The Paradox of Happy Workers in Small Firms: Exploring New Explanations for an Old Issue

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ABSTRACT

Analysis of surveys such as the UK WERS shows that small business employees report high levels of job satisfaction. Yet this is paradoxical given that on a range of objective criteria small business jobs can be considered as lower quality jobs. Such a high level of job satisfaction is usually explained in terms of the informality of management practices such that close working relationship are enjoyed by the employee and employer while direct communication occurs when working in close proximity. But given informality can have outcomes for employees that are positive – such as the ability to negotiate flexibility in day to day work practices – as well as negative – such as the application of close, arbitrary or direct management controls at work – then is the informality of management practices a sufficient explanation for small business employees' job satisfaction?

In this paper the limits to the informality of management practice as an explanation for job satisfaction in small firms will be examined. Two conceptual developments – organisational justice and job embeddedness – will be reviewed and their ability to explain the ways in which informality is related to, rather than simply associated with, job satisfaction in small firms will be explored. Evidence from WERS and other empirical studies of small business employment relations will be re-examined in this light. Our contribution will therefore be to developing a more accurate understanding of the roots of job satisfaction in small firms.

INTRODUCTION

Our interest is in the relationship between job satisfaction and firm size. Job satisfaction is a general job related attitude dealing with how an individual feels about their job. It is one of the most widely researched topics in the sociology, work organisation and psychology fields generally, but is still not well understood. Defined by Locke (1976: 1300) as "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences", it is a multi-dimensional concept which is correlated with an extensive range of factors. Job satisfaction research has been undertaken in the context of large firms but little seeks to explain small firm employees' high levels of job satisfaction. This is problematic as job satisfaction seems paradoxical given small firms are likely to pay less than larger firms, formalised training and career development opportunities are less likely to be offered and generally terms and conditions of employment are poorer than in larger firms - as confirmed in both the 1998 and 2004 UK Workplace Employee Relations Surveys (WERS).

It is interesting therefore that the explanation for job satisfaction in small firms is linked to the informality of management practice. For example, when employees in small independent firms were compared to employees who worked in small workplaces of larger firms or those who worked in larger firms, Storey *et al.* (2007) found the first group had more positive evaluations of their work experience and they explained this in terms of the different levels of formality in management practices in these different firms.

There is a long history to this type of explanation and it retains its currency from studies, whether undertaken under the rubric of industrial relations in small firms or HRM in small firms showing informal management practices to operate in small firms. In one of the better IR studies, Ram (1994) explained these as a 'negotiated order' that arises out of the continual negotiation over the effort bargain which is mediated by product and labour market conditions, as well as other factors such as workers skill, gender and race. Through subsequent work this has been extending into a framework for exploring how a firm's external context and internal resources shape the organisation and management of work in

small firms of different types (Barrett and Rainnie 2003; Edwards *et al.* 2006; see also Gilman and Edwards 2008; Ram *et al.* 2007). From the HRM perspective this was paralleled by Harney and Dundon's (2006) development of an open systems approach which would accommodate the complexities of HRM in small firms. Their approach, while it "emphasises that external structural factors shape the parameters of HRM it suggests the actual form HRM takes is likely to be contingent on idiosyncratic firm responses" (p. 53). This was an attempt to move beyond simply describing small firm HRM as ad hoc and informal (see Cardon and Stevens 2004).

What can we draw from this? Too often the description of what happens inside the firm in terms of HRM practices ignores what happens outside the firm and how this interplays with internal factors. So while personalised working relationships in small firms allows workers' individual interests to be addressed more fully and enables them more scope to exert informal influence over management decisions than is possible in large firms and this may contribute to their job satisfaction. But informality in small firms is complex and Ram et al. (2001: 846) have criticised "the erroneous conflating of informal with harmonious work relations", drawing on Holliday's (1995) work to point out that "informality can mask highly exploitative regimes". As such it is possible to exaggerate the scope for negotiating order that informality provides and studies by Goss (1991), Holliday (1995), Barrett (2004) and Ram et al. (2001, 2007) show the space for the negotiation of order is often limited, reflecting the imbalance of power in the employment relationship.

Formality can be valued by employees, especially when employees' interests are furthered. Tsai et al.'s (2007: 1804) study of 384 employees in small firms in the ICT, creative industries and food manufacturing sectors in the UK Midlands, reported that although "traditional small firm personal relationships" could explain the positive work experience of these employees, they did qualify this by arguing, first, that the satisfaction from these close relationships was pragmatic and did not generate attachment; and second a lack of fairness could result but their measures of formality did not fully capture this effect. They conceded informality can lead to 'friction and animosity' in certain circumstances. Storey et al. (2007) also concluded that the effects of formality in small firms were ambiguous and there they "would not conclude that all formality is to be avoided in SMEs" (p. 27).

Does informality which creates the space for the negotiation of order and thus acts as the basis for positive evaluations of work? Informality is a product of close working relationships. While small firm owner-managers may prefer to manage informally, such informality can be consistent with a wide range of management styles and as Barrett and Mayson (2008) have argued, it is the logic of formalisation that is really of concern. Management styles reflect power relations but are moderated by social relations. Proximity works to personalise the employment relationship and creates incentives for authority relations to be masked. It is this, rather than informality, which establishes the space for order to be negotiated and it may be that employees positive evaluations are a response to the substantive content of managerial relations, rather than their expression.

Given these arguments, we see limits in the explanatory power of informality. We do not argue that informality does not influence job satisfaction in small firms, instead we want to undertake a fuller exploration of the effect of informality and do this through the concepts are organisational justice (OJ) and job embededdness (JE).

AN ALTERNATIVE EXPLANATION: OGANIZATIONAL JUSTICE

We think organisational justice (OJ) concepts can provide an alternative explanation. Following from Tsai et al. (2007), our emphasis is on the importance of fairness and the substance of managerial relations rather than the form of their expression. From this we argue that a focus on how small firm employees form their judgements concerning fairness and OJ might yield a more satisfactory explanation than one based on a somewhat un-theorised association between informality and job satisfaction.

OJ is a concept that deals with an individual's perceptions of fairness whether in terms of outcomes (distributive justice - DJ), process of allocation of outcomes (procedural justice - PJ) or information sharing and the courtesy and respect afforded to employees by management (interactional justice - IJ). While these are distinct constructs, they interact to influence employees' satisfaction with most facets of their employment experience rather

than different justice elements being associated exclusively with particular aspects of satisfaction (Cohen-Charash and Spector 2001). This means perceived justice along one dimension mitigates perceptions of injustice along another (Cropanzano et al. 2007). McFarlin and Sweeney (1992) found that positive perceptions of PJ minimized the resentment generated by negative distributional outcomes. Other studies found perceptions of PJ and IJ were stronger predictors of how workers respond to their employers than DJ perceptions (Lind and Tyler 1988, Tyler and Bies 1990). Consequently the focus of OJ research has been on PJ and IJ effects and the contextual influences on employees' PJ and IJ perceptions.

OJ research has established strong and statistically significant associations between employees' perceptions of OJ and satisfaction with job, pay and supervisor, and with levels of trust in supervisor and employing organization (Cohen-Charash and Spector 2001, Colquitt et al. 2005). How then are justice perceptions formed? The literature has focused on cognitive processes when individuals evaluate the outcomes and processes of specific organizational exchanges such as performance appraisal. Referent Cognition Theory and Fairness Theory both point to comparisons being made between actual outcomes to some alternative reference standard. However, few have looked at the influence of contextual variables. Bies (2005) has argued that the need to explore how justice perceptions are framed on the basis of ongoing, everyday routine encounters. Similarly Van den Bos (2005: 282) has emphasised the importance of the "informal ways in which people are treated in the decision-making process". Others have examined the effects of structural features of organizations on employees' OJ perceptions (Cox 2005; Schminke et al. 2000) and offer some insights into the effect of size, structure and degree of bureaucratization (formality). Social network theory has been used to explore how social relationships influence individual's OJ perceptions (Lamertz 2002) but there is a need to consider the effects of socially embedded power relations. Following Edwards (2006), we ask, under what social conditions do people define apparently disadvantageous outcomes or unfair processes as acceptable and under what conditions may such outcomes and processes be challenged?

At first sight, positive evaluations of work experience in small firms seem paradoxical in terms of OJ theory. Small firms pay less well than large ones. This might be thought to generate higher perceptions of distributive injustice but they report higher satisfaction with pay than do their counterparts in larger firms. Might this be a result of narrower pay dispersion (Storey et al. 2007) or it could be because work intensity appears to be lower in smaller firms (Forth et al. 2006)? Either explanation would be consistent with justice theory as they concern judgements about one's own rewards compared with those of others and in relation to effort supplied. However, as recognized by RCT (Folger and Cropanzano 1998) and by Edwards (2006), contextual factors influence employees' ability to formulate alternative, preferable standards against which actual outcomes are compared. Ram et al.'s (2007) study of informal working in the UK illustrates this where an illegal immigrant worker whose "enthusiastic job satisfaction despite a truly abysmal wage was entirely consistent with his inexperience and vulnerability" was compared with non-immigrants who "tended to evaluate their lot in terms of the mainstream labour market" and reject jobs that paid extremely low wages (pp. 333-4). More broadly, Tsai et al. (2007) refer to the effect of lack of skills and qualifications in lowering workers' expectations and accounting, at least in part, for high levels of satisfaction in very small firms.

The seeming paradox extends to standards of PJ i.e. the fairness with which decisions are made. PJ can be seen in procedures that allow employees to influence decision outcomes and provide them with 'due process' in cases of conflict (Greenberg 1990). Small firms have a lower incidence, than large firms, of employee representation of any kind and are less likely to have formal arrangements for involving employees in decision-making (Kersley et al. 2006). Informality suggests small firms are less likely to satisfy PJ requirements of rules operating to provide consistency, bias suppression, accuracy, correctibility, representativeness and ethicality of procedure (Leventhal 1980) and this would be apparent when dealing with distributional issues like training, grievance or discipline (Cardon and Stevens 2004). Yet small firm employees evaluate their involvement in and influence over decision-making more highly than their large firm counterparts. Moreover, they also rate fairness of treatment more highly and place higher trust in their managers (Forth et al. 2007). This can be partly explained Ram's (1994) negotiated order and we have evidence

from WERS 2004 showing small firm managers are more likely than larger firm managers to discuss implications of changes with employees before their introduction (Forth *et al.* 2007).

Further explanation hinges on the relationship between PJ and IJ, but we must first review how they have been debated in the OJ literature. Are PJ and IJ independent constructs? Is IJ, defined as "the quality of personal interaction between individuals" (Cropanzano *et al.* 2002: 326) simply the social or informal aspect of PJ, the structural or formal aspect being the procedural arrangements for employee voice and dispute resolution? Social exchange theory underpins the case for them being separate constructs and the argument is that workers identify themselves as being in at least two exchange relationships: with the employing organization (organization-member exchange); and with their individual supervisor (leader-member exchange). Formal procedures are established by the organization: the quality of interpersonal relations is a function of supervisor behaviour. Thus, PJ and IJ are distinct because PJ correlates with satisfaction with the organization in general and IJ with satisfaction with individual supervision. The converse being that PJ has no significant effects on employee evaluations of individual supervisors and IJ has no significant effect on evaluations of trust in management as a whole. Some research supports this distinction and suggests that the quality of interaction between line managers and their direct reports is a key influence on subordinates' perceptions of interactional fairness. Other studies have found, contrary to expectation, that IJ predicts general job satisfaction (Cohen-Charesh and Spector 2001, Cropanzano *et al.* 2002; Masterson *et al.* 2000).

If we turn then to small firms then the particularism of workplace relations means the distinction between PJ and IJ is blurred and difficult to sustain. In small firms, even if formal procedures do exist, there many be little or no distinction between procedural and interpersonal behaviour, so there is no real basis for distinguishing between 'management' as a category and 'manager' as an individual or, in social exchange theory terms, between organization-member exchange and leader-member exchange. Hence the closer the manager and employees, the more likely that evaluations of fair treatment are determined by the manager's personal behaviour, i.e. factors associated with IJ rather than PJ (see Cox 2005). Therefore positive perceptions of interpersonal treatment compensate for the absence of a developed framework of PJ. It is easier in small firms for managers to deal face-to-face with employees, providing personal explanations and justifications for actions, demonstrating 'interpersonal sensitivity' which constitutes IJ (Ambrose and Schminke 2001: 233). 'Sameness' and 'difference' approaches to equality and diversity issues (Noon 2007) can illustrate the significance of this. IJ's more salient role in forming fairness perceptions in small firms means informally dealing with issues such as work scheduling, work-life balance and discipline could generate positive fairness perceptions associated with the 'difference' approach. As Ram et al. (2001) identified, employees therefore appreciate the way their personal circumstances are taken into account by the employer. The risk is that managers may be seen to indulge in favouritism and arbitrary action, but, the opportunity to supply personal explanations and justifications may help to maintain positive IJ evaluations. Hence Goss' (1991) observation of workers in a print firm, who spoke of 'getting on alright' with bosses and 'being treated fairly' while at the same time talking about their sense of vulnerability to employer autocracy. It is possible therefore, that small firm employees have a stronger IJ perception compared with employees in large firms (Schminke *et al.* 2000).

In essence, by looking at OJ concepts we are seeking to find alternative ways of explaining why job satisfaction is reported higher in small firms which are characterised by their informal management practices. In particular we have argued that the relative importance of IJ as an influence on employees' evaluations of employment experience is of critical to that explanation. We now turn to consider a different approach which takes into account issues within and beyond the workplace that may impact on employees' attitudes.

ANOTHER ALTERNATIVE EXPLANATION: JOB EMBEDDEDNESS

Job embeddedness (JE) is a relatively new concept developed in the context of the voluntary employee turnover literature (Lee and Mitchell 1994). It is a concept that seeks to explain, not why an employee chooses to leave a firm, but what makes them stay (Mitchell *et al.* 2001). As a general attachment construct JE measures an individual's affective and cognitive-based evaluations of the job arising internally from their experience of management practices as well as externally resulting from their social and economic embeddedness in the

community. Using JE in this manner represents a completely different way of thinking about it as well as the relationship between informality and job satisfaction. We do so however as we think it more realistically captures what informality does to employee experiences of work in small firms.

The forces at play in embedding people into their jobs include 'fit', 'links' and 'sacrifice' which are associated with the individual's organization (on-the-job) and the community in which they are located (off-the-job). Mitchell et al. (2001: 1104) describe links as "formal and informal connections between a person and institution or other people". The greater the link and the stronger and deeper they are the more the individual becomes embedded. Fit deals with the individual's perception of their compatibility with or comfort in the organization and their environment. When there is a match between an individual's abilities and the job requirements and their interests and the rewards provided, then JE will be increased. Finally sacrifice deals with the material and psychological costs of leaving an organisation (Mitchell *et al.* 2001) which could include the obvious pay and benefits as well as the less obvious such as status, convenience, accrued benefits etc. So JE is increased if the amount to be sacrificed on leaving outweighs the costs of staying (Mitchell *et al.* 2001).

JE has resonance with job satisfaction as well as organisational commitment (Mitchell *et al.* 2001). For example, in the on-the-job aspects it captures many of the aspects that contribute to measures of job satisfaction such as those in Spector's (1997) job satisfaction survey - pay, promotion, supervision, benefits, contingent rewards, operating conditions, co-workers, nature of work and communication. However, JE also incorporates a range of non-affective elements which is what marks out the difference between it and job satisfaction (and organisational commitment).

Why do we then think is tells us about the informality-job satisfaction relationship? We can think of embedded individuals as being immersed in their background, attached or linked in various ways and integrated into their surroundings. Off-the-job components of links, fit and sacrifice, which are neither affect-based nor expected to be highly correlated with one another and the on-the-job components, can affect how an individual feels about their job. Attachment to family and involvement in activities outside work such as community, church and neighborhood can affect job attitudes (Cohen 1995) and through these attachments pressure (or normative influence) can affect how individuals feel. As such Granovetter's (1985) idea of 'embeddedness' of economic action and behaviour within networks of social relations underpins this work, and the argument is that "the economic behaviour of the actors…is very much embedded in social relations within households and communities" (Ram *et al.* 2007: 323). Informal management practices such as recruitment and selection can be understood in these terms. Reliance on the networks of social relations keep the cost of recruitment down and the risk of making a poor decision low. They also reflect a desire for fit or "a preference for transacting with individuals of known reputation" (Granovetter 1985: 490). We can see that in Ram et al.'s (2007) case studies of ethnic minority catering and clothing firms where co-ethnic labour or family members are preferred when more staff are needed. In small firms trust is critical and employers will forego using formalized recruitment methods to ensure they have people who 'fit' into the organisation. As Taylor (2006: 487) argues, "recruitment and selection are activities that enable small firm owners to express their temperaments and ambitions in ways that may not fit with a rational or managerial approach to HRM". The consequence is that while informality of management practice plays an important role in how employees experience work in small firms, it is not necessarily the defining factor. Again we can turn to Granovetter and look at his discussion of dispute resolution. He says, "settlement of disputes is eased by this embeddedness of business in social relations: 'Even where the parties have a detailed and carefully planned agreement which indicates what is to happen if, say the seller fails to deliver on time, often they will never refer to the agreement but will negotiate a solution when the problem arises as if there never had been any original contract….You don't read legalistic contract clauses at each other if you ever want to do business again. One doesn't run to the lawyers if he wants to stay in business because he must behave decently'" (Macaulay 1963: 61 in Granovetter 1985: 497).

JE is a concept addressing both the contextual external factors that act as normative social influences and which affect the perceptual and affect-based aspects of work. Many small firm employees were recruited and selected to fit in – family members, co-ethnic

community members, locals – and fitting in further facilitated by the way work and social relations intersect. Emdeddedness may work to dissipate feelings of dissatisfaction or defer the gradual buildup of dissatisfaction (Crossley *et al.* 2007) and therefore the value small firm employees place on the subjective elements of their jobs – such as getting on with the boss, being able to see their contribution to the firm's performance, the 'local' nature of their job, being part of their community and flexibility to manage work-life balance – may impact on the way in which informal practices could lead to expressions of positive affect. As such the proposition that embedded individuals are more likely to express job satisfaction needs examination.

CONCLUSION

Small firm employees report high levels of job satisfaction yet this is seemingly paradoxical given questions about small business job quality. The explanation is usually given in terms of the informality of management practices. In this paper we have sought alternative ways of explaining this. We think that while the job satisfaction expressed by small firm employees is associated with informality, it may not necessarily be explained by it. We have tried to demonstrate that it is what managers do, rather than whether or not they act informally, that affects employees' satisfaction. However, this does not mean that process is irrelevant.

The OJ literature demonstrates that employees' perceptions of OJ are a key mediator of their overall evaluations of work experience. Workers' fairness judgements are not only a response to the owner-manger's actions, they are also shaped by power relations extending beyond the workplace and by the extent to which employment relations are embedded in wider social networks. We have tried to show here how this approach extends our ability to analyse and explain why small firm employees evaluate their employment experience more highly than those in large firms do. In particular, we have argued that the relative importance of IJ as an influence on employees' evaluations of employment experience is of critical importance to that explanation. However, this is not to say that small firms provide exemplary employment conditions, or even that they are better places to work. The significance of studies by Goss (1991), Moule (1998), Ram et al. (2001), Cox (2005) and Tsai et al. (2007) is that more positive (or less negative) evaluations of work experience by small firm employees do not imply harmony in the workplace. Positive perceptions of IJ may mitigate employees' negative responses to their vulnerability to employer autocracy and distributive and procedural injustices but they do not erase their awareness of them.

The JE concept is a way of dealing with our knowledge that what goes on outside the small firm is just as important to explaining what happens inside. While it has been developed in the context of explaining voluntary employee turnover (or more particularly, why people do not leave), empirical research has begun to show that the relationship between satisfaction and search intentions is negative for highly embedded people (Crossley *et al.* 2007). While our focus is not necessarily on staying behaviour in small firms, our point here is that JE might be helpful in unpacking the way in which informal management practices serve to reinforce workers identification with the small firm arising from their experiences within the form as well as their embeddedness within the community in which the small firm is located. This we think may impact on how they interpret their experience of work and have some power in explaining the positive expressions of job satisfaction that are reported in the literature. Indeed the seemingly paradoxical positive affect expressed by employees and associated with the informality of management practice in small firms may simply be, in Granovetter's (1985: 506) words, "a reasonable response to their present situation". As he has said, "What looks to the analyst like non-rational behaviour may be quite sensible when situational constraints, especially those of embeddedness are fully appreciated" (Granovetter 1985: 506). The task for the future is to undertake research assessing whether this is the case.

We hope that through the brief elaboration of the OJ and JE concepts, whilst not developed specifically for this purpose, we have made a contribution to developing a greater understanding of the relationship between informality and job satisfaction in small firms. We recognise that neither explanation is complete, but hope we have established an agenda for further research.

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