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Do HR Practices Enhance Organizational Commitment in SMEs with Low Employee Satisfaction?

Abstract

In this paper we consider a large matched employee-employer dataset to estimate a model of organizational commitment. In particular we focus on the role of firm size and management formality to explain organizational commitment within in British SMEs with high and low levels of employee satisfaction. We show that size ‘in itself’ can explain differences in organizational commitment, and that organizational commitment tends to be higher in organizations with high employee satisfaction rather organizations of similar size with low employee satisfaction. Crucial, our results suggest that formal HR practices can be used as an important tool to increase commitment and thus, effort and performance within underperforming SMEs with low employee satisfaction. In contrast formal HR practices commonly used by large firms may be unnecessary in SMEs which benefit from happy employees and positive employment relations within a context of informality.

Keywords: HR practices; Organizational commitment; Unhappy SMEs; Microeconometrics

1. Introduction

Employment in small and medium sized enterprises (SMEs), which accounts for a significant proportion of economic and employment activity in many economies, has attracted a steady stream of research over the last two decades (Barrett, 1998; Rainnie, 1989; Holliday, 1995; Ram, 1994; Ram et.al, 20021; Tsai et.al, 2007; Wilkinson, 1999). A recurring theme is that human resource management (HRM) is typically more informal in SMEs compared to the employment practices associated with large corporate organisations (Marlow, 2005; Marlow et.al, 2010). In a recent analysis of SMEs in the UK, Storey *et al.* (2010) reveal how management formality responds substantially to an increase in firm size (see also Kersley et al. 2006; Kitching and Blackburn, 2002; Kaman et al., 2001). An important finding of Storey et.al (2010) is that formality in the employment relationship results in a significant decrease in job satisfaction, especially in small single-site SMEs (for similar results see also Tsai et al., 2007; Idson, 1990). This suggests that management formality may generally be deemed undesirable in such organizations, and it is this intriguing finding which prompted our research.

Given that there are degrees of formality in both small and large organisations (Kitching, 1997), as well as heterogeneous range of SMEs, the overarching issue driving our research is whether formal HR practices are *always* undesirable in SMEs? Following recent empirical work (e.g. Green, 2008; Brown *et al.*, 2007, Storey et.al, 2010), we begin to address this issue by employing a large matched employer-employee dataset to investigate three specific questions. First, is organizational commitment higher in smaller than in larger organizations? Second, is organizational commitment higher in 'happy' organizations than in 'unhappy' organizations of

similar size? Third, do formalized HR practices have different outcomes within ‘happy’ and ‘unhappy’ SMEs? We make two distinct contributions. Firstly, by estimating a model of organisational commitment we investigate whether formality alters commitment, as opposed to job satisfaction which formed the focus of Storey et.al (2010). Secondly, we adopt a modelling strategy which allows us to investigate the potential association between formality, firm size and organizational commitment and to make distinctions between SMEs with both high and low levels of employee satisfaction. This paper also differs from prior research by accounting explicitly for management formality in the empirical specification to isolate ‘pure’ effects from the enterprise size and management formality variables. The remainder of the paper is structured as follows. The next section provides a brief review of the recent literature on HRM in SMEs. We then derive the hypotheses to be tested. We continue by describing the database used, and explain how we constructed our measures. We then present the empirical analysis and conclude by summarizing the results and the implications for theory and practice.

2. Human resource management in SMEs

Early depictions of employment in smaller firms in Britain have typically presented a starkly polarized picture, contrasting the early, and arguably idealistic ‘small is beautiful’ perspective on the one hand, and the subsequent ‘bleak house’ view on the other (Wilkinson, 1999). ‘Beautiful’ small firms are said to offer good employment, extensive communication, varied work, and opportunities for employees to feel closer to objectives and direction of the firm. Depicted in early studies as ‘happy ships’ (Ingham, 1970), SMEs are viewed in unitarist terms as sanctuaries of harmonious and co-operative employment relations (Bolton, 1971). Conversely,

‘bleak houses’ are portrayed as autocratic, with poor working conditions, arbitrary treatment, limited involvement, and low pay (Rainnie, 1989). Critics, informed by a labour process perspective, suggest that a lack of overt conflict in small firms is not necessarily a proxy for high levels of employee satisfaction or positive workplace relations but may actually be unpleasant regimes (Holliday, 1995; Ram and Edwards, 2001). Empirical evidence has been mixed, with employees in small firms reporting higher levels of job satisfaction (Forth et.al, 2006), while other studies have reported a range of poor HR outcomes in SMEs including high levels of applications to employment tribunals, job insecurity, skill shortages, and a need to develop more effective people management practices (Bacon and Hoque, 2006). Though perhaps useful in capturing the range of employment possibilities in SMEs, the bleak/beautiful typology lacks explanatory power in understanding *how* and *why* HRM is enacted in particular ways in small firms. Indeed, the dichotomy merely suggests that employment practices in SMEs essentially cover the entire spectrum of people management possibilities. Most problematic is the lack of utility in explaining the specific contextual factors which may influence and shape employment relations processes and outcomes. Important factors shaping firm and management actions may include ownership structure, management strategy, sector, technology, labour/product market conditions and economic position (Blyton and Turnbull, 2004; Edwards et al., 2003; Wilkinson, 1999).

Informality

Notwithstanding the heterogeneity of SMEs, people management practices in SMEs are generally characterized as relatively informal when compared with employment in large corporate organizations (Marlow, 2005; Marlow et al., 2010). Yet all

organisations have to select, appraise, reward and develop workers (Fombrun et.al, 1984), though the means through which this is undertaken can be both formal and informal. This notion also has empirical support with about half of organizations with less than 100 employees having a strategic plan compared to 90% of organizations with over 1000 employees. In addition, less than one fifth of workplaces with less than 100 employees had an HR specialist compared to 90% of organizations with over 1000 employees (Kersley et al., 2006), confirming more informal workplace relations in small firms. Ram and Edwards (2001, 846) define informal employment relations as “a process of workforce engagement, collective and/or individual, based mainly on unwritten customs and the tacit understanding that arise out of the interactions of the parties at work”. This may partly reflect a relatively informal and entrepreneurial approach to business strategy more generally (Edwards and Ram, 2009; Ram et al., 2001), as well as perhaps management preference, indifference, or inexperience with formal HRM. Formal HRM may thus be viewed as very corporate, stifling and bureaucratic and thus inappropriate for a small entrepreneurial firms (Katz et al., 2000), or as a potential threat to workplace creativity, innovation, trust, and flexibility (Bartram, 2005).

In practice, Ram's (1994) study of small clothing firms suggests informality can be viewed as an ongoing process of negotiation and accommodation between employers and workers which is dynamic and context-specific. Moving beyond deterministic beautiful/bleak stereotypes, the argument is that employees are not passive recipients of employer actions and employers are not omnipotent, and that both sides are highly interdependent. As a result, an acceptable “negotiated order” must be reached through an iterative and pragmatic process of adjustments on either side, resulting in a

relatively stable position once a mutually acceptable quid pro quo is achieved. This is supported by the findings of Moule (1998) which revealed the dynamics of informal regulation and negotiation of work in small clothing firm, and underlined the ongoing tensions between control and consent (Hyman, 1987). Of course, as Edwards and Ram (2009, p238) note, “informality is a matter of degree rather than kind, and it is more prevalent in some aspects of employment relations than in others”. Some SMEs may also engage in some ‘mimic opportunism’, in an attempt to replicate HR practices popular or fashionable in large organizations and to become more ‘professional’ (Wilkinson et al., 2007). Alternatively, as firms grow limitations of informality may become apparent in key HR areas such as communication, recruitment and training (Roberts et al., 1992), as well in terms of requirements to comply with employment law (Ram and Edwards, 2001). Saridakis et al. (2008) for example, highlight how in the case of employment tribunals informality may explain why small firms are more likely to experience more claims than large firms, but are also more likely to lose such disputes. Such factors may result in a desire to professionalize HRM (Jennings and Beaver, 1997; Marlow et al., 2010) and an attempt to formalize management’s expectations of employees (Bartratt, 2005; Marlow, 2002). Of course informality does not automatically result in positive or negative HR outcomes (Ram et.al, 2001), and it is to an understanding of these indicators we now turn.

3. Hypotheses derivation

Recent work by Storey et al. (2010) has suggested that management formality responds substantially to an increase in firm size (see also Kersley et al. 2006; Kitching and Blackburn, 2002; Kaman et al., 2001). They also reveal that formality

in the employment relationship results in a significant decrease in job satisfaction, especially in small single-site SMEs (for similar results see also Tsai et al., 2007; Idson, 1990). Management formality may be generally deemed undesirable for such organizations. However, their work concentrates only on a single related attitude (employee job quality) and also raises important questions regarding whether informality is always undesirable in SMEs.

HRM, Job Satisfaction and Organisational Commitment

Job satisfaction has been defined as “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experience” (Locke, 1976). Satisfaction has established wide usage as a key metric for the employee experience of work, and as a predictor good predictor of employee behaviour such as quitting, and as such workplace employee satisfaction surveys are now a common part of the HR toolbox in many large organisations (Green et.al, 2010). However, job satisfaction captures only a part of the overall employee experience and is also problematic in that employee satisfaction is inextricably linked to the somewhat subjective and personal expectations of employees (Green et.al, 2010). In addition, dissatisfied workers can be highly productive, while satisfied workers can be unproductive (Peccei, 2004).

Interest in organisational commitment also has a long genesis (Allen and Meyer, 1990; Becker, 1960, see Swailes, 2002 for a review). Three broad types of organizational commitment can be identified.¹ First, normative commitment refers to

¹ Each refers to “a psychological state that binds the individual to the organization” (Allen and Meyer, 1990: 14), but each is empirically distinguishable. While all three can be distinguished empirically,

a desire to remain part of an organization due to feelings of moral obligation (Wiener, 1982). Continuance commitment refers to the perceived costs of leaving an organization, or the risk of losing valued “side bets” (Becker, 1960) such as pension entitlement. Affective commitment is the desire to belong to an organization, and more specifically the extent to which an individual identifies and is involved with a given organization (Allen and Meyer, 1990; Mowday et al., 1982), and is regarded as a proxy for the utility associated with working for the current employer as compared to doing a similar job with the next best employer (Green, 2008). Affective commitment is undoubtedly the most studied kind of organizational commitment, and is central to most HRM theory based on the premise that committed workers enhance organisational performance, (Gittell et.al, 2008; Walton, 1985). Studies have revealed that levels of commitment can influence attitudes and behaviours, levels of employee turnover, satisfaction, effort, and ultimately firm performance (e.g. Brown et.al, 2007; Gaertner, 1999; Wallace, 1995; Harrison et.al, 2006, Lincoln and Kalleberg, 1990; Mowday et.al, 1990). Commitment is also believed to be more deeply rooted, stable and long-term than job satisfaction (Tett and Meyer, 1993). Capturing commitment is believed to be especially important where there are labour market shortages, or where the emphasis is upon retaining core staff (Boselie, 2010). While much of the HRM-performance literature focuses upon large firms (e.g. Purcell et.al, 2003), less is known about the links between organizational commitment and HRM in SMEs. Such issues are equally pertinent to small and medium sized organizations since their performance and even survival relies upon harnessing the discretionary effort of a relatively limited employee base (De Clercq and Belausteguigoitia Rius, 2007;

affective and continuance commitment do appear to be somewhat related, although the precise nature of the relationship between them is a matter of some debate (see Bergman, 2006 for a review).

Kickul, 2001). This may be especially important given the limited resources they can offer to employees compared to large organizations (De Clercq and Belausteguigoitia Rius, 2007). Engendering commitment may also reduce the role of pay as the primary way to motivate and retain employees (see Akerlof and Kranton, 2005) by offering other non-monetary benefits such as autonomy, involvement, and intrinsic job satisfaction (Storey, 1992), again crucial to the SME context.

Enterprise size and work-related attitudes

A number of studies have attempted to identify the relationship between enterprise size and work related attitudes. Some commentators (e.g. Newby, 1977; Curran and Stanworth, 1981) have argued that firm size cannot explain differences in employee attitudes and behavior. Some research has also established strong empirical links between workplace size and employee attitudes. For example, Payne and Pugh (1976) and De Clercq and Belausteguigoitia Rius (2007) established a negative association between enterprise size and organizational commitment, suggesting that the employees might enjoy greater involvement and visibility in small organizations, which in turn creates higher feelings of commitment and increases levels of efforts. In respect of job satisfaction, both Tsai et al. (2007) and Storey et al. (2010) suggest that size of firms does appear to influence job satisfaction across a range of indicators, with workers generally most satisfied in the smallest organizations. This could relate to findings of research into employee engagement which identifies opportunities to feed views upwards, feeling well-informed and feeling that management are committed to the organization as key ingredients (Truss et al., 2006), which are potentially easier to embed in smaller workplaces.

However, in our view, the link between enterprise size and work related attitudes is much more complicated than is proposed above. Storey and Sykes (1996) provide thoughtful explanations for this. The authors argued that large enterprises face an internal uncertainty. To address this problem large firms respond by enhancing formality, which typically involve a set of codified practices and procedures (e.g. formal meetings), with attendant cost, that is unhappy employees (see Storey et al., 2010). In contrast to large firms, small firms have more control over their internal environment and can potentially provide more opportunities for employees - through informal mechanisms such as informal and personal communication - to develop closer identification with the organization (Hodson and Sullivan, 1985). Thus, firm size can be used as a measure that conflates management formality. Previous work on organizational commitment has not adequately addressed this issue (see for example De Clercq and Belausteguigoitia Rius, 2007). The present analysis controls explicitly for management formality into the empirical organizational commitment specification, and thus we are able to identify a “pure” size effect, which reflects direct personal relationships. This leads us to our first hypothesis:

Hypothesis 1: Organizational commitment will be higher in smaller than in larger organizations.

Existing work has also suggested that employees who are satisfied with their jobs are likely to exhibit more positive feelings, beliefs, and actions toward their job and be more committed to the firm than those who are less satisfied (see earlier studies by Gaertner, 1999; Wallace, 1995; Lincoln and Kalleberg, 1990; Mowday et al., 1982 and more recently the studies by Rayton, 2006 and Saridakis et al., 2010).

This also relates to debates regarding the psychological contract (Guest and Conway, 2002; 2004) as well as the emerging employee engagement literature (e.g. Truss et al., 2006; Welbourne, 2007). It is also worthy of investigation given evidence which points to a general decline in job satisfaction since the 1990s (Green, 2005), and low levels of employee engagement (Truss et al., 2006). Our judgment is therefore, that organizational commitment within same size organizations will vary according to both people management and operational aspects that influence the quality of the employment relationship, and in turn perceptions of job quality within organizations. If this is the case, one would expect that organizational commitment will be lower in unhappy SMEs compared to happy SMEs (we explain what we mean by these terms in the data section). Hence, our second hypothesis is:

Hypothesis 2: Organizational commitment will be higher in happy SMEs than in unhappy SMEs.

Finally, earlier work by Payne and Pugh (1976) has suggested that organizational commitment is lower among individuals working in formalized job settings. Similarly in the recent work by De Clercq and Belausteguigoitia Rius (2007) the negative size effect on organizational commitment was partly explained as a result of formality. By isolating the effects from the enterprise size and management formality Storey et al. (2010) found that management formality has a significant negative effect on job satisfaction in single-site SMEs. However, in their work although it has been acknowledged that formalization may be due to deteriorating job satisfaction, such a possibility was excluded from their modelling strategy. We argue that this exclusion may not be valid since for example, the introduction of formality in

unhappy organizations -particularly by employing an HR professional - may be necessary in order to create a sense of substantive fairness and procedural justice, enhance involvement and communication, and promote openness and recognition thus, increasing organizational commitment (see Hutchinson and Purcell, 2003). However, within happy SMEs, formalization may be viewed as both undesirable and unnecessary, and thus may have a negative effect on employees' work-related attitudes. This leads us to our third hypothesis:

***Hypothesis 3:** Formalized HR practices may have different commitment outcomes within 'happy' and 'unhappy' SMEs.*

4. Data

We use data from the WERS 2004, which is a nationally representative cross-section survey based on a stratified random sample of UK establishments and a sample of employees at those establishments (see Chaplin et al., 2005 for comprehensive discussion regarding the sample design and selection). WERS 2004 is the latest in the series of the large scale cross-section matched employer-employee dataset allowing us to examine important organizational issues which are currently lacking empirical support (Guest, 2011; Wall and Wood, 2005). Specifically, the WERS comprises an employee questionnaire (EQ) that consists of a self-completion questionnaire distributed to a random sample of up to 25 employees in British workplaces² with 5 or more employees ($n=22,451$; response rate=60.4%). Also, the WERS comprises a management questionnaire (MQ) that consists of face-to-face interviews with senior managers dealing with industrial, employee or personnel relations at the workplace

² Our analysis is concerned with private-owned UK workplaces only.

($n=2,295$; response rate=64%). Here we restrict our sample into the private sector (14,884 employees from 1,214 private workplaces).

Measuring organizational commitment

We have identified the following survey questions included in the EQ that provides information about an individual's identification with their organization and hence, they can be used as proxies of (affective) employee commitment (see Mowday et al. 1982). Specifically, employees were asked to indicate the degree of agreement with the following statements:

- (i) I share many of the values of my organization (mean: 3.49)
- (ii) I feel loyal to my organization (mean: 3.78)
- (iii) I am proud to tell people who I work for (mean: 3.66)

The questions are calling for a response ranging from (1) “*strongly disagree*” to (5) “*strongly agree*”. Following the work by Green (2008), we adopt a hybrid combination of the three questions by generating an additive scale based upon Cronbach's alpha ranging from 1 to 5, where the scale of reliability is 0.86 implying a good level of reliability and mean 3.65.

Measuring happy and unhappy organizations

In this paper we use job satisfaction as a key concept relating to happiness at work. Although the concept of job satisfaction is not uncontested (e.g. Hodson, 1991), there is general agreement in the literature that it refers to an emotional state emanating from an individual's evaluation of his or her experiences at work (Locke, 1976). In the EQ, employees were asked to evaluate their job satisfaction using a five point scale, where (5) represents the maximum and (1) the minimum, on seven aspects of their job:

- (i) The sense of achievement (mean: 3.744);
- (ii) The scope for using your own initiative (mean: 3.802);
- (iii) The amount of influence you have over your job (mean 3.560);
- (iv) The training you receive (mean: 3.309);
- (v) The amount of pay you receive (mean: 2.885);
- (vi) The job security (mean: 3.558); and
- (vii) The work itself (mean: 3.763).

Since employees were not asked to evaluate their overall job satisfaction we have also adopted a hybrid combination of the seven questions by generating an additive scale based upon Cronbach's alpha ranging from 1 to 5, where the scale of reliability is 0.83 implying a good level of reliability and mean about 3.5. Then we estimated mean job satisfaction scores by organizations to distinguish between happy and unhappy organizations³.

Management formality

We have used Storey et al.'s (2010) twelve WERS management formality measures, which broadly reflect formality in relation to performance management, employee development and methods of handling communication with employees. Specifically, we use the MQ to extract the following twelve binary variables (0-1) that indicate a formal structure or process within the organization:

- (i) Person mainly concerned with HR issues (46.24%);
- (ii) Existence of a formal strategic plan (81.10%);

³ Storey et al. (2010) have used more extensive measures attempting to capture overall job quality within the organizations. Here, we restrict our analysis to questions related directly to satisfaction gained from specific aspects of the job rather than including measures which ask employees to rank their experience with interacting with the manager and receiving information.

- (iii) Investors in People (43.22%);
- (iv) Presence of tests at induction as part of recruitment (98.71%);
- (v) Any communication channels (95.39%);
- (vi) Any meeting between management and employee (93.20%);
- (vii) Presence of a dispute procedure (52.37%);
- (viii) Presence of an equal opportunity policy (85.44%);
- (ix) Presence of a grievance policy (95.61%);
- (x) Presence of a performance appraisal programme (87.33%);
- (xi) Formal target (89.88%); and
- (xii) Any non-payment benefits (90.01%).

In contrast to Storey et al. (2010), however, we have carried out a data reduction technique to distinguish between them. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy test ($KMO=0.83$) suggested that factor analysis can be used to group variables with similar characteristics together⁴. Given our formality items are binary variables (0-1) and assuming to be indicators of underlying continuous variables, we use tetrachoric correlations in the factor analysis (Kolenikov and Angeles, 2004).

The results from the principal-component factor (PCF) method after rotation indicate that the first factor is related to 'HR practices', and the second factor loads highly on 'operating principles'. The 'HR practices' item includes: person mainly concerned with HR issues, presence of a dispute procedure, presence of an equal opportunity policy, presence of a grievance policy and any non-payment benefits. The 'operating principles' item comprises: existence of a formal strategic plan, investors

⁴ The Kuder-Richarson coefficient of reliability is 0.69, which can be interpreted as good in terms of reliability.

in people, presence of tests at induction as part of recruitment, any meeting between management and employee, formal target and presence of a performance appraisal programme. We excluded from the analysis the ‘any communication channels’ item, since the tabulation with the ‘person mainly concerned with HR issues’ item included frequency of zero.

Measuring organization size

We have used the commonly three bands for size of organizations: 5-49 (for small organizations), 50-249 (for medium sized organizations) and 250 and more (for large organizations). In order to be able to track the size of organization, we needed to make a distinction between single-site and multi-site workplaces. This distinction is important since in a single-site workplace, the size of workplace equals the size of the organization whereas in multi-site organizations the size of the organization can be only equal or greater to the size of workplace. Also, recent work by Storey et al. (2010) has shown that small multi-site workplaces follow chain’s direct manner and management and thus they have more formalized operations than same sized single-site workplaces. WERS asks about the size of the workplace, but it also identifies workplaces within multi-site enterprises and asks the number of employees in the organization of which the workplace is part. Although in this paper the size distinction is based on organizational size rather than workplace size, we divide our sample between single-site and multi-site organizations to allow and assess differences in ownership.

5. Empirical analysis

To examine the hypotheses set out earlier, we first examine the statistical association between organization size and organizational commitment. We then set out to examine whether organizational commitment is higher in happy SMEs than unhappy SMEs. To allow for these differences, organizations with mean overall job satisfaction scores above 3.5 are perceived in our analysis as happy organizations taking the value of one and zero otherwise (0-1). The results are summarized in Table 1. There are several interesting observations. First, as column (A) shows, organizational commitment decreases as firm size increases, thus supporting our hypothesis 1. Interestingly, looking at the results presented in columns (B) and (C), this association does not hold when comparing unhappy organizations of different size. Second, within same size organizations, type of ownership seems to play an important role with happy small and medium sized organizations. Finally, the result shows that organizational commitment is much higher in happy organizations than in unhappy organizations of similar size, providing strong support of our hypothesis 2⁵.

[Table 1 about here]

Turning to the third hypothesis concerning the relationship between formality and commitment, we have estimated a multivariate model using OLS and controlling for a wide range of explanatory variables discussed in the literature (see, for example, Brown et al., 2007). The main results are presented in Table 2. First, we restrict our sample to SMEs and estimate separate models for sing-site and multi-site SMEs. Column (A) shows that the coefficient of ‘HR practices’ is positive and statistically

⁵ Saridakis et al. (2010) have shown that estimating the determining factors of organizational commitment without correcting for possible endogeneity between job satisfaction and organizational commitment may understates the association. This suggests that the reported coefficient of happy organizations may be even higher in magnitude (around 16%).

significant for single-site SMEs. However, our model includes an interaction between happy organizations and formality variable. Thus, the differential slope coefficient tells us by how much the slope coefficient of the formality variable differs between happy and unhappy SMEs. Thus, when HR formality is exercised within happy organizations, formality has a trivial effect on organizational commitment. Thus, hypothesis 3 receives strong support. Perhaps the presence of HR professionals and the existence of formalised HR processes and procedures create a sense of substantive fairness and help align employee effort in line with organizational goals in a context where this would otherwise be lacking. Furthermore column (B) shows that management formality has an insignificant effect on organizational commitment in multi-site SMEs, and interestingly enough this association does not alter if formality is implemented within happy or unhappy organizations.

[Table 2 about here]

Nevertheless, both columns (A) and (B) show that organizational commitment is higher in happy rather than in unhappy SMEs providing further evidence of the hypothesis 2 discussed earlier. Separate models for happy and unhappy organizations are also estimated, and the results are presented in columns (C) and (D). A first observation is that the organizational size coefficients are statistically significant for the estimates amongst the 'happy organizations' group. This is in line with the results presented in Table 2. Additionally, the results stress the positive link between 'HR practices' and organizational commitment with unhappy organizations. Finally, column (E) of Table 2 provides estimates of the whole sample which also lend strong

support for the three hypotheses put forward in Section 2. Overall, our estimates are robust across all different models⁶.

6. Discussion

The purpose of this paper was to contribute to the emerging literature on HRM in SMEs. We also focused upon the issue of formality, an important variable given that most small business managers tend to express a strong preference for informal ways of working (Edwards and Ram, 2005; Marlow, 2005; Matlay, 1999). Motivated by the interesting findings of Storey et.al (2010), we used the 2004 Workplace Employment Relations Survey (WERS) - the latest in the series of the large scale cross-section matched employer-employee dataset - to explore our guiding research question: are formal HR practices always undesirable in SMEs? To do so, we posed three specific questions. First, is organizational commitment higher in smaller than in larger organizations? Second, is organizational commitment higher in happy organizations than in unhappy organizations of similar size? Third, do formalized HR practices have different outcomes within SMEs with high and low levels of job satisfaction? This paper also differs from prior research by accounting explicitly for management formality in the empirical specification to isolate ‘pure’ effects from the enterprise size and management formality variables.

In respect of the first question we found strong evidence of a ‘pure’ size effect on organizational commitment. This tends to support views that employees in small

⁶ Although this goes beyond the aim of this paper, we have also looked at the large organizations. Briefly, we found that ‘HR practices’ enhance organizational commitment only in multi-site large organizations, and this association was unaffected by changes in the satisfaction levels. However, within single-site large organizations, ‘HR practices’ was found to deteriorate organizational commitment. Similar conclusions were found in Storey et al. (2010).

organisations appear to be more satisfied than their counterparts in large firms (Forth et al., 2006). This could be interpreted as providing some prima facie support for the ‘small is beautiful’ perspective which suggests small firms offer some highly valued non-material benefits such as a variety of work, involvement, face-to-face relationships, and a ‘community’ or ‘familial’ environment which might be difficult to replicate in large firms (Holliday, 1995; Wilkinson, 1999). Other factors may include a sense of equity, achievement and camaraderie (Sirota et al., 2005). A limitation of the ‘beautiful’ view is that there are also important issues of employee expectations which may be tempered by closer proximity the ‘whip of the market’ (Burawoy, 1979) and appreciation of relative ‘resource poverty’ (Cassell et.al, 2002). Prior work experiences, as well as knowledge of industry norms regarding the nature of the employment bargain may influence levels of employee expectations and priorities (Tsai et.al, 2007). This perspective lends support to the more nuanced arguments of the ‘negotiated order’ thesis (Ram, 1994; Moule, 1998), and the notion that in reality commercial and working conditions in some small firms may be much tougher than the idealistic ‘beautiful’ perspective implies but equally less bad than the deterministic ‘bleak’ perspective suggests. Rather, the dynamics of internal processes mean a stable and mutually acceptable quid pro quo may be reached regarding the nature of wage-effort bargain. Alternatively, where such an agreement cannot be reached it is possible that the employee may simply exit the organization.

In respect of our second question, organizational commitment was also confirmed to be higher in happy organizations than in unhappy organizations of similar size. Again, this lends some support to intuitive logic of the ‘happy-productive worker hypothesis’ which posits a link between happiness and performance (Fisher, 2010), and that while job satisfaction and organisational

commitment remain distinct concepts they are related, and as such both remain at the core of the high performance HR paradigm.

In relation to our third question, we found a strong positive association between HRM formality and organizational commitment within unhappy single-site SMEs. Informality in such situations may be characterized by the 'bleak' view of HRM in small businesses where management style may be autocratic and idiosyncratic, and working conditions arbitrary resulting in dissatisfied employees. In other words, a sense of equity, achievement or camaraderie necessary to engender commitment may be missing and a mutually acceptable 'negotiated order' of the wage-effort bargain may not have been achieved (Ram, 1994). In unhappy single-site SMEs the formalisation and professionalization of HRM policies and practices may create a sense of substantive fairness, procedural justice and involvement, helping to align employee effort in line with organizational goals, in a way in which informal HRM had failed to achieve. However, the role of formality was negligible when it is implemented within happy small organizations, perhaps because the effectiveness of internal dynamics and social relations meant such approaches were rendered superfluous. Our findings therefore lend support to the contingent view that informality may be appropriate in particular organizational contexts (Marchington et al., 2003; Ram et.al, 2001).

7. Conclusion

This article makes two key contributions in response to the findings of Storey et.al (2010). Firstly, we examine the impact of management formality on another important work-related attitude, organizational commitment, a variable which arguably plays a key role in job design and the employee experience of work in many contemporary

organizations. Commonly, in the existing empirical literature on organizational commitment, it is the enterprise size that is largely treated as a measure that reflects management formality (e.g. De Clercq and Belausteguigoitia Rius, 2007). For this reason this paper accounts explicitly for management formality in the empirical specification to isolate ‘pure’ effects from the enterprise size and management formality variables. Secondly, we adopt a modelling strategy which allows us to examine whether the potential association between formality and organizational commitment is the same irrespective of whether or not the organization is considered to be a ‘happy’ or ‘unhappy’ workplace. Interestingly, taking these two extensions into consideration, we find that HR practices enhance organizational commitment in unhappy single-site SMEs, but it has a negligible effect in unhappy ones. We therefore suggest that small organizations may implement greater formality as an organizational instrument to create a sense of substantive fairness and common aim that leads to greater levels of commitment.

The findings have important implications for both practice and research. In terms of practice, given the dominance of informality in the sector (Marlow, 2002; 2005) the finding that HR formality can be used as a tool to increase commitment, and thus potentially employee effort and performance within unhappy and underperforming organizations is of significance to small business owners and their advisors. Our study thus provides strong support for a more contingent and nuanced view of HRM (Guest, 2011), which acknowledges the diversity and complexity of the SME sector (Goss, 1991; Heneman, 2000), and questions the notion of a ‘one size fits all perspective’. Our findings question the notion that informality is appropriate in SMEs (Storey et.al, 2010).

In contrast to previous studies of small firms (Idson, 1990; Storey et al., 2010; Tsai et al., 2007), we reveal that management formality need not always be undesirable in SMEs. Rather, the evidence suggests that in firms where levels of employee satisfaction and commitment are low, focusing attention upon a more structured and formal approach to HRM might be highly desirable employees in terms of employee satisfaction and commitment, as well ultimately in terms of firm performance. Equally, in contrast to some of the implicit assumptions of the mainstream HRM discourse, our findings question the view that all small firms *must* eventually make a transition from informal to formal HRM. We propose the need for a more contingent view, and even the possibility of blending element of informality and formality to create ‘structured informality’ in unhappy SMEs. This would support the proposition of Marlow et al. (2010, p1) that informality and formality must be thought of as a dualism rather than a dichotomy and it is by enhancing our understanding of the interplay between the two countervailing tendencies which is crucial. As Ram et.al, 2001, 859 note, “all firms combine formality and informality just as they combine control and consent...the balance differs as conditions vary” but capturing the benefits of both , or achieving n an appropriate balance between the two, is a dilemma that is yet to be resolved (Bartram, 2005; Saridakis et al., 2008).

Given the somewhat polarised and stereotypical views of people management in SMEs (Wilkinson, 1999), as well as reports of both positive and negative HR outcomes in the sector (Hoque and Bacon, 2006; Forth et al., 2006) our study underlines the complexity and importance of a more nuanced and contingent perspective of HRM in SMEs (Atkinson, 2007; Marlow et al., 2010). Transcending over-simplistic typologies along dichotomous bleak/beautiful and formal/informal lines, will require further qualitative investigations of the dynamics and social

relations which characterise SMEs (Edwards et.al, 2003; Ram et.al, 2001; Ram, 2004). After all, the official presence or absence of formal HR policies and practices cannot guarantee the depth, substance or *embeddedness* or dynamics of HRM in practice or as experienced ‘on the ground’ (Marchington and Wilkinson, 2005; Wilkinson et al., 2007). Further research could thus aim to shed additional empirical light upon the realities, processes and experiences of both formal and informal employment regulation in the SME sector, and the nature of the boundaries between them.

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Table 1: The association of organizational commitment and organizational size within happy and unhappy organizations

A) Overall sample				
		SME	Large	<i>p-value</i>
	Single-site	3.882	3.622	<i>0.000</i>
	Multi-site	3.751	3.571	<i>0.000</i>
	<i>p-value</i>	<i>0.000</i>	<i>0.201</i>	
B) Happy organizations				
		SME	Large	<i>p-value</i>
	Single-site	4.032	3.722	<i>0.000</i>
	Multi-site	3.877	3.805	<i>0.032</i>
	<i>p-value</i>	<i>0.000</i>	<i>0.093</i>	
C) Unhappy organizations				
		SME	Large	<i>p-value</i>
	Single-site	3.489	3.449	<i>0.572</i>
	Multi-site	3.439	3.393	<i>0.403</i>
	<i>p-value</i>	<i>0.433</i>	<i>0.392</i>	

Notes: The *p-values* presented at the vertical column test the hypothesis that the mean commitment of SMEs and large organizations are the same. The *p-values* reported horizontally test whether there are differences in the mean commitment between single-site and multi-site organizations. We also tested whether the mean commitment values of happy and unhappy organizations of the same size and ownership type are statistically different from each other. Differences were found to be highly statistically significant in all cases.

Table 2: The association between formality and organizational commitment (OLS results)

Type of organization:	A) Single-site SMEs		B) Multi-site SMEs		C) Happy Organizations		D) Unhappy Organizations		E) Overall Sample	
Variable:	Coeff.	P> t	Coeff.	P> t	Coeff.	P> t	Coeff.	P> t	Coeff.	P> t
HR practices	0.284	0.048	0.209	0.238	0.025	0.650	0.154	0.038	0.167	0.006
Operating principles	-0.137	0.145	0.171	0.499	-0.047	0.405	-0.054	0.460	-0.016	0.785
Medium organizations (50-249)	-0.024	0.661	0.077	0.389	-0.090	0.064	0.061	0.456	-0.043	0.310
Large organization (500+)	-	-	-	-	-0.158	0.004	-0.010	0.910	-0.090	0.059
Happy organizations	0.573	0.001	0.704	0.018	-	-	-	-	0.553	0.000
Happy organizations*HR practices	-0.276	0.068	-0.191	0.371	-	-	-	-	-0.156	0.035
Happy organizations*operating principles	0.145	0.362	-0.179	0.532	-	-	-	-	-0.058	0.428
Controls ¹	Yes		Yes		Yes		Yes		Yes	
Prob>F	0.000		0.000		0.000		0.000		0.000	
Observations	1313		589		2804		2515		5319	

¹We also found that younger workers in single-site SMEs have lower levels of organizational commitment with a possible explanation being that older employees may have fewer job alternatives outside their organization (Smith and Hoy 1992) or already have achieved higher position and wages within the organization (see also Mathieu and Zajac, 1990) both justifying their remaining in the organization. Previous work by Irving et al. (1997) has failed to establish significant association. Also, in contrast to previous literature, gender is found to have a significant effect in most cases. Furthermore, employees with higher positions, salaries (see also earlier study by Becker et al., 1979) and being married and no member of union are all more likely to be attached to their organization. The length of time spent within the organization was also found to be significant predictor of organizational commitment supporting previous work (e.g. Allan and Meyer, 1990). One would have expected that education will be negatively associated with organizational commitment since highly educated workers have higher expectations (see Mathieu and Zajac, 1990). We found, however, insignificant effect. Finally workers with higher skills than the job requires are found to be less committed than those with similar/lower skills.