about the threat of litigation which may have made owner-managers more cautious about employment (Peck et al 2012).

In spite of the well-developed literature on the subject, the legislative burden of employment did not appear to be a major or specific concern of the employers in the sample examined in this study. While some of the employers made passing reference to legislative requirements, few were able to identify any specific problems that arose as a result of any employment laws. For example, the issue of both legislation and cost of employment was raised at the same time by Clive Holder who stated:

> I'm not reluctant to employ people, but, um, legislation and tax does stop me from employing people I want, you know what I mean, so for example at the moment down, um (second shop) they have got enough work for another full-time stylist, just… and then obviously I've got employers national insurance on top of (their wage), about a hundred and thirty quid something like that on that kind of value. So I don't fear it, but I do, it does It's a hindrance that legislation stops me employing
>
> CH 1258; CH1260; CH1262

Here, Clive was conflating the two issues of cost and legislation and appears to place more emphasis on the associated costs than employment law requirements. For those owner-managers who were already employing, it was generally accepted that being an employer was a burdensome undertaking in terms of administrative activity but this could be seen as separate to concerns about the impact of employment law. While the requirements of tax were of a far bigger concern to Clive Holder, others commented on the need to comply with good employment practice.

When Norman Daniels stated that he was sometimes 'crippled with stress' (ND 524) he was in part referring to the need to ensure that his employees received fair and equitable treatment but was also expressing concern about paying their wages. Norman had previously held the role

126

of branch secretary to a trade union when he worked in a local authority and was well aware of the responsibility of employment. However, he was not able to identify any specific problems that he had encountered from employees raising issues of grievance.

John Stuart was also aware of the importance of treating his employees well and had introduced detailed contracts of employment and annual leave forms for his staff to ensure that they knew what was expected of them. He exhibited little anxiety about meeting the requirements of being a good employer.

Indeed, there was only one specific complaint about employment law among the employers group. Cathy Cole stated on two occasions that 'it's difficult to employ people with all the legislation' (CC132; 202) but when pressed to elaborate she simply stated 'I can't employ someone for two years and then get rid of them' (CC134). While this was a realistic interpretation of the law, it was also a symptom of Cathy's strong reluctance to employ in any case. It appeared that she was using 'legislation' as a justification of her reluctance rather than legislation being the sole or strongest cause of her reluctance.

Legislative burdens of potential employment appeared to be a minor inhibitor to aspirations of employment among the majority of the non-employers. Sandra Keith expressed some apprehension about the responsibilities of employment when she stated:

> at the moment I've only got responsibility for myself. But doing people's payrolls etc, and going to these other firms… they have got employees, and I've seen their problems, you know, not only like their wages, but different employee aspects – sickness, things like one of my clients went to an industrial tribunal, you have to think of all these things, and becoming an employer, you are not only supporting yourself, you're supporting someone else as well then.
>
> SK 262

Sandra added that these concerns alone would not prevent her from wanting to employ but that she would need to employ someone she could 'trust implicitly' (SK 268) and she had a friend in mind for this.

Aled DeVere also raised some concerns about the bureaucracy of employment. He stated:

> I'm thinking that first of all, that I'm a creative person, I want to do a diversity of different things, if I employ thirty people, I'm just going to be locked into admin and management. And in the pottery business your number one issue is women and

> babies. That's your number one admin problem… why take on the responsibility
> myself, you know, PAYE, pregnancies, all that…
>
> AD284; AD292

Aled's concern, focusing as it did on the general issue of 'admin' and the specific issue of women leaving to have children, appeared to be representative of a feeling that he would find the administrative and management roles difficult, but it did not amount to a detailed analysis of the legislative requirements of an employer and did not appear to be the main reason why he had not employed.

Robert Dougall, who had expressed the strongest reluctance to employ and had established his business in such a way that would avoid having to employ, did question the trustworthiness of employees (see section 5.1.4) but did not raise any issues about the bureaucracy associated with being an employer.

The lack of evidence of many specific concerns about legislative burdens does not suggest that employers are not directly affected by legislation, only that the impact on this sample was limited. Issues of trust and the role of employees were consistently raised and this is explored in section 5.1.4. However, this can again be seen to be quite different to issues of regulatory compliance on the part of the employer. It could be that the firms owned by the respondents were not of sufficient size to have encountered significant amounts of such issues. The corollary of this however, would be that legislation is of limited impact in the first stages of employment growth. It could however be said, in support of the findings of Peck et al (2012), that there was the potential for anxiety about legislative compliance. This was more a general concern that had only a weak de-motivating effect on the desire of the owner-manager to employ.

### 5.1.3 Impact of the Cost of Employment

The cost of employment appeared to be of much greater concern among the employers. It has already been noted that Clive Holder associated employee costs with the regulatory burdens (see section 5.1.2, above) but he also calculated the work he would require to employ more people, stating that 'you've got to jump from 70 grand to 90 grand in one day' to employ one more person (CH 994) and he recognised that it was unlikely to happen as quickly as that. Peter Martin made a similar calculation, stating:

> when I took these three girls on, you don't just take three girls on, you sit down and
> think "right, these three girls have cost me x amount.  Ok, one's gone , I needed

another I did need another but what shall I do, shall I get one full-time one or two part-time ones?"  And you ..you survey the situation really and you just come up with it and you say "Right, I can afford x amount by here now, um, kind of you know, uh, worst scenario, if the business goes down and my commission goes down a little bit, I can still afford that.

<div align="right">PM276</div>

When referring to his business, Norman Daniels stated 'I've got boys and girls to feed and… I think we'll be taking more local authority work on in the future' (ND622). John Stuart recognised the value of his employees and the importance of continued business to their continued employment. He stated, 'we've been through lean times… I'd like them all to be paid a lot more than they are paid' (JS 134).

In each of these cases, the opportunity to employ and indeed reward staff with higher pay was limited by the amount of income the firm was able to generate. The employers recognised that they needed to find more business if they were to recruit further and that recruitment and income were inextricably linked. As will be seen in section 5.4, the employees that were recruited were needed and provided added value to the firm, but they also imposed very heavy financial burdens and this is recognised as a common problem for small businesses by both Forman Peck et al (2006) and Atkinson and Meager (1994).

All of the employers were well below the threshold of fifty employees at which Atkinson and Meager (1994) identify that recruitment issues begin to ease. None of the firms in the sample were at a point at which employment growth was in any way likely to accelerate and all were finding it difficult to generate enough business to recruit more than one more employee at a time. Only Neil Jones expressed a desire to rapidly expand but this would depend upon an anticipated future corresponding period of increased work.

The non-employers expressed concerns about the cost of employment as a barrier to the recruitment of their first employee. Michael Watson stated that 'it just wouldn't pay' to take on an employee in his business (MW 842). He later elaborated:

when you start sitting down and doing the maths then you think there's no way can I feasibly afford to employ somebody because by the time you've got your rent or your mortgage to be paid, then you've got your electric and gas and water and council tax and you've got your insurances and you've got your IT and backroom support then it starts running into several thousands of pounds before you earn anything yourself.

<div align="right">MW 960</div>

Dai Leestone expressed similar frustrations and, while acknowledging that employment was possible in the future, it would require significant business growth. He signalled aspirations for this growth when he stated:

> Obviously say ten, ten years from now I'll have got you know a lot more experience I'll be a lot better you know, and then I've got like a six month waiting list, hopefully, you know, then I can say, "Oh yes"
>
> DL378

The cost of the first employee clearly acted as a practical inhibitor and the outcome was to push aspirations for employment, where they existed, further into the future. It is not quite the case that these business owners were, as suggested likely by Foreman-Peck et al (2006, p313) 'choosing immediate gains rather than future growth'. They were however forced to recognise the very real constraints that the cost of the first employee imposed upon them. For both the employers and non-employers, this marginal cost meant that none of them could think far beyond the recruitment of more than one employee at a time.

### 5.1.4 Employment and the Trustworthiness of Employees

The trustworthiness or otherwise of employees has already been discussed in depth as a very consistent outcome of the discussions with both employers and non-employers (see findings section 4.7). Further, a complex debate regarding effectuation and trust has been examined in the literature review (Goel and Karri, 2006; Sarasavthay and Dew, 2008; Goel and Karri, 2008). The theoretical exploration of trust and effectuation did so with reference to a variety of stakeholders within the owner-managers' personal networks. For the purposes of the following analysis, consideration of trust will be confined to an exploration of the relationship between the owner-managers and their employees, or, in the case of non-employers, their views about the potential trustworthiness of future employees.

Given that the examples of broken trust have already been presented in the findings section, it is not necessary to repeat them here. Table 5.1 however, usefully summarises the employers' respective reactions when they discovered that their trust had been misplaced. The actions taken by the employers are referred to as 'effectuations'. This is informed by Sarasvathy and Dew's (2008) view of effectuation as a behavioural adjustment at a time of uncertainty through a process of assessing the outcomes of various decisions until a preferable adjustment is achieved.

In this case, as the interviews represent a moment in time in the lives of the owner-managers, it was not suggested that they had achieved a perfect outcome, but that that they preferred their adjusted behaviours to those that they previously enacted. The actions may therefore be an example of one in a series of effectual adjustments.  It should be also be noted that, while ostensibly sharing similarities, the strategies adopted were sui generis, in that they were contextually specific and appropriate to the behaviour of the specific employees and the experiential history of the individual owner-manager.

**Table 5.1 Employers and Effectual Adjustments Following Broken Trust**

| Owner-manager | FTE | Effectual Adjustment |
|---|---|---|
| Cathy Cole | 1 | Limited business to 'associates' model; previous experiences in employment gave cause for caution. |
| John Stuart | 5 | Tight 'cultural' control, limited number of employees, cautious approach to recruitment; previous experiences in employment gave cause for caution. |
| Peter Martin | 6 | Closed down second site; worked among employees; moderated expectations of employees. |
| Norman Daniels | 9 | Moderated expectations of employees |
| Clive Holder | 12 | No evidence of misplaced or broken trust |
| Mike Hart | 15 | FLM introduced to monitor employee behaviour; moderated expectations of employees |
| Neil Jones | 20 | Discussed trust issues with employees in stark terms; moderated expectations of employees. |

For the purposes of this analysis, the effectual adjustments can be considered in terms of their impact on the current and future employment decisions of the owner-managers. The most common adjustment was a reconsideration of their expectations of employees. All of the owner-managers who expressed concerns about broken trust, also expressed a degree of surprise and subsequently spent some time reconsidering their previously held, overly optimistic views of employee behaviour.

One of the most striking outcomes of the effectual adjustments was that of Peter Martin, who, on finding that a previously trusted FLM had been stealing, went so far as to close down his second premises. This meant that the physical size of the premises from which he then

operated would limit the growth of the firm in terms of employee numbers. When asked about his plans for increasing the number of employees, he stated:

> There's two back rooms, so obviously people can go out there. I wish, really that obviously there was an upstairs to this then there wouldn't be a problem.
>
> PM 336

It was also striking that one wall of Peter's office, which was adjacent to the main open plan office shared by his employees, was framed by a large window that looked into the main area. He was able to see what was going on in the main office from his desk. This appeared to accentuate his desire to be present in his business so that he could, in his own words, 'keep my finger on the pulse' (PM 334). For Peter, his effectual adjustment in the face of misplaced and broken trust had direct consequences in reducing the likelihood of significant further recruitment.

Nonetheless, the effectual adjustments did not on the whole lead to a contraction in employee numbers. Instead, it appeared that the business owners, in addition to trying to alter their own perspectives, also took steps to manage their way through the difficulties. This supports the consensus between Goel and Karri (2008) and Sarasvathy and Dew (2008) that owner-managers seek a trade-off between affordable risk and an allocation of trust, with effectual adjustments allowing them to graduate toward a balance between the two. The dispute as to whether this is 'intelligent altruism' (Sarasvathy and Dew, 2008) or 'over-trust' (Goel and Karri 2006; 2008) has some relevance here, as it appears that the latter term may be more appropriate when considering the experiences the owner-managers' revealed when discussing relationships with their employees. It appeared that those who mentioned broken trust were initially surprised that trust had been betrayed rather than confirming any initial expectations that they had been taking risks.

It also appears to be the case that, amongst the employers, those business owners who had the most experience of over-trusting in the past were able to reconcile the behaviour of their employees with their own future expectations, conforming to Sarasvathy and Dew's (2008) argument that more experienced business owners are more quickly able to use effectual logic to adapt to a new set of circumstances. Thus, the experienced Mike Hart was able to find an accommodation with his employees, by accepting that young people were prone to take extra sick days and installing his FLM, Sally to monitor them. When an employee had stolen from him in his earlier career as a business owner, he was unable to adjust so quickly. This might help

explain why the experienced employers did not show significant desire to reduce their employee count significantly when trust was broken.

On the contrary, Cathy Cole, who was new to business ownership exhibited far less certainty and actively recoiled from employing anyone other than her much trusted former secretary from her days in employment, even though she had no experience of broken trust. When she likened recruiting an employee to buying a substandard house (see findings section 4.2.2), she revealed that she was not prepared to take the risk that an employee may be worth the trust investment. Norman Daniels, who had far less experience as a business owner than Mike Hart, had yet to experience a significant loss of trust in his employees, although he was beginning to form early beliefs about their trustworthiness and the risk of trusting. He stated that he was ensuring he was 'keep(ing) a pretty good track on whether there's any dodgy deals going on anywhere' (ND274). His opaque phrasing suggests that he suspected a breach of trust was a possibility but was yet to encounter it seriously.

John Stuart, when asked if he was willing to trust his employees stated 'oh absolutely, you've got to, absolutely got to' (JS138). This certainty that trust was necessary underpinned his very gradual approach to employment. At the time of the interview, he had been running his business for thirteen years but was still only employing five people and the recruitment process for his most recent employee had taken seven months. He linked the importance of trust with the importance of choosing the right employees, stating that it 'comes back to the appointment thing, why it is so crucial, you know trust is absolutely total' (JS138).

John Stuart's responses typify the fact that there seem to be few options open to owner-managers when it comes to allocation of trust and employment. These options are further reduced by the fact that the owner-manager is operating within a limited labour market that offers reduced choices about the kind of employee they can recruit (Stanworth and Curran, 1986; Goldsmith et al, 1997; Cully et al 1999; McNabb and Whitfield, 2000; Ram et al 2001; Barrett and Rainnie, 2002). If the employees open to small business owners are less skilled, younger and lower earners, it is possible that they are less likely to be as reliable as those employees that may be recruited by larger firms. This adds an extra dimension of risk to the trust relationship and may account for a further reluctance to employ.

It was more difficult to make a judgement regarding effectuation and trust among the non-employers. They were generally less inclined to express a view about the trustworthiness of

potential employees. As has been noted, Sandra Keith mentioned that she would need to trust someone she employed because of her anxiousness about employment legislation but also questioned whether the trustworthiness of employees would have an impact on her business. She said:

> You know, if you've got one bad person working for you your reputation goes straight away, and if you're a small company that's it, isn't it?
>
> SK192

Only Robert Dougall expressed consistent and strongly felt concerns about the untrustworthiness of employees. It is notable that Robert was the oldest of the non-employer respondents and had by far the greatest experience of managing employees, as both an employed line manager and in his own previous businesses. As stated in the findings (see section 4.7.2) he was very cynical about the value of employees, believing them to be complacent and highly likely to let him down. This was why he had developed an employee-free business model. While Cathy Cole had attempted something similar, Robert's choices were far more informed by actual experiences and perhaps could be seen to be made after a long period of effectual adjustment.

It can be argued from the preceding analysis that the effectual adjustments that occur after a breach of trust, which is itself a likely occurrence, do not generally cause a contraction in the number of people a business employs. They do however cause a change in the attitude of owner-managers to employees and a subsequent change in behaviour that can make further employment less likely, or at least cause a slowing in the pace of recruitment. This is a tentative finding and requires further research but it is supported by the behaviour of the employers in the sample.

### 5.1.5 Ownership and Control and Employment Intention

Kempster and Cope (2010), in their examination of the role of the owner-manager as a business leader, argue that the wide variety of roles that entrepreneurs take on in the early stages of a business venture require a particular strength of character in order to successfully occupy those roles simultaneously. Cope et al (2011, p271) add that:

> The commitment and energy of the founding entrepreneur shaping and controlling resources, which reflect the success ingredients of survival, become the nemesis to growth…

134

It is therefore likely that the owner-manager develops a self-perception of competence that is hard for anyone else to match. It was certainly the case that a number of owner-managers in the sample for this study exhibited a proprietorial attitude to their specific work roles that may have had the effect of encouraging the feeling of reluctance to employ. As might be expected, this was a view expressed among the non-employers, although not often explicitly and not universally. An example of the implicit nature of these views may be seen in Neal Leavis's reasoning for not directly employing someone to help him service hospital equipment. He stated:

> At the end of the day what I'm dealing with is health and safety. They've got me in to make sure the equipment is safe to use, and also, um, that the operation of that equipment is doing what it should be doing… you can't just have anyone doing that
> NL 340; 342

Similarly, Michael Watson, when asked about the expertise required to work in his field stated:

> You've got to be very careful in this line of work because obviously if you don't get the information right you're open to be sued you know, So there has to be a very careful divide in what that person does. They would have to be very … they'd have to be trained, they'd have to probably sit examinations, uh, you know which is similar to what I've done to do the job anyway … and have you got the time to let the person do that…and then you see you've got to make sure that the paperwork is right because if they don't then you're open to be sued…
> MW 986; 990

Here, both Neal and Michael feel that anyone they employ would have to have similar skills and/or training to themselves, that in effect they would require an employee in their own image. It may be argued that there is an implicit assumption that such a person would be hard to find and, even if they did, it would be difficult for them to expect that person to be as competent as themselves. Though this was never said directly, such views could also be seen in the reluctance of Sandra Keith to employ anyone other than her very close friend.

Among the employers, Cathy Cole exhibited the strongest feeling that she wished to retain control of her enterprise, deliberately favouring the 'associate' model that she had developed to avoid further employment. This is discussed in more detail when examining the impact of social capital in section 5.3.

John Stuart, although an experienced employer, demonstrated a desire to find people with very similar skills and interests to himself. He stated:

> I'm probably guilty when I employ people, of employing people who think like I do and possibly have the same values in terms of design as I do. Clones of myself if you like haha. Um, no I think that's probably true. I couldn't employ someone here whose work I didn't think "I like it". When they create stuff you look at it and think, "Wow, that is just so good".
>
> JS 196

It is likely, given the restrictions in the small business labour market already noted, that such people are hard to find. This may provide a further explanation for the slow growth of John's company over a long period of time. He also put much faith in a close knit culture, stating:

> Um, so finding the right person who not only has the requisite skills to do the job, the right experience, but who one believes will fit in well as a team member, and not upset the balance, cos there is a kind of fine balance which perhaps is more apparent in a small business than it is in a kind of large company, because it gets diluted, I suppose .but we're effectively increasing the workforce by another 20%; it can have a huge effect on if they don't perform, or if they don't get on with people, or, you know. But there is a culture in here, you know, you can't deny it… we run a very relaxed, and…there's very little hierarchy here, which again has a huge effect on the dynamic, because you're relying on people's ability to respect each other…
>
> JS64

This need for a relaxed culture, in which he played a key role, demonstrated a reluctance to allow his firm to grow too far too fast and for him to subsequently lose control of this culture. Thus, despite his espoused desire to establish a relaxed culture, there was a strong degree of control associated with it.

Aled DeVere, another non employer, expressed very different reasons for wishing to maintain a close control of his business. Some twenty years previously, he had been taken ill with a serious form of cancer and came very close to death. His likelihood of survival had been very slim but he had made a full recovery. Since then, he had married and had children and eventually established his business. Yet his experiences with his illness had made him very aware of death and he was concerned not to leave a risky venture for his family to deal with should something happen to him:

> …having been very ill there's always the thought that I might get ill again. I go for a check-up every year. What would I do then? And particularly (my wife) worries, even now… what would happen if I dropped dead tomorrow? And if I organise my business properly, with a proper management structure, group decisions being made and people who were desperate to take over if I did drop dead, it would be a totally different setup… You're limited in the choices you can make in life, it may not seem so to you, but you really are, and I could see my life stretching ahead of me, with nothing to fill it but worrying about my staff.
>
> AD 300; AD302

This is a very clear example of a dramatic critical incident (Cope and Watts, 2000) that led to an equally clear behavioural outcome. Aled's awareness of his mortality encouraged him to develop a lifestyle rather than a fast growth business, to actively avoid employment and to maintain a great deal of control over the running of the company.

The owner-manager's expectations of maintaining control over the work of the company therefore plays an important part in the employment decisions that are taken in the development of the firm. It can be seen that where owner-managers wished to retain this control, it had the effect of either preventing or reducing the rate of recruitment. However, given the highly individual and personal nature of the examples that are expressed here, it must be added that the effect of this factor would be very much contextually specific and would depend on the experience and life history of the owner-manager. This would support the view of Rae and Carswell (2000), that relationships, an owner-manager's known capabilities, personal theories about the way things should be done and willingness to engage in learning all contribute over time to very individualistic behaviours and strategic choices.

### 5.1.6 Early De-motivators to Employment

The preceding discussion has established the de-motivators to employment as illustrated in figure 5.1. This forms the first section of the conceptual framework in figure 5.8, which subsequently contributes to an initial strong reluctance to employ.

It is argued that the strongest of the de-motivating factor is by far the cost of employment, as supported by the findings of Atkinson and Meager (1994) and Foreman-Peck et al (2006).

**Figure 5.1- Early De-motivators to Employment**
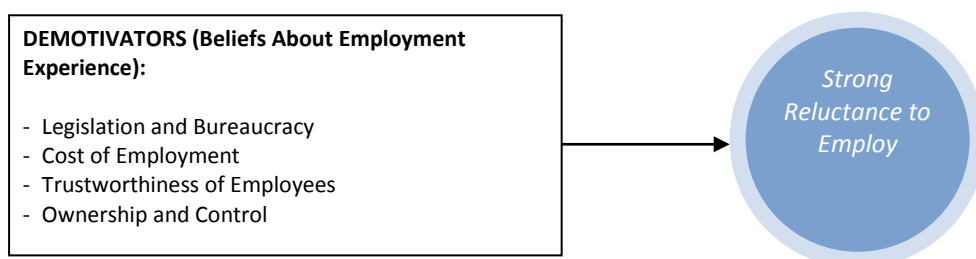


This inescapable cost burden is likely to prove very difficult for most employers to overcome. As suggested by Foreman Peck et al (2006) some business will be better placed to manage the cost of employment than others. The latter authors found that firms in the finance sector with

computerised accounts were more likely to employ. Messersmith and Wales (2011) argue that firms with a high entrepreneurial orientation and inclined to fast growth such as high technology firms were more likely to both have the finances and be inclined to take the risk. However, given that most small firms are service sector based and contribute low productivity growth (Curran, 1996; Aayagari *et al,* 2011), the majority of firms will find the cost of employment, at least beyond the first few employees, prohibitively high.

While it was noted that the degree to which employment legislation and the attendant bureaucracy affects small employers has been explored in literature and is taken seriously by policy makers (Hayek 1979; Epstein 1984; Minford and Ashton; 1985), this had a limited and indirect impact on the sample. In common with the findings of Peck et al (2012) it was the anticipation of the negative consequences of employment legislation that acted as a de-motivator but employers and non-employers alike struggled to provide specific examples of directly negative consequences of employment law.

The trustworthiness or otherwise of employees is included here as it emerged as a significant factor among employers. The most experienced employers were able to undertake a series of behavioural and cognitive or 'effectual' adjustments when faced with untrustworthy employees (Goel and Karri 2006; Sarasvathy and Dew, 2008; Goel and Karri, 2008). However, it may be included as a de- motivator in this stage of the framework, before the experience of early employment rather than later, because both Robert Dougall and Cathy Cole identified the untrustworthiness as a strong reason not to employ. It is possible that, while this was not expressed by the non-employers, it may also have been an unspoken factor in their decisions. However, in the case of experienced employers, breaches of trust were unlikely to lead to a contraction in the number of people employed but could have a mediating effect on future employment intentions.

The maintenance of ownership and control of the day to day activities of the firm are also likely to have a mediating effect on the decision to employ. The extent to which this occurs will depend upon, as suggested by Rae and Carswell (2000), the experiential history of the owner-manager, their existing skills and abilities, the extent to which they have developed personal theories of the firm and their ability to engage with further learning.

**5.2 Weakened Reluctance to Employ and the Value and Limitations of Human Capital**

While there was a clearly expressed reluctance to employ in all of the responses (see findings, section 4.2), this was mediated by a willingness of the non-employers to at least consider the possibility of employment at some unspecified future point. This could be seen as a potential weakening of the reluctance to employ, which was signified by the non-employers' recognition that their stocks of human capital were insufficient for the requirements of the work that was involved in the development of the business. This was exhibited by both a need for technical and general business management advice and a need for specific skills to complete contracted work. Further, some of the owner-managers identified that they were engaging in a process of learning in the first stages of their business, which required further support. These causes of a weakened reluctance to employ are examined in detail in the following section, which begins with an assessment of the initial value of human capital.

**5.2.1 The Value of Human Capital**

The human capital of the owner-manager, described by Deakins and Whittam (2000, p116) as the owner-manager's 'accumulation of knowledge, skills and experience', played a vital role in the very early development of all of the businesses established by the respondents. It is therefore to be expected that the activities of the businesses were, in most cases, limited to the boundaries of the existing skills and knowledge of the owner-managers, which had developed during experiences in earlier employed roles. Table 5.2, uses the owner-managers' previous employment history to demonstrate the extent to which this is the case.

Of the fifteen respondents, only the businesses of Angela Smith, Robert Dougall and Clive Holder (highlighted in blue) were not clearly based on their previous employed roles. Yet even in these cases, it was evident that knowledge and skills gained from previous experiences informed their decision making as owner-managers.

While Angela Smith's previous employment as an agency contracted office worker showed no direct link to her core business, she had previously spent six months travelling the world with her partner, which had inspired them both to start a company specialising in guided walking holidays. Robert Dougall had no direct experience of building consultancy but he had been a bank manager and had started several different businesses and so was aware of the requirements of business development, which made him a valuable partner in the company he

**Table 5.2- OM Employment Experience and Business Activity**

| Owner-manager | Business Activity | Previous Employment Experience |
|---|---|---|
| Neal Leavis | Servicing Hospital Equipment | Hospital Equipment Technician |
| Robert Cain | Landscape Gardening | Garden Centre Manager/ Consultant |
| Angela Smith | Walking Holidays | Temporary Jobs |
| Sandra Keith | Book-keeping | Accountant |
| Dai Leestone | Tattooist | Architect/ Artist |
| Michael Watson | Mortgage Brokerage | Mortgage Broker |
| Robert Dougall | Building Consultancy | Bank Manager/ Serial Entrepreneur |
| Aled DeVere | Potter | Potter/ Artist/ Photographer |
| Cathy Cole | Business Support | Business Academic |
| John Stuart | Graphic Design | Graphic Designer/ Lecturer |
| Peter Martin | Insurance Agent | Insurance Agent |
| Norman Daniels | Building Services | Labourer/ Builder/ Supervisor |
| Clive Holder | Hairdressing | Superstore Manager |
| Mike Hart | Retail Clothing | Retail Clothing Manager |
| Neil Jones | Events Management | Senior Marketing Manager |

had co-founded. Clive Holder had no experience of hairdressing but he initially established his business with his sister, an experienced hairdresser, as shop manager and his knowledge of business as a superstore manager enabled him to quickly adapt to being an employer.

Further, it could be argued that, among those who clearly used knowledge and skills acquired during previous employment, the most important antecedent to business start-up was the owner-manager's ability to identify a way in which personal knowledge and skills could be exploited. Peter Martin, for example, gradually came to realise that the clients on his book were loyal to him rather than the company he worked for, precisely because of his long demonstrated expertise. He therefore reasoned that these clients would follow him when he started his company. The same was the case for Michael Watson, Neal Leavis and Robert Cain. This would support the argument put by Karlsson and Wigren (2012), that the exploitation of skills and knowledge through the ability to demonstrate and communicate their practical application to an audience is more important to business start-up than the acquisition of the skills and knowledge alone.

Pena (2002) argues that these key aspects of human capital are vital during the 'ex ante' or pre start-up phase of business development. It was clear from the interviews that the owner-managers' understanding of the experience and skills that they had gained up to the point at which they started their ventures helped them recognise their own intrinsic value and provided them with the confidence that they could succeed in their new roles. Yet it became apparent that, in common with the findings of Pena (2002), human capital was not sufficient to sustain the growing business. The following discussion explores why this was the case.

**5.2.2 Limitations of Human Capital: Need for Advice, Skills and Development of Learning**

In order to explore the early motivations for the owner-managers to consider employment, it is useful to consider in more detail the nature of the limitations of human capital that they experienced. The interviews did not identify a specific point at which each of the owner-managers decided that their human capital was insufficient for the requirements of the business. This is to be expected as the growth and development of the firm has already been identified as a gradual and evolving process (Chell 1985; 2008).

The realisation on the part of the owner-managers that they would require additional sources of support, beyond immediate friends and family, gradually emerged following a consideration of their personal vision for the future of their companies. Robert Cain, for example, had begun to extend his own area of activity beyond landscape gardening, to giving presentations at gardening conferences and writing a regular newspaper column. In order to succeed in these activities, he required the advice and support of people who acted as gatekeepers to these fields of activity. He stated, 'I want to see how far I can push this (business)' (RC 218) and said that he was 'relying on other people who are in (his) trade' (RC 214) to do so. His approach to testing out new fields of activity was exploratory and speculative.

Robert was one of four non-employers who made reference to the need for advice through the course of the early development of the business (NL210; NL350; RC52; RC112; RC 152; AS 107; SK 107). Each of the four referred to knowledge that they did not have but required if they were to continue to be successful. Neal Leavis identified a need for advice on administrative tasks; Robert Cain, as has been noted, identified the need for advice on how to succeed in new activities and also to complete some of the larger projects he had undertaken; Angela Smith expressed a desire to gather advice on business development if she was to expand her

operations; and Sandra Keith felt that she needed advice on how to draft contracts with her clients.

There was also some evidence among the responses from the non-employers that they were coming to recognise the importance of learning and the need to enhance their existing knowledge and abilities. Neal Leavis, Angela Smith and Michael Watson all referred specifically to the 'learning curve' that they had experienced during the development of their business (NL 8; NL114; AS179; MW 162). In more general terms, all of the non-employers made explicit reference to their own personal requirements for learning.

Such learning indicated a need for the development of skills and knowledge that went beyond simple requirements for advice. Aled DeVere for example, was studying for the Chartered Institute of Management Accountancy (CIMA) qualification at the time of the interview. He recognised that this was an unusual qualification for a self-employed artisan to pursue and that he did not fit the professional profile of the rest of the class. Aled had been responsible for his own business accounts and had been helping other nearby businesses with theirs. He felt therefore that he needed a professional accountancy qualification in order to enhance his knowledge:

> I've been doing company accounts for about eight years, and… without knowing really what I was doing ha ha. But secondly, I've actually… never had a professional qualification as such, I mean I worked professionally, as a professional photographer, as a professional chef for about 10 years, but I actually don't have any professional qualifications. So… it's running my own business better.
>
> AD115

Similarly, Neal Leavis expressed a need to learn basic bookkeeping in order to run his business, stating 'I taught myself that… it's not perfect but… you've got to do it' (NL234). Nonetheless, he saw that he needed an accountant for the more complicated aspects of the work. Neal also identified gaps in his technical knowledge that needed to be filled if he was to complete existing contracted work and take on more. Michael Watson also recognised that his skills, which were limited to brokering mortgages, meant that he could not expand his sphere of activity into insurance and other areas that were required by customers seeking mortgages. He found this frustrating as he could see that there were markets to be exploited, but he was constrained by the limitations of his own human capital.

In spite of their expressed reluctance to employ, all of the non- employing owner-managers, apart from Robert Dougall, had begun to recognise that an employee of some kind might be useful to the business at an opaquely defined point in the future. This recognition may be supported by the argument that limitations of human capital create a need for enhanced learning opportunities. It has been noted in the literature review that such high level learning occurs through the owner-manager's interaction with their environment (Chaston and Sadler-Smith, 2001). Such learning is enhanced by 'generative' learning (Clarke *et al*, 2006, p443), which requires an interaction with others, particularly those with a diversity of experiences. Robert Cain expressed this need most clearly but it was implicit in the responses of the other non-employers.

Such learning would, according to Clarke *et al* (2006), allow the owner-manager to disengage with every day operational activity and focus on the creation of strategy. This will be supported by 'social interaction' and 'participation' in the wider business community (Higgins, 2009, p85). Therefore, it can be argued that the limitations of the owner-managers' human capital were beginning to weaken the reluctance to employ. It is not necessarily the case that such interaction has to be with employees. As will be seen in section 5.3, it can occur through involvement with networks of social capital. Therefore, the limitations of human capital can be said to weaken the reluctance to employ but is unlikely to outweigh the earlier expressed de-motivators to employment. It is therefore, in the conceptual framework, classed as an early weak motivator to employment.

The owner-managers who were already employers were also able to recall that supplementary advice, knowledge and skills were needed in the early stages of their ventures. These needs could also be linked to limitations in their human capital. For example, Mike Hart, who owned a youth oriented fashion store, recognised that he was finding it more difficult to predict the coming season's youth fashions as he got older. Norman Daniels identified a need for expert support with larger contracts that required electrical and plumbing knowledge and this need became more pressing as he procured more work. John Stuart found that he also needed additional design expertise as his business expanded. Yet the initial answer for these business owners was not to immediately employ someone, despite the fact that they became employers later.

It can be seen therefore, that human capital in the form of the business owners' own skills and knowledge were vital in enabling the owner-managers to develop a viable business but that this

requires supplementation later, as their ambitions for the business grow. All of the non-employers and three of the seven employers were able, at least initially, to find sources of expertise other than employees, and this signifies that limitations to human capital is a weak motivator to choosing employment. This is encapsulated by the fact that there was evidence that social capital provided an alternative to employment and this is discussed as a key outcome of this research, in section 5.3 and in the concluding chapter.

**5.2.3 Loneliness and a Need for Company as a Weak Motivator**

One of the non-employers reported feeling lonely since they had established their business. Others either directly identified the need for social relationships in the course of their daily work, or there was evidence that these relationships already existed. Neal Leavis expressed the feeling of loneliness when he said:

> out there on your own, all the time, working on your own, it gets a bit lonely as well, you know, and it's nice to have someone's company…
>
> NL68

When asked later if he would consider employing someone, his initial reply was, 'I would employ one person. One, because I'm lonely anyway' (NL226). Given this unprompted identification of loneliness as a motivator for employment, it is worth considering the need or desire for companionship among the other non-employers.

Neal was the only person who made the direct, explicit link between loneliness and employment, but Sandra Keith had also expressed a strong need to seek close relationships throughout her working life. She highlighted her many friendships with clients, former employers and people who had mentored her in business. She also expressed a speculative interest in employing a close friend. It has already been noted that the possible employment of her friend had much to do with the perceived trustworthiness of this specific person, but this employment may also have satisfied a desire for company.

Dai Leestone spent much of his time in his shop and he had taken on a succession of unpaid apprentices. These apprentices did not appear to provide any direct financial return to Dai, since they were unpaid but kept the money they earned from tattooing clients. It could be that the apprentices created the image of a well-staffed salon, which may have had the positive effect of encouraging repeated custom but it is equally conceivable that they satisfied a need

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for company during the day. The teacher-pupil role may have provided an added dynamic that strengthened the relationship.

Loneliness appeared to be resolved by the other non-employers, who were involved in close relationships with others. Robert Cain stated that he had a close involvement with local community groups and churches; Angela Smith had started the business with her husband and they spent a great deal of time together, including as guides on walking holidays; Michael Watson was based at home with his new wife and young daughter; Aled DeVere's wife was a partner in the business and produced designs for the crockery he sold; and Robert Dougall was in a partnership with three others, whom he considered friends.

None of the employers mentioned loneliness and, as will be seen in section 5.3, most had well developed and often complex social networks which suggested they were regularly in the company of others. It is worth considering here, the case of Cathy Cole, as an employer of only one person. Her employee was Jean, her secretary from her time in employment as a university professional. Cathy had built a good relationship with Jean and during the interview, they exchanged warm and friendly comments. She also stated that the job description for the role in her new company 'was written for Jean' (CC) and that:

> I'm lucky I suppose because my employee, I've known Jean for a long time so I didn't have the risk element we were talking about earlier on, um … I want to grow the business and I need to look at the best way of doing that. I think probably I would prefer not to take on employees, um, but…
>
> CC128

Cathy had designed this role for Jean and persuaded her to apply for it, despite the fact that, throughout the rest of the discussion, she strongly expressed her reluctance to employ any more people. This is clearly due in part to the de-motivating effect of the risk of trusting new people. Yet it is also conceivable that the closeness of Cathy's relationship with Jean, which had built over a long period of time, offered a daily companionship which encouraged Cathy into employment.

It was the case that the owner-managers were involved with other people through the course of their daily operations and all of the respondents welcomed these relationships. It is possible that these involvements satisfied a need for companionship that might otherwise have led to a desire to employ. Given the alternatives to employment that are available however, the relatively stronger de-motivators (discussed in section 5.1) and the fact that it was mentioned

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explicitly by Neal Leavis alone, this need can be described as a very weak motivator to employment.

### 5.2.4 Early Weak Motivators to Employment

The preceding discussion has established factors, namely a need for advice, skills and learning, and a requirement for companionship, that may motivate the owner-manager to consider employment. At this early stage in the development of the firm, these factors are weak motivators and are unlikely to outweigh the stronger de-motivating factors identified in section 5.1. As will be seen, these factors were also counter acted by the alternatives to employment that presented themselves to the owner-managers. These weak motivators may however, mediate the owner-manager's reluctance and encourage them to at least consider the possibility of recruiting a first employee at some unspecified moment in the future. Figure 5.2 below, which forms part of the conceptual model, summarises the motivators.

### Figure 5.2- Early Weak Motivators to Employment

> **Early (weak) MOTIVATORS to Employment:**
>
> - Limitations of Human Capital
> - Immediate Need for Advice
> - Immediate Need for Skills
> - Loneliness
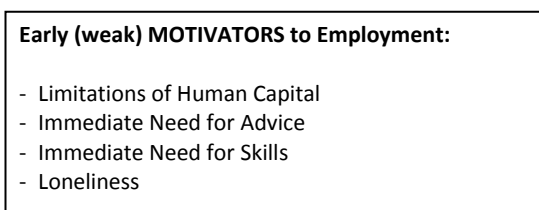
### 5.3 Alternatives to Employment

The following section explores the alternatives to employment that were available to the owner-managers and examines the factors that influenced the utilisation of these alternatives.

### 5.3.1 Alternatives to Employment and Use of Social Capital: Non-employers

In spite of the presence of factors that weaken the reluctance to employ, the owner-managers did not immediately proceed to the first employment. As will be demonstrated, the owner-manager had at their disposal a number of options that provided a substantial and useful alternative to employment. The need to employ was therefore abrogated by these alternatives. In conceptual terms, this was most often exhibited by 'strong' ties to social capital (Granovetter, 1973), in the form of relationships with family and friends and other informal business relationships.

Those owner-managers in the early stages of business development were most likely to call upon their strong social network where they found that their skills were insufficient to complete contracted work. These networks also provided the original customer base for the business. The table below illustrates examples of strong ties to social capital expressed by the non-employers.

**Table 5.3- Non-Employers and Their Use of Social Capital**

| Owner-manager | Business Type | Use of Social Capital |
|---|---|---|
| Neil Leavis | Servicing Hospital Equipment | Former work contacts requested services from NL. Son helped out with simple repair tasks. Wife helped with administrative tasks, non-salaried. Ex colleague provided expert help with bigger contracts. |
| Robert Cain | Landscape Gardening | Clients were former customers from RC's days in employment. Good reputation from earlier employed work generated 12 regular customers in local area. Wife helped out with administrative tasks, salaried. Contacts from longstanding membership of trade association offered consultancy positions. Passed additional work on to former colleagues. Involved with local churches, provided work as a result. |
| Angela Smith | Walking Holidays | Shared work roles with husband. Retired freelancers, met through walking holidays, acted as holiday guides in return for expenses. Former owner of their business acted as unpaid advisor for the first year of the business . |
| Sandra Keith | Book-keeping | Teaching friend at former job inspired start up and provided early support. Businesses in home- town provided on-going work. Dealt only with small business clients. Existing clients provided recommendations to new clients. |
| Dai Leestone | Tattooist | Daughter of a client became unpaid apprentice for a short time. Mutual friend recommended second unpaid apprentice. Apprentices introduced DL to experienced tattooists who offered expert advice. |
| Michael | Mortgage | Clients were former customers when in employment. |

| | | |
|---|---|---|
| Watson | Brokerage | Had close friendship with self-employed estate agent (and former colleague) who provided clients.<br><br>Lived at home with parents for a time when starting up.<br><br>Planned to work with other brokers on a self-employed basis to provide one- stop- shop to clients.<br><br>Freemasons provided opportunity for expert advice. |
| Robert Dougall | Building Consultancy | Four partners ran the business.<br><br>Each partner's reputation and contacts provided clients.<br><br>All partners had known each other well for a significant period of time.<br><br>Business provided a one- stop- shop to clients and building work was then subcontracted to other self- employed people.<br><br>Administrative work was carried out by the partners themselves. |
| Aled DeVere | Potter | Had long established links with pottery industry, previously worked at a nationally renowned company.<br><br>Maintained relationships with former colleagues who provided expert advice.<br><br>Wife helped out with administrative tasks.<br><br>Business was entirely web based and customers attracted by AD's reputation in the industry. |

Davidsson and Honig (2003) note that social capital develops from the knowledge that exists within the environment and this was very evident in the cases of these nascent entrepreneurs. Further, the evidence in table 5.3.1, above, supports Shaw and Conway's (2000, p369) condition that:

> small firm networks can be defined as the composite of the relationships in which small firms are embedded and which serve to link or connect small firms to the environments in which they exist and conduct their business.

For the most part, the businesses and their surrounding networks were rooted in the communities in which the owner-managers lived and had lived for some time, which conforms to the concept of 'embeddedness' that has been identified by Granovetter (1985) and Shaw and Conway (2000). The fact that they drew to such an extent on their immediate environment appears to add further strength to the ties to social capital and emphasises the fact that it might be referred to as 'bonding' capital (Davidsson and Honig, 2003). These business owners therefore appeared to utilise bonding social capital through the networks that existed in their immediate locality.

These bonds were vital to the growing businesses. Former colleagues from the owner-managers' days in employment were an important source of advice and, in many cases, helped generate additional business for the owner-managers. There was also a clear tendency to seek out specialist skills that the owner-managers could not provide themselves, particularly when it came to completing complex but lucrative contracts. Neal Leavis, Robert Cain, Angela Smith, Michael Watson and Robert Dougall, were all willing to offer work that they could not fully complete themselves to external self-employed people.

It is worth recalling the findings of Hanna and Walsh (200, p307), that:

> By working with appropriate peers they could array skills for which the market would pay a premium, for example the ability to design and install equipment or to deliver a complete range of components in a manner to suit the customer or to deliver a complete subassembly and thereby reduce the number of suppliers a company deals with.

This was exactly what had happened with Neal Leavis who had trouble installing certain pieces of electrical equipment in a hospital and said that he called upon 'an ex-colleague'. He added that 'we worked together for years (in paid employment)' (NL332). This was in some senses a transactional relationship, whereby in Neal's words, 'he writes me a bill for his labour and I write him a cheque… and he deals with his own tax and this and that' (NL 348/346).

However, Neal also added that his ex-colleague was 'that type of guy I can trust' (NL336) and 'it's good for me as well because if I've got something in the workshop and I'm stuck on it, I'll ask his advice' (NL350). This would suggest that the relationship at some points went beyond the transactional. Offering a small sum to carry out the additional work undoubtedly removed the need to complete complex tax returns and avoided the danger of becoming entangled in the bureaucracy of employment. However, the relationship was also an important source of advice and an opportunity to learn from an experienced, and trusted, technical expert.

The clear evidence of such advice flows support the findings of Fuller-Love and Thomas (2004), that social capital allows enhanced problem solving capabilities. Robert Cain used the same delegation technique in his landscape gardening business although with an even higher degree of informality, and stated that 'there's a couple of lads, one in particular that I pass a lot of work to' (RC152) and 'I want the 10%, you know, I would prefer that option rather than going down the employment route' (RC156). Michael Watson appeared to be the person to whom work

had been passed, taking clients from a self-employed estate agent with whom he had worked when employed by a larger company.

A further implied benefit of this use of social capital, if Hanna and Walsh's (2008) argument is fully deployed, is that the customer will not subsequently become aware of the supplier's knowledge limitations and this enhances the supplier's reputational strength. It also provides the customer with a continuity and simplicity of service, which may be more likely to yield repeated custom. This use of social capital can be clearly differentiated from sub-contracting, as such a term would imply a more detailed and formalised contract. In common with the findings of Hanna and Walsh (2008), the partners were carefully chosen and were not competing for the same clients. Indeed, the client base was so limited, loyal and known to the owner-manager that there would not have been an opportunity for such competition. There was clearly a high degree of trust in these relationships.

It may also be that this co-operative use of social capital encouraged the belief that the owner-managers could develop their business models into more formal one-stop-shops, and advertise as such. Michael Watson, Robert Cain, Neal Leavis, Sandra Keith and Robert Dougall all either used the phrase 'one-stop-shop' or signalled an approximate aspiration for the future of their business. Despite this, only Robert Dougall had succeeded in fully establishing his business in such a way.  Nonetheless, it could be that early stage co-operation encourages the belief that such co-operation can be formalised at a later point.

Close family connections were hugely important to the majority of these business owners, particularly those who were in the very early stages of business development, which in the sample above included all but Robert Dougall. In common with the findings of Larson and Starr (1993) who identify the key roles played by family and friends in the establishment of a new venture, the business owners demonstrated a tendency to give family members operational tasks. It has already been noted in the findings (see section 4.8) that key early employees take on administrative roles. In the absence of such employees, domestic partners often took responsibility for administration.

Neal Leavis, Angela Smith, Robert Cain and Aled DeVere all identified family members as direct and willing helpers in the enterprise. Dai Leestone made specific reference to the moral support he received from his wife and, while Sandra Keith was unmarried, she operated her business from her parents' home, as had Michael Watson following the immediate establishment of his

business and before marrying and moving in with his supportive wife. This appears to demonstrate that the business owners were at the first stage of the Larson and Starr (1993) model, which predicts that these familial relationships will later be enhanced by broader economic and social ties. Although, as will be seen, these broader relationships had in some cases already started to develop beyond family and close friends, which perhaps reflects inherent difficulties in applying predictive theoretical 'stage' models directly to practice, as has been recognised by Curran (1996).

The only respondent who made no mention of the support of a domestic partner or family member was Robert Dougall, who explicitly stated that he took direct responsibility for administrative tasks. There is some evidence, notwithstanding the limitations noted, that he had moved into stage two of the Larson and Starr (1993) model and had already developed weaker ties to social capital, including purely transactional relationships with suppliers and dependent businesses. When asked whether he trusted some of the business he called upon to complete key tasks, he stated:

> they've all got their own responsibilities, they're responsible for themselves. Really all they need to know is… we're monitoring their work and if they cock it up they'll have to come back and do it again, but all they need to know is that they're going to get paid at the end of the month
>
> RD294

This demonstrated a far stricter economic exchange than was exhibited by any of the other owner-managers. There was a degree of trust, in that Robert stated 'there's a feeling that not one of them would want to be seen to be letting us down' (RD300) but this appeared to be more forcefully than fondly put. None of the other non-employers spoke about their links to social capital in this purely transactional manner and this may also reflect the fact that Robert Dougall was by far the most experienced business owner. It should also be recognised that Robert continued to rely to some extent on his strong ties to social capital in the form of his relationships with his business partners who continued to be a key source of expertise and advice.

There is some limited evidence of the early development of weak ties to social capital (Granovetter, 1973) or 'bridging' social capital (Davisson and Honig, 2003) in some of the responses from the other nascent entrepreneurs. This was particularly where they expressed a desire to learn or to enhance their own human capital. Robert Cain in particular, had become an active member of the local business forum, a formally established networking body that

constituted members of the nearby business community. He had also developed new relationships within his trade association. He expressed a speculative desire to develop his skills and learn from established business owners with the forum and the association. He was well aware of the knowledge and experience of these people when he stated:

> I did a bit of work overseas last year, spoke to the… national conference, um, and some of my team, people that I'm sharing this audit role with in the UK, these are the guys that are going around the world doing it, you know, and they're being very very kind to me basically, you know, they're encouraging me to compete with them you know, they took me under their wing
>
> RC192

Robert emphasised the kindness and support he had received from people he had met through these formal bodies but it was clear that he had been proactive in seeking them out. The networks themselves were vital conduits for Robert's discovery and sharing of information, to the extent that this, with its breadth of collaborative partners could be classified as a 'collaborative network organisation' or CNO (Sorenson, 2008). It also demonstrated that the patterns of communication within this network aided learning, termed elsewhere 'cognitive' social capital (Lee and Jones, 2008). This CNO allowed Robert to engage in speculative learning, trying out new and developing skills in a safe forum that did no harm to his core business activities. Michael Watson's decision to become a freemason may have signified a similar future intention to use bridging capital.

It is also a consistent trend that the core customer base that sustained the businesses, were drawn from the customers that the owner-managers had served when in full time employment. The relationships that they had formed with these customers accounted for the willingness of these customers to continue to use them even though they were no longer attached to their former companies. This is particularly the case for Neal Leavis, Robert Cain, Sandra Keith and Michael Watson. Even for Aled DeVere, the reputation he gained in employment was important to his later success as an owner-manager.

Neal Leavis for example, had 20 years experience as an employee in a small company working with NHS contracts. He stated 'I've been dealing with the NHS for 20 years now and I've been giving them a good service, otherwise they wouldn't have done this for me… They wouldn't have had me back' (NL 292). Robert Cain expressed a strong desire to further develop and enhance these strong links when he stated that he wanted to 'free up time for family and community stuff' (RC218). This 'community stuff' included involvement with local churches,

who provided him with landscaping work. This supports the findings of Greve and Salaff (2003) who note that much effort is spent in building and maintaining network relationships in the first stages of the development of a business. Without these relationships, there would be no demand for their services.

**5.3.2 Alternatives to Employment and Use of Social Capital: Employers**

There was a more pronounced tendency among the group of owner-managers who were employers to make more use of weak ties to social capital or bridging capital (Granovetter, 1973; Davisson and Honig, 2002). Table 5.4 provides examples of the use of both strong (bonding) and weak (bridging) social capital.

**Table 5.4- Employers and Their Use of Social Capital**

| Owner-manager | FTE | Business Type | Use of Social Capital |
|---|---|---|---|
| Cathy Cole | 1 | Business Support | Strong (Bonding): First employee was an ex-colleague that CC line managed and became friends. Pool of associates were selected from former colleagues and social contacts generated from earlier employed role. Domestic partner was self-employed accountant and ran books for CC. |
| | | | Weak (Bridging): Subcontracted to Local Association of Voluntary Organisations (LAVO). Member of formal business network and chamber of commerce. Built commercial relationships through contracted work. |
| John Stuart | 5 | Graphic Design | Strong (Bonding): Used freelance designers who were friends met in previous job as lecturer. Maintained close friendships with designers from earlier employments who continued to provide advice. |

| Name | | | |
|---|---|---|---|
| | | | Weak (Bridging): Recruited later employees as recent graduates, previously unknown to JS. Business was developed through formal pitches to companies that required designers- JS worked on formal business development. |
| Peter Martin | 6 | Insurance Agency | Strong (Bonding): Original customers were clients when CC was employed by large insurance firm. Customer base expanded by word of mouth. Mother provided some admin support and continued to do so, despite employed staff. Former owner of PM's business worked for him for 3 days a week in an advisory capacity. Former friends and colleagues from employed role still in touch with advice about the industry. First employees were recommended by close friends in similar lines of business. |
| | | | Weak (Bridging): Later employees were hired by conventional, formal routes such as job adverts with application forms. |
| Norman Daniels | 9 | Building Services | Strong (Bonding): Early employees were inherited from the previous business owner, who was well known to ND. Early customers were people known to ND in local area and some custom continued to be developed by word of mouth. Retained close friendships with other builders with whom he had worked but contact reduced with time. |
| | | | Weak (Bridging): Some work was subcontracted to companies (plumbing/ electrics). Later employees recruited by formal conventional means (job adverts/ application forms). Member of the local business forum. Member of the freemasons, specifically for business purposes. Formed working relationships with similar businesses in local area. Sought contracts from local authority and pub chains. |

| Clive Holder | 12 | Hairdressing | **Strong (Bonding):** |
|---|---|---|---|
| | | | Sister was original first line manager in chain of shops. |
| | | | Wife helped out with administrative tasks. |
| | | | **Weak (Bridging):** |
| | | | Sister left the business and a new first line manager was appointed by conventional route (job advert, application forms). |
| | | | Joined national hairdressers federation and took up formal official role. |
| | | | Entered hairdressing competitions. |
| | | | Developed good relationships through this route with other hairdressers. |
| Mike Hart | 15 | Retail Clothing | **Strong (Bonding):** |
| | | | Bought business from former employer who was a trusted friend. |
| | | | Ex-wife, before divorce, had early role in running the business. |
| | | | Friends in other independent clothing retailers offer advice and support through a strong informal local network. |
| | | | **Weak (Bridging):** |
| | | | Appointed first line manager by conventional route (job advert, application forms). |
| | | | Clear managerial hierarchy existed within the firm. |
| Neil Jones | 20 | Events | **Strong (Bonding):** |
| | | | Tried to keep an informal atmosphere in the office with little hierarchy. |
| | | | Had close friendships with former colleagues from previous employment. |
| | | | **Weak (Bridging):** |
| | | | Cultivated a large business network through organisational links with a variety of companies. |
| | | | Was a member of chamber of commerce. |
| | | | Sought out university help and acted as a guest speaker. |
| | | | All employees recruited by formal conventional means (job adverts/ application forms). |
| | | | Planned to spend even more time out of the office in future, cultivating business networks. |

There appeared to be a divide between the use of bonding and bridging social capital, which further confirms the arguments of Larson and Starr (1993), that formal relationships become more important to the owner-manager as the firm grows. Further, it appeared that the owner-managers who had stated that they aspired to grow their firms (Neil Jones, Clive Holder and Norman Daniels) deliberately sought more weak ties of bridging capital, whereas the owner-managers who wished to take a more gradual, lifestyle oriented approach (Peter Martin, John Stuart and Mike Hart) were more likely to rely to continue to rely to a greater extent on bonding social capital.

This demonstrates a subtle contrast with the views of Birley (1985) who found that the availability of informal networks and the inefficiency of formal or bridging capital prevented the owner-manager from breaking strong ties to informal networks and resulted in limited firm development and growth. Birley (1985) also noted in her study that the owner-managers were unaware of the availability of formal support and advice. The responses of the employers above indicate that this was not the case here.

As has been demonstrated, all of the owner-managers made reference to forms of bridging capital and it was seen in the wider discussion that they were aware of various forms of business support, which were well advertised and clearly available within the localities in which these businesses were based. It was more the case that the owner-managers made an implicit choice to either seek out these formal support mechanisms and to fully engage with bridging capital, or they chose not to.

In each case, the driving mechanism was not the information available to the owner-manager, limited or otherwise. Instead, their preferences for broadening their networks depended on their aspirations for growth and strongly held beliefs about the future development of their businesses. The owner-manager controlled their own networks and their size and structure was influenced by their strategic choices. Figures 5.3.1 and 5.3.2 below illustrate how these may affect interactions with bridging and bonding social capital.

Given that this research examines owner-manager behaviour at a specific point in time, as with the overall conceptual framework in section 5.8, the diagrams are not intended to offer either a predictive or a generic model of behaviour. However, they do provide an illustration of how two owner-managers were taking contrasting approaches to the development of their social capital at the time of the interviews.

Figure 5.3.1 illustrates Peter Martin's reliance on bonding capital, which demonstrates the continued influence of family and friends.

**Figure 5.3.1 Social Capital During Gestation-Peter Martin**
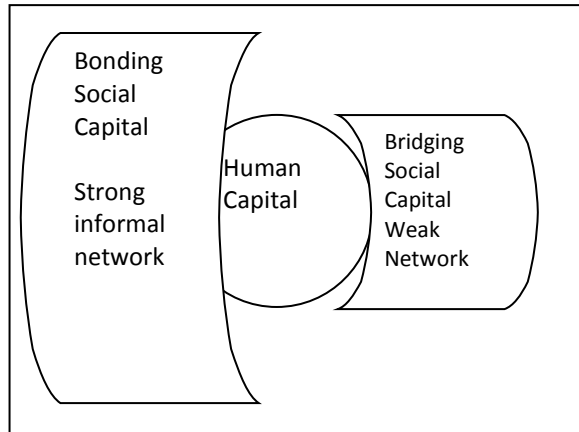
**Figure 5.3.2 Social Capital During Gestation-Neil Jones**
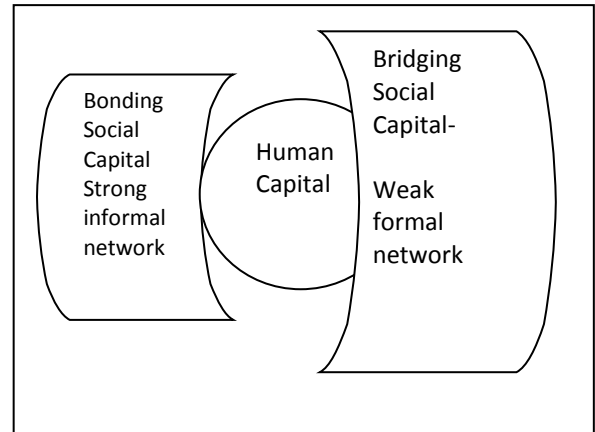


It also recognises the presence of bridging capital in the formalised approach to employee recruitment that emerged later. Although Peter showed awareness of these practices, his reluctance to expand his network was informed by his cautious and gradualist approach to business development. This was evidenced in part by his clear statements that 'I'm a firm believer in doing things slowly' (PM344) and 'I don't just jump into it and say ok let's do this... take sensible steps, assessing the risk and then taking the steps' (PM344). Given this approach, he felt no need to expand his network to those who may have enabled him to rapidly grow his business.

Neil Jones (figure 5.3.2), in contrast, did wish to develop his business quickly and grow it into a much larger entity. He stated:

> ...we put our foot on the gas big time and we go for you know potentially explosive growth and um and to do that we need external investment and I'm currently talking to um about 5, 6 different parties about that, and if that's the case then I would see that in terms of employee size we'll double again in the next twelve months
> NJ 204

As a result of this ambition, he had grown his network and, while he had discussed the important influence of his family in the very first stages of his business and in his earlier career, he was now looking to his wider, formal social network to expand more quickly. Figure 5.3.2

therefore illustrates a graduation toward a bigger bridging network which had been consciously developed and the movement away from the bonding network, which declined in importance.

Similar behaviours could be linked to the strategic choices made by the other owner-managers. John Stuart for example stated that 'I've never had any ambitions to grow in size' (JS110) and 'what concerns me is that the larger we grow, the tendency will be for me to distance myself from that (creative input)' (JS114). Mike Hart stated, 'it's very much a personal business. I know every sort of nut and bolt. I don't think I could ever hand over totally' (MH272). Both John Stuart and Mike Hart had limited the extent to which they had developed networks to enhance bridging capital. Norman Daniels and Clive Holder however had both expressed a desire to grow their businesses and both had put substantial work into their bridging networks.

Cathy Cole was an exception to an extent. She had achieved a balance between links to bonding and bridging capital. Her reasons for developing bridging capital, however, were in order to avoid employment. She believed that she could develop relations with associates who could preclude the need to employ. In this, she has much in common with those business owners who were not employers and sought relationships with other businesses to plug the gaps in their own expertise (see section 5.3, above). Perhaps this reasoning occurred because of her inexperience as an employer and it may be that she has more in common with the non-employers than the employers group.

The significant influence on the decision to develop bridging capital is the ambition of the owner-manager for the growth of their business. However, this is only possible because of the alternatives provided by bonding capital. So, while the presence of bonding social capital does not prevent the growth of the firm, it does provide the owner-manager with alternatives that means that he or she is not *forced* to find support in the form of formal networks or bridging capital and all that this entails, including moves toward formal recruitment mechanisms and employment. Provided that they are happy with a gradualist approach to growth and to run a lifestyle business, the very existence of informal networks allow the owner-manager to avoid employment. Yet in spite of these possibilities, those owner-managers who are employing do not on the whole, avoid the use of bridging capital entirely as some aspects are required for the maintenance of their client base.

### 5.3.3 The Sticking Point: Owner-Manager Networks as Alternatives To Employment

While cost may prohibit significant levels of employment, a further explanation was required as to why so many firms, 74% of UK firms in 2011, had no employees at all (DBIS, 2011). The preceding analysis contributes to an understanding of why owner-managers may both choose to expand their business operations but at the same time choose not to employ. This is illustrated in figure 5.4:

**Figure 5.4- Alternatives to Employment**

**Alternatives to Employment:**

- Owner-manager's Social Network
- Strong (Bonding) Ties to Social Capital (Friends and Family)
- Weak (Bridging) Ties to Social Capital (Associate Relationships and Subcontractors)

This is therefore a key explanatory section of the framework and posits a significant contribution to the understanding of the employment decisions of owner-managers.

It was found that the strong bonding networks of owner-managers and, to a lesser extent, weak bridging networks, offer an alternative to employment that provide sources of advice, support and skills that could otherwise be provided by premium rate employees. Given the choice between acquiring these resources from paid employees or free of charge from available sources of social capital, the logical initial choice appears to be the latter. There is therefore, at least in the first stages of business development, no immediate and pressing need to employ.

While the extant literature explores the use of social capital in much depth (Birley, 1985; Smeltzer and Fann, 1989; Larson and Starr, 1993; Shaw, 1998; Shaw and Conway, 2000; Pena, 2002; Davidsson and Honig, 2003; Greve and Salaff, 2003; Taylor and Thorpe, 2004; Casson and Della Guista, 2007; Sorenson et al; 2008; Hanna and Walsh; 2008), it is conceivable that owner-managers may not choose to appropriate this as an alternative to employment. This is not supported by the evidence provided for this study but, given its exploratory nature, an additional link from the early weaker motivators to the later stronger motivators has been introduced into the conceptual model, as shown in figure 5.5.

If the use of social capital as an alternative to employment is to be challenged, then the combined roles of the weak and strong motivating factors could provide the focus for further research. Such further work would need to address the question as to why, given the presence of these combined motivators, so few owner-managers become employers. The positing of the argument for the use of social capital as an alternative goes some way to answering that question.

**Figure 5.5- Early (Weaker) Motivators and Later (Stronger) Motivators to Employment**
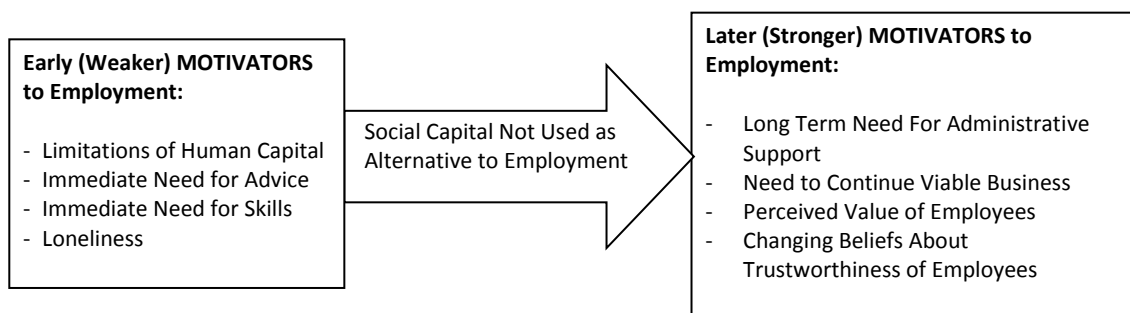


## 5.4 Later Stronger Motivators To Employment and Early Employment Experiences

Despite these alternative resources, it is the case that some firms will go on to employ people. The UK Department for Business, Innovation and Skills found that in 2011, 21% of firms employed between 1 and 9 employees, 3.8% employed between 10 and 49 and 0.7% between 50 and 249 (DBIS, 2011). This section explores why any business owner would wish to employ at all, given their access to social capital and the constraints brought about by employment.

### 5.4.1 Route to First Employment

The first employment decisions of the owner-managers were not characterised by clear and common transitions into employment and the recruitment of the first employees were not the most memorable of experiences for most of the respondents. Section 4.3 of the findings section contains a fuller explanation of this but the key points are summarised briefly here. The discussion that follows then explores later, stronger motivators to employment, supported by an analysis of the factors that are likely to enhance these motivators.

The route to the first employment was not commonly a simple one step process. Only Neil Jones specifically signalled the importance of the first employment and was able to recognise the declining marginal importance to the firm of each additional employee. In the case of Mike Hart however, the employees were 'inherited' from the previous owners when he bought the business in which he had previously been employed as the first line manager (FLM).

Similarly, Norman Daniels had started a new venture, which employed the same people as a previous venture in which he had been employed as the FLM. Peter Martin had initially employed government- funded apprentices, followed by part timers, before deciding to employ his first full timer. Clive Holder had begun employing from the very early days of his business but had left the selection of the first employees to his sister who was initially responsible for the day- to- day management of the salons. Thus he did not meet the new employees for some time.

Cathy Cole, John Stuart and Neil Jones had all recruited their first employees within the first year of their respective businesses. Yet Cathy Cole saw her first employment decision as a one off and had no plans to employ further. John Stuart had taken a very slow approach to selecting new employees, such that after ten years of business he had only grown to five employees.

Given the many alternatives to employment available to the employers, it is likely that the first experiences of being an employer were closely linked to their experiences of the growing importance of both bridging and bonding social capital and thus formed but one moment

**Table 5.5- The Employers and Their First Employees**

| Business Owner | First Employees |
|---|---|
| Cathy Cole | First employee was an ex-colleague that CC line- managed and became friends; was only employee in the company. |
| John Stuart | Recruited recent art and design graduates; very slow recruitment process. |
| Peter Martin | First employees were recommended by close friends in similar lines of business. |
| Norman Daniels | Early employees were inherited from the previous business owner. |
| Clive Holder | Sister was original first line manager and selected early employees from close contacts in hairdressing trade. |
| Mike Hart | Early employees were inherited from the previous business owner. |
| Neil Jones | Employees were recruited by formal conventional means (job adverts/ application forms). |

among a complex collection of related experiences. This is supported by the fact that in some instances, the first and early employees emerged from the social capital networks of the owner-managers. The extent to which this is the case is summarised in table 5.5.

The early employment decisions of Cathy Cole, Peter Martin and Clive Holder were typical of Ram *et al*'s (2001, p846) description of an informal approach to 'workforce engagement' which is 'based mainly on unwritten customs and the tacit understandings that arise out of the interaction of parties at work'. While Ram *et al*'s (2001) reference to 'workforce engagement' heralds the notion of added discretionary effort and the associated concepts of employee value and work flow, in this instance, it can equally be applied to the recruitment process. Similarly, broader views of the informality of human resource practices can be adapted for this purpose (Ram, 1999; Marlow and Patten, 2001; Kotey and Sheridan, 2004), particularly in the absence of recruitment specific studies.

This informality of recruitment may help explain why the first employment decisions were not considered to be memorable or personally significant events for Cathy, Peter and Clive. The informal processes were gradual and there were no specific moments at which the owner-managers could state that they self-identified as an employer. Instead, they built relationships, friendships and advice networks over time, from which those employees emerged. In the absence of this defining moment, the recruitment of early employees could be seen to be opportunistic and emergent and the decision to employ a result of chancing upon this opportunity.

Mike Hart and Norman Daniels had limited choices regarding employment. The continuation of their companies as viable entities either required the retention of the employees they had inherited, or the owner-managers faced a decision to reduce the scope of their businesses. For Mike, dismissal and redundancy costs were associated with the latter decision and he found such a decision neither palatable nor necessary. Norman recognised that he would be able to operate his business with the same number of employees that he had managed in the previous company and that earlier management experience encouraged his self-belief.

It could be said both Mike and Norman had developed a high self-efficacy (Bandura, 1997) when it came to employment, having acted as FLMs in previous versions of their companies. As a result of this, sustained and further employment became the only realistic option for them both and they had confidence in their own abilities to make a success of being employers. In these

two cases, the relative cost of the employees and the associated risks were outweighed by the owner-managers' beliefs in their own abilities to make a success of being employers.

This supports Keh *et al*'s (2002) argument that a reduced perception of risk, as opposed to any objective reduction in levels of risk, encourages risk taking and opportunistic behaviour. In these cases, the owner-managers perceived that their experiences as FLMs would stand them in good stead; that the employees that they had recently managed were representative of the general labour market; that their most recent experiences were dominant over later ones; and that they had a very high degree of control over the employees. None of these assumptions were necessarily true but their (possibly) false perceptions may have strengthened their motivation to become employers (Keh *et al,* 2002).

Given that the employers more generally, with the exception of Cathy Cole, had opportunistically but also consistently established a cadre of generally trusted full time employees, they were able to face further employment decisions without significant trepidation. This is further supported by the findings of Forbes (2005) and Chen et al (1998) who identify factors internal to the firm, such as control over decision making and reliability and availability of information, as most likely to enhance entrepreneurial self-efficacy, with external factors such as social networks having less influence. Therefore, the confidence gained from on-going employment would act as a counterweight to the value of the bridging and bonding ties to (external) social capital. It may therefore be the case that, as experiences of early employment and expertise and self-efficacy develop, the influence of social capital as a 'sticking point' diminishes.

### 5.4.2 Early Employment Decisions- Cost and Perceived Value of Employees

Despite the fact that the preceding argument logically concludes with the reduced influence of social capital as a de-motivator to employment, it does not fully account for a reduction in the influence of the other key de-motivator, the influence of the significant cost of employment. However confident an owner-manager may be about their abilities as an employer, the marginal cost of each additional employee remains a separate and significant reason to avoid further employment.

In spite of this, there was evidence among the employers of a change of attitude toward the associated perceived value of employees as they sought to develop their businesses. This

change was demonstrated by an enhanced willingness on behalf of employers to accept that the benefits that certain employees brought to the businesses justified their premium cost. This does not, of course, suggest that there is any actual or real reduction in those costs, but instead that the perceived value of employees increased.

These perceived changes in the value of employees appeared to be associated with two factors; the administrative tasks that new employees were able to adopt, freeing the owner-manager for other work; and the discovery of a singularly trustworthy and trusted employee who was then able to adopt the strategically important 'first line manager' role. Peter Martin, John Stuart and Cathy Cole all expressed satisfaction that the administrative burdens were eased by their early employment decisions. Further, Peter Martin, Norman Daniels, Clive Holder, Mike Hart and Neil Jones were all able to identify an employee that they had appointed to something akin to the FLM role.

The owner-managers' enhanced perception of the value of employees according to the administrative skills that they brought to the firm supports the view of Cassell *et al* (2002), that HR practices are driven by need and those of Taylor (2006) that recruitments (among other practices) are driven by urgency. This might also explain why owner-managers might be inclined to recruit 'strangers' later in the life of the venture, even where they have been able to draw upon cheaper, often free, resources in their social network (Williamson, 2000, p28).

Given the time and other resources that the owner-manager has to devote to the firm in the 'ex ante' and early 'gestation' stages of the firm, using finite reserves of human and social capital (Pena, 2002, p187), it is easily conceivable that the discovery of an employee able to relieve these burdens, freeing up the owner-manager to explore new business opportunities, would be warmly welcomed by the owner-manager. This is well encapsulated by Peter Martin's comment that he was delighted to find someone to do basic administrative work, or, as he termed it, 'all the rubbish' (PM140).

Further, considering the fact that the very first employee was rarely memorable, or even, from a reflective standpoint, distinguishable from the second or third, it may be argued that an employee with good basic administration skills was a chance discovery and those skills and commitment that they brought to the firm was not ubiquitous in the labour market. The well documented limited labour pool available to micro firms would further account for this latter point (see for example Harrison and Sum, 1979; Curran and Blackburn, 1986; Atkinson and

Meager, 1994; Goldsmith *et al*, 1997; Cully *et al* 1999; McNabb and Whitfield, 2000; Ram *et al*, 2001).

The basic skills provided by these administrative employees should be distinguished from the more advanced management skills exhibited by later, more strongly trusted employees. However, the very discovery that these basically skilled employees could release time for the owner-managers to return to their core business, which was the original motivator for business start-up, may have acted as a catalyst for the increased perceived value of employees in general.

### 5.4.3 Early Employment Experiences – Trusted First Line Manager (FLM)

It has already been noted that the high likelihood of experiences of misplaced trust in employees in the first stages of the business means that early formulations of beliefs about the trustworthiness of employees is classed as a de-motivator to employment in the conceptual framework (see section 5.1.1). This may begin to change however when the process of effectual adjustment becomes more advanced, further supporting Sarasvathy and Dew's (2008) argument that experienced business owners are more able to utilise effectual logic. It is not necessarily the case however that an early recruited employee who is able to provide these welcomed administrative skills would also become the most trusted employee, particularly if the aforementioned process of effectual adjustment (Goel and Karri, 2006; Sarasvathy and Dew, 2008; Goel and Karri, 2008) is a realistic interpretation of the trust-learning of owner-managers.

Instead, such well trusted employees are more likely to be discovered through an experiential process of trial and error. There was strong evidence of this in the responses of the employers, only one of whom, Cathy Cole, identified her first employee as the most trusted employee, although she exhibited a strongly expressed desire to employ no further. This was more clearly evidenced in the responses of Mike Hart, who, despite experiences of broken trust, delegated responsibility for the direct line management of all employees to Sally, a CIPD qualified HR professional whom he had recruited following her redundancy from a large national retailer. He demonstrated his growing trust in her, and that this was reciprocated, when he stated:

> and I have to say, I would say I've learnt quite a lot from Sharon, but I think she would probably say she's learnt quite a lot from me
>
> MH166

Sally had been recommended by Mike's domestic partner who had worked with her in the large retailer but the trust building process was gradual and steady:

> (at her interview)… she had the right frame of mind, even though she'd had no experience of independent business, but we chatted for quite a long time, and I explained what I needed out of… from her, and I could see that she had the experience… she'd managed, sort of people below and above her well, you know, um…and it took…quite a few months for us to sort of gel, really, you know, because she didn't really know what was expected of her, and I didn't really know
>
> MH190

Over a period of months, Sally developed a role that clearly began to fill the conditions identified by Chell and Tracey (2005) for effective relations in the OM-FLM dyad, including an understanding of the business environment and clear role delineation. Though Mike did not establish a job description for her at the outset, she developed for herself a position in which she took responsibility for employee discipline, reporting and monitoring of behaviour and attendance. Mike found that these tasks were not previously undertaken but had become much needed and he appeared satisfied that Sally had been able to take on these responsibilities successfully. There was therefore a shared comprehension of the environment and Sally herself ensured that role clarity and complementarity (Chell and Tracey, 2005) emerged as a result of her own actions. As a result, she soon became a much trusted and relied upon FLM.

It was perhaps fortuitous that Sally had already gained extensive experience, training and a professional qualification in her previous role, as this enabled her to adapt to the requirements of the far less defined job in Mike's company. Given that strategic training is typically 'unsophisticated' (Jameson 2000, p43) in small firms and particularly unlikely in micro firms with unskilled staff (Storey and Westhead 1997; Bacon and Hoque, 2005), a new employee without prior experience or relevant qualifications may well have floundered in Sally's role. Indeed Sally's professional profile is not typical of the kind of employees usually available to the small firm labour market, the likes of which have already been noted in section 5.5 above. The trust relationship was built upon Mike's appreciation of this expertise but it built very gradually as he 'learned' (MH166) to appreciate Sally.

Peter Martin also identified a key FLM in Tina, who had a very positive influence on the growth of the firm. Peter stated that it was when he took on Tina that 'my business started to go, really' (PM 188). Similarly to Sally in Mike's business, Tina brought a wealth of expertise, having acted in a similar role with a 'big electrical contractor' (PM192) for at least the previous thirteen years. It appears that for Peter, as with Mike, his new employee's high level of organisational skill and

166

previous experience, not easily available elsewhere, had a strong effect in engendering trust and leading to those employees playing a pivotal role in the company. Again, the establishment of trust occurred gradually, corresponding to a process of logical effectuation.

Other employers followed a similar pattern. Norman Daniels had appointed a trusted former colleague to oversee building projects that were running across various different sites but did so after acquiring his first staff members. This person was a man with experience of acting as a foreman and he fulfilled a basic line management role.

Clive Holder had eventually found Alice to act in a similar capacity within his salons and who also took on responsibility for the long term finances of the business. He recognised the value of:

> someone senior like Alice upstairs, because they come from salons where the manager opens and closes, right, and cashes up the money… she has to do a yearly business plan, a monthly sales plan, she has to do a training plan, um so and then in her sales plan she has to say what she's doing, how she's going to do it.
>
> CH 836; CH838

It was significant that Clive had initially installed his sister in this role but she had left the business after a year. He had tried to install a new FLM, Doreen, but she had not proven effective in the role, although Clive did not elaborate on why this was the case. Eventually, Alice had become the functional FLM and, given her financial responsibilities, had become trusted. Again, it can be seen that her experiential background in salon management had helped her adjust quickly to this role.

John Stuart had grown his business very slowly over a long period of time and had deliberated for some seven months over the recruitment of his fifth employee. He explicitly stated that such a person needed the 'right experience' because they would have a 'huge effect on the dynamic of the business' and would require the 'requisite skills' (JS62). While his business was too small and he was too close to the operational activities to require an FLM, he clearly did not distribute trust lightly and would only do so within his very small cadre of employees.

Neil Jones, as has been noted, deliberated most carefully over the selection of his first and early employees, more so than later. Yet Neil did not find his very first employee to be the most trusted, although did find from among his early recruitments an employee, Ellie, whom he was

able to confide in and ask for advice on later recruitment practice.  He recognised the value of finding Ellie:

> …I had to take somebody on and I took somebody on (Ellie) who was a very bright, sharp school leaver, very creative graphic designer.  Then we (Ellie and Neil) had to take people on for various projects and we found that we were taking people on, you know this young lady, Ellie and myself, we got to know each other, worked well together, had, you know the same work ethic, and then we'd take people on, and we'd find that, you know, we didn't have anything in common with them, we didn't get on with them and there were three people, four of us sometimes, in an office, so Ellie and I over a beer worked out a very quick down and dirty questionnaire which was probably completely illegal...
>
> NJ238

This demonstrates that Neil made some mistakes in his early recruitment practices, until he was able to identify a clear example of the kind of employee he was looking for in Ellie. He then sought to engage her in a reflective exercise that might lead to more successful recruitments in future. This can again be seen as evidence of effectual adjustment and the incrementalism that is inherent in the application of such effectual logic.

In this way, all of the employers were able to adjust their actions to recruit more trusted employees, which supports Sarasvathy and Dew's (2008) argument that rather than act as a predictor of future actions, such logic allows business owners to become more adept at making judgments about their own future choices. The evidence presented here also suggests that there is a connection between the expertise and experience that employees can offer owner-managers and the increases the propensity for both parties to build a mutually trusting relationship. Such employees may then be able to take on a more senior, FLM role within the business.  Although the extent to which this is a consequence of the developed trusting relationship or of the experience and ability demonstrated by the employee is not clear, it is perhaps likely to be a combination of both factors to some extent.

### 5.4.4 Later Stronger Motivators and Employment Decisions

The preceding analysis is represented by a transitional stage in the conceptual model, from prior to early employment, into the first employment experiences. Figure 5.6 summarises the later, stronger motivators that lead to these early employment decisions. The later, stronger motivators account for the factors that encourage the owner-managers to look beyond the strong and weak ties to social capital that act as alternatives to employment.

**Figure 5.6- Later (Stronger) Motivators and Early Employment Decisions**



Later (Stronger) Motivators to Employment:
- Long Term Need for Administrative Support
- Need to Continue Viable Business
- Perceived Value of Employees
- Changing Beliefs About Trustworthiness of Employees

*Weakened Reluctance to Employ/ Opportunity to Employ*

Early Employment Decisions:
- Acquisition of Employees
- Recruitment of Employees
- Early Formulation of Employee Roles
- Developed Beliefs About Trustworthiness of Employees

Thus, the desire to find long term administrative support for the business, freeing the owner-manager to concentrate on the core activity of the company, together with the need to continue a viable business beyond the limits of growth supported by social capital, lead to a weakened reluctance to employ.

While the evidence presented in sections 5.4.2 and 5.4.3 suggest that the employer respondents developed their concept of employee value as they interacted with their first employees, it is conceivable that this change of concept may more generally begin prior to the first employment, particularly if owner-managers have experience of first line management roles prior to starting their companies. This was the case with Norman Daniels, Mike Hart, Clive Holder, Neil Jones and Cathy Cole. The issue of prior experience is explored in more detail in section 5.7. Further, it was recorded in section 5.1.3 that the cost of employees was the strongest de-motivator to employment, particularly among the non-employers. Therefore, if the perceived value of employees, relative to cost, was to change at any stage prior to the first employment then this would likely weaken the influence of cost as a de-motivator.

The changing beliefs about the trustworthiness of employees is included at this stage for the same reason, with the further supporting argument that logical effectuation (Sarasvathy and Dew, 2008) is dependent on cognitive change, influenced by environmental factors (Thorpe et al, 2006) and is therefore likely to develop over time. It is possible that this change occurs at the very early stages of business creation as owner-managers learn about the activity of running a firm. However, these beliefs will be in the early stages of conceptualisation and will become more developed after processes of effectual adjustment triggered by the various experiences of employment. The changing and developing beliefs about the trustworthiness of employees are therefore included in both the pre and post first employment stages.

It is unlikely that any of these later stronger motivators would be sufficient on their own to encourage the owner-managers to employ but that, considered together, they may provide a collective motivation strong enough to outweigh both the early de-motivators to employment and the alternatives to employment provided by access to social capital. However, in some contexts, which may be the subject of further research, they may not have this power and, even where the opportunity to employ presents itself, owner-managers may choose not to become employers. This is presented in the conceptual model in figure 5.8, as a movement to either the right, into employment or left, back toward a reluctance to employ.

**5.5 Influence of OM Experience on the Formality of HR Practices**

It has been noted in the literature review that informality of human resource practice is not inevitable in small firms, with Ram *et al* (2001, p846) stating that informality in such firms is 'a matter of degree and not kind' and Goss (1994) arguing that formal, strategically consistent and internally focused HR practices may begin to appear with the very first employees. However, it may be argued that informality, while not inevitable, is more likely in small firms and that formal structures and codified practices are more likely to emerge later, as the firm grows beyond the micro stage (de Kok *et al*, 2003; 2006; Kotey and Sheridan, 2004). Harney and Dundon (2006) identify that environmental factors such as technology, HR supply, market structure and industry sector, and their interaction with internal factors such as ownership, management style, trade union presence, company size and employees have an influence on the emergent formality or informality of employment relations.

While examination of all of the influencing factors proposed and examined by Harney and Dundon (2006) is beyond the scope of this thesis, there is evidence from the respondents that the owner-manager's experiential history and the behaviour of the recruited employees, in terms of the introduction of new skills and trustworthiness, influenced the owner-managers to an extent that determined the introduction of some formal practices within the firm. It is not possible within this exploratory, qualitative study to examine the effect of company size on formality, as this would be more suited to a statistical survey. Within the employer sample selected for this study, however, there remained a significant degree of informality of practice, with some evidence of early company structures but more commonly close relationships and 'tacit understandings' (Ram *et al*, 2001, p846) that reflected the strong influence of a small number of employees on the firm's economic destiny.

Where a degree of formalisation existed, this could be attributed in part to the experiential history of the owner-manager. Clive Holder, for example, had spent his career from his early twenties to his late thirties as a deputy manager and then manager of a number of large superstores. He attributed his expectation for his first line manager to produce a yearly business plan and training plan as a consequence of management practices he had learned in large firms. He stated that he had decided to 'manage exactly as I would have in (a large national superstore)' (CH838). Such an approach could clearly be described as strategically focused and internally consistent and thus evidence of formalisation (Goss, 1994).

It has been recognised that owner-managers of small firms are less likely to provide staff training than those of large firms because they may have concerns that the employees in which they invest may be easily poached by other companies (Storey and Westhead, 1997). Yet Clive did invest in training and showed little concern about losing those staff. Further, he also sought to involve his business with local charities and community work, something again that the large superstore had required of him.

Similarly, Norman Daniels had at least six years' experience of a management role within a local authority and had also acted as a first line manager in another small business, which had developed a supervisory hierarchy. Norman had then established a three level hierarchy within his own company and immediately installed a first line manager. Neil Jones, who had for six years been 'Vice President for the East Coast' in a North American multinational, established a hierarchy similar to Norman's in his own company. Peter Martin, who had been employed by a national insurance agency, also introduced a formal structure into his business, with clearly delineated employee roles and a first line manager.

John Stuart had not established a clearly delineated structure in his company, with employees instead sharing similar core business roles and administrative duties. He had consciously developed this approach, placing much value on a familial culture. His employment background as a freelance graphic designer and lecturer suggested that he had little experience of formal management structures before he started his business and this was reflected in his owner-management choices. Cathy Cole, with her academic background and uncomfortable experiences of line management when in employment, as has been noted, modelled her company in such a way that would avoid the need for more than one or two employees. Both John and Cathy could be said to have taken the most 'informal' approach to employment

relations and they were also the employers with the most limited prior experience of management.

The employers who did attempt to impose more formal practices also sought to introduce first line managers. It has already been noted that the role of first line manager was given to the most trusted employees, who also had experience in employee and organisational management. These FLMs were discovered after a period of time in which the owner-managers adjusted their own beliefs about the trustworthiness of employees. The discovery of these FLMs, who may be considered to be rare in the small firm labour market, may have also contributed to a further formalisation of the company structure and employment practices. This was most clear in the case of Mike Hart, who employed an HR professional is this role but there was similar evidence in the responses of Peter Martin, Norman Daniels, Clive Holder and Neil Jones.

It can be seen therefore that, for the employer respondents, their desire to introduce an FLM was at least partially dependent on their prior managerial experiences but also on the success of introducing similar practices within their businesses. The formalisation and continuation of the role depended on them finding an employee who could skilfully fulfil the line management, organisational and supervisory duties that it involved. This required perseverance on the part of the owner-manager, in spite of previous experiences of relations with earlier employees that diminished trust. This, as has been noted, is consistent with the application of effectual logic. The ultimate reward of this perseverance was the discovery of the most trusted employee and this provided owner-managers with more time to pursue core business activity.

Such a process of formalisation could not be said to be inevitable though; Robert Dougall had been a very experienced manager in a large firm but those experiences had discouraged him from employing at all. Among the other non-employers, Robert Cain had also expressed a strong reluctance to introduce formal practices into his firm, which appeared to be heavily influenced by negative experiences of what he termed 'the politics, which I don't handle well at all' (RC58). The same could be said for the effect on Cathy Cole. Therefore, it can be argued that, if elements of formalisation are to occur early in the life of the firm, the owner-manager's prior experiences before they begin to employ should encourage a positive view of the employment experience. The absence of these early positive associations will not necessarily prevent employment but may make it less likely that a formal structure will quickly emerge.

This analysis is consistent with the arguments of Goss (1994) and Ram et al (2001) regarding the possibility of early formality in small firm HR practices. Furthermore, it does not preclude the findings of de Kok *et al* (2003; 2006) and Kotey and Sheridan (2004) that such formality is more likely later, although a wider sample, together with a broader set of research objectives, encompassing later growth, would be required to explore this issue further.

The arguments regarding formality and informality, are encapsulated by Harney and Dundon (2006, p69), who argue that HRM in small firms resembles:

> a quilt composed of a distinct mix of policies and practices, in some cases uneven and contradictory, imbued with varying levels of formality and informality, each reflecting the unique context from which they emerged.

While the authors examine a variety of influencing factors, both external and internal to the firm, including the 'ideology' of the owner-manager, it might be helpful to add to these, as a result of the research conducted in this thesis, the experiential history of the owner-manager and the associated likelihood of discovering trusted employees. It should be noted however, that far from smoothing the uneven and contradictory mix of outcomes, these discoveries contribute to the complexities of the development of HR processes in the small firm context.

**5.6 Early OM Employment Experiences and Growing Confidence as an Employer**

The preceding discussion explores a variety of decisions and subsequent experiences that can be said to contribute to the growing confidence of the owner-manager as an employer. The application of effectual logic (Sarasvathy and Dew, 2008) helps explain why the owner-manager continues to accept the risk of employment in the face of misplaced trust in employees. As a result, the emergent strategies for the deployment of the human resource reflect the expectations of the outcome of lived experience (Rae and Carswell, 2000) and participative, generative learning (Clarke et al 2006; Higgins, 2009). Following such outcomes, the owner-managers who had become employers, could be said to exhibit at least some of the characteristics of 'mature' entrepreneurs, able to understand and accept the consequences of the choices that they have made and will continue to make (Thorpe *et al,* 2006).

Yet the decisions to engage in formalised, strategic employment practices, including the codifying of employee roles, development of a concept of employee profile, the introduction of line management and limited provision of training, together with the certainty with which they

valued such practices, suggest that the owner-managers also exhibited behaviours representing a degree of 'immaturity' (Thorpe *et al*, 2006). While they demonstrated growing confidence as employers as their experience developed, at least part of this confidence can also be criticised as a 'confidence bred of surety' (Thorpe *et al*, 2006, p240). Adopting standard management practices, used in large structured firms, may be seen to be 'inducing unreflective cultural acceptance or codified passivity' (Thorpe *et al*, 2006, p239)

Where authors advocating the importance of effectual logic place much emphasis on the owner-manager's interaction with environmental factors external to the firm (Clarke *et al*, 2006), it has been argued that these may have less of an influence in the development of Entrepreneurial Self Efficacy (ESE) (Chen *et al*, 1998; Forbes, 2005; McGee *et al*, 2009). ESE refers to the ability of owner-managers to achieve goals, based on their estimation of their own abilities to do so successfully. ESE appears to aspire to a predictive capacity (McGee et al, 2009) in that it attempts to assess the extent to which an owner-manager is likely to engage in a specific set of behaviours. This predictive approach has its limitations, particularly if 'knowing' is said to be 'transient' and relative to a 'specific time and space' (Higgins, 2009, p449).

Despite this, using the concept of ESE to consider certain specific actions (such as formalisation of employment practice) does not necessarily abrogate the role of effectuation, as Thorpe et al (2006, p236) argue that 'entrepreneurial enactment is… a blend of causal reckoning… and effectual action'. In the case of the employer respondents, it is certainly feasible that both causal reckoning and effectual action were utilised during the early employment experiences. A consideration of the role of ESE may therefore be useful when applied to certain, specific behaviours.

Forbes (2005) finds that an owner-manager's ESE may be enhanced by decentralised, comprehensive decision making processes and a confidence in the use of current information, factors which may be said to be internal to the firm. The decentralisation of decision making allows employees to persuade the owner-manager to develop useful practices and may reinforce his or her belief in the effectiveness of those practices. The systematic generation of decisions, where information is thorough and reliable, may also enhance ESE (Forbes, 2005).

Evidence of systematic planning, which suggests 'causal reckoning' may have then helped enhance the ESE of owner-managers in order to strengthen their personal resolve and self-belief as employers. It has, for example, been identified in the findings section that the

employers developed an idea of the 'profile' of employee that they wished to recruit and this then led to the owner-manager seeking a person that had similar characteristics (see section 5.7.1 below for a fuller discussion of this phenomenon).

The route to this decision was clearly causal, in that past successes, including those that occurred before the owner-manager started their current businesses, determined future action. This is not wholly the behaviour of a 'mature' entrepreneur but it may explain why repeated patterns of behaviour emerge in employee selection. This leads to the development of confidence in the owner-manager and, while such confidence may be founded on erroneous instrumental theorising, it enhances confidence nonetheless. This, in part, supports the inclusion of 'growing confidence' in the conceptual framework.

Thus, both effectual and causal processes can be said to combine to lead to a growing confidence as employers, with the respondents in this study exhibiting certain characteristics of both mature and immature entrepreneurs (Thorpe *et al*, 2006). The combination of all of the early employment experiences are represented in figure 5.7.1.

**Figure 5.7.1- Early Employment and OM Growing Confidence as an Employer**
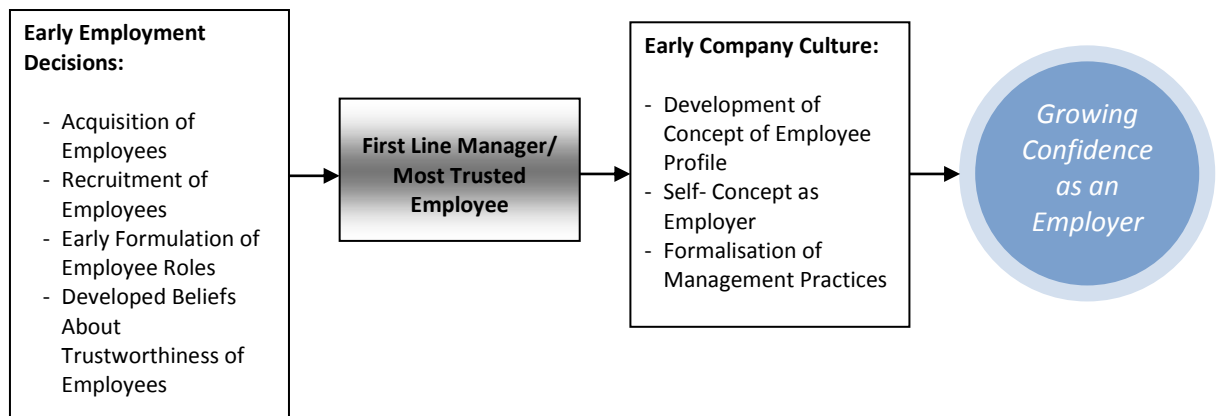


**5.7 Developing Employment Philosophy and Practices and Company Structure**

The final stages of the conceptual framework consider the impact that this growing confidence may have on company structures, employment practices and the employers' own beliefs. It is at this stage that the boundaries of the scope of this research study are reached and further

theorising will inevitably become more reliant on extant literature and knowledge. It is however useful to conclude this analysis with a brief discussion of future possibilities for later employment decisions and practices.

The conceptual framework represents further development of the owner-manager's employment philosophy, alongside developments in the company structure as shown in figure 5.7.2.

**Figure 5.7.2- Developing Employment Philosophy and Practices and Company Structure**
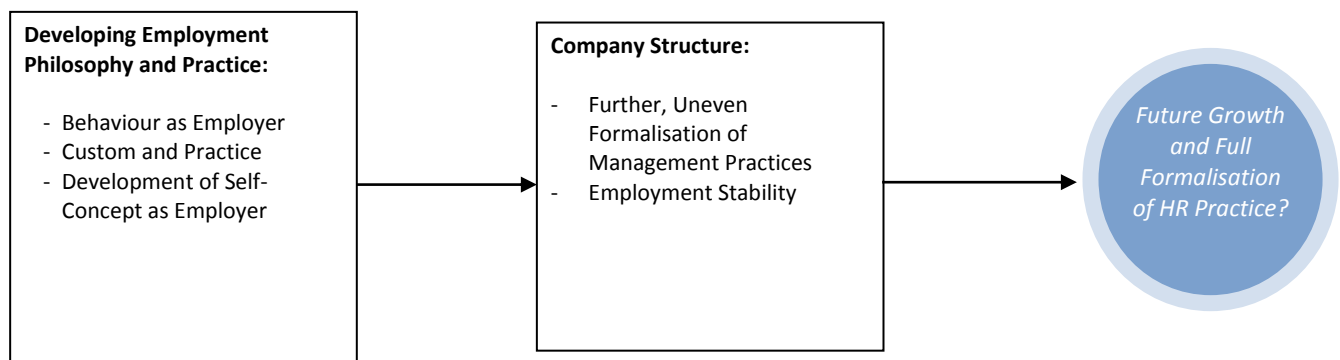


### 5.7.1 Developing Employment Philosophy and Practice

The owner-managers' experiences of learning have been used widely throughout this research to explain how they were able to adjust, maintain and, over time, sustain changes in their behaviour when considering early experiences of employment (Rae and Carswell, 2000; Chaston and Sadler-Smith, 2001; Keh *et al*, 2002; Thorpe *et al*, 2006; Higgins, 2009). Effectual logic in particular has been an important vehicle for understanding how they managed the unexpected and uncertain aspects of employment (Sarasvathy and Dew, 2008; Goel and Karri, 2008).

Yet, as has been noted, there was also evidence of a degree of continuity in the owner-managers' beliefs about employment that caused most of the employer respondents to proceed through early employments with caution and reservation. This was particularly the case for Cathy Cole, John Stuart and Peter Martin. Among the non-employers too, there was a tendency to categorise employment as a risky practice, with Robert Dougall and Robert Cain quite deliberately and explicitly eschewing employment entirely for the foreseeable future. Further, all of the respondents expressed a consistent and sustained reluctance to employ, were it completely avoidable (see table 4.1 in findings section). It is therefore reasonable to propose

that behavioural changes emerge slowly and, at certain points, behaviours are sustained for a period of time.

Certain behaviours were repeated to an extent that they could be said to reflect, at least for a time, the settled practices of employment. The most common among these were the tendency to seek employees with similar profiles. Peter Martin, for example, employed only women; John Stuart sought to employ new creative arts graduates; Norman Daniels recruited semi-skilled, young males; and Mike Hart employed young, fashion conscious teenagers in his stores.

These preferences may in part reflect the limited and typical small business labour pool (Curran and Stanworth, 1979; Scase and Goffee 1987; Storey 1994; Scase, 1995; Marlow 2000) and the preference for youth, noted in the findings in section 4.6, may also be due to the fact that younger employees are relatively cheaper than older, more experienced people. Yet these findings also demonstrate a consistent and repeated set of practices undertaken by the owner-manager that could be said to be their customary approach, reflecting deeply held beliefs about the 'right' kind of employee for their firm.

These choices, particularly in the case of Neil Jones, reflected a confidence in their own ability to select the 'right' people and for their choices to have a positive effect on the firm. Similarly, the strikingly common introduction of an FLM suggests that it may be a practice common to owner-managers embarking on early employments and this is supported by the work of Chell and Tracey (2005). That the employer respondents exhibited this confidence in their employment decisions and in their relationships with their employees, suggests that they had developed an image of themselves as employers with which they were comfortable.

**5.7.2 Developing Company Structure, Future Employment Practice and Growth**

In terms of 'company structure' it is proposed that, with time, an increase in employee numbers and following the introduction of an FLM, there are likely to be further aspects of formalisation of employment practices. This would suggest that attempts on the part of the owner-manager to develop a more substantial employment policy may be introduced (Goss, 1991; de Kok *et al*, 2003), including the possible development of limited training for employees as the firm grows beyond the micro stage (Jameson, 2000; Bacon and Hoque, 2005). It has been noted that training is more likely in firms employing more than ten people than less (Kotey and Sheridan, 2004). Further, there may be a division between the training required by owner-managers and

first line managers, with the former requiring employees to engage with training that 'improve(s) current management processes' and the latter preferring training that 'strengthens their personal profiles' (Patton and Marlow, 2002, p267).

This reflects the wider consensus that introduction of formal HR practices, even after the appointment of an FLM, is gradual and disjointed, with 'the embedding formality as unquestioned normative policy… an uneven process' (Marlow, 2010, p964). This is clearly supported by the responses of the employers in this study. Peter Martin, for example, had introduced job application forms and job descriptions and had instituted a basic line management structure but did not conduct formal appraisals, preferring to interpret staff performance from his own observations. Neil Jones had considered introducing a disciplinary process and had clear job descriptions and performance evaluation but his recruitment process was highly informal. He stated that in interviews (in all seriousness):

> …we asked them if they preferred football or rugby, uh, sorry, football, rugby or cricket, whether they drank cider, alcohol or alco..cider, beer or alcopops, um and whether or not they liked cats or dogs.
>
> NJ240

In this case, the two approaches both blend aspects of formality and informality but are also mirror images of each other in the aspects that they have chosen. Such approaches have been usefully described elsewhere as 'structured informality' (Saridakis et al, 2013, p455). Tensions are therefore likely to exist between these formal and informal practices, which become more pronounced as the firm takes on more employees.

It is open to question as to whether these tensions will discourage further employment, although it has been demonstrated that John Stuart particularly favoured a small cadre of employees to maintain a familial culture. However, as has been noted in section 5.1.4, which examined the consequences of misplaced trust, a sudden or unexpected contraction in employee numbers appears unlikely. The fact that all of the owner-managers had been employers for a number of years suggests that a degree of employment stability is likely. This is supported by the work of Hijzen *et al* (2010, p622), who stated that 'the jobs created by small firms are no less persistent than those created by large firms, despite the fact that small firms are more likely to exit'.

It should be noted that other environmental factors, including the unavailability of skilled labour, the industry sector and the uncertain small firm survival rate (Davis et al, 1994; Hijzen *et*

*al*, 2010) may begin at this point to impact more substantially upon recruitment decisions. Atkinson and Meager's (1994) identification of a formalisation threshold of around fifty employees suggests that these problems persist for some time as the firm grows, although further analysis of these issues is beyond the scope of this thesis. The impact of; these early employment practices on later recruitment; an examination of the next phase of growth of the firm; and the subsequent implications for further employment policy formalisation is not a question that can be addressed here and may be the subject of further research.

**5.8 Summary**

The concluding chapter will summarise the key findings of this study and outline in detail the contributions to knowledge that have been made. Prior to this, the conceptual framework, figure 5.8, below, combines in a systemic model the key outcomes of the research. The framework does not provide a definitive, staged nor predictive map of the route to employment but instead explains the possibilities that may occur when the owner-manager is faced with the constraints, opportunities and sources of support that emerge in the early stages of business development. It is designed to account for the complexities of the decision making process and to reflect the relationship between the research outcomes and their relationship to extant research, as has been explored in this chapter.

# Figure 5.8- Conceptual Framework to Explain Early Employment Decisions and Experiences of Owner-Managers



**BEFORE EARLY EMPLOYMENT**

**DURING EARLY EMPLOYMENT**

**LATER EMPLOYMENT**

**DEMOTIVATORS (Beliefs About Employment Experience):**

- Legislation and Bureaucracy
- Cost of Employment
- Early Beliefs About Trustworthiness of Employees
- Ownership and Control

*Opportunity to Employ*

*Strong Reluctance to Employ*

*Weakened Reluctance to Employ*

**Early Employment Experiences**

**Early Employment Decisions:**

- Acquisition of Employees
- Recruitment of Employees
- Early Formulation of Employee Roles
- Developed Beliefs About Trustworthiness of Employees

**First Line Manager/ Most Trusted Employee**

**Early Company Culture:**

- Development of Concept of Employee Profile
- Self- Concept as Employer
- Formalisation of Management Practices

*Future Growth and Full Formalisation of HR Practice?*

**Company Structure:**

- Further, Uneven Formalisation of Management Practices
- Employment Stability

**Developing Employment Philosophy and Practice:**

- Behaviour as Employer
- Custom and Practice
- Development of Self- Concept as Employer

*Growing Confidence as Employer*

**Early (Weaker) MOTIVATORS to Employment:**

- Limitations of Human Capital
- Immediate Need for Advice
- Immediate Need for Skills
- Loneliness

Social Capital Not Used as Alternative to Employment

**Later (Stronger) MOTIVATORS to Employment:**

- Long Term Need For Administrative Support
- Need to Continue Viable Business
- Perceived Value of Employees
- Changing Beliefs About Trustworthiness of Employees

**Alternatives to Employment:**

- Owner Manager's Social Network
- Strong (Bonding) Ties to Social Capital (Friends and Family)
- Weak (Bridging) Ties to Social Capital (Associate Relationships and Subcontractors)

**6. Conclusions**

The intention of this research was to explore the influencing factors on the first employment decisions and early recruitment and employment experiences of micro firm owner-managers. Explanation was also required as to why owner-managers would employ anyone at all, given the high cost of taking on the first employee. The following conclusions present the key findings of the study and relate them to the objectives that were established in the introductory chapter.

There then follows a summary of the contributions to knowledge, which was drawn from the primary research and analysed with reference to extant literature. The limitations of the study are considered, including a consideration of the generalisability of the research. A consideration of opportunities for further research is also conducted, together with a discussion of the implications for policy and practice. The study concludes with the researcher's personal reflections on the research experience.

**6.1. Summary of Findings and Research Objectives**

It is useful to summarise the key findings of the research in order to assess the extent to which the key research aims have been addressed.

**6.1.1 Findings**

The research posits the outline outcomes of the preceding discussion, under i- ix, below:

i.      Owner-managers exhibited a strong reluctance to employ, regardless of whether or not they went on to become employers. While this reluctance may have diminished as the owner-managers gained experience, it was never wholly overcome, as the reluctance was mitigated but not replaced by later factors that encouraged the consideration of employment.

ii.      The strongest of the de-motivators to employment was the cost of the first and early employees, relative to the turnover of the company. The burden of employment legislation and associated bureaucracy acted as further, weaker de-motivators to employment. These were due in large part to the owner-managers' anticipation of potential difficulties of employment rather than actual problems that

bureaucracy may have caused. The owner-managers' early beliefs about the untrustworthiness of potential employees also had a de-motivating effect, enhanced by their desire to retain control of the core business activity. The non-employers in particular identified that the recruitment of a first employee meant, in some circumstances, sharing work for which they had previously been solely responsible. These factors combined to bolster an early, strong reluctance to employ.

iii. These de-motivators were countered early in the life of the business by factors associated with limitations in the owner-managers' human capital that contributed to a weak motivation to employment. These were the need for advice on the development of general business practices and the requirement for specific skills related to the core functions of the business. There was also a degree of loneliness in the first stages of business start-up that encouraged some of the non-employers to consider employment. The early, weak, motivators were not, however, considered strong enough to fully outweigh the strong de-motivators.

iv. The owner-managers' ties to social capital offered an alternative to employment that provided some of the advice and skills that they required. They also offered social interaction that alleviated the loneliness of business development. This social capital took the form of strong, bonding ties, such as association with close family or friends; or weak, bridging ties to more formal, structured avenues of business support and relationships formed as a result of interaction with stakeholders and external agencies. Bonding capital had a greater influence in the early stages of business development, with bridging capital accessed later. The extent to which the owner-managers sought bridging capital was highly dependent on their personal preferences. These in turn were influenced by the business context and the owner-managers' ambitions for growth. The presence of social capital was therefore presented as a 'sticking point' that reduced the need for employees for a time.

v. The appropriation of social capital as an alternative to employment also had its limitations, in that neither bridging nor bonding capital could provide daily and sustained administrative support to the owner-manager. There also came a point at which the business required permanent staff if new business was to be generated and maintained over the long term. Any owner-manager who wished to

consistently work beyond their own capacity needed to at least consider employment. There was also evidence of a change in the attitude of the owner-manager to employees as the business developed. This was associated with the perceived value of employees. While the cost was inescapable, some of the employers were willing to pay a premium for the various skills that employees brought, as they began to appreciate the value of those skills. Key among these were the administrative skills that freed the owner-managers time, which was subsequently focused on the core business. Owner-managers also began to reappraise the trustworthiness of employees and were willing to place trust in their recruits, even where they expected some of that trust to be betrayed. These factors contributed at the very least to a weakened reluctance to employ and, in some instances, even outweighed the earlier de-motivators.

vi.    The employers could not clearly recall their very first employment decision. This appeared to be associated with a complex set of interactions with social capital, during which a collection of employment decisions were taken together, as the opportunity to employ arose. Employees were 'inherited' from businesses that were purchased by the owner-managers, or employees were selected from other similarly sized business, or employees were recruited from the owner-managers' earlier employer. All of these employees emerged from the existing social networks of the owner-managers. It was likely that non employers had also been presented with these opportunities to employ but had chosen not to take them because of the counter weight of the de-motivating factors already identified.

vii.    The early employment experiences were generally favourably remembered by the employers. While there were examples of misplaced trust and employees who had proven to be unsuitable, the employers had developed their beliefs about trust to such an extent that they were able to quickly overcome disappointments, without reducing their capacity to employ. These early experiences of employment also involved the allocation of roles to first employees, which constituted some evidence of early formalisation of employment relations. This was, however, by no means consistent or thorough and a great deal of informal practice was evident, even in the business with the most employees.

viii.     Most of the employers were able to identify a most trusted employee who had assumed the role of first line manager. These employees brought the most valued skills to the company and variously took on important roles, including co-ordinating vital administrative tasks and line managing other employees. The owner-managers appeared to have developed strong and secure relationships with these first line managers. The relationships had evolved over time and the recruitment appeared to trigger a process of mutual learning. The trusting nature of the relationship eased the owner-managers' concerns about ceding aspects of corporate control.

ix.     Early company cultures and structures had begun to emerge in the employers' organisations. This included the development of the concept of an ideal type of employee and there was evidence of owner-managers repeatedly seeking to recruit employees with a similar profile. This reflected the fact that the original employee of that ideal type had proven to be successful and valuable to the company. The nature of the organisational culture and the management structures and practices that were associated with it depended upon the previous employment history and experience of the owner-managers.

## 6.1.2 Review of Research Objectives and Corresponding Findings

Table 6.1, below summarises the research objectives and identifies the corresponding findings. In the case of the fourth objective, the development of a conceptual framework, all of the findings contributed, as was demonstrated in figure 5.8.

**Table 6.1 Findings and Corresponding Research Objectives.**

| Research Objective | Corresponding Findings |
|---|---|
| 1. To examine the factors which influence the first employment decisions of owner-managers. | i, ii, iii, iv, v, vi. |
| 2. To explore the early experiences of employment of owner-managers. | vi, vii, viii |
| 3. To examine the ways in which early employment experiences inform employment strategies adopted by owner-managers. | vii, viii, ix |
| 4. To contribute to an understanding of the early employment decisions of owner-managers with the development of a conceptual framework | i- ix |

**6.2 Research Contribution**

This research project has made an original addition to the developing discourse at, as termed by Barrett and Mayson (2008), the intersection of human resource management and entrepreneurship. It has been stated that 'there is much to say about the contribution of HRM to small and entrepreneurial firms' (Barrett and Mayson, 2008, p1). Extant literature has examined the structural (Curran and Stanworth, 1979; Scase and Goffee, 1987; Storey, 1994; Scase, 1995; Marlow, 2000; Foreman Peck et al, 2004) and procedural (Rainnie, 1989; Harris, 2002; Carter et al, 2009; Peck et al, 2012) barriers to employment but not the deeply personal decision by an owner-manager to become an employer and the learning process that is associated with that decision. This research focused on the experiences of non-rapid growth micro-business owner managers and this was justified by the high preponderance of such firms in the SME sector (DBIS, 2011). The key focus for the study, which led to the contribution to knowledge, is an exploration of the process of becoming an employer.

This research inductively and recursively developed an understanding of the first employment decision, with an approach that utilised primary data and contemporary research to construct a model of the process that also explained later experiences of employment. This model united the themes that emerged from the analysis of the interviews, together with key concepts that were developed in the literature review.

In summary, the model posited that the very first employment decisions were not as memorable as later experiences of employment. It was found instead that the identification of a first trusted employee, discovered following a process of effectual adjustment, was perceived by the owner-manager as significantly contributing to the business and its growth potential. For the purposes of this study, following Chell and Tracey (2005) and in accordance with the responsibilities they assumed, this first trusted employee is referred to as a 'first line manager' (FLM). The FLM's characteristics then became an informal template for further employment decisions, alongside the formal processes that emerged at later stages of employment. It was also found that the owner-manager's perception of trust changed over time, with the more experienced or 'mature' entrepreneur being more willing to accept that the allocation of trust was a risk worth taking, given the likelihood of finding this valued employee.

The model also identified key de-motivators to employment, of which the cost of employment and concerns about the potential impact of bureaucracy and legislation were strongest. These

demotivating factors encouraged owner-managers to seek alternatives to employment in the form of social capital. It was found that, once exhausted, the owner-managers were more likely to consider the option of employment.

The model advances an understanding of the tensions between the reluctance to employ and the difficulties inherent in relying on the alternatives in the form of social capital. This understanding promotes a need for policy makers to support the owner manager through the process of social engagement and not simply for the economic benefit of increased employment. Indeed, it is argued that policy that encourages the development of social and business networks provides a societal benefit which is as important as one that pursues economic growth.

The following section 6.3 examines these contributions in more detail with further discussion of the model's underpinning logic. Section 6.4 examines the tensions that impact upon the owner-manager when faced with the first and early decisions to employ.

## 6.3 New Insights: First Employment Decisions and Later Experiences

The original contributions of this study were provided by new insights into the first and early employment decisions and the later experiences of the owner-managers. A central and fundamental contribution to knowledge of small firm employment behaviour emerged as a result of the examination of the very first employment decision.

### 6.3.1 The First and Early Employment Decisions

It appeared that, rather than being a single decision linked to the employers' strategic vision for their businesses, the first employments were bound up in a multi-faceted set of actions that were strongly reactive to circumstances. These employment decisions were driven by an array of competing factors, including the owner-manager's need to:

- free up time to concentrate on developing new business activity;

- to introduce sustainable administrative support;

- to develop an internal source of human capital rather than rely on external support.

The precise route to employment was contextually different in each case but commonly depended upon the occurrence of the opportunity to employ. When the opportunity arose, the owner-managers were faced with difficult and complex choices, the outcomes of which were to become employers or to continue with the appropriation of social capital as an alternative.

In some cases, the decisions were forced by the need to continue the business as a viable entity. Two of the owner-managers had previously been employed as first line managers in businesses that the existing owner-managers wished to sell. The choice for the respondents here was stark, in that they either became owner-managers, inheriting existing employees, or they chose to seek other avenues of work. If they bought the businesses from the previous owner, there was no realistic option not to employ, as the business, as it was then constituted, could not continue without employees. Here, the confidence that they had developed as first line managers supported their belief that they could be effective employers. This may again be linked to an enhanced self-efficacy, which bolstered their confidence and helped them to a decision.

In other cases, the first employees emerged from the immediate ties to social capital on which the owner-managers were then relying. Their advice networks included individuals who were recommended by fellow business owners or there existed potential employees who had already developed a relationship with the owner-manager. Thus, to recruit them as full time employees was not a difficult decision to make. In order for this to happen, however, there had to be a degree of motivation. This was provided by the long term stronger motivators to employment, identified in the conceptual model. These factors, including a long term need for administrative support, which itself fed changing beliefs about the value and trustworthiness of employees, meant that employment became a viable option, in spite of the cost.

This perceptual change did not, however, occur at a significant single moment but more from a process of effectual adjustment that emerged from frustrating experiences caused by the limitations of social capital. It can be seen that the first employment decision in this instance is dependent on the owner-manager's personal ambition for the development of their business. If growth and development of the business is their objective then it is likely that the point at which the limitations of social capital are recognised will be reached sooner than if the owner-manager simply wishes to pursue a lifestyle business that enables them to make a basic living. Here, this study has demonstrated the highly personal and contextually specific nature of the decision making process in micro firms. Even where an employment decision is made, this will be loaded with reluctance and caution, given the high cost and associated risks of employment.

### 6.3.2 The Emergence of a Trusting Relationship with a First Line Manager

This study has contributed to a deeper understanding of the relationship between the owner-manager (OM) and the first line manager (FLM). This drew on the work of Chell and Tracey (2005) who examine the complex interaction between the two and posit that the owner-manager is the main, though not singular beneficiary of a strong OM-FLM relationship. This was supported in this study by evidence of a mutual learning process and the time saving that the introduction of an FLM afforded the owner-manager.

The findings here also provided a broader perspective on the early formation of the OM-FLM relationship and associated this with the owner-manager's ability to place a significant degree of trust in the new FLM. The appointment of an FLM depended on the owner-manager's willingness to accept a degree of risk in trusting employees and giving them responsibilities within the business. It has already been noted that the willingness to trust became more likely as the owner-manager gained experience of employment. One of the consequences of this extension of trust was the discovery of an individual singularly appropriate to the FLM role. This entailed undertaking such activities as assuming responsibility for administrative tasks, for example, payroll and financial planning but also accepting a direct responsibility for other employees. The FLM proved to be competent and professional and had skills, qualifications and knowledge that were not commonly found in the small firm labour market.

Given their earlier experiences of employment, the owner-managers were able to recognise the rarity and value of this employee and as a result, the FLM became a trusted advisor and confidant to the owner-manager. It was noted that this employee gained increasing influence and importance, as a consequence of both the gradually developing trusting relationship with the owner-manager and the skill and competence that they were able to consistently demonstrate.

This successful relationship enhanced the owner-managers' self-belief about themselves as employers, confirming that they had adopted the right approach to employment. It also allowed for the greater formalisation of employment practices, which led to a maturing appreciation of the value of employees. While it was not argued that this employment decision acted as a catalyst for rapid employment growth, it did provide a degree of employment stability and clarification of role responsibilities within the business. These responsibilities were established

most clearly when the first line manager had prior knowledge or experience of line management activity.

**6.3.3 Development of a Conceptual Framework**

A broader systemic contribution of this study has been the development of the conceptual framework that was used to clarify and explain the processes and practices that led to the first employment decisions and the later experiences of employment that affected the development of the businesses. The framework was not intended to provide a definitive, staged nor predictive map of the route to employment but instead sought to describe and explain the possibilities that may occur when the owner-manager is faced with the constraints, opportunities and sources of support that emerge in the early stages of business development. The design of the model drew upon the findings from the primary research undertaken by this study and utilised the extant knowledge that was examined in the literature review and expanded upon in the earlier analysis. It provides explanations for possible patterns of behaviour exhibited by owner-managers at certain points in time.

The model takes account of the experiential history of owner-managers, the specific context of their businesses and the choices in terms of early employment decisions and later HR practices that they may be facing as a result of their individual business needs. It is intended to form a part of a wider system of decision making that might include factors not considered by the model, such as market conditions, changing (rather than current) legislation, social and demographic trends and technological developments. As such, it is not a closed system model and can be considered in conjunction with other theories of small firm development, including, for example, those proposed by Atkinson and Meager (1994), Pena (2002) and Harney and Dundon (2006), all of which are examined in the literature review.

The model is intended to reflect the complexity of the decision making processes faced by owner-managers and the multiple options, de-motivators and motivators to employment. These de-motivators and motivators, the latter classed as weak and strong, contribute to an effective explanation of those often contradictory factors that work against each other in the life world of the owner-manager. In the analysis, it was demonstrated that the model could be examined piece by piece and thus its construction is intended to be applicable to owner-managers with various degrees of experience and in various stages of business development.

A fundamental explanatory aspect of the model is that of the reluctance to employ, something which has been briefly touched upon in the literature (Perren, 1999) but has not been examined in significant depth. The framework also raises a number of further questions about the employment decisions and HR activities of owner-managers of small firms and these are explored in terms of further opportunities for further research in section 6.6. The model can be considered an original contribution to existing knowledge in that this configuration of explanatory factors did not previously exist in any contemporary literature.

## 6.4 Understanding the Tensions Impacting Upon The Employment Decision

This study also examined the tensions that impact upon the owner-manager when faced with the first and early decisions to employ. These may be summarised as:

- the desire to recruit versus concerns about the perceived risk of needing to terminate of contracts;

- the cost of employment versus the need for additional human capital;

- formality versus informality of employment practices;

- the use of social capital versus employment;

- perceptions of risk versus perceptions of employee trustworthiness;

- causal versus effectual action.

Each of these factors are examined in turn in sections 6.4.1- 6.46, below.

## 6.4.1 Recruitment vs Perceived Risk of Termination of Employment

It was recognised that the impact of employment law on small firm owner-managers is historically disputed (Chilton and Weidenbaum, 1982; Chrisman and Fry, 1983; Peterson et, 1984; Epstein, 1984; Minford and Ashton, 1985; Rainnie, 1989; Harris 2000; 2002; Blyton and Turnbull, 2004; Carter *et al*, 2009; Peck et al, 2012; Kitching, 2013). This disputation is based on the extent to which small firms are negatively affected by the cost burden of legislation, and the

extent to which the future uncertainty caused by legislation has an impact on the owner-managers' employment choices.

The primary research in this study appeared to support the argument that owner-managers' general concerns about legislation affect future plans (Rainnie, 1989; Harris, 2000; Harris, 2002; Peck et al, 2012) but found little evidence of specific contemporary legislation negatively impacting the current activity of the business (Chilton and Weidenbaum, 1982; Chrisman and Fry, 1983; Peterson *et al*, 1984; Epstein, 1984; Minford and Ashton, 1985). The owner-managers were unable to identify specific problems that they had encountered as a result of legislation but they were able to express in rich and vivid terms the anxieties they had about hypothetical implications of employment policy. It was however difficult to assess the contemporary effects of these concerns precisely because of their future orientation and the elusive nature of these very personal perceptions. It was adjudged therefore that, in common with Peck *et al* (2012), the impact of bureaucracy amounted to a cost that could not be directly measured and was therefore classed as a weak de-motivator to employment.

Nonetheless, it was clear that there existed a tension between the first decision to employ and the implications that this would have for later options to dismiss and return to a state of non-employment. The burden of the decision lay in the fact that, once taken, the owner managers perceived it to be very difficult to cease to be an employer. Coupled with the even greater uncertainty of the degree of bureaucracy involved, the resolution of this dichotomous problem would be necessary before any initial employment decision could be taken.

**6.4.2 Cost of Employment vs The Need for Additional Human Capital**

A further tension was the cost of employment versus the need for a first employee. It was clear from the comments of the owner-managers that direct costs of employment were a pressing and immediate concern, which tentatively supports the arguments of Atkinson and Meager (1994, p317), that a 'threshold difficulty of employment' exists and more thoroughly of Foreman Peck *et al* (2006, p313), that the owner-manager may 'be more inclined to discount the future more heavily, choosing immediate gains, rather than future growth'. Both of these factors pointed to the far greater influence of the cost of the first and early employees as a discouragement to employ. For this reason, the measurable cost of employment was classed as a strong de-motivator.

The tension between the desire to employ and the cost of employment was largely mediated by the owner-manager's perceived value of the first employee. This was likely to be lower among owner-managers in the early stages of business development, as they had not yet had need for an array of skills that extended beyond their own immediate human capital. This was likely to change as the owner-managers gained experience and began to expand their operations or customer bases. As they wanted to try new activities or develop existing business, the benefits of a daily, readily available employee became clearer. Thus the perceived value of the employee increased and, although the cost of that employee did not change, the owner manager was more likely to appreciate the premium cost. In this way, the tension was assuaged with time and experience.

### 6.4.3 Formality vs Informality of HR Practices

It was found among the employer respondents that there had been a high degree of informality during the early stages of recruitment, yet there were also elements of formality in a small number of the practices exhibited. While there is a well- developed discourse on the formality and informality of HR practice in small firms (see for example, Goss, 1991; Goss et al, 1994; Duberley and Walley, 1995; Benmore and Palmer, 1996; Ram, 1999; Ram *et al*, 2001; Marlow and Patton, 2002; De Kok *et al*, 2003; Reverley *et al*, 2004; Kotey and Sheridan, 2004; Bacon and Hoque, 2005; Martin *et al*, 2008; Gilman and Edwards, 2008; Marlow *et al*, 2010; Saridakis *et al*, 2013) none of this refers directly to the first employment decisions.

It was noted that Ram *et al* (2001, p846) refer to the 'unwritten customs and tacit understandings' in terms of employee engagement in those small firms that have already begun to employ and were affected by the introduction of the minimum wage. This study applied these ideas directly to the embryonic recruitment process, which was not the original intention of the Ram *et al* (2001) research, but it served to provide a wider contextual framework for the analysis of the specific issue of the first recruitment. Consequently, the outcomes of this study also supported the findings of the Ram *et al* (2001) research and the broader contemporary consensus regarding the 'uneven', emergent, gradual and disjointed approach to formal HR practices in the wider small firm sector (Marlow, 2010, p964).

These tensions were clearly evident among a number of employers and it could be seen that the need for control, simplicity and ease of practice (informality) coincided with a desire for organisation and logic and delegated decision making (formality). Peter Martin, for example,

expressed himself to be an employer who wanted to develop his firm very gradually, ceding as little control as possible. Yet he also introduced application forms, person specifications and job descriptions into his recruitment practices. These formal mechanisms were constrained by his desire to employ his FLM 'templates' (see section 6.2), which intuitively limited his choices of employee, regardless of the job description and person specification. The result was that the formal mechanism was used as a justification for employee choices, but there could still be seen a high degree of informality in the employment decision.

This tension was not completely resolved in the model and this is reflected in the wider literature, which does not identify a specific point in the development of the firm at which a movement to greater formality occurs. Indeed, this finding supports Marlow *et al*'s (2010, p956) argument that formality of practice is a 'fluid notion' and that there is a duality of practices inherent in any small firm at any time.

**6.4.4 Social Capital vs Employment**

The discussion in the literature review of the use of social capital focused on the existing networks of owner-managers and the extent to which these were used to support on-going business activity (Birley, 1985; Smeltzer and Fann, 1989; Larson and Starr, 1993; Shaw, 1998; Shaw and Conway, 2000; Greve and Salaff, 2003; Taylor and Thorpe, 2004; Casson and Della Guista, 2007; Sorenson et al; 2008; Hanna and Walsh; 2008). The conceptual exploration of social capital examined forms of such capital that emerged from different networks, described as 'strong' and 'weak' (Granovetter, 1973; 1985) or, correspondingly, 'bonding' and 'bridging' (Davidsson and Honig, 2003). The two forms of capital referred respectively to the strong ties to family and friends and the weaker ties to formal, external networks.

The literature critiques the difficulties that owner-managers face in accessing and effectively utilising social capital, with the apparent consensus that bridging capital had the most beneficial effect in the later stages of the business but was the most difficult to access (Birley, 1985; Larson and Starr, 1993; Pena, 2002; Davidsson and Honig, 2003; Greve and Salaff, 2003; Hanna and Walsh, 2008). Yet the idea of use of social capital as a viable alternative to the first employment was not explored in any depth in this literature. The evidence gathered for this study supports the fact that owner-managers feel the constraints of their own human capital in the first stages of business development (Deakins and Whittam, 2000; Pena, 2002, Davidsson and Honig, 2003; Diochon, 2008) but further proposes that their ties to social capital are

sufficient to satisfy their expertise and skill requirements at this early stage. Therefore, given the already strong reluctance to employ, social capital can enable business development without the significant added cost of employment.

This was a significant re-configuration of existing knowledge in that it provided an additional explanation for the slow growth of SMEs in terms of employee numbers and made a conceptual link that did not previously exist between appropriation of social capital and motivation for employment. This research further proposed that the extent to which the owner-manager chooses to use bonding or bridging capital will be closely linked to their personal ambition, itself informed by experience and desire for future fast growth. It was also argued, given the fact that few firms that employ more than one person (DBIS, 2011) and the common desire for current profit over future growth (Foreman Peck *et al*, 2006), that the use of social capital over an extended period is likely. This was justified as the 'sticking point' in terms of employment motivation and reduced the likelihood that the owner-manager might imminently consider employment.

It was found that the point at which this tension was overcome and employment decisions were finally taken depended on the limitations of social capital. These would be highly specific to an individual owner-manager but would require the owner-manager to recognise that social capital no longer provided sufficient resource to cover the needs of the developing business. Most commonly among the respondents in this study, it manifested itself as a daily need for administrative support within the firm and (as in the case of Robert Cain, John Stuart, Mike Hart and Neil Jones) in order to satisfy a need for a wider set of skills required to achieve business development and growth.

### 6.4.5 Perceptions of Risk vs Perceptions of Employee Trustworthiness

The owner-managers' evaluation and expectations about the trustworthiness of employees emerged as a significant issue for all but one of the employers. While most of the employers could provide examples of occasions when employees had betrayed the trust that had been placed in them, these breaches did not appear to cause the owner-managers to reaffirm their reluctance to employ.  Nor was there evidence of a significant shock caused by broken trust. Instead, the employers adjusted their behaviours but continued to view employment as a viable option. It appeared that, over time, the employers had developed a pragmatic view of the trustworthiness of employees, with the expectation that trust may be broken but that trusting

was necessary if employment was to be worthwhile. Thus, allocation of trust became a commercial decision rather than an idealistic or moral one.

Among the non-employers, trust in employees was generally a less tangible issue, as might be expected given their lack of experience of employment. Only one (Robert Dougall) had avoided recruitment because of the perceived unreliability of employees, choosing instead to rely on stocks of bridging capital.

This study drew on the concept of effectual logic and its relationship with trust (Goel and Karri, 2006; Sarasvathy and Dew, 2008; Goel and Karri, 2008) to explain these behaviours. The two sets of authors had engaged in a complex debate regarding the processes involved in the utilisation of effectual logic. Sarasvathy and Dew's (2008) strongest critique of Goel and Karri (2006) was that their understanding was based on an assumption and prediction of degrees of trust, whereas the former argued that effectual logic cannot be a causal process. Further, Sarasvathy and Dew (2008) argue that owner-managers engage in a process of 'intelligent altruism' rather than the more specific 'over-trust' favoured by Goel and Karri (2006).

While this study found some utility in the term 'over-trust', it supported the view that effectual logic cannot predict specific behaviours but instead explains how and why those behaviours may have been adopted. Therefore, in common with Sarasvathy and Dew (2008) the concept was shown to be explanatory rather than predictive, specifically explaining why owner-managers continued to employ, as result of a series of effectual adjustments, even in the face of diminished trust.

It was also found that the owner-managers became more adept at utilising effectual logic, and less concerned by breaches of trust, as they gained more experience as employers. This supported Sarasvathy and Dew's (2008) view that experienced business owners are better able to use effectual logic than the less experienced. This, together with the apparent consensus between the two sets of authors that, in the mind of the owner-manager, there is an acceptable trade- off between affordable risk and allocation of trust, explained why significant reductions in employee numbers did not occur as a result of diminished trust. This further suggested that trust was not misplaced, rather it was allocated speculatively with the acceptance of a premium level of risk.

It could be argued that, as effectual logic is more adeptly utilised by experienced or mature owner-managers, the tensions between allocation of risk and allocation of trust are more likely to be stronger in the early stages of business development, where the owner-managers may still be considered 'immature' (Thorpe *et al*, 2006, p243). Such early stage owner-managers may learn to associate trust with risk and therefore, after initial experiences of breaches of trust, reduce their desire to employ. In later stages, risk and trust may be considered more complimentary, with a proportionate degree of risk associated with a similarly proportionate degree of trust in order to achieve longer term payoffs, such the discovery of a trusted FLM and employment stability.

## 6.4.6 Employment Decisions and Causal vs Effectual Action

This study did not however attempt to predict the precise point at which such risks became either acceptable or unacceptable, as this was strongly tied to the complex personal experiences and developing learning of the owner-manager.  Yet these effectual actions were supplemented by evidence of systematic planning in recruitment activity which did offer a tentative prediction of marginal aspects of the owner-managers' future behaviour. While it was not possible to comprehensively identify the owner-managers' plans for the introduction of HR strategies, nor the likelihood of future firm growth, it was argued that owner-managers exhibited patterns of behaviour regarding the type of employees that they recruited. This was supported by evidence of employees within the firms exhibiting similar profiles, the nature of which depended on the individual owner-manager's early experiences of employment. It appeared that the successes that owner-managers had with their early employees encouraged them to recruit people with similar characteristics.

This was supported by the consideration of the concept of Entrepreneurial Self Efficacy (Chen *et al*, 1998; Forbes, 2005; McGee *et al*, 2009), which proposes that future actions are guided by the entrepreneur's belief in their ability to succeed at a given task. This perception is fed by previous successes in a task or role.  The predictive capacity in the context of this study is limited, to the extent that it can only provide an estimation of the likely profile of the next employee. While the causal relationship between the entrepreneur's self-efficacy and their employment intention is at the margins of decision making, it does support the wider view that 'entrepreneurial enactment is… a blend of causal reckoning… and effectual action' (Thorpe *et al*, 2006, p236). While the duality of these constructs is clear, although this study has found that

effectual action is a more convincing explanatory concept when examining the behaviours of more mature owner-managers.

6.4.7 Overview

It can be seen from the preceding discussion (6.4.1- 6.4.7) that owner-managers who may be considering embarking on the first and early employment decisions are faced with a variety of options that manifest as tensions upon the motivation to employ. These options may lead to the owner manager finding alternatives to employment. As has been argued, the factors that influence the employment decision are rarely constant and are affected by the on-going expansive learning and effectual adjustment that the owner-managers experience as the firm grows. In specific terms, these are unique to each context but insofar as they can be considered across cases, they are considered in detail in the conceptual model provided in this study.

**6.5 Limitations of This Study**

The following section considers possible limitations of this study from a conceptual and practical perspective. Issues addressed here are; the generalisability of the sample; the construction of the sample; the use of extant literature; and the analysis of the experiences of owner-managers recruited for the study.

**6.5.1 Generalisability of the Findings**

The inductive, interpretative research approach that was selected for this study, examined in detail in the methodology section, lent itself to the open ended and exploratory nature of the research question. It has been recognised that this approach would allow the construction of theory from practice and was very much 'concerned with the context in which events were taking place' (Saunders et al, 2009, p126). This raises some questions about the generalisability of the research, in that if it is so contextually specific, the wider value of the conceptual outcomes may be limited. This specific critique is countered by the fact that no other explanations for phenomenon similar to those examined in this study currently exist and, at the very least, the research outcomes provide the foundations for further debate and examination of practice.

Further, the analytical method of thematic analysis (Braun and Clarke, 2006) was chosen in order to allow the findings to emerge from the data. Theory was generated using a combination

of closely related literature and the primary data and this was a recursive process in which both aspects were mutually informative. This process was largely successful, as demonstrated by the fact that the conceptual model was thoroughly underpinned by extant research and newly gathered data. It was also the case, however, that the discussion was very much dependent on the interpretation of that data. While, as explained in the methodology, the process of thematic analysis was consistently and rigorously conducted, the analysis could only be as reliable as the information provided by the owner-managers. If their reported experiences, feelings and behaviours were not fully reflective of what had occurred, then there could be some inconsistencies in the research outcomes. The fact that the owner-managers were largely reporting their feelings after events had occurred may not have provided a truly accurate picture of those events.

This problem was, to an extent, addressed by the fact that common experiences across the sample were sought and that those singular experiences unique to only one owner-manager were not used to generate theory. Such unique experiences were reported in the discussion (see for example, the respective approaches to business design of Robert Dougall and Cathy Cole) but were not subsequently reflected in the conceptual model. Further, it was argued that the decisions taken by the owner-managers were based on their recall of previous experiences, not necessarily on the experience as it actually occurred. Therefore, in some instances, for example when past experience guided immediate action, it was the recalled experience that was most important.

### 6.5.2 The Construction of the Sample

The main sample consisted of fifteen owner-managers at various stages of business development and either side of the first employment decision. The purposeful sampling approach (Creswell, 1998) meant that the choice of respondents was guided by the research questions and therefore employers and non-employers were sought. As proposed by Miles and Huberman (1994), due consideration was given to the setting (small businesses), the actors (owner-managers), the events (first and early employment decisions) and the process (employment decisions). Yet these choices had to be informed by an element of convenience in that the owner-managers were selected from the geographical area in which the researcher was conducting the study.

It may yet be the case that alternative explanations can be discovered through the appropriation of a different sample frame, although this is likely to be a criticism common to

many inductive socially constructed studies. This variability is considered possible though unlikely, given the above-noted consistency of findings across cases regarding the de-motivators and motivators to employment. Further, these and other aspects of the study, such as the common introduction of a first line manager within the sample of employers, were themselves supported by wider literature (Chell and Tracey, 2005, in this case).

While the sample was taken from a narrow geographic area (South Wales and the West of England), the firms were representative of the types of businesses that constitute the small firm sector (Storey, 1994; Brooksbank, 2000; O'Regan and Ghobadian, 2004). The common experiences of the owner-managers in the sample provide some reassurance that the findings are sound for that sample. It can also be argued that the respondents' experiences were common to many other firms in the sector, although this can only be definitively proven through further research, the nature of which is suggested in section 6.6.

A more likely consequence of a critique of the sample selection is that, where there are firms that do not face the same constraints, they are likely to be so differently constituted as to require a different sample frame. It was noted, for example, that Messersmith and Wales (2011, p116) found high performance work systems within a sample of small firms, entailing:

> structured and comprehensive approaches to recruitment and selection, pay-for-performance and other incentive-based compensation plans, information sharing, rigorous performance appraisal processes and training.

These thoroughly formal and systematic practices were not in evidence in the sample selected for this thesis. The fact that the firms examined by Messersmith and Wales (2011) were high growth, high technology firms, which are very different to the low technology service firms examined in this study, can account for this discrepancy.

It has already been argued that the beliefs and subsequent behaviours of the owner-managers were experientially founded and contextually specific. The conceptual framework considered this but, if it was to take further account of firms inclined to more rapid growth, then a further analysis of a new sample would be required, together with further development of the framework. A larger sample, together with the inclusion of respondents from other sectors, may have enhanced the discussion but, given the complexity of the data examined here, such an approach would have been beyond the time and other resource limits imposed on this study.

### 6.5.3 Utilisation of Literature

The outcomes of this research are partially dependent on the selection of the literature used in the analysis. The choice, for example, of effectual adjustment and logic as an explanation for the behaviour of owner-managers when faced with breaches of trust is consistent with published research in this area. However, there are other theories of learning and behaviour which were not examined here, nor applied in the development of the conceptual framework. These were not discounted because they could not be applied, but instead because of the limitations in the scope and content of this research study. The analysis had to begin and end at some point and effectual logic was chosen as the most appropriate theory to explain the owner-manager behaviour within the scope of the study. This was similarly the case where other developed fields of literature were selected. The recursive process of analysis supported the validity of the chosen selection in all cases, producing consistent outcomes.

### 6.5.4. Owner-Manager Experiences and Time Study

The interviews conducted for this study represent a moment in time in the life of the owner-manager and therefore report behaviours as they were recalled by the respondents. Such an approach allowed the comparison of activity across cases and provided rich insights into the experiences of the business owners. It was also inevitably the case, however, that these owner-managers were at different stages of business development and had different degrees of experience. In the context of this study, this was necessary, given the fact that the sample required both employers and non-employers. Nonetheless, the influence of the differences in experience on decision making was difficult to fully explore in this study because of the lack of an intra-case comparison based on two points in time within one case.

It may be argued that further insights could be gained from the examination of the changing behaviour of one owner-manager over a longer period of time. Such a longitudinal approach would have changed the focus of this research and was beyond the time resources available to the researcher. This suggests an avenue for further research, which is discussed in section 6.6.

### 6.6 Directions for Further Research

It has been noted that this research study has been exploratory, examining an area of small business activity that has not been examined in any depth thus far. It therefore also provides

the opportunity to develop new avenues of research. The following section identifies where these opportunities exist and ways in which they may be exploited.

**6.6.1 The Connection Between Social Capital and Early Employment Decisions**

This research has proposed that social capital acts as a viable and commonly selected alternative to employment and that it is only when this fails to provide sufficient resource that the owner-manager begins to consider employment. It has been noted in section 5.3.3 of the analysis that it may be the case that owner-managers choose not to appropriate social capital for this purpose and instead move directly into employment. In order to take account of this possibility, a direct link between the early, weaker motivators and the later, stronger motivators was included in the conceptual framework. This alternate route requires further exploration and may be the subject of further research.

Such a research approach may be narrower in scope than in this study, with the investigation concentrating singularly on the owner-manager's use of social capital as an alternative to employment and the extent to which this changes with experience. It would be most useful to examine the owner-managers' behaviours over a specific period of time and this is where a longitudinal study, mentioned in section 6.5.4, would provide further insight. This approach would involve interviewing owner-managers who were not employing but were utilising social capital and returning to them at intervals to examine whether this use had changed and whether employment was considered more or less desirable as time passed. This may also help develop an explanation as to why owner-managers do not take advantage of the opportunity to employ when it presents itself, even in the presence of the later, stronger motivators.

A study of this nature would be supported by the array of extant research that explores the potential of social capital in the context of a developing small firm (for example, Birley, 1985; Smeltzer and Fann, 1989; Larson and Starr, 1993; Shaw, 1998; Shaw and Conway, 2000; Pena, 2002; Davidsson and Honig, 2003; Greve and Salaff, 2003; Taylor and Thorpe, 2004; Casson and Della Guista, 2007; Sorenson et al; 2008; Hanna and Walsh; 2008).

**6.6.2 Investigating the Long Term Need for Administrative Support**

This study has argued that the later, stronger motivators for employment are driven by a powerfully felt need for additional support by the owner-managers, in order to free their time

for core business activity. This was supported by the evidence provided by the respondents that indicating that this was most commonly the need for administrative support, such as record keeping, book-keeping and organisation of daily work activity. The interviews did not carry out an analysis of the detailed requirements beyond these broad definitions, however and the owner-managers' expressions of frustration about these activities were accepted as an accurate reflection of the constraints that they faced.

It may therefore be useful to conduct a further investigation into the precise nature of the administrative barriers that cannot be fully overcome through the appropriation of social capital. Such a study may also examine the extent to which these pressures build over time as the business activity expands.

This research has examined these pressures mainly from the perspective of the owner-manager as a sole owner of the firm. A wider sample of partnerships may also be examined to explore the extent to which the additional human capital within the firm may provide additional skills and support which may otherwise be required from employees. These approaches can then add a further dimension to the understanding of work and role pressures in the early stages of business development.

### 6.6.3. The Emergence of a First Line Manager

The emergence of the first line manager was posited as a result of continuing effectual action by the employer and was strongly associated with the discovery of a strongly trusted employee. It would be useful to examine the extent to which such employees commonly emerge in developing firms and whether this is a repeated phenomenon. Here, a quantitative approach may be the most appropriate methodological vehicle and this is consistent with the pragmatic approach taken within this study. This further research could also contribute to an understanding of the extent to which effectual action can lead to repeated, similar outcomes and supplement the outcomes of this study.

### 6.6.4 Small Firm Growth, Recruitment and Formalisation of Practice

This study drew to a close at the point at which the impact of early employment practices on later recruitment was beginning to be felt by the experienced employers. Further research may

usefully examine the consequences of this later growth in more detail, together with an examination of the next phase of growth of the firm and the subsequent implications for further employment policy formalisation. This would help bridge the gap between the boundaries of this study and the detailed extant research into small firm growth factors and formalisation of HR practices during later stages of company development (see for example Goss, 1991; Goss et al, 1994; Duberley and Walley, 1995; Benmore and Palmer, 1996; Ram, 1999; Ram et al, 2001; Marlow and Patton, 2002; De Kok et al 2003; Bacon and Hoque, 2005; Kotey and Sheridan, 2004; Martin *et al*, 2008; Gilman and Edwards, 2008; Marlow *et al*, 2010; Saridakis *et al*, 2013).

## 6.7 Implications for Policy and Practice

This study has supported the argument that, while small firms make a significant contribution to employment, they are not likely to provide, through enterprise creation, an immediate solution to problems of unemployment (Storey, 1994). If the policy objective of any government is to create small firms in order to create employment, as it was in the UK in the 1980s (Atkinson and Storey, 1994), then such a policy is very likely to fall short of any substantial targets. For this reason, contemporary UK small business policy, while remaining supportive to and incentivising start up, now places much emphasis on high technology, innovative and fast growth firms (Department for Business, Innovation and Skills, 2013; www.entrepreneurfirst.org.uk). Yet it remains the case that the objective of government, to develop small business and entrepreneurship as a motor of economic growth, appears to be at odds with the objective of most small business owners themselves, which is to make a living and avoid employment if at all possible.

With this in mind, the provision of support for owner-managers in the early stages of business development is perhaps better motivated by what is morally right, with the role of government being to support its citizens who wish to become owner-managers. Therefore, rather than viewing owner-managers as economic resources, they may be seen as participants in civic society who contribute to the function of that society. In their ties to social capital, they act as bonding agents who add to the cohesion of social networks and thus make a positive socio-cultural contribution to their immediate environment. While this behaviour may mean that owner-managers do not immediately employ, it also means that they combine resources in a configuration that did not previously exist in order to create products and services that were not previously provided. Government should therefore embrace this approach and enable these ties to social capital through the support of locally based mutually supportive networks.

There may also be a number of other outcomes from this research that may guide policy development in the future. These were encapsulated in the following findings:

- That the cost of employment is the strongest de-motivator to early employment and anything that can be done to reduce this cost will be helpful to owner-managers.

- That the potential long term consequences of employment legislation and associated bureaucracy, is a general concern of owner-managers but the specific, immediate impacts on their business may not be of high significance.

- That social capital is a finite resource and its limitations may lead to business owners being forced into employment, possibly increasing risk to the firm.

It was not however the intention of this research to provide significant policy recommendations, rather to provide an explanation of complex and little understood behavioural phenomena at the early stages of business development. It is therefore the role of further research to draw specific and precise practical policy outcomes and this study stands separately, on the whole, as an exploratory and explanatory work.

## 6.8 Personal Reflections

This research has been undertaken while the researcher has been employed as a senior lecturer in a South Wales university. It has therefore been a substantial challenge to balance a daily teaching workload and administration with the need to maintain a thoughtful and thorough approach to the production of this thesis. Without the added support of family, friends and colleagues, this work would not have been possible. The writing up of the research in particular, has required working very early mornings and weekends, while maintaining a working routine in the daytime.

Yet, while this approach has been very difficult, it has also provided a number of rewards. The most significant of these has been the development of new insights which have been used to enrich the researcher's teaching in the field of HRM and small business management. As the work developed, these discoveries were shared with students and made for interactive and enjoyable classes. The production of the book chapter entitled 'Becoming an Employer' (David

and Watts, 2008) supported this teaching with specific wider reading. This outcome also demonstrated the value of the work at an early stage of development. The researcher's university role was also undoubtedly an advantage to the extent that the learning was encouraged, supported and valued by the institution.

It must be noted that, since the publication of the book chapter, the research has developed significantly, not least in the area of social capital and effectuation and trust. It is therefore hoped that there will be opportunities for the later development of this research into more publishable versions that will add a further contribution to the understanding of the early employment experiences of owner-managers.

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